FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019
WITH INDEPENDENT AUDITORS' REPORT THEREON

SEATTLEU

SEATTLE UNIVERSITY

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Trustees
Seattle University:

We have audited the accompanying financial statements of Seattle University (the University), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, 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 financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Seattle University as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Seattle, Washington
November 5, 2020

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SEATTLE UNIVERSITY

Statements of Financial Position

June 30, 2020 and 2019

(In thousands)

Assets		**2020**	**2019**
Assets:			
Cash and cash equivalents	$	97,699	115,526
Accounts receivable, net		23,633	12,336
Contributions receivable, net		9,390	19,842
Investments		245,263	239,593
Student loans receivable, net		4,886	5,945
Assets held under split-interest agreements		12,664	13,442
Property, plant, and equipment, net		377,351	328,610
Right-of-use assets		17,422	18,840
Other assets		3,931	4,351
Total assets	$	792,239	758,485
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	17,674	4,727
Accrued liabilities		16,626	18,783
Deferred revenue		22,110	10,424
Liabilities under split-interest agreements		7,546	8,476
Lease liabilities		17,765	19,119
Bonds payable		113,770	118,174
U.S. government loan funds		4,181	5,008
Other liabilities		2,619	2,257
Total liabilities		202,291	186,968
Net assets:			
Without donor restriction		301,090	296,023
With donor restriction		288,858	275,494
Total net assets		589,948	571,517
Total liabilities and net assets	$	792,239	758,485

See accompanying notes to financial statements.

SEATTLE UNIVERSITY

Statement of Activities and Changes in Net Assets

Year ended June 30, 2020

(In thousands)

		2020		
		Without donor restriction	**With donor restriction**	**Total**
Operating:				
Revenues and other activities:				
Tuition and fees (includes student aid of $107,682)	$	175,621	—	175,621
Contributions		731	7,312	8,043
Grants and contracts		10,565	—	10,565
Auxiliary enterprises		11,349	—	11,349
Investment returns designated for operations		2,791	7,005	9,796
Other revenue		7,577	—	7,577
Net assets released from restrictions		13,142	(13,142)	—
Total revenues and other activities		221,776	1,175	222,951
Expenses:				
Instruction		103,343	—	103,343
Academic support		21,777	—	21,777
Student services		40,199	—	40,199
Institutional support		45,408	—	45,408
Auxiliary enterprises		13,069	—	13,069
Total expenses		223,796	—	223,796
(Decrease) Increase in net assets from operations		(2,020)	1,175	(845)
Nonoperating:				
Contributions to endowment funds		32	8,997	9,029
Contributions for capital assets		—	12,260	12,260
Investment returns, net of amounts designated for operations		(760)	(2,949)	(3,709)
Change in fair value of split-interest agreements		46	68	114
Change in fair value of interest rate swap		(386)	—	(386)
Other		1,968	—	1,968
Net assets released from restrictions		6,187	(6,187)	—
Total nonoperating activities		7,087	12,189	19,276
Increase in net assets		5,067	13,364	18,431
Net assets at beginning of year		296,023	275,494	571,517
Net assets at end of year	$	301,090	288,858	589,948

See accompanying notes to financial statements.

SEATTLE UNIVERSITY

Statement of Activities and Changes in Net Assets

Year ended June 30, 2019

(In thousands)

	2019		
	Without donor restriction	**With donor restriction**	**Total**
Operating:			
Revenues and other activities:			
Tuition and fees (includes student aid of $100,412)	$ 177,106	—	177,106
Contributions	2,196	5,836	8,032
Grants and contracts	7,244	—	7,244
Auxiliary enterprises	15,464	—	15,464
Investment returns designated for operations	2,802	6,647	9,449
Other revenue	8,930	—	8,930
Net assets released from restrictions	13,517	(13,517)	—
Total revenues and other activities	227,259	(1,034)	226,225
Expenses:			
Instruction	110,575	—	110,575
Academic support	17,002	—	17,002
Student services	41,744	—	41,744
Institutional support	48,054	—	48,054
Auxiliary enterprises	12,222	—	12,222
Total expenses	229,597	—	229,597
Decrease in net assets from operations	(2,338)	(1,034)	(3,372)
Nonoperating:			
Contributions to endowment funds	223	5,472	5,695
Contributions for capital assets	240	23,131	23,371
Investment returns, net of amounts designated for operations	2,529	(1,666)	863
Change in fair value of split-interest agreements	83	(231)	(148)
Change in fair value of interest rate swap	(363)	—	(363)
Other	(1,587)	—	(1,587)
Net assets released from restrictions	3,502	(3,502)	—
Total nonoperating activities	4,627	23,204	27,831
Increase in net assets	2,289	22,170	24,459
Net assets at beginning of year	293,734	253,324	547,058
Net assets at end of year	$ 296,023	275,494	571,517

See accompanying notes to financial statements.

