

# Contents

---

## *Consolidated Financial Statements*

1

Report of  
Independent  
Auditors

5

Consolidated  
Statements  
of Functional  
Expenses

2

Consolidated  
Statements  
of Financial  
Position

6

Consolidated  
Statements  
of Cash Flows

3

Consolidated  
Statements  
of Changes  
in Net Assets

7-38

Notes to  
Consolidated  
Financial  
Statements

# Report of Independent Auditors

---

## *To the Board of Trustees*

University of Notre Dame du Lac

We have audited the accompanying consolidated financial statements of the University of Notre Dame du Lac and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of changes in net assets, of functional expenses and of cash flows for the years then ended.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 our 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, we consider internal control relevant to the University'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 University'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 financial position of the University of Notre Dame du Lac and its subsidiaries as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in [Note 1](#) to the consolidated financial statements, the University changed the manner in which it presents net assets and reports certain aspects of its consolidated financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this item.

*PricewaterhouseCoopers LLP*

Chicago, Illinois

November 14, 2019

# Consolidated Statements of Financial Position

(in thousands)

	As of June 30	
	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 147,634	\$ 75,658
Accounts receivable, net ( <a href="#">Note 3</a> )	69,899	60,252
Deferred charges and other assets ( <a href="#">Note 4</a> )	44,083	47,354
Contributions receivable, net ( <a href="#">Note 5</a> )	541,065	578,441
Notes receivable, net ( <a href="#">Note 6</a> )	23,796	25,365
Investments ( <a href="#">Note 7</a> )	13,999,087	13,387,347
Land, buildings and equipment, net of accumulated depreciation ( <a href="#">Note 8</a> )	2,517,801	2,400,339
<b>TOTAL ASSETS</b>	<b>\$ 17,343,365</b>	<b>\$ 16,574,756</b>
<b>Liabilities</b>		
Accounts payable ( <a href="#">Note 8</a> )	\$ 51,743	\$ 71,705
Short-term borrowing ( <a href="#">Note 9</a> )	156,723	151,475
Deferred revenue and refundable advances ( <a href="#">Note 10</a> )	167,070	140,500
Deposits and other liabilities ( <a href="#">Note 11</a> )	250,176	215,671
Liabilities associated with investments ( <a href="#">Note 7</a> )	1,577,461	1,474,606
Obligations under split-interest agreements ( <a href="#">Note 17</a> )	189,642	185,098
Bonds and notes payable ( <a href="#">Note 12</a> )	1,111,577	1,112,441
Pension and other postretirement benefit obligations ( <a href="#">Note 14</a> )	120,955	102,899
<b>TOTAL LIABILITIES</b>	<b>3,625,347</b>	<b>3,454,395</b>
<b>Net Assets</b>		
Without donor restrictions ( <a href="#">Note 15</a> )	6,094,169	5,844,129
With donor restrictions ( <a href="#">Note 15</a> )	7,623,849	7,276,232
<b>TOTAL NET ASSETS</b>	<b>13,718,018</b>	<b>13,120,361</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 17,343,365</b>	<b>\$ 16,574,756</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

(in thousands)

