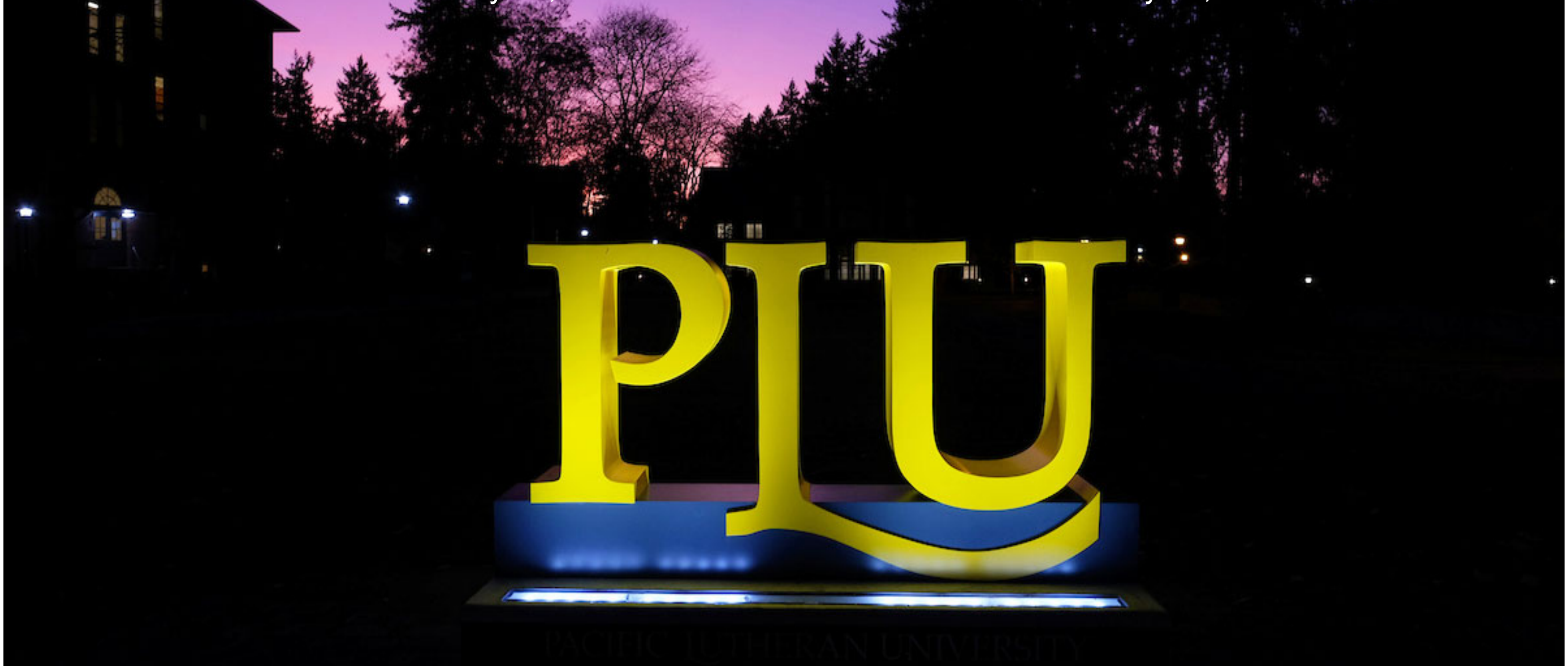
AUDITED FINANCIAL STATEMENTS

Year Ended May 31, 2020 and Summarized Information for May 31, 2019



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MOSSADAMS

Report of Independent Auditors

To the Board of Directors
Pacific Lutheran University

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Pacific Lutheran University and its subsidiaries (the University), which comprise the consolidated statement of financial position as of May 31, 2020, and the related consolidated statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of May 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the University's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Calculation of Borrower's Liquidity is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Yakima, Washington
January 28, 2021

Statements of Financial Position (in thousands)

ASSETS

	May 31, 2020	May 31, 2019
Cash and cash equivalents	$ 3,885	$ 3,404
Student account receivables, net	1,357	1,134
Grants and other receivables	2,001	2,078
Inventories and prepaid expenses	720	1,404
Contributions receivable, net	1,435	1,962
Student loans receivable, net	4,702	6,021
Investments	96,794	94,500
Fair value of interest rate swap	-	671
Assets held under split interest agreements	8,874	10,204
Reserve for bond payments	1,441	1,441
Property, plant, and equipment, net	128,910	118,280
Total assets	$ 250,119	$ 241,099

LIABILITIES AND NET ASSETS

	2020	2019
LIABILITIES		
Accounts payable and accrued liabilities	$ 8,524	$ 8,208
Long-term debt	62,513	55,683
Student deposits	2,911	2,041
Government grants refundable	6,628	8,262
Liabilities under split-interest agreements	4,763	5,564
Fair value of interest rate swap liability	1,640	-
Other liabilities	2,485	1,577
Total liabilities	89,464	81,335
NET ASSETS		
Net assets without donor restrictions	67,736	71,135
Net assets with donor restrictions	92,919	88,629
TOTAL NET ASSETS	160,655	159,764
TOTAL LIABILITIES AND NET ASSETS	$ 250,119	$ 241,099

Pacific Lutheran University
Statement of Activities (in thousands)