SEATTLE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from operating activities:			
Increase in net assets	$	18,431	24,459
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		17,312	16,789
Change in fair value on interest rate swaps related to bonds		386	363
Change in fair value of split-interest agreements		(114)	148
Contributions restricted for long-term investments or purpose		(29,052)	(38,086)
Loss on building disposal		—	1,902
Net appreciation in fair value of investments		(4,791)	(8,406)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable, net		(11,297)	(5,207)
Contributions receivable, net		10,402	11,453
Accounts payable		(3,070)	1,361
Accrued liabilities		(2,157)	103
Deferred revenue		11,687	5,411
Other assets and liabilities, net		(473)	329
Net cash provided by operating activities		7,264	10,619
Cash flows from investing activities:			
Proceeds from sales of investments		292,917	21,532
Purchases of investments		(293,734)	(18,332)
Loans issued to students		(169)	(214)
Collections on loans to students		1,282	1,252
Acquisition of property, plant, and equipment		(50,110)	(25,928)
Net cash used in investing activities		(49,814)	(21,690)
Cash flows from financing activities:			
Principal payments on long-term debt		(4,329)	(4,192)
Contributions restricted for long-term investment		29,052	38,086
Net cash provided by financing activities		24,723	33,894
Net (decrease) increase in cash and cash equivalents		(17,827)	22,823
Cash and cash equivalents at beginning of year		115,526	92,703
Cash and cash equivalents at end of year	$	97,699	115,526
Supplemental disclosures of cash flow information:			
Cash paid for interest	$	4,139	4,271
Property, plant, and equipment unpaid at year end		16,018	—

See accompanying notes to financial statements.

(1) Organization and Current Environment

Seattle University (the University) is an independent, coeducational institution of higher learning. Approximately 7,200 students are enrolled in undergraduate and graduate programs within the eight schools and colleges. The University, founded in 1891, is a Jesuit Catholic University located on 50 acres in Seattle's Capitol Hill neighborhood. The University is dedicated to educating the whole person, to professional formation, and to empowering leaders for a just and humane world.

(2) Summary of Significant Accounting Policies

(a) Financial Statement Presentation

The University's financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

(b) Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

The University has a cash management program that provides for the investment of temporary excess cash balances in short-term money market and U.S. Treasury instruments. The University considers certain highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. The fair value of these cash equivalents are categorized as Level 1 of the valuation hierarchy described in note 4. Certain cash equivalents included in the investment portfolio that are intended to be invested on a long-term basis and therefore excluded from the statements of cash flows. At times, the University may have cash balances in excess of federally insured limits.

(d) Accounts Receivable

Accounts receivable from students are reported net of an allowance for doubtful accounts. The allowance is an estimate by management based upon an analysis of delinquent amounts and the respective student's ability and intent to repay. Accounts are considered delinquent when they are greater than 90 days outstanding. These estimated uncollectible amounts can be affected by changes in the student's economic circumstances. As a result, it is reasonably possible that the allowance for doubtful accounts could change in the near term.

(Continued)

Accounts receivable, net at June 30, 2020 and 2019 is as follows:

		2020	2019
		(In thousands)	
Student receivables	$	17,928	11,420
Federal, state, and local grants and contracts		4,480	202
Other		1,869	1,264
		24,277	12,886
Less allowance for doubtful accounts		(644)	(550)
Accounts receivable, net	$	23,633	12,336

(e) Investments

The University consults with an investment advisory firm in connection with the management of the University’s investment fund managers. Fund managers are selected by the University’s Investment Committee (appointed by the University’s Board of Trustees) to invest certain of the University’s funds in various investment asset classes, in accordance with the Board of Trustees’ approved Investment Policy Statement.

Investments are stated at an estimated fair value in the financial statements. Investments are exposed to various risks, such as interest rate, market, and credit risks. Investments in marketable equity and mutual fund securities are stated at fair value based on quoted market prices. Fixed income government obligations are cash held in a money market fund that accrues interest. Fixed income bonds invest in various corporate bonds, municipality bonds, and treasury bonds that are valued by the University's investment advisor. The University’s interests in certain nonreadily marketable alternative investments, such as hedge funds and private equity limited partnerships, as a practical expedient, are stated at an estimated fair value based on net asset value (NAV) estimates reported to the University by investment fund managers.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the University’s financial statements. The University’s alternative investments are less liquid than the rest of its portfolio and, as a result, are exposed to an increased risk of loss.

Investment income, including dividends and interest, is recorded net of investment management fees. Investment income is recognized as income when earned and is classified in the statements of activities and changes in net assets based upon donor-imposed restrictions. Net realized and unrealized gains and losses are recognized in the statements of activities and changes in net assets in nonoperating investment returns.

(f) Endowment

The endowment consists of contributions, split-interest agreements, and assets that are invested to provide income to support education and related activities, either as a result of donor-imposed restrictions or as a result of designations by the Board of Trustees. Endowment contributions are generally invested on a pooled basis and managed so as to achieve maximum long-term total return. The University's spending policy allocates the amount of the total return that can be spent versus reinvested for future earnings. The University calculates endowment income to use for institutional purposes as 4.50% of the last 12 quarters' average fair value of the endowment investment pool. This approach emphasizes total investment return, which includes dividends, interest, and capital gains and losses.

(g) Student Loans Receivable

Student loans receivable consists mainly of loans made to students under the Federal Perkins Loan and Nursing Student Loan programs. The loans are stated at net realizable value in the accompanying statements of financial position. The majority of these loan funds are furnished by agencies of the U.S. government and the remaining balance of the loan funds are furnished by the University. The portion of these loans that are refundable to the U.S. government are reflected as U.S. government loan funds in the statements of financial position. The availability of funds for loans under the Federal Perkins Loan and Nursing Student Loan programs is dependent on reimbursements to the pool from repayments on outstanding loans.

Student loans receivable are stated net of an allowance for doubtful loans. The allowance is an estimate by management based upon an analysis of delinquent amounts and the respective student's ability and intent to repay. Loans are considered delinquent when they are greater than 90 days outstanding. These estimated uncollectible amounts can be affected by changes in the borrower's economic circumstances. As a result, it is reasonably possible that the allowance for doubtful loans could change in the near term. The allowance for doubtful loans was $228,000 and $282,000 as of June 30, 2020 and 2019, respectively.

(h) Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds, and irrevocable charitable remainder trusts for which the University may or may not serve as the trustee. Assets received from donors are invested and payments are made to beneficiaries in accordance with the respective agreements.