	Years ended June 30			
	Without donor restrictions	With donor restrictions	2019 Total	2018 Total
<b>Operating Revenues and Other Additions</b>				
Net tuition and fees <a href="#">(Note 18)</a>	\$ 341,355	\$ -	\$ 341,355	\$ 329,119
Grants and contracts <a href="#">(Note 19)</a>	146,791	-	146,791	140,219
Contributions	48,908	55,730	104,638	99,911
Accumulated investment return distributed <a href="#">(Note 7)</a>	141,623	256,908	398,531	370,943
Sales and services of auxiliary enterprises <a href="#">(Note 20)</a>	307,180	-	307,180	271,566
Other sources	64,680	-	64,680	56,519
<b>TOTAL OPERATING REVENUES</b>	<b>1,050,537</b>	<b>312,638</b>	<b>1,363,175</b>	<b>1,268,277</b>
Net assets released from restrictions <a href="#">(Note 15)</a>	290,986	(290,986)	-	-
<b>TOTAL OPERATING REVENUES AND OTHER ADDITIONS</b>	<b>1,341,523</b>	<b>21,652</b>	<b>1,363,175</b>	<b>1,268,277</b>
<b>Operating Expenses</b>	<b>(1,345,338)</b>	<b>-</b>	<b>(1,345,338)</b>	<b>(1,253,476)</b>
<b>INCREASE/(DECREASE) IN NET ASSETS FROM OPERATIONS</b>	<b>(3,815)</b>	<b>21,652</b>	<b>17,837</b>	<b>14,801</b>
<b>Non-Operating Changes in Net Assets</b>				
Contributions	9,944	201,570	211,514	391,488
Investment return <a href="#">(Note 7)</a>	357,838	447,923	805,761	1,247,681
Accumulated investment return distributed <a href="#">(Note 7)</a>	(141,623)	(256,908)	(398,531)	(370,943)
Net gain/(loss) on debt-related derivative instruments <a href="#">(Note 13)</a>	(24,710)	-	(24,710)	4,424
Net assets released from restrictions <a href="#">(Note 15)</a>	68,874	(68,874)	-	-
Pension and postretirement benefits-related changes:				
Net periodic benefit costs <a href="#">(Note 14)</a>	(2,851)	-	(2,851)	(5,402)
Other changes <a href="#">(Note 14)</a>	(19,685)	-	(19,685)	28,793
Change in value of split-interest agreements <a href="#">(Note 17)</a>	(214)	9,664	9,450	6,290
Capital asset contribution to religious affiliate	-	-	-	(29,300)
Other non-operating changes	6,282	(7,410)	(1,128)	7,119
<b>INCREASE IN NET ASSETS FROM NON-OPERATING ACTIVITIES</b>	<b>253,855</b>	<b>325,965</b>	<b>579,820</b>	<b>1,280,150</b>
<b>INCREASE IN NET ASSETS</b>	<b>250,040</b>	<b>347,617</b>	<b>597,657</b>	<b>1,294,951</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b>5,844,129</b>	<b>7,276,232</b>	<b>13,120,361</b>	<b>11,825,410</b>
<b>NET ASSETS END OF YEAR</b>	<b>\$ 6,094,169</b>	<b>\$ 7,623,849</b>	<b>\$ 13,718,018</b>	<b>\$ 13,120,361</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

(in thousands)

	Year ended June 30		
	Without donor restrictions	With donor restrictions	<b>2018</b> Total
<b>Operating Revenues and Other Additions</b>			
Net tuition and fees <a href="#">(Note 18)</a>	\$ 329,119	\$ -	\$ 329,119
Grants and contracts <a href="#">(Note 19)</a>	140,219	-	140,219
Contributions	44,729	55,182	99,911
Accumulated investment return distributed <a href="#">(Note 7)</a>	121,006	249,937	370,943
Sales and services of auxiliary enterprises <a href="#">(Note 20)</a>	271,566	-	271,566
Other sources	56,519	-	56,519
<b>TOTAL OPERATING REVENUES</b>	<b>963,158</b>	<b>305,119</b>	<b>1,268,277</b>
Net assets released from restrictions <a href="#">(Note 15)</a>	268,362	(268,362)	-
<b>TOTAL OPERATING REVENUES AND OTHER ADDITIONS</b>	<b>1,231,520</b>	<b>36,757</b>	<b>1,268,277</b>
<b>Operating Expenses</b>	<b>(1,253,476)</b>	<b>-</b>	<b>(1,253,476)</b>
<b>INCREASE/(DECREASE) IN NET ASSETS FROM OPERATIONS</b>	<b>(21,956)</b>	<b>36,757</b>	<b>14,801</b>
<b>Non-Operating Changes in Net Assets</b>			
Contributions	29,182	362,306	391,488
Investment return <a href="#">(Note 7)</a>	567,932	679,749	1,247,681
Accumulated investment return distributed <a href="#">(Note 7)</a>	(121,006)	(249,937)	(370,943)
Net gain on debt-related derivative instruments <a href="#">(Note 13)</a>	4,424	-	4,424
Net assets released from restrictions <a href="#">(Note 15)</a>	169,241	(169,241)	-
Pension and postretirement benefits-related changes:			
Net periodic benefit costs <a href="#">(Note 14)</a>	(5,402)	-	(5,402)
Other changes <a href="#">(Note 14)</a>	28,793	-	28,793
Change in value of split-interest agreements <a href="#">(Note 17)</a>	(354)	6,644	6,290
Capital asset contribution to religious affiliate	(29,300)	-	(29,300)
Other non-operating changes	9,671	(2,552)	7,119
<b>INCREASE IN NET ASSETS FROM NON-OPERATING ACTIVITIES</b>	<b>653,181</b>	<b>626,969</b>	<b>1,280,150</b>
<b>INCREASE IN NET ASSETS</b>	<b>631,225</b>	<b>663,726</b>	<b>1,294,951</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b>5,212,904</b>	<b>6,612,506</b>	<b>11,825,410</b>
<b>NET ASSETS END OF YEAR</b>	<b>\$ 5,844,129</b>	<b>\$ 7,276,232</b>	<b>\$ 13,120,361</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Functional Expenses