	Without Donor Restrictions	With Donor Restrictions	Totals for the Years Ended May 31, 2020	2019
REVENUES, GAINS, AND OTHER SUPPORT				
Tuition and fees	$ 124,701	$ -	$ 124,701	$ 124,362
Less student financial aid	(64,398)	-	(64,398)	(63,939)
	60,303	-	60,303	60,423
Sales and services of auxiliary services	13,134	-	13,134	16,394
Grants	1,868	1,977	3,845	2,248
Contributions	3,604	4,016	7,620	8,265
Other investment income	407	4,468	4,875	1,971
Change in value of split-interest agreements	588	(75)	513	- (899)
Other revenue	2,202	1,566	3,768	970
	82,106	11,952	94,058	89,372
Net assets released from restrictions	9,250	(9,250)	-	-
	91,356	2,702	94,058	89,372
EXPENSES				
Instruction	33,638	-	33,638	35,097
Public service	1,188	-	1,188	1,603
Academic support	5,115	-	5,115	5,372
Student services	10,387	-	10,387	10,900
Institutional support	17,751	-	17,751	16,441
Auxiliary enterprises	8,141	-	8,141	9,073
Allocated expenses	16,169	-	16,169	15,894
	92,389	-	92,389	94,380
NONOPERATING ACTIVITY - OTHER CHANGES IN NET ASSETS				
Reclassification of net assets	415	-	415	-
Adjustment for operating lease elimination	(470)	470	-	-
Excess of Fair Value of net assets acquired over consideration paid (see Note 16)	-	1,118	1,118	-
Loss on interest rate SWAP	(2,311)	-	(2,311)	(1,617)
CHANGE IN NET ASSETS	(3,399)	4,290	891	(6,625)
NET ASSETS, beginning of year	71,135	88,629	159,764	166,389
NET ASSETS, end of year	$ 67,736	$ 92,919	$ 160,655	$ 159,764

 See accompanying notes.

Statements of Cash Flows (in thousands)

	Year Ended May 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 891	$ (6,625)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	5,327	5,378
Accretion	59	56
Amortization	30	30
Provision for doubtful student accounts and pledges	21	19
Net realized and unrealized (gain) loss on investments	(4,539)	860
Change in value of split interest agreements	1,298	1,703
Unrealized (gain) loss on interest rate swaps	2,311	1,617
Contributions to net assets with donor restrictions	(4,016)	(4,171)
Gain on purchase of assets	(1,927)	-
Gain on disposal of plant assets	-	9
Increase (decrease) in cash due to changes in assets and liabilities		
Student accounts receivable	(252)	739
Grants and other receivables	77	203
Inventories, prepaid expense, and deposits	685	(205)
Contributions receivable	565	(625)
Accounts payable, accrued liabilities, and other liabilities	379	(181)
Student deposits	870	(139)
Government grants refundable	(1,635)	158
Net cash from operating activities	144	(1,174)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(43,028)	(28,410)
Proceeds from sale of investments	43,245	31,960
Purchase of land, buildings, and equipment	(5,058)	(3,934)
Purchase of LLC Shares	(1,046)	-
Net change in student loans receivable	1,290	751
Net cash from investing activities	(4,597)	367
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(1,370)	(1,336)
Issuance of long-term debt	3,057	-
Contributions to net assets with donor restrictions	4,016	4,171
Annuity payments and other	(769)	(738)
Net cash from financing activities	4,934	2,097
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	481	1,290
CASH AND CASH EQUIVALENTS, beginning of year	3,404	2,114
CASH AND CASH EQUIVALENTS, end of year	$ 3,885	$ 3,404
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 2,105	$ 1,975
Property, plant, and equipment acquired through accounts payable	789	-
Underwriting received as a consideration on sale of KPLU	603	524
See Note 16 (Related Party Transactions) for discussion of cash flows resulting from the Garfield Commons LLC transaction.		

Note 1 – Organization

Pacific Lutheran University (the University) is a private nonprofit institution based in Tacoma, Washington, that offers a full range of liberal arts academic programs to undergraduate and graduate students. Affiliated with the Evangelical Lutheran Church in America, the University enrolls approximately 3,100 students. The University offers 40 majors and 57 minors, as well as graduate and professional programs in business administration, creative writing, education, finance, marketing research, marriage and family therapy, and nursing.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The accompanying financial statements are the consolidated statements of the University and its wholly owned subsidiary Garfield Commons, LLC for the year ended May 31, 2020. The financial statements for the year ended May 31, 2019 are not consolidated (see Note 16). All material transactions between the University and its consolidated subsidiary have been eliminated. The accounting policies of the University reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below.

Use of estimates – The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents consist of short-term, highly liquid investments with an original maturity of three months or less, except for those held for long-term investment. Certain cash held by the University is restricted for the Federal Perkins and Nursing Loan Funds. The University's cash balances exceed Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) insured amounts at times. The University has not experienced any significant losses on its cash investments.

Student accounts receivable – Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an allowance for doubtful accounts. Management determines the sufficiency of the allowance based on the length of time past due and historical experience. Student accounts are written off when all means of collection has been exhausted and collection is deemed unlikely.

Investments – Investments are stated at fair value (Note 3). Whenever available, quotations from organized securities exchanges are used as the basis for fair value. For investments not traded on organized exchanges, fair value estimates are provided by investment managers. Real estate held for investment is recorded at estimated fair value based on appraisals or other reliable documentation.

Alternative investments are investments for which there is no readily determinable published value. The University is in the process of liquidating its alternative investment portfolio as opportunities become available. It is the University's strategy to have a balanced portfolio of equities, fixed assets and real estate.

Note 2 – Summary of Significant Accounting Policies (continued)

Inventories – Bookstore inventories are valued at a percentage of retail value, which approximates cost and is not in excess of net realizable value.

Bond proceeds restricted for capital projects – Bond proceeds held by trustee include amounts restricted for debt service as required by the trust indentures.