For those agreements in which the University is the trustee, contribution revenue from charitable gift annuities and charitable remainder trusts is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the respective donors and/or other beneficiaries. Contribution revenue from pooled income funds is recognized upon establishment of the agreement at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.

For those irrevocable agreements in which the University does not serve as the trustee, contributions receivable and revenue are recognized at the present value of the estimated future benefits.

Assets received from donors from the split-interest agreements are recorded at fair value on the date received. The present value of payments to beneficiaries of charitable gift annuities and charitable remainder trusts and the estimated future receipts from pooled income funds are calculated using the rates commensurate with the risks involved. The University uses the actuarial method of recording charitable gift annuities and charitable remainder trusts. Under this method, when a gift is received, the present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as a contribution in the appropriate net asset category. The liability account is credited with investment income and gains and is charged with investment losses and payments to beneficiaries. Periodic adjustments are made between the liability account and the net asset account for actuarial gains and losses. The actuarial liability is based on the present value of future payments discounted at rates ranging from 1.40% to 11.00% established at the date of agreement and over estimated lives. This liability is recorded at fair value and is measured at the University's year-end using Level 2 inputs.

Legally mandated Washington state annuity reserves totaled $1,633,000 and $1,658,000 as of June 30, 2020 and 2019, respectively, and are included within the assets held under split-interest agreements on the statements of financial position.

(i) Property, Plant, and Equipment

Land and library books are stated at cost, or in the case of those received by gift, at fair value at the date of gift. Buildings and improvements, land improvements, and equipment are stated at cost or fair value at the date of gift, less accumulated depreciation, computed on a straight-line basis over the following estimated useful lives:

- 50 years for buildings and improvements
- 15–50 years for land improvements
- 10 years for equipment and library books
- 4 years for computer hardware

The cost of repairs and maintenance and depreciation is charged to expense. Upon the sale or retirement of property, plant, and equipment, the related cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in the statements of activities and changes in net assets.

Property, plant, and equipment is reviewed for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized if the carrying value is not recoverable and exceeds the assets' fair value. There were no impairments to property, plant, and equipment in the years ended June 30, 2020 and 2019.

(j) Other Assets

Other assets comprise the following as of June 30, 2020 and 2019:

		2020	2019
		(In thousands)	
Prepaid expenses	$	1,927	2,285
Funds held in trust by others		2,004	2,066
Total other assets	$	3,931	4,351

Prepaid expenses are accrued upon payment for goods or services and the related expense is recognized over the service period or when the goods are received.

The fair value of funds held in trust by others is based on quoted prices provided by its investment managers and custodian banks.

(k) Net Asset Categories

Resources are classified into two net asset categories according to the existence or absence of donor-imposed restrictions. Descriptions of the two net asset categories and types of transactions affecting each category follow:

- *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* – Net assets with donor restrictions represent resources subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that are restricted by the donor for a particular purpose and that will be met by the passage of time or other events specified by the donor. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the University, including contributions wherein donors stipulate that the corpus of the gift be held in perpetuity.

(l) Financial Assets and Liquidity Resources

The University regularly monitors liquidity required to meet its operating needs, liabilities, and other obligations as they become due. The following table reflects the University’s financial assets as of June 30, 2020 available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

		2020	2019
Financial assets:			
Cash and cash equivalents	$	97,699	115,526
Accounts receivable, net		23,633	12,336
Contributions receivable, net		9,390	19,842
Investments		245,263	239,593
Financial assets at June 30, 2020		375,985	387,297
Less financial assets unavailable for general expenditure within one year:			
Donor restricted cash for property, plant and equipment		4,434	66,112
Contributions receivable collectible beyond one year		3,470	12,156
Investments unavailable for spend within one year		234,764	229,728
Financial assets unavailable for general expenditure within one year		242,668	307,996
Financial assets available to meet cash needs for general expenditure within one year	$	133,317	79,301

Investments unavailable for spend within one year include all investments less the appropriation of endowment in the subsequent year of $10,499,000 and $9,865,000 for the years ended June 30, 2020 and 2019, respectively. In addition to the financial assets available above, the University had $59,314,000, and $60,359,000 as of June 30, 2020 and 2019, respectively, in board-designated endowment funds which are available for general expenditure with Board approval.

(m) Revenue Recognition

The primary source of revenue comes from tuition and fees; however, other sources of revenue include auxiliary enterprises and grants and contracts.

Tuition and fees – Tuition and fees are recognized on a straight-line basis over the applicable term and are not considered separate performance obligations. Student aid awarded reduces the amount of revenue recognized. Payments for tuition and fees are due prior to the start of the academic term and billed net of the related student award. The University has a tuition refund policies that allow students to drop courses, or withdraw, and receive a full or partial refund in the first 10 days of an academic term. Refunds issued reduce the amount of revenue recognized. Deferred tuition revenue is recorded when cash is received for an academic period that has not yet occurred. The entire amount of deferred revenue was recognized in the year subsequent to the statement of financial position date.

Auxiliary enterprises – Auxiliary enterprises consists primarily of housing revenue. Housing revenue is recognized on a straight-line basis over the period housing is provided. The University has a housing cancellation deadline that allows students to receive a full or partial refund in the first 10 days of an academic term. Refunds issued reduce the amount of revenue recognized.

(n) Contributions

Conditional promises to give become unconditional and are recognized as revenues when the conditions are substantially met. Unconditional promises to give are recognized as revenues when donors' commitments are received. Unconditional promises to give are recognized at the estimated net present value, net of an allowance for uncollectible amounts, and are classified in the net asset category in accordance with donor-imposed restrictions. Contributions that have no donor-imposed restrictions, including those contributions for which the restrictions are met in the same year as received, are recognized as net assets without donor restrictions. Contributions with donor-imposed restrictions are reported as net assets with donor restrictions.