(in thousands)

	Years ended June 30						2019
	Salaries & wages	Benefits	Supplies & services	Depreciation (Note 8)	Interest		Total
<b>Operating Expenses</b>							
Academic programs and research	\$ 395,318	\$ 104,902	\$ 232,122	\$ 53,172	\$ 26,205	\$	811,719
Auxiliary enterprises	90,756	31,438	111,797	35,273	9,024		278,288
General administration	88,565	45,804	54,598	6,415	7,008		202,390
Fundraising	24,739	7,960	18,114	206	1,922		52,941
<b>TOTAL OPERATING EXPENSES</b>	<b>599,378</b>	<b>190,104</b>	<b>416,631</b>	<b>95,066</b>	<b>44,159</b>		<b>1,345,338</b>
<b>Non-operating expenses</b>							
Net periodic benefit costs (Note 14)	-	2,851	-	-	-		2,851
Expenses of consolidated company	-	-	7,413	1,749	1,813		10,975
<b>TOTAL EXPENSES</b>	<b>\$ 599,378</b>	<b>\$ 192,955</b>	<b>\$ 424,044</b>	<b>\$ 96,815</b>	<b>\$ 45,972</b>	<b>\$</b>	<b>\$ 1,359,164</b>

	Salaries & wages	Benefits	Supplies & services	Depreciation (Note 8)	Interest		2018 Total
<b>Operating Expenses</b>							
Academic programs and research	\$ 377,187	\$ 102,209	\$ 228,624	\$ 47,268	\$ 25,225	\$	780,513
Auxiliary enterprises	87,227	30,579	87,208	29,302	9,458		243,774
General administration	69,032	45,948	48,739	5,572	6,367		175,658
Fundraising	24,904	7,850	18,943	247	1,587		53,531
<b>TOTAL OPERATING EXPENSES</b>	<b>558,350</b>	<b>186,586</b>	<b>383,514</b>	<b>82,389</b>	<b>42,637</b>		<b>1,253,476</b>
<b>Non-operating expenses</b>							
Net periodic benefit costs (Note 14)	-	5,402	-	-	-		5,402
Capital asset contribution to religious affiliate	-	-	29,300	-	-		29,300
Expenses of consolidated company	-	-	6,705	1,665	1,851		10,221
<b>TOTAL EXPENSES</b>	<b>\$ 558,350</b>	<b>\$ 191,988</b>	<b>\$ 419,519</b>	<b>\$ 84,054</b>	<b>\$ 44,488</b>	<b>\$</b>	<b>\$ 1,298,399</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

(in thousands)