Bond issuance costs – Costs of bond issuance are deferred and amortized over the term of the related indebtedness and recorded as a charge against long-term debt.

Property, plant, and equipment – Physical plant assets are stated at cost at date of acquisition less accumulated depreciation. The University depreciates its assets on a straight-line basis over estimated useful lives as follows: buildings and building improvements, 10 to 50 years; improvements other than buildings, 10 years; library books, 15 years; equipment, 10 years; and leasehold improvements, 15 years. Normal repair and maintenance expenses are charged to operations as incurred.

The University capitalizes asset additions in excess of $5.

Impairment of long-lived assets – The University reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Fair value measurements – The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification defines fair value, establishes a framework for measuring fair value, and expands disclosure of fair value measurements, which applies to all assets and liabilities that are measured and reported on a fair value basis. See Note 3 for additional information.

Asset retirement obligations – The University recognizes the fair value of a liability for legal obligations associated with asset retirements under other liabilities on the Consolidated Statement of Financial Position in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made.

Substantially all of the University's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

Notes to Financial Statements (dollars in thousands)

Note 2 – Summary of Significant Accounting Policies (continued)

Changes in the accrual for asset retirement obligations reflected in other liabilities on the Consolidated Statement of Financial Position for the years ended May 31, 2020 and 2019, are as follows:

	2020	2019
Balance, beginning of year	$ 1,171	$ 1,115
Accretion expense	59	56
Balance, end of year	$ 1,230	$ 1,171

Government grants refundable – Historically, funds provided by the United States Government under the Federal Perkins and Nursing Loan Programs are loaned to qualified students and may be reloaned after collections. The Federal Perkins Loan Program was discontinued on September 30, 2017 and the University will not be extending any further funds from this program. There is a 10-year period for the University to collect on these loans, but it is unclear at this time when the Federal Government is going to require Universities to repay the outstanding loans with the federal government. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position.

Income tax status – The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, any unrelated business income may be subject to taxation.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of May 31, 2020 and 2019. The University's tax returns are subject to review and examination by federal authorities.

Financial statement presentation – The University reports information regarding its consolidated financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets of the University and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time, or in perpetuity. Generally, the donors of these assets permit the University to use all or part of the income and gains earned on related investment for general or specific purposes.

Prior year summarized information – The Consolidated Statement of Activities includes comparative summarized information for the year ended May 31, 2019. Such information does not include sufficient detail by net asset class to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended May 31, 2019, from which the summarized information was derived.

Note 2 – Summary of Significant Accounting Policies (continued)

Releases from restrictions – Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed and the law allows the release of the restriction) are reported on the Consolidated Statement of Activities as net assets released from restrictions. Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected as reclassification of prior year net assets on the Consolidated Statement of Activities.

Tuition and fees – Student tuition and fees are recorded as revenue on a ratable basis over the term of instruction. The majority of the University's students rely on funds received from various federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. These programs are subject to periodic review by the United States Department of Education (USDE). Disbursements under each program are subject to disallowance by the USDE and repayment by the University. In addition, as an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the USDE.

Auxiliary enterprises – Auxiliary enterprises consist of revenues and expenses relating to the operation of the residence halls, food services, bookstore, and the rental of facilities. Revenues from auxiliary enterprises are recorded at the time the related services are provided.

Other revenue and expenses – Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Income earned on donor-restricted funds is initially classified as net assets with donor restrictions and is reclassified as net assets without donor restrictions when expenses are incurred for the intended purpose.

Contributions – Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Contributions received whose donor-imposed restrictions are met within the same reporting period are reported as increases in net assets without donor restrictions.

Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions between the applicable classes of net assets. Conditional promises to give are recognized when the donor-imposed conditions are substantially met.

Unconditional promises to give, due after one year, are reported at the present value of net realizable value, using interest rates approximating the U.S. Daily Treasury Yield Curve. Amortization of discounts is recorded as an additional contribution, if any.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues with donor restrictions; the restrictions are considered to be released at the time such long-lived assets are placed in service.

Note 2 – Summary of Significant Accounting Policies (continued)

Grant revenue – Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

Investment gains and losses – Income from gains and losses are shown net of external and direct internal expenses on investments of endowment and similar funds and are reported as follows:

- Increases or decreases in net assets with donor restrictions if the terms of the gift or the University's interpretation of relevant state law requires they be added to the principal of a net asset with donor restrictions.

- Increases or decreases in net assets with donor restrictions if the terms of the gift impose restrictions on the use of the income.

- Increases or decreases in net assets without donor restrictions in all other cases.

Retirement plans – The University has a defined contribution retirement plan for academic and nonacademic personnel. Individual contributions are based on a percentage of compensation. The University's contribution rate was 7.5% as of May 31, 2020 and 2019, resulting in total contributions of approximately $3,679 and $3,572 for 2020 and 2019, respectively.

Grants to specified students – Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University.

Fundraising and advertising expenses – Fund-raising expenses totaled $2,602 and $2,698 for the years ended May 31, 2020 and 2019, respectively. Advertising costs are expensed when incurred.

Functional allocation of expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities. The analysis of expense by functional and natural categories presents the natural classification detail of expense by function. Accordingly, certain expenses have been allocated among the programs and supporting services benefited. Allocated expenses include salaries, benefits, and general and administrative activities. The functional allocation was based on each activity's *pro rata* share of on campus square footage. Other costs are classified in each functional category based on the underlying purpose of each transaction.

Note 3 – Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Prices or valuations that require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation. The use of either the market approach, which generally consists of using comparable market transactions, or the income approach which generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2020 and 2019.

Mutual and commodity funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the University are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price.