Governmental and private grants and contracts arrangements are nonreciprocal and are, therefore, considered contributions. The granting entity has not received a direct benefit in exchange for the resources provided. Revenue is recognized when the barrier to entitlement is overcome, which is when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met.

Unconditional promises to give with payments due in future periods are reported as net assets with donor restrictions unless donor circumstances make it clear that the donor intended it to be used to support activities of the current period. Contributions of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions for endowment funds or capital assets are not considered support of the ongoing operations of the University and are, therefore, included in the statements of activities and changes in net assets as a nonoperating activity.

The University holds various collections that are made up of artifacts of historical significance and art objects that are held for educational, research, scientific, and curatorial purposes. Each item is cataloged, preserved, and maintained to ensure their original condition is maintained. Collections, which have been acquired through purchases and contributions to the University, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired, or as the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset class. No collection items were deaccessioned in the year ended June 30, 2020 or 2019.

Fundraising expenses of $4,752,000 and $4,973,000 are included in institutional support in the statements of activities and changes in net assets for the years ended June 30, 2020 and 2019, respectively.

(o) Operating and Nonoperating Changes in Net Assets

Operating activities include student-sourced revenues, such as tuition and fees, and student housing. They also include grants and contacts, contributions for general operations, the allocation of endowment spending for current operations, gain or loss on disposal of property, plant, and equipment, other revenues that are ordinary and routine in nature, and all operating expenses. The total decrease in operating net assets without donor restrictions was $2,020,000 and $2,338,000 for the years ended 2020 and 2019, respectively.

Nonoperating activity consists of contributions for long-term purposes, investment returns net of amounts available for current operations, and other non-operating expenses. Non-operating activities tend to vary from year to year, such as changes in market values of investments. Accordingly, they are excluded from operating activities in order to preserve the comparability of the University's net operating results from year to year.

(p) Recently Issued and Adopted Accounting Standards

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU No. 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU No. 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also affects financial liabilities under the fair value option, the presentation and disclosure requirements for financial instruments, and clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. For equity investments without readily determinable fair values, the cost method also is eliminated. In addition, in:

- February 2018, the FASB issued ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities*, which amends ASU No. 2016-01 to clarify that an entity that uses the measurement alternative for equity securities without readily determinable fair values can change its measurement approach to fair value. Once made, the election is irrevocable.
- July 2018, the FASB issued ASU No. 2018-09, *Codification Improvements*, which includes various codification improvements, including one that conforms the requirements in Topic 820 with the amendments made in ASU No. 2016-01 to align the related disclosure requirements.
- April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, which provided further technical corrections and improvements to ASU 2016-01, in order to clarify certain aspects of the guidance.

The University adopted ASU No. 2016-01, along with the codification improvements in ASU No. 2018-03, and the provisions of ASUs No. 2018-09 and No. 2019-04 specific to ASU No. 2016-01, using the cumulative effect method for the year ended June 30, 2020. The adoption of this update did not impact the University's statements of financial position, the results of operations, or cash flows.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. This standard requires that the consolidated statement of cash flows explain the change during the period in total of cash, cash equivalents, and restricted cash. Additionally, a disclosure describing the nature of the restrictions and a reconciliation of cash, cash equivalents, and restricted cash to the amounts of cash and cash equivalents presented on the consolidated statements of financial position is required. The University adopted ASU No. 2016-18 in the University's 2020 fiscal year using a retrospective approach. There was no impact to the financial statements as a result of adoption.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which applies to all entities that are required to make disclosures about recurring or nonrecurring fair value measurements. The amendments in ASU No. 2018-13, which remove, modify, or add certain disclosure requirements as part of the FASB's disclosure framework project to improve the effectiveness of the notes to the financial statements, was early adopted by the University in the year ended June 30, 2020. The adoption of this guidance did not impact the University's statements of financial position, the results of operations, or cash flows.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments in this update provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The adoption of this update did not impact the University's statements of financial position, the results of operations, or cash flows.

In September 2020, the FASB issued ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The update is intended to improve transparency in the reporting of contributed financial assets, also known as gifts-in-kind, for not-for-profit organizations. The guidance is effective for the year ending June 30, 2022. The University is evaluating the impact of the update on the financial statements.

(q) Reclassifications

Certain reclassifications have been made to the notes of the 2019 financial statements to conform to the 2020 financial statement presentation.

(3) Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Fair value of contributions receivable is based on the discounted value of estimated future cash flows. The discount rate is estimated based upon rates that take into consideration the associated risk. The discount rates used as of both June 30, 2020 and 2019 range from 0.34% to 4.90% and are expected to be realized in the following periods:

		2020	2019
		(In thousands)	
In one year or less	$	6,175	8,311
Between one year and five years		2,820	11,506
More than five years		650	650
Total contributions receivable		9,645	20,467
Less discount		(255)	(625)
Total contributions receivable, net	$	9,390	19,842

Contributions receivable at June 30, 2020 and 2019 are intended for the following uses:

		2020	2019
		(In thousands)	
Educational activities	$	1,287	3,954
Endowment		3,646	4,157
Facilities and equipment		4,663	12,306
General support		49	50
Total contributions receivable	$	9,645	20,467

As of June 30, 2020, conditional promises to give were $12,555,000. Of these promises to give, $7,029,000 were considered conditional due to the University being named a beneficiary in a revocable living trust, $1,000,000 were conditional due to construction requirements on the Center for Science and Innovation, and $4,526,000 were conditional due to federal grants that were awarded however the University has limited discretion in the way the funds may be spent which creates a barrier to entitlement.