	Years ended June 30	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 597,657	\$ 1,294,951
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net gain on investments	(729,613)	(1,205,899)
Contributions for long-term investment	(154,114)	(220,707)
Contributed securities	(92,553)	(116,808)
Proceeds from sales of securities contributed for operations	8,457	14,557
Depreciation	96,815	84,054
Loss on disposal of land, buildings and equipment	6,298	3,141
Change in contributions receivable	37,376	(51,450)
Change in value of split-interest agreements	(9,450)	(6,290)
Change in pension and other postretirement benefit obligations	18,056	(31,001)
Changes in operating assets and liabilities:		
Accounts receivable, deferred charges and other assets	(6,376)	21,500
Accounts payable, deferred revenue and refundable advances, and deposits and other liabilities	60,274	14,679
Other, net	5,624	2,098
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(161,549)</b>	<b>(197,175)</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	7,187,442	5,301,620
Purchases of investments	(6,960,430)	(5,308,705)
Purchases of land, buildings and equipment	(239,252)	(309,428)
Student and other loans granted	(3,115)	(3,217)
Student and other loans repaid	5,856	7,078
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(9,499)</b>	<b>(312,652)</b>
<b>Cash Flows from Financing Activities</b>		
Investment income restricted for non-operational purposes	3,299	2,208
Contributions for long-term investment	168,211	233,471
Proceeds from sales of securities contributed for long-term investment	83,993	97,031
Proceeds from short-term borrowing	1,937,560	2,058,353
Repayment of short-term borrowing	(1,932,312)	(2,153,127)
Payments to beneficiaries of split-interest agreements	(14,912)	(15,222)
Proceeds from bonds issued	-	398,689
Repayment of bonds and notes	(864)	(153,594)
Return of government advances for student loans	-	(7,324)
Cash accepted for investment on behalf of religious affiliates	22,083	73,167
Cash returned to religious affiliates	(24,034)	(28,422)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>243,024</b>	<b>505,230</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>71,976</b>	<b>(4,597)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>75,658</b>	<b>80,255</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 147,634</b>	<b>\$ 75,658</b>
<b>Supplemental Data</b>		
Interest paid	\$ 45,822	\$ 41,839

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## NOTE 1. Summary of Significant Accounting Policies

### BASIS OF PRESENTATION

The University of Notre Dame du Lac is a private Catholic research university. The accompanying consolidated financial statements include the assets and operations of certain other entities under the financial control of the University of Notre Dame du Lac. The University of Notre Dame du Lac and entities included herein are referred to individually and collectively as the "University."

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements reflect the activities of the University as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

**Net Assets Without Donor Restrictions**—Net assets not subject to donor-imposed restrictions and available for any purpose consistent with the University's mission. Revenues from grants and contracts subject to conditions and purpose restrictions are recognized within changes in net assets without donor restrictions in the period in which those conditions and restrictions are met. Other revenues are generally reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Investment returns generated by funds functioning as endowment and other sources are also classified as changes in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Operating expenses are reported as decreases in net assets without donor restrictions.

**Net Assets With Donor Restrictions**—Net assets which are either required to be maintained in perpetuity by donors or are subject to donor-imposed purpose restrictions that must be met by actions of the University and/or passage of time. Net assets subject to donor-imposed restrictions requiring they be maintained in perpetuity are generally restricted to long-term investment and are comprised primarily of donor-restricted endowment funds. Subject to the University's endowment spending policy, investment returns on perpetually restricted endowment funds are generally available for appropriation to support operational needs as specified by donor restriction. Contributed assets with a non-perpetual restriction normally fund specific expenditures of an operating or capital nature. Unconditional restricted contributions or investment returns received and expended within the same fiscal period are reported as increases in net assets with donor restrictions and net assets released from restrictions, respectively.



# Notes to Consolidated Financial Statements

(All amounts in thousands)

The University's measure of operations presented in the consolidated statements of changes in net assets includes revenues from tuition and fees, grants and contracts, contributions for operations, accumulated investment return distributed under the University's spending policy, and revenues from auxiliary enterprises and other sources, such as licensing and conferences. Operating expenses are summarized in the consolidated statements of functional expenses by natural classification and functional categories. Costs incurred in direct support of the University's primary mission, including those for instruction, research, public service, academic support, and student services are reflected within the *academic programs and research* functional category. Interest from taxable bonds and other debt is allocated to functional categories based on the proportion of expenses charged directly to each function prior to allocating costs for operations and maintenance of plant. Interest from tax-exempt bonds is allocated to functional categories based on the square footage occupancy of the related facilities. Costs for operations and maintenance of plant and depreciation are allocated to functional categories based primarily on square footage occupancy.