Short-term investments: Primarily consist of money market funds for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either market that, are not active or are for the same or similar assets in active markets.

Reserve for bond payment: Valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the University are deemed to be actively traded.

Investments in real estate: Determined by the market approach using appraised values, property tax assessments, capitalization rates, and other information for similar assets.

Hedge funds, private equity funds, and funds of funds: Quoted prices are not readily available and funds cannot be redeemed within a short period of time. The University has estimated the fair value of these funds using the NAV provided by the investee as of the most recent date, adjusted for cash receipts, cash disbursements, and significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31, 2020 and 2019.

Notes to Financial Statements (dollars in thousands)

Note 3 – Fair Value Measurements (continued)

Perpetual trusts held by others: Estimate of fair value is based on fair value of underlying investments of the University's proportionate interest in the trusts based on level 3 information received from trustees. Trust assets consist of, but are not limited to, cash and cash equivalents, corporate and government bonds, mutual funds and equity securities. These assets are not subject to control or direction by the University.

Interest rate swap: The fair value of the interest rate swap is calculated and reported by the issuing bank as the present value of the difference between the fixed-rate payments to be made by the University and the variable rate payments to be received by the University under the terms of the swap. The fixed-rate payments are known, and the variable-rate payments are estimated based on the market yield curve that are observable or that can be corroborated by market data and, therefore, is classified within Level 2 of the valuation hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Fair values of assets and liabilities measured on a recurring basis were as follows:

	Fair Value Measurements at May 31, 2020			
	Level 1	Level 2	Level 3	Total
ASSETS				
Short-term investments	$ 318	$ 320	$ -	$ 638
Mutual funds				
Domestic equity funds	14,099	-	-	14,099
International equity funds	1,787	-	-	1,787
Global fixed income funds	8,554	465	-	9,019
Index funds	25,077	-	-	25,077
U.S. government bond funds	-	803	-	803
Corporate bond funds	14,751	1,108	-	15,859
High yield bond funds	-	181	-	181
Real estate funds	1,244	-	-	1,244
Commodity funds	10,410	-	-	10,410
Investments in real estate	-	8,323	-	8,323
Perpetual trusts held by others	-	-	13,459	13,459
Reserve for bond payment	1,441	-	-	1,441
Interest rate swap	-	(1,640)	-	(1,640)
Total assets and liabilities in the fair value hierarchy	$ 77,681	$ 9,560	$ 13,459	100,700
Investments measured at NAV (practical expedient)				749
				$ 101,449

Notes to Financial Statements (dollars in thousands)

Note 3 – Fair Value Measurements (continued)

The following table presents a reconciliation of the Consolidated Statement of Financial Position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2020:

	Balance May 31, 2019	Net Realized and Unrealized Losses	Purchases	Sales	Balance May 31, 2020
Assets					
Perpetual trusts held by endowment	$ 12,492	$ 967	$ -	$ -	$ 13,459

Total gains and losses are included in the Consolidated Statement of Activities for the year ended May 31, 2020.

Fair values of assets and liabilities measured on a recurring basis were as follows:

	Fair Value Measurements at May 31, 2019			
	Level 1	Level 2	Level 3	Total
ASSETS				
Short-term investments	$ -	$ 367	$ -	$ 367
Mutual funds				
Domestic equity funds	8,355	-	-	8,355
International equity funds	1,918	-	-	1,918
Global fixed income funds	3,069	591	-	3,660
Index funds	33,467	-	-	33,467
U.S. government bond funds	-	1,096	-	1,096
Corporate bond funds	13,617	1,383	-	15,000
High yield bond funds	-	225	-	225
Real estate funds	1,648	-	-	1,648
Commodity funds	11,711	-	-	11,711
Investments in real estate	-	10,289	-	10,289
Perpetual trusts held by others	-	-	12,492	12,492
Reserve for bond payment	1,441	-	-	1,441
Interest rate swap	-	671	-	671
Total assets and liabilities in the fair value hierarchy	$ 75,226	$ 14,622	$ 12,492	102,340
Investments measured at NAV (practical expedient)				1,082
				$ 103,422

Notes to Financial Statements (dollars in thousands)

Note 3 – Fair Value Measurements (continued)

The following table presents a reconciliation of the Statement of Financial Position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2019:

	Balance May 31, 2018	Net Realized and Unrealized Gains	Purchases	Sales	Balance May 31, 2019
Assets					
Perpetual trusts held by endowment	$ 12,573	$ (81)	$ -	$ -	$ 12,492

Total gains and losses are included in the Statement of Activities for the year ended May 31, 2019.

The University has chosen to record its investments in real estate at fair value as a result of several properties reclassified as investments and the increase of assets shown as fair value are shown in the above table as transfers.

The University uses the NAV as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value, and (b) are in investment companies or similar entities that report their investment assets at fair values.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of May 31, 2020:

	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity	$ 492	1 to 12 years	$ 363	3 to 5 years to draw	N/A
Funds of funds	$ 257	N/A	None	Annual with 120 days' notice	1 year lock-up. Upon full redemption, 90% is returned, with the remaining 10% held back until the completion of the annual audit.

Notes to Financial Statements (dollars in thousands)

Note 4 – Contributions Receivable

Contributions receivable at May 31 include the following:

	2020	2019
Contributions	$ 1,593	$ 2,219
Less allowance for uncollectable contributions	(95)	(133)
Less unamortized discount	(63)	(124)
Net unconditional promises to give	$ 1,435	$ 1,962
Amounts due in		
Less than one year	$ 463	
One to five years	1,024	
More than five years	106	
	$ 1,593	

Contributions due in more than one year are discounted at interest rates that approximate the U.S. Daily Treasury Yield Curve at the date of the gift adjusted for a risk premium.