(4) Investments and Fair Value Hierarchy

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. Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The standard describes the following three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices in active markets that the University has the ability to access at the measurement date.

Level 2: Inputs, other than quoted prices in active markets, 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.

Level 3: Unobservable inputs where there is little or no market data for the asset or liability, requiring the University to develop its own assumptions.

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used.

Investments include cash equivalents used for investing purposes, domestic equity securities, registered mutual funds, and various alternative investments. The carrying value of the University's investments is based on valuations provided by the University's external investment fund managers or their custodians. These valuations include observable market quotation prices, observable inputs other than quoted prices such as price services or indexes, estimates, appraisals, assumptions, and other methods that are reviewed by management. Changes in market conditions and the economic environment may impact the NAV of the funds and consequently the fair value of the University's interests in the funds.

In accordance with ASC Subtopic 820-10, certain investments that are measured at NAV per share using the practical expedient to estimate fair value, have not been classified in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position. The following tables present the University's fair value hierarchy for those assets measured at fair value as of June 30, 2020 and 2019. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

	June 30, 2020			
	Total	**Level 1**	**Level 2**	**Level 3**
	(In thousands)			
Investments held at fair value:				
Cash equivalents	$ 897	897	—	—
Fixed income – Govt obligations	22,935	22,935	—	—
Mutual funds				
Non-U.S. equity	20,318	20,318	—	—
Fixed income	20,263	20,263	—	—
Domestic equity	47,070	47,070	—	—
Foreign equity	4,150	4,150	—	—
Fixed income bonds				
Domestic	22,137	—	22,137	—
Foreign	1,442	—	1,442	—
Total cash and investments at fair value	139,212	115,633	23,579	—
Investments measured at NAV	84,614	n/a	n/a	n/a
Total internally pooled investments	223,826	115,633	23,579	—
Separately invested:				
Real estate	20,579	—	—	20,579
Other	858	858	—	—
Total separately invested	21,437	858	—	20,579
Total investments	245,263	116,491	23,579	20,579
Funds held in trust by others	2,004	—	—	2,004
Assets held under split-interest agreements	12,664	—	12,664	—
Total investments	$ 259,931	116,491	36,243	22,583

	June 30, 2019			
	Total	**Level 1**	**Level 2**	**Level 3**
	(In thousands)			
Investments held at fair value:				
Cash equivalents	$ 955	955	—	—
U.S. Treasury strips	36,396	36,396	—	—
Mutual funds				
Emerging markets	6,416	6,416	—	—
Non-U.S. equity	24,235	24,235	—	—
Real assets	32,631	32,631	—	—
U.S. equity	10,101	10,101	—	—
Total cash and investments at fair value	110,734	110,734	—	—
Investments measured at NAV	106,859	n/a	n/a	n/a
Total internally pooled investments	217,593	110,734	—	—
Separately invested:				
Real estate	21,261	—	—	21,261
Other	739	739	—	—
Total separately invested	22,000	739	—	21,261
Total investments	239,593	111,473	—	21,261
Funds held in trust by others	2,066	—	—	2,066
Assets held under split-interest agreements	13,442	—	13,442	—
Total investments	$ 255,101	111,473	13,442	23,327

(Continued)

The following table presents additional information for investments measured at NAV on a recurring basis for the fiscal years ended June 30, 2020 and 2019:

	Net asset value			Redemption	
	Ending balance at June 30, 2020	**Ending balance at June 30, 2019**	**Unfunded commitments at June 30, 2020**	**Frequency**	**Days notice**
Collective investment funds:					
Emerging markets equity	$ 7,698	13,642	—	Monthly	30
Non-U.S. equity	16,617	22,436	—	Monthly	60
Real assets	—	7,973	—	Monthly	60
U.S. equity	30,797	27,524	—	Quarterly	60
Hedge funds:					
Absolute return	1,031	8,101	—	Quarterly	45–90
Long/short	4,443	12,147	—	Quarterly	45–90
Private equity partnerships:					
Buyout	932	1,276	2,031	n/a	n/a
Distressed	3,258	5,197	3,681	n/a	n/a
Real assets	70	167	30	n/a	n/a
Real estate	10,357	—	—		
Venture capital	8,911	7,896	12,271	n/a	n/a
Other	500	500	—	n/a	n/a
	$ 84,614	106,859	18,013		

There were no purchases, redemptions or transfers into or out of any Level 3 assets measured at fair value on a recurring basis for the fiscal years ended June 30, 2020 and 2019.

The following describes investee strategies and other restrictions in connection with alternative investments:

- *Real assets* – This category invests primarily in publicly traded equity securities of companies in the energy, metals, and mining sectors, as well as commodity-related derivatives contracts, treasury inflation protection securities, and money-market instruments. Additionally, this category invests in private equity transactions within the oil, gas, and energy sectors.
- *Long/short hedge fund* – This category invests primarily in long and short marketable equity-oriented positions, and generally includes domestic, global, and opportunistic themes. These funds have the flexibility to invest in a wide array of other types of securities as deemed appropriate by the fund managers to carry out the funds' objectives.
- *Absolute return hedge fund* – This category invests in long and short credit and equity-oriented positions, generally including event-driven strategies such as merger arbitrage, distressed debt, and special situations investing. Funds within this category generally have the flexibility to invest in a wide array of security types as deemed appropriate by the fund managers to carry out the funds' objectives.
- *Private equity partnerships* – This category includes direct-investment funds and fund-of-funds structured as commitment-based limited partnerships, where the limited partner commits to invest a maximum dollar amount, which is drawn-down over the term of the partnership, as individual

investment opportunities are identified by the fund manager. Limited partnership interests in such funds generally cannot be redeemed, and distributions are received from fund managers typically upon liquidation of underlying assets within the funds' portfolios. It is expected that the majority of underlying funds will reach the end of their lives over the next 10 years. The venture capital subcategory includes direct-investment funds and fund-of-funds that invest primarily in earlier stage financing of domestic private companies, typically in the information technology and healthcare sectors. The distressed subcategory consists of fund-of-funds that invest in various types of distressed securities across a wide range of industries, both domestic and foreign, often with the goal of achieving turnarounds by influence or control positions over investee companies. The buyout subcategory includes fund-of-funds, which primarily invest in small/middle market and large leveraged buyout funds, both domestic and internationally, with a mixture of other strategies including venture capital and growth equity.