Non-operating activities presented in the consolidated statements of changes in net assets include contributions designated by the University or restricted by donors for endowment or investment in buildings and equipment, investment return in excess of or less than the amount distributed for operations under the spending policy, any gains or losses on debt-related derivative instruments, and certain pension and postretirement benefits-related changes in net assets. Other non-operating changes in net assets include the net activities of the consolidated limited liability company described in [Note 7](#) and [Note 12](#), the effect of changes in donor intent with respect to endowment and other funds, and other activities considered unusual or non-recurring in nature. Non-operating net assets released from restrictions generally reflect the expenditure of net assets restricted to investment in buildings and equipment and other expirations of term restrictions.

## NET TUITION AND FEES

Tuition and fees for instruction and other educational services, net of scholarships and fellowships, are substantially billed and collected prior to the end of each semester. Revenues are earned and recognized over the course of each semester as educational services are delivered. Accounts receivable from students are typically insignificant at the end of each fiscal year.

### Tuition scholarships and fellowships

As reflected in [Note 18](#), student financial aid in the form of undergraduate scholarships, athletics grants-in-aid, and graduate and professional fellowships is reflected as contra-tuition revenue in the consolidated statements of changes in net assets.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## **GRANTS AND CONTRACTS**

Grants for basic research and other sponsored programs are generally subject to restrictions and conditions that must be met before the University is entitled to funding. Accordingly, advances from granting agencies are generally considered refundable in the unlikely event specified services are not performed. The University recognizes revenues on grants for basic research and other sponsored programs as the awards for such programs are expended, since expenditure in accordance with award terms typically results in the simultaneous release of restrictions and conditions imposed by the grantor. Revenue from exchange contracts for applied research is recognized as the University's contractual performance obligations are substantially met. Indirect cost recovery by the University on U.S. government grants and contracts is based upon a predetermined negotiated rate and is recorded as grants and contracts revenue.

## **AUXILIARY ENTERPRISES**

The University's auxiliary enterprises consist principally of intercollegiate athletics and enterprises that provide goods and services to the campus community, such as residence and dining halls, retail food services, a campus hotel, and event management services. These enterprises are managed as self-supporting activities. Revenues and expenses from auxiliary enterprises are reported as changes in net assets without donor restrictions.

Certain auxiliary revenues arise from contracts. Revenues from intercollegiate athletics ticket sales, media rights, licensing and royalties and other contracts are received and recognized concurrent with event-based obligations or the passage of contract terms, but typically within the fiscal year. However, season ticket proceeds received prior to the report date for events scheduled in the upcoming fiscal year are recorded as deferred revenue and recognized as the associated events are completed. Charges to students for campus residence, dining and laundry services are substantially billed and collected prior to the end of each semester. Associated revenues are earned and recognized over the course of each semester as these services are delivered. Revenues are reported net of scholarships and fellowships allocated to room and board, the total of which is insignificant. Accounts receivable from students are typically insignificant at the end of each fiscal year. Revenues generated by on-campus event management, including those from hosting concerts and professional sporting events, are recognized as event-based obligations are fulfilled. Associated contract-related liabilities at year end are insignificant.

## **CASH AND CASH EQUIVALENTS**

Resources invested in money market funds, overnight reverse repurchase agreements and other short-term investments with maturities at date of purchase of three months or less are classified as cash equivalents, except that any such investments purchased by external investment managers are classified as investments. Overnight reverse repurchase agreements with banks are secured by U.S. government securities. Substantially all cash and cash equivalents are concentrated in accounts in which balances exceed Federal Deposit Insurance Corporation limits.