The discount rates for these contributions was 1.05% at May 31, 2020, and ranged from 3.0% to 1.57% at May 31, 2019. Contributions due in less than one year were not discounted.

Note 5 – Student Loans Receivable

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. 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.

At both May 31, 2020 and 2019, student loans represented approximately 3% of total assets.

Notes to Financial Statements (dollars in thousands)

Note 5 – Student Loans Receivable (continued)

At May 31, 2020 and 2019, student loans consisted of the following:

	2020	2019
Federal government programs	$ 5,030	$ 6,319
Less allowance for doubtful accounts		
Beginning of year	298	353
Decrease (increase) in allowance	(30)	55
End of year	328	298
Student loans receivable, net	$ 4,702	$ 6,021

Funds advanced by the federal government of $6,628 and $8,262 as of May 31, 2020 and 2019, respectively, are ultimately refundable to the government and are classified as liabilities in the Consolidated Statement of Financial Position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins and Nursing Loan Program receivables may be assigned to the U.S. Department of Education and U.S. Department of Health and Human Services, respectively. Students may be granted a deferment, forbearance, or cancellation of their student loan based on eligibility requirements defined by the U.S. Department of Education and U.S. Department of Health and Human Services.

A student loan receivable is considered to be delinquent if any portion of the receivable balance is outstanding for more than 60 days after the billing date. At May 31, 2020 and 2019, the following amounts were past due under student loan programs:

	Amounts Past Due			
May 31,	60-89 Days	90-119 Days	120+ Days	Total
2020	$ 2	$ 2	$ 910	$ 914
2019	11	3	981	995

Notes to Financial Statements (dollars in thousands)

Note 6 – Investments

The following summarizes the University's investments in funds other at May 31:

	2020	2019
Stocks, included in short term investments	$ 3	$ 3
Endowment	87,415	85,439
Real estate, excluding endowment assets	7,998	8,714
Other, at cost	1,378	344
	$ 96,794	$ 94,500

Note 7 – Endowment Investments

The University's endowment consists of 589 and 572 individual funds at May 31, 2020 and 2019, respectively, established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed stipulations. Board designated funds are classified as net assets without donor restrictions.

Interpretation of relevant law – The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2009 Washington legislature as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions: (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund; (2) the purposes of the University and the donor-restricted Endowment Fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the University; and (7) the investment policies of the University.

Notes to Financial Statements (dollars in thousands)

Note 7 – Endowment Investments (continued)

Endowment net assets consisted of the following at May 31:

	May 31, 2020			
		With Donor Restrictions		
	Without Donor Restrictions	Original Gift	Accumulated Gains (Losses)	Total
Board-designated funds - purpose	$ 15,585	$ -	$ -	$ 15,585
Donor-restricted funds				
Underwater funds	-	55,509	(6,941)	48,568
Other funds	-	19,064	2,750	21,814
Funds held by others	-	7,269	7,621	14,890
Total endowment funds	$ 15,585	$ 81,842	$ 3,430	$ 100,857

	May 31, 2019			
		With Donor Restrictions		
	Without Donor Restrictions	Original Gift	Accumulated Gains (Losses)	Total
Board-designated funds - purpose	$ 16,408	$ -	$ -	$ 16,408
Donor-restricted funds				
Underwater funds	-	54,909	(7,461)	47,448
Other funds	-	16,772	2,530	19,302
Funds held by others	-	7,160	6,897	14,057
Total endowment funds	$ 16,408	$ 78,841	$ 1,966	$ 97,215

Notes to Financial Statements (dollars in thousands)

Note 7 – Endowment Investments (continued)

Changes to the endowment net assets for the years ended May 31, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2018	$ 13,299	$ 86,514	$ 99,813
Investment return			
Investment income, net of fees of $335	334	1,998	2,332
Net appreciation - realized and unrealized	(218)	(790)	(1,008)
Net appreciation - perpetual trusts - unrealized	-	(81)	(81)
Total investment return	116	1,127	1,243
Contributions	-	2,555	2,555
Appropriation of endowment net assets for expenditure	(676)	(4,816)	(5,492)
Transfer from other funds	3,669	(4,573)	(904)
Endowment net assets, May 31, 2019	16,408	80,807	97,215
Investment return			
Investment income, net of fees of $280	447	2,575	3,022
Net appreciation - realized and unrealized	296	2,025	2,321
Net appreciation - perpetual trusts - unrealized	-	430	430
Total investment return	743	5,030	5,773
Contributions	-	2,154	2,154
Appropriation of endowment net assets for expenditure	(727)	(3,068)	(3,795)
Transfer from other funds	(839)	349	(490)
Endowment net assets, May 31, 2020	$ 15,585	$ 85,272	$ 100,857

Note 7 – Endowment Investments (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 that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. UPMIFA allows an institution to continue to spend on an endowment that is below the level of the original contributions and the University does not have a policy to suspend distributions on such endowments. In accordance with GAAP, deficiencies of this nature that are reported in net assets with donor restrictions were $6,942 and $7,461 as of May 31, 2020 and 2019, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new donor-restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board.