- *Real property* – This category includes investments in real estate property. The following table represents the University's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs of the ranges of values for those inputs:

Year ended	Instrument	Fair value	Principal valuation technique	Significant unobservable inputs	Range of significant input values	Weighted average
June 30, 2020	Real property	$ 20,579,000	Market comparables	Price/square foot	275–365	319
June 30, 2019	Real property	$ 21,261,000	Market comparables	Price/square foot	268–365	312

(5) Endowment

The University has a policy that interprets the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established, subject to the intent of the donor as expressed in the gift instrument. The University classifies net assets with donor restrictions as the original value of gifts to donor-restricted endowments, the original value of subsequent gifts made to donor-restricted endowments, and income or appreciation of donor-restricted endowments that donors have stipulated are not expendable. The remaining portion of the donor-restricted endowment fund that is not classified as donor restriction net assets is classified as net assets with donor restrictions, appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

The following table represents endowment net assets composition by type of fund as of June 30, 2020:

		With donor restriction		
	Without donor restriction	Original gift	Accumulated return on investments, net of distributions	Total
		(In thousands)		
Board-designated funds	$ 59,314	—	—	59,314
Donor-restricted funds	—	150,154	29,420	179,574
Total funds	$ 59,314	150,154	29,420	238,888

The following table represents changes in endowment net assets for the year ended June 30, 2020:

	Without donor restriction	With donor restriction	Total
		(In thousands)	
Endowment net assets at July 1, 2019	$ 60,359	173,982	234,341
Investment return, net	2,100	3,600	5,700
Appropriation of endowment assets for expenditure	(2,791)	(7,005)	(9,796)
Contributions	32	8,997	9,029
Transfers	(386)	—	(386)
Endowment net assets at June 30, 2020	$ 59,314	179,574	238,888

The following table represents endowment net assets composition by type of fund as of June 30, 2019:

		With donor restriction		
	Without donor restriction	Original gift	Accumulated return on investments, net of distributions	Total
		(In thousands)		
Board-designated funds	$ 60,359	—	—	60,359
Donor-restricted funds	—	141,283	32,699	173,982
Total funds	$ 60,359	141,283	32,699	234,341

(Continued)

The following table represents changes in endowment net assets for the year ended June 30, 2019:

		Without donor restriction	With donor restriction	Total
			(In thousands)	
Endowment net assets at July 1, 2018	$	62,185	178,999	241,184
Investment return, net		2,314	4,658	6,972
Appropriation of endowment assets for expenditure		(2,802)	(6,647)	(9,449)
Contributions		223	5,472	5,695
Transfers		(1,561)	(8,500)	(10,061)
Endowment net assets at June 30, 2019	$	60,359	173,982	234,341

As of June 30, 2020, 47 individual donor-restricted endowment funds, out of a total of 399, had fair values that were $1,052,000 less than their original contributed amount of $32,832,000. As of June 30, 2019, 30 individual donor-restricted endowment funds, out of a total of 383, had fair values that were $666,000 less than their original contributed amount of $15,388,000. The University does appropriate for expenditure from an endowment when the fair value of the fund is less than the original gift amount.

The endowment transfers during the year ended June 30, 2019 primarily related to a donor-approved amendment of a $10,000,000 contribution receivable which changed the donor restriction from endowment to capital.

(6) Property, Plant, and Equipment

Property, plant, and equipment comprises the following at June 30, 2020 and 2019:

		2020	2019
		(In thousands)	
Land and improvements	$	64,456	64,456
Buildings and improvements		377,916	369,855
Equipment		46,374	42,424
Library books		51,974	49,320
Construction in progress		65,266	15,434
		605,986	541,489
Less accumulated depreciation		(228,635)	(212,879)
Property, plant, and equipment, net	$	377,351	328,610

Depreciation expense for the years ended June 30, 2020 and 2019 totaled $17,387,000 and $16,865,000, respectively. There were no interest costs capitalized for the years ended June 30, 2020 and 2019.

(7) Bonds Payable

Bonds payable comprise the following at June 30, 2020 and 2019:

		2020	2019
		(In thousands)	
Bonds payable to the Washington Higher Education Facilities Authority (WHEFA) (interest due semiannually on November 1 and May 1):			
Series 2008A, weekly variable interest rate. Weekly variable rate (set by the remarketing agent) in effect on June 30, 2020 was 3.13%, principal due annually in increasing amounts from $1,420 in May 2021 to $1,825 in May 2028	$	12,920	14,295
Series 2011, interest at fixed rates 5.00% per annum, principal due annually in increasing amounts from $660 in May 2021 to $1,125 in May 2032		10,360	10,985
Series 2015, interest at a fixed rate of 2.93% per annum, principal due annually from $2,398 in November 2020 to a maximum of $3,325 in November 2030		47,076	49,405
Series 2017, interest at fixed rates ranging from 3.45% to 5.00% per annum, principal due in increasing amounts from $2,095 in May 2029 to $6,165 in November 2039		41,860	41,860
		112,216	116,545
Net of unamortized premiums, discounts, and debt issuance costs		1,554	1,629
	$	113,770	118,174

Annual maturities of bonds payable are as follows (in thousands):

Year ending June 30:		
2021	$	4,478
2022		4,644
2023		4,793
2024		4,949
2025		5,121
Thereafter		88,231
	$	112,216

As a condition of issuance of the WHEFA bonds, the University has agreed to certain covenants for the protection of bond owners. The University is in compliance with these covenants as of June 30, 2020.