## **ACCOUNTS RECEIVABLE**

Accounts receivable are recorded at face value and typically have contractual maturities of less than one year. Allowance is made for uncollectible accounts based upon management's expectations and past collection experience.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## **CONTRIBUTIONS RECEIVABLE**

Pledges that represent unconditional promises to give are recognized at fair value as contributions with donor restrictions in the period such promises are made by donors. Contributions are discounted at a risk-adjusted rate commensurate with the duration of the donor's payment plan. Amortization of the discounts is recorded as additional contribution revenue. Allowance is made for uncollectible contributions based upon management's expectations regarding collection of outstanding promises to give and past collection experience.

## **NOTES RECEIVABLE**

Notes receivable, which are recorded at face value, principally represent amounts due from students under federal Perkins and institutional loan programs. A general allowance is made for uncollectible student loans after considering both long-term collection experience and current trends, such as recent default rates of cohorts entering repayment status. Other notes receivable are evaluated individually for impairment, with allowances recorded based on management's expectations given facts and circumstances related to each note.

## **INVESTMENTS**

Investments are stated at estimated fair value. The University measures the fair values of investments in securities at the last sales price of the fiscal year on the primary exchange where the security is traded. Non-exchange-traded instruments and over-the-counter positions are primarily valued using independent pricing services, broker quotes or models with externally verifiable inputs. The fair values of alternative investments (interests in private equity, hedge, real estate and other similar funds) for which quoted market prices are not available are generally measured based on reported partner's capital or net asset value ("NAV") provided by the associated external investment managers. The reported partner's capital or NAV is subject to management's assessment that the valuation provided is representative of fair value. Management exercises diligence in assessing the policies, procedures and controls implemented by its external investment managers, and thus believes the carrying amount of these assets represents a reasonable estimate of fair value. However, because alternative investments are generally not readily marketable, their estimated value is subject to inherent uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

### **Investments Held on Behalf of Other Entities**

The University serves as the trustee for its employees' defined benefit pension plan, managing the investment assets held within the plan. The University also invests capital on behalf of religious affiliates that share the University's Catholic ministry and educational missions. Accordingly, the University reports an equal asset and liability in the consolidated statements of financial position representing the fair value of investments managed on behalf of these entities.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## **DEBT-RELATED DERIVATIVE INSTRUMENTS**

The University utilizes derivative instruments in a limited manner outside of its investment portfolio. As described in [Note 13](#), interest rate swap agreements are used to manage interest rate risk associated with future anticipated bond obligations. These instruments are reported in the consolidated statements of financial position at fair value. Fair value is estimated based on pricing models that utilize significant observable inputs, such as relevant interest rates, that reflect assumptions market participants would use in pricing the instruments. Any gains or losses resulting from changes in the fair value of these instruments or periodic net cash settlements with counterparties, including settlements related to the termination of such instruments, are recognized as non-operating changes in net assets without donor restrictions.

## **LAND, BUILDINGS AND EQUIPMENT**

Institutional properties are stated at cost or at estimated fair value if acquired by gift, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, averaging 15 years for land improvements, 25-50 years for buildings and 5-25 years for equipment.

The University does not capitalize the cost of library books, nor the cost or fair value of its art collection. The latter is held for exhibition and educational purposes only and not for financial gain.

### **Conditional Asset Retirement Obligations**

The University recognizes asset retirement obligations when incurred. A discounting technique is used to calculate the present value of the capitalized asset retirement costs and the related obligation. Asset retirement costs are depreciated over the estimated remaining useful life of the related asset and the asset retirement obligation is accreted annually to the current present value. Upon settlement of an obligation, any difference between the retirement obligation and the cost to settle is recognized as a gain or loss in the consolidated statements of changes in net assets. The University's conditional asset retirement obligations relate primarily to asbestos remediation and will be settled upon undertaking associated renovation projects.