Return objectives and risk parameters – The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce an acceptable level of return while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average annual rate of approximately 7%. Actual returns in any year may vary from this amount.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, 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 targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy – The University has a policy that limits the amount the endowment shall distribute annually to 4.5% of a three-year average market value of the principal, on a unit value basis. The average computation is to include the November 30 quarter end preceding the beginning of the fiscal year. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects to achieve a total return, over a three-year moving average basis, at least equal to the spending rate plus the rate of inflation as measured by the Consumer Price Index (CPI) for urban customers. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Notes to Financial Statements (dollars in thousands)

Note 7 – Endowment Investments (continued)

The following summarizes the University's endowment investments, which are recorded at fair value unless otherwise noted, at May 31:

	2020	2019
Cash and short-term investments	$ 10,342	$ 11,567
Commodity funds	10,410	11,711
Mutual funds	59,831	55,530
Alternative investments		
Hedge funds	-	24
Funds of hedge funds	257	306
Real estate contract, at cost	149	209
Real estate	4,595	3,060
Private equity funds	492	751
	86,076	83,158
Perpetual trusts held by others	13,459	12,492
Life insurance, at cost	1,322	1,565
	100,857	97,215
Less interfund amounts		
Cash and short-term investments, at cost	(10,342)	(11,567)
Real estate contracts, at cost	(149)	(209)
	(10,491)	(11,776)
	$ 90,366	$ 85,439

Endowment investments include interfund amounts, which have been eliminated in the consolidated financial statements. Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the consolidated financial statements.

Notes to Financial Statements (dollars in thousands)

Note 8 – Net Assets Released from Restrictions

Net assets with donor restrictions are released by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the years ended May 31 were as follows:

	2020	2019
Scholarships, instruction, and other departmental support	$ 7,250	$ 7,278
Other releases from restrictions	2,000	2,282
	$ 9,250	$ 9,560

Note 9 – Long-Term Debt

Long-term debt at May 31 to Washington Higher Education Facilities Authority (WHEFA) consisted of the following:

	Interest Rate Mode	Interest Rate	Maturity Date	May 31, 2020	May 31, 2019
Series 2014 bonds - term	Fixed	4.63%	11/1/2041	$ 5,800	$ 5,800
Series 2014 bonds - serial	Fixed	5.25%	11/1/2044	4,200	4,200
Series 2016 bonds	Variable rate*	2.13%	11/1/2041	44,959	46,328
Commercial Mortgage	Stepped	3.88%	3/1/2030	8,473	-
Note payable to an individual	Fixed	0.00%	2019	-	2
				63,432	56,330
Less unamortized discount, premium, and debt issuance costs				(919)	(647)
				$ 62,513	$ 55,683

* LIBOR x 70% + 2% (applicable margin) is the effective interest rate as of May 31, 2020 and 2019.

Series 2014 – In June 2014, the WHEFA issued Revenue Bonds (Pacific Lutheran University) Series 2014 on behalf of the University totaling $10,000. The bond proceeds were used to provide a portion of the funds to finance the renovations, additions and improvements to University residence halls, including Stuen Hall, Ordal Hall and South Hall, and to other University facilities located on its campus and to pay the costs of issuing the bonds. Principal payments begin on November 1, 2037.

Series 2016 – In August 2016, WHEFA issued Refunding Revenue Bonds (Pacific Lutheran University Project) Series 2016 on behalf of the University totaling $48,933. The bond proceeds were used to refund the Series 2006 WHEFA bonds. The structure of the bonds moved from fixed rate term and serial bonds to variable rate direct placement bonds. Principal payments on the Bonds began in November 2017.

The bonds are secured by a pledge of all unrestricted revenues as defined by the security agreement and the University's interest, if any in the Debt Service Fund.

Notes to Financial Statements (dollars in thousands)

Note 9 – Long-Term Debt (continued)

Commercial mortgage – On February 21, 2020, Garfield Commons LLC, a wholly-owned subsidiary, refinanced its commercial mortgage to Kitsap Credit Union, for $8,473. The note is secured by the assets of Garfield Commons LLC, with the University providing a limited guarantee. The note bears interest of 3.88% with principal payments commencing in March 2023. Proceeds of $5,271 were used to refinance existing debt and the remaining proceeds were used to provide liquidity to the endowment.

Line of credit – The University maintains an unsecured $5,000 line of credit, which it could draw upon in the event of an unanticipated liquidity need. No funds were borrowed under this agreement at fiscal years ended May 31, 2020 and 2019.

The loan agreements with the Washington Higher Education Facilities Authority require the University to comply with certain financial and other covenants described in those agreements. As of May 31, 2020, the University was out of compliance with its liquidity covenant for the 2016 bonds. Subsequent to year end the University's financial institution waived the covenant violation as of May 31, 2020. In addition, financial covenants were amended on a going forward basis.

Other – The note payable to an individual, dated January 20, 1995, was issued to purchase land adjacent to the University and is secured by the land. The remaining principal was paid off in fiscal year 2020.

The approximate payment obligation requirements for all long-term debt for the five years subsequent to May 31, 2020, are:

2021	$	1,413
2022		1,461
2023		1,533
2024		1,699
2025		1,757
Thereafter		55,569
	$	63,432

Notes to Financial Statements (dollars in thousands)

Note 10 – Property, Plant, and Equipment

Property, plant, and equipment consisted of the following at May 31:

	2020	2019
Land	$ 3,554	$ 762
Buildings	177,696	168,428
Improvements other than buildings	13,357	12,462
Equipment and vehicles	16,981	16,519
Library books	3,690	4,220
Leasehold improvements	3,765	3,162
Nondepreciated assets	1,194	1,194
Construction in Progress	2,515	218
	222,752	206,965
Less accumulated depreciation and amortization	(93,842)	(88,685)
	$ 128,910	$ 118,280

The University has written off library assets that are fully depreciated and obsolete in the amount of $550 and $546 as of May 31, 2020 and 2019, respectively.