(Continued)

The University is required to maintain an irrevocable letter of credit equal to the principal amount of the Series 2008A WHEFA Variable Rate Demand Refunding Revenue Bonds (the Bonds). The letter of credit is issued by U.S. Bank National Association (the Bank), pursuant to an irrevocable letter of credit agreement dated March 20, 2008, between the Bank and the University. The direct pay letter of credit is an irrevocable obligation that is scheduled to expire on March 20, 2025.

The Series 2008A bonds remarket every seven days. To the extent the Bonds do not remarket, a liquidity draw against the letter of credit may occur. Any draws under the letter of credit are subject to an accelerated repayment of the Bonds. Additionally, pursuant to the terms of the Reimbursement Agreement, if certain material adverse changes were to occur, such changes could result in the 2008A bonds becoming immediately due. There were no amounts outstanding on this letter of credit as of June 30, 2020 or 2019.

Total interest expense was $4,049,519 and $4,148,000 for the years ended June 30, 2020 and 2019, respectively.

(8) Interest Rate Swap

Variable rate debt obligations inherently expose the University to variability in interest payments due to changes in interest rates. As such, the University believes it is prudent to limit the variability of debt service to the extent possible. To meet this intent, the University entered into an interest rate swap with the Bank of New York Mellon associated with the issuance of the Series 2008A variable rate demand notes. The notional amount of the swap at the time of issuance was $26,595,000 and there was no cash exchanged at the time of the acquisition due to the relationship between the variable rates and the swap rate at that time.

The interest rate swap does not meet the criteria for hedge accounting, and therefore, all changes in the fair value of the interest rate swap are reported on the statements of activities and changes in net assets. For the years ended June 30, 2020 and 2019, the valuation of the swap resulted in a net unrealized loss of $386,000 and $363,000, respectively. The related liability of $1,607,000 and $1,222,000, respectively, related to a cumulative loss is reported on the statements of financial position within other liabilities. This liability is recorded at fair value and is measured at year-end using Level 2 inputs. Cash flows related to the swap are reported in the operating section of the statements of cash flows. Provided that the University holds the swap to maturity, the value of the derivative will be zero. The swap transaction can be terminated at market rates at any time during the term of the swap upon all final settlements.

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

(9) Income Taxes

The University is generally exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) of the IRC and corresponding Washington State provisions. Certain University activities are unrelated business activities from which any net income derived is taxable under federal income tax law. No income tax provision has been recorded as the net income from any unrelated business activities is not material to the financial statements in the opinion of management.

(10) Retirement Plan

University employees who meet certain eligibility requirements can participate in a defined contribution plan in which the University contributes 10% of an employee's salary. Amounts contributed by the University and charged to retirement plan expense for the years ended June 30, 2020 and 2019 were $9,682,000 and $9,588,000, respectively.

(11) Net Assets

The University's net assets consist of the following:

		2020	2019
		(In thousands)	
Without donor restriction:			
For current operations	$	25,679	12,305
Designated for investment in property, plant, and equipment		36,448	41,459
Invested in property, plant, and equipment		179,649	181,900
Board-designated endowment funds		59,314	60,359
Total without donor restriction		301,090	296,023
With donor restriction:			
For educational activity purposes		23,701	23,084
For purchase of property, plant, and equipment		85,583	78,428
Endowment funds		179,574	173,982
Total with donor restriction		288,858	275,494
Total net assets	$	589,948	571,517

(12) Leasing Arrangements

The University has leasing arrangements where the University is the lessor and leasing arrangements where the University is the lessee. These arrangements where the University is the lessee create right-of-use assets and lease liabilities. The University's policy is not to record a right-of-use asset and lease liability for leases with terms less than one year.

As of June 30, 2020, the University is a party to ten operating leases as the lessee. Nine of these leases are for academic, office, and residential space and the tenth is an equipment lease. As of June 30, 2020, the University recognized a lease liability of $17,765,000 with a right-of-use asset of $17,422,000 based on the present value of the minimum rental payments of such leases. The discount rate used for leases is the University's estimated borrowing rate of 4%. Many of the University's leases provide for options to renew subsequent to the current term. The options to renew the leases were not considered when assessing the value of the right-of-use asset because the University was not reasonably certain that it will assert its option to renew these leases. Two leases include variable rent payments that increase each year based on the consumer price index.