## **SPLIT-INTEREST AGREEMENTS**

The University's split-interest agreements consist principally of charitable gift annuities and irrevocable charitable remainder trusts for which the University serves as trustee. Contribution revenue is recognized at the date a gift annuity or trust is established after recording a liability at fair value of the estimated future payments to be made to beneficiaries. Estimated future payments to beneficiaries are discounted at a risk-adjusted rate. Liabilities are adjusted during the terms of the agreements to reflect payments to beneficiaries, returns on trust assets, accretion of discounts, and other considerations that affect the estimates of future payments. Net adjustments to the liabilities are recorded as changes in the value of split-interest agreements.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## **FAIR VALUE MEASUREMENTS**

Fair value measurements reflected in the consolidated financial statements conceptually represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles provide a hierarchy that prioritizes the inputs to fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect the University's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the hierarchy of inputs used to measure fair value are described briefly as follows:

**Level 1**—Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

**Level 2**—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3**—Unobservable inputs for the asset or liability, used in situations in which little or no market activity exists for the asset or liability at the measurement date.

The categorization of fair value measurements by level of the hierarchy is based upon the lowest level input that is significant to the overall fair value measurement for a given asset or liability.

In the event that changes in the inputs used in the fair value measurement of an asset or liability result in a transfer of the fair value measurement to a different categorization (e.g., from Level 3 to Level 2), such transfers between fair value categories are recognized at the end of the reporting period.

## **USE OF ESTIMATES**

The preparation of 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 at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

## **TAX STATUS**

The University is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code, except to the extent the University generates unrelated business income.

Under the Tax Cuts and Jobs Act (the "Act") enacted in December 2017 and effective July 1, 2018, the University is subject to additional taxes. The Act introduced excise taxes on net investment income and executive compensation and changed rules for calculating unrelated business taxable income.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## RECLASSIFICATIONS

Certain fiscal 2018 amounts within the consolidated financial statements have been reclassified to conform to the 2019 presentation.

## SUBSEQUENT EVENTS

The University has evaluated subsequent events through November 14, 2019, the date the financial statements were issued. No events requiring disclosure were identified.

## NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40)*. The ASU introduces a single framework for revenue recognition under which revenue recognized is reflective of the consideration to which the entity expects to be entitled in exchange for goods and services. The FASB also issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)* in June 2018, which is intended to assist entities in evaluating whether transactions are within the scope of contributions accounting or other guidance, particularly the provisions of the aforementioned ASU No. 2014-09. The University adopted both of these standards during the year ended June 30, 2019, on a full retrospective basis for ASU No. 2014-09 and a modified prospective basis for ASU No. 2018-08, respectively. Neither standard resulted in a material impact on the University's reported financial position.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new pronouncement amends certain financial reporting requirements for not-for-profit entities and was adopted by the University on a retrospective basis during the year ended June 30, 2019. The primary changes affecting the University include the following: the presentation of two net asset classes as opposed to the previously required three; new disclosures regarding the liquidity and availability of financial assets; and the required disclosure of expenses by both functional and natural classifications.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU requires that components of net periodic benefit costs other than service cost be reported outside an organization's measure of operations. This standard was adopted by the University on a retrospective basis during the year ended June 30, 2019, the effect of which on the classification of expenses was insignificant.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new lease guidance establishes a model under which lessees record a right-of-use asset and a lease liability for all leases with terms longer than 12 months. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permissible. The University plans to adopt this standard during the year ending June 30, 2020, but it is not expected to materially impact the University's financial statements.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## NOTE 2. Financial Assets and Liquidity Resources

Financial assets and liquidity resources available within one year for general expenditure, such as operating and capital expenses, are summarized as follows at June 30:

	2019	2018
Cash and cash equivalents	\$ 147,634	\$ 75,658
Accounts receivable, net ( <a href="#">Note 3</a> )	69,899	60,252
Contributions receivable, net ( <a href="#">Note 5</a> )	61,846	61,939
Notes receivable ( <a href="#">Note 6</a> )	1,834	2,284
Short-term working capital investments	-	75,572
Investments approved for appropriation in subsequent year	442,273	425,264
Total financial assets available within one year	723,486	700,969
Undrawn lines of credit ( <a href="#">Note 9</a> )	494,000	339,136
Unissued commercial paper ( <a href="#">Note 9</a> )	274,277	84,389
Total financial assets and liquidity resources available within one year	<u>\$ 1,491,763</u>	<u>\$ 1,124,494</u>

The University manages its financial assets and liquidity resources to be available to fund general expenditures and fulfill liabilities and other commitments as they become due. To supplement cash needs, the University maintains both a commercial paper program and lines of credit with commercial banks, as described in [Note 9](#). The University's excess working capital is invested in either short-term investments or the Notre Dame Endowment Pool.