Note 11 – Deferred Gift Agreements

The University has arrangements with donors classified as charitable lead trusts, charitable remainder trusts and charitable gift annuities. In general, under these arrangements the University receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. The University invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the University as net assets without donor restrictions or net assets with donor restrictions, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the University or third-party beneficiaries.

The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor. The University used interest rates ranging from 10.6% to 1.20% in making the calculations at May 31, 2020 and 2019.

The University received $0 and $182 of gift value relating to deferred gift agreements for the years ended May 31, 2020 and 2019, respectively. Total assets held by the University under deferred gift agreements totaled $9,001 and $10,403 at May 31, 2020 and 2019, respectively.

The University maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' law. The total amount held in separate reserve funds under liabilities as split-interest agreements on the statement of financial position was $940 and $927, respectively, as of May 31, 2020 and 2019.

Notes to Financial Statements (dollars in thousands)

Note 12 – Operating Leases

The University has an operating lease for equipment and also has four building facility leases. Rental expense under all leases totaled $883 and $929 for the years ended May 31, 2020 and 2019, respectively. Two lease terms expire in January 2022, one with an option to renew for up to seven consecutive five-year lease terms. The third and fourth leases expire in September 2023 and March 2025. Two of the facility leases are between the University and Garfield Commons, LLC, which became a wholly-owned subsidiary in fiscal year 2020; due to consolidation, intercompany rental expense of $466 has been eliminated on the statement of activities for fiscal year 2020.

Thereafter, future minimum lease payments under operating leases as of May 31, 2020, are:

2021	$ 261
2022	252
2023	254
2024	212
2025	165
Thereafter	-
	$ 1,144

Note 13 – Interest Rate Swap

The University uses variable-rate debt to finance the acquisition of land, buildings, and equipment as indicated in Note 9. The variable rate at May 31, 2020, was 2.13% (70% of LIBOR plus 2%). These debt obligations expose the University to variability in interest payments due to changes in interest rates. The University believes it is prudent to limit the variability of a portion of its interest payments and has entered into an interest rate swap to manage fluctuation in cash flows resulting from interest rate risk.

Under the interest rate swap, the University receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. In August 2016, the University acquired a 10-year amortizing swap from Washington Federal at a fixed rate of 1.016%. The notional amount of this swap fluctuates over time per the underlying amortization schedule as principal payments are made on the bonds. The amortizing swap had a notional amount of $36,690 at May 31, 2020. There was no cash exchange at the time of acquisition of this swap due to the relationship between the variable rates and the swap rate at that time.

Change in the fair value of the interest rate swap is reported as unrealized gains or losses on interest rate swap related to bonds on the Consolidated Statements of Activities. Providing that the University holds the swap to maturity, the value of the derivative will be zero. This swapping transaction can be terminated at the market rates at any time during the term of the swap.

The University does not enter into derivative instruments for any purpose other than interest payment hedging purposes and does not speculate for investment purposes using derivative instruments.

Notes to Financial Statements (dollars in thousands)

Note 14 – Liquidity and Availability

The following table reflects the University's financial assets as of May 31, 2020 and 2019, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other considerations of non-liquid assets are state required annuity reserves, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, trust assets or governing board designations for long-term investment. These investments include quasi-endowments and trusts.

	2020	2019
Financial assets		
Cash and cash equivalents	$ 3,885	$ 3,404
Accounts receivable	1,357	1,134
Contributions receivable	1,435	1,962
Grants and other receivables	2,001	2,078
Investments	96,794	94,500
Assets held under split-interest agreements	8,874	10,204
Bond reserves restricted	1,441	1,441
Financial assets, at year-end	115,787	114,723
Less those unavailable for general expenditure within one year		
Accounts and contributions receivable collectible beyond one year	2,058	2,479
Grants and other receivables unavailable beyond one year	1,994	1,918
Bond reserves required for issued bonds	1,441	1,441
Funds with donor restrictions for educational expenses	3,181	3,522
Investments and other financial assets held for others	4,763	5,564
Perpetual and term endowments, and accumulated earnings subject to appropriation beyond one year	84,119	77,251
Investments held in trusts and various state-required annuity reserves	4,402	5,005
Financial assets available to meet cash needs for general expenditures within one year	$ 13,829	$ 17,543

As of May 31, 2020 and 2019, respectively, the University has liquid assets on hand to cover 57 and 66 days of operating expenses. The University's practice is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The University maintains an unsecured $5,000 line of credit, which it could draw upon in the event of an unanticipated liquidity need.

Notes to Financial Statements (dollars in thousands)

Note 15 – Analysis of Expense by Functional and Natural Categories

Expenses by functional and natural categories at May 31:

	May 31, 2020					
	Program Services			Supporting Activities		
	Instruction and Research	Student Services	Public Service	Adminis-tration	Fund-raising	Total Expenses
Compensation	$ 25,185	$ 9,410	$ 651	$ 10,047	$ 1,758	$ 47,051
Employee benefits	6,856	2,388	184	4,398	465	14,291
Service, supplies, and other expenses	6,665	6,699	353	4,814	380	18,911
Facility operations and maintenance	3,188	757	11	646	-	4,602
Depreciation and accretion	3,891	924	13	789	-	5,617
Interest	1,328	315	5	269	-	1,917
	$ 47,113	$ 20,493	$ 1,217	$ 20,963	$ 2,603	$ 92,389

	May 31, 2019					
	Program Services			Supporting Activities		
	Instruction and Research	Student Services	Public Service	Adminis-tration	Fund-raising	Total Expenses
Compensation	$ 24,947	$ 9,473	$ 603	$ 10,402	$ 1,862	$ 47,287
Employee benefits	6,745	2,186	137	4,184	472	13,724
Service, supplies, and other expenses	7,247	8,354	864	5,472	364	22,301
Facility operations and maintenance	2,534	602	9	514	-	3,659
Depreciation and accretion	3,764	894	13	763	-	5,434
Interest	1,368	325	5	277	-	1,975
	$ 46,605	$ 21,834	$ 1,631	$ 21,612	$ 2,698	$ 94,380

The consolidated financial statements report compensation, benefits, and services to the appropriate direct program. The table above has certain categories of expenses that are attributable to one or more programs or supporting functions of the University allocated to these functional programs. These expenses include facility operations and maintenance, depreciation and accretion, and interest. These costs are allocated based on square footage methodology.