Quantitative information regarding the University's leases for the years ended June 30, 2020 and 2019 is as follows:

		2020	2019
Lease cost	$	3,093,000	3,095,000
Other information:			
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows	$	3,029,000	2,994,000
Weighted average remaining lease term (in years)		12.53	11.81
Weighted average discount rate		4.00 %	4.00 %

Scheduled rental payments for operating leases are as follows (in thousands):

Year ending June 30:		
2021	$	2,900
2022		2,751
2023		2,752
2024		2,338
2025		2,171
Thereafter		9,955
Total rental payments		22,867
Less present value discount		(5,102)
Lease liabilities	$	17,765

The University has three leasing arrangements in which the University acts as a lessor. These leases include two ground leases where the University leases land to a third party. These ground leases have remaining terms of 53 years and 66 years and include rents which increase each year based on the consumer price index. In the third lease, the University is the lessee for office space and has entered into a sublease with four years remaining to relieve the obligation of the lease. As the lessee, the University recorded the original lease in the right-of-use asset and lease liability and as the sublessor, has included the receipts in the table below. Cash received and reported in operating cash flows for lease payments in which the University acts as the lessor in the years ended June 30, 2020 and 2019 was $513,000 and

$493,000, respectively. Future minimum lease payments to be received under leasing agreements are as follows (in thousands):

Year ending June 30:		
2021	$	524
2022		533
2023		230
2024		230
2025		230
Thereafter		12,958
	$	14,705

(13) Contingencies

The University is a defendant in various legal actions. While the outcome of these actions is not currently determinable, management is of the opinion that any uninsured liability from such actions will not have a material effect on the University's financial position.

The University participates in the Guaranteed Access to Education (GATE) student loan program and is subject to certain limited repayment obligations if students fail to repay their notes. The University has recorded as a liability its best estimate of that ultimate obligation.

Certain federal grants, including financial aid that the University administers and for which it receives reimbursements, are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although the University expects such amounts, if any, would not have a significant impact on the financial position of the University.

Approximately 7.90% of the University's nonfaculty employees are covered under collective bargaining agreements. These employees provide maintenance, mechanical, custodial, and other technical services to the University. Bargaining disputes could adversely affect the University.

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The outbreak of the disease has affected travel, commerce and financial markets globally, including in the United States. The continued spread of COVID-19 and its impact on social interaction, travel, economies and financial markets may adversely affect operations and financial condition, including, among other things, (i) the ability of the University to conduct its operations and/or the cost of operations, (ii) governmental and non-governmental funding, and (iii) financial markets impacting investments valuation and interest rates.

Commencing March 18, 2020, undergraduate and graduate course instruction was conducted virtually and most students vacated the campus. The University did not refund tuition for Spring 2020 but did experience a reduction in housing and fees of approximately $6 million in fiscal year 2020. Students continued to meet their academic requirements for the remainder of the 2019-20 academic year. In addition, the start of 2020-21 academic year will remain a virtual learning environment. While some faculty and staff are working on-campus to ensure continuity of essential operations, most faculty and staff have transitioned to remote work. Given the uncertainty over the progression of the virus and governmental emergency directives, there is no timetable for when instruction and campus operations will return to normal.

The COVID-19 pandemic has negatively affected national, state, and local economies and global financial markets, and the higher education landscape in general. While the financial impact on the University cannot be quantified at this time, the pandemic may have a material adverse effect on the current and future financial profile and operating performance of the University. The University continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic mission.

(14) Functional Expense Classification

The financial statements present expenses by functional classification in accordance with the overall mission of the University and industry standards. Each functional classification includes direct expenses related to the provision of a part of the University's operations as well as allocated costs, such as depreciation, interest expense, and plant operating costs. Depreciation expense for buildings and building improvements is allocated based on each building's principal use. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the debt. Plant operations and maintenance and other nonbuilding depreciation represent building occupancy costs which are allocated to functional categories on the basis of functional expense to total expense.

Expenses by functional and natural classification for the year ended June 30, 2020, were as follows (in thousands):

		Instruction	Academic support	Student services	Institutional support	Auxiliary enterprises	Total expenses
Salaries, wages, and benefits	$	88,027	12,937	24,085	28,555	4,750	158,354
Depreciation		3,933	4,345	2,972	4,764	1,373	17,387
Professional services		4,201	1,245	2,357	3,421	1,469	12,693
Meetings, travel and memberships		1,906	380	3,327	1,119	61	6,793
Occupancy, utilities, and maintenance		1,577	538	1,275	951	3,554	7,895
Supplies, printing, and marketing		1,538	126	2,715	824	103	5,306
Interest		957	1,109	312	1,045	698	4,121
Insurance, banking, and taxes		35	9	242	2,853	43	3,182
Other		1,169	1,088	2,914	1,876	1,018	8,065
Total expenses	$	103,343	21,777	40,199	45,408	13,069	223,796

Expenses by functional and natural classification for the year ended June 30, 2019, were as follows (in thousands):

		Instruction	Academic support	Student services	Institutional support	Auxiliary enterprises	Total expenses
Salaries, wages, and benefits	$	88,786	10,483	23,243	29,482	3,884	155,878
Depreciation		6,089	2,226	3,364	2,852	2,334	16,865
Professional services		5,210	2,114	3,476	4,777	400	15,977
Meetings, travel and memberships		2,987	461	4,013	1,705	72	9,238
Occupancy, utilities, and maintenance		2,465	513	1,273	1,455	2,338	8,044
Supplies, printing, and marketing		1,960	174	2,897	831	121	5,983
Interest		2,125	307	746	1,056	16	4,250
Insurance, banking, and taxes		51	11	124	3,042	4	3,232
Loss on building disposal		—	—	951	951	—	1,902
Other		902	713	1,657	1,903	3,053	8,228
Total expenses	$	110,575	17,002	41,744	48,054	12,222	229,597

(15) Subsequent Events

In July 2020, the University issued WHEFA Refunding Revenue Bonds, Series 2020, with the par amount of $60,000,000. Such bonds are payable in varying annual installments through May 2050 with interest paid semiannually at fixed interest rates ranging from 3.50% to 5.00%. Net proceeds of $10,129,000, were used to defease the Series 2011 bonds.

The University has performed an evaluation of subsequent events from the statements of financial position date through November 5, 2020, which is the date these financial statements were issued, and has included all necessary adjustments and disclosures.

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