Note 16 – Related-Party Transactions

Garfield Commons, LLC – The University's endowment historically held an investment of 49% in Garfield Commons LLC (the Company) funded by a restricted contribution from an individual. On December 2nd, 2019, the University purchased the remaining 51% of shares of Garfield Commons LLC from Lorig/Garfield Commons, LLC, for the price of $1,200, becoming the sole member of Garfield Commons, LLC in order to further strengthen the University's position with the asset. The assets and liabilities of Garfield Commons are consolidated with the University's statement of financial position for presentation. The Company is wholly-owned by the University's Endowment, and is reported in Note 7 as an investment in real estate. Under the equity method of accounting, the University's investment in the Company was $1,498 at May 31, 2019. The investment had a net asset value of $2,951 as of May 31, 2020. The lease agreement between the University, as a lessee, and Garfield Commons, as the lessor, will expire on January 31, 2022.

The transaction resulted in the purchase of $6,611 of assets, assumption of $5,113 of liabilities, and elimination of the University's $1,498 investment in the entity under the equity method of accounting. As the purchase and assumption of these assets and liabilities did not represent cash flows, they were netted against the elimination of the $1,498 investment balance on the Statement of Cash Flows. The University also recognized $1,927 in gains from the transaction, including a $1,118 inherent contribution as reported on the Statement of Activities, resulting from the excess of fair value in net assets acquired over consideration paid. These gains are reported on the Statement of Cash Flows as an adjustment to arrive at Net Cash from Operating Activities.

Garfield North, LLC – The University has a 29% ownership interest, and was previously applying the equity method of accounting for its investment. The asset will be evaluated for impairment annually. Garfield Partners, LLC (GP) has a 71% ownership. At May 31, 2020 and 2019, the University's investment in Garfield North, LLC, totaled $2,698 and $331, respectively, and is included in Investments on the Consolidated Statements of Financial Position.

Under the terms of the partnership agreement, as amended, the University provided financing to Garfield North, LLC in the form of a loan in the amount of $1,000. Interest is at 3%. Principal payments of $150 shall be made annually from available cash flow, until the loan is paid in full. The loan is jointly and severally guaranteed by GP, the related party and another entity in an amount equal to their 71% of the loan. At May 31, 2020 and 2019, the amount due from Garfield North, LLC, totaled $800 and $800, respectively, and is included as other receivables on the statements of financial position.

Contributions receivable from board members at May 31, 2020 and 2019, were $79 and $84, respectively. Gifts from board members totaled $70 and $68 at May 31, 2020 and 2019, respectively.

Note 17 – Financial Effects of COVID-19 Pandemic

Beginning March 9, 2020, all University courses switched to a remote-learning modality in order to safeguard against rising numbers of COVID-19 cases in the area. In the following weeks, the on-campus population experienced a significant decline, from approximately 1,200 down to fewer than 300 residents. Students wishing to cancel their room & board agreements were given prorated refunds for unused room-and-board. We estimate that these refunds, along with a reduction in revenue from on-campus conferences, resulted in $3,002 in lost revenue to the University. By May 31, 2020, these losses were mostly offset by savings from reduced on-campus activity and travel, and by the receipt of $1,466 from the CARES Act's Higher Education Emergency Relief (HEERF) fund. Thus it appears that the cash-flow effects of the pandemic were neutral for the reporting period.

Unprecedented efforts by the Federal Open Market Committee aimed at lowering interest rates to stabilize capital markets resulted in a $2,311 decline in the fair value of the University's derivative asset. While this adjustment is of no economic significance, it lowered the University's net asset without donor restrictions balance, the basis for the liquidity covenant measurement for the Series 2016 private placement bonds. This caused the University to be out of tolerance on its liquidity covenant for the 2016 bonds. See Note 9.

Note 18 – Concentration of Credit Risk

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, investments, accounts receivable, notes receivable, real estate contracts receivable and other receivables. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. The majority of the University's cash and cash equivalents are on deposit with a single bank. Investments are diversified in order to limit credit risk. Investments are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Concentrations of credit risk with respect to the real estate contracts receivable are limited due to the University holding a secured position in these agreements. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the northwestern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs, which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

Note 19 – Commitments and Contingencies

Regulation and litigation – The University receives funding or reimbursement from governmental agencies for various activities which are subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. The University is subject to such regulatory reviews, and while these reviews may result in repayments and/or civil remedies, management believes, based on its current knowledge and information, that such repayments and/or civil remedies, if any, would not have a material effect on the University's financial position.

The University is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, there are no matters that will materially affect the University's financial position.

Note 20 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The University recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the Consolidated Statement of Financial Position, including the estimates inherent in the process of preparing the consolidated financial statements. The University's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the Consolidated Statement of Financial Position but arose after the Consolidated Statement of Financial Position date and before consolidated financial statements are available to be issued.

The University has evaluated subsequent events through January 28, 2021, which is the date the consolidated financial statements are available to be issued.