As reflected in [Note 7](#), the University held more than \$2.8 billion in investment assets at June 30, 2019, that were measured using Level 1 and Level 2 fair value inputs. Although these assets are generally liquid within the near term, they are only considered available for general expenditure to the extent they are designated as short term working capital investments or approved for appropriation during the annual budget process under the University's endowment spending policy. Investments approved for appropriation in the subsequent year are calculated based on a board-approved spending rate. The University also has the ability to make additional one-time appropriations from working capital and endowment funds without donor restrictions to the extent that there are sufficient liquid investment assets.

## NOTE 3. Accounts Receivable

Accounts receivable are summarized as follows at June 30:

	2019	2018
Research and other sponsored programs support	\$ 29,119	\$ 32,688
Student receivables	1,883	1,331
Other receivables	40,637	28,779
	71,639	62,798
Less allowances for uncollectible amounts	1,740	2,546
	<u>\$ 69,899</u>	<u>\$ 60,252</u>

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## NOTE 4. Deferred Charges and Other Assets

Deferred charges and other assets are summarized as follows at June 30:

	<b>2019</b>		<b>2018</b>
Prepaid expenses	\$ 21,838	\$	25,157
Retail and other inventories	5,380		6,485
Goodwill	6,455		6,455
Beneficial interests in perpetual trusts	5,702		5,702
Other deferred charges	4,708		3,555
	<u>\$ 44,083</u>	<u>\$</u>	<u>47,354</u>

## NOTE 5. Contributions Receivable

Contributions receivable are summarized as follows at June 30:

	<b>2019</b>		<b>2018</b>
Unconditional promises expected to be collected in:			
Less than one year	\$ 178,670	\$	185,192
One year to five years	315,320		330,781
More than five years	201,597		233,654
	<u>695,587</u>		<u>749,627</u>
Less:			
Unamortized discounts	141,121		154,651
Allowances for uncollectible amounts	13,401		16,535
	<u>154,522</u>		<u>171,186</u>
	<u>\$ 541,065</u>	<u>\$</u>	<u>578,441</u>

Contributions receivable are discounted at rates ranging from 0.22 percent to 6.91 percent at June 30, 2019 and 2018. Activity within allowances for uncollectible amounts was insignificant during the years ended June 30, 2019 and 2018. Of the net amount expected to be collected in less than one year, only \$61,846 is expected to be available for general operations, as described in [Note 2](#).



# Notes to Consolidated Financial Statements

(All amounts in thousands)

Contributions receivable, net, are classified as net assets with donor restrictions for the following purposes at June 30:

	2019	2018
Expendable funds restricted for <a href="#">(Note 15)</a> :		
Operating purposes	\$ 57,186	\$ 56,283
Investment in land, buildings and equipment	186,280	184,753
	<u>243,466</u>	<u>241,036</u>
Endowment funds <a href="#">(Notes 15 and 16)</a> :		
Donor-restricted endowment	285,315	316,201
University-designated endowment	12,284	21,204
	<u>297,599</u>	<u>337,405</u>
	<u>\$ 541,065</u>	<u>\$ 578,441</u>

As of June 30, 2019, the University had received documented conditional pledges of \$29,830 which are not reflected in the accompanying consolidated financial statements. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

## NOTE 6. Notes Receivable

Notes receivable are summarized as follows at June 30:

	2019	2018
Student notes receivable, related to:		
Government sponsored loan programs	\$ 15,809	\$ 19,815
Institutional student loans	7,737	5,036
	<u>23,546</u>	<u>24,851</u>
Less allowances for uncollectible student notes	1,813	1,753
	<u>21,733</u>	<u>23,098</u>
Other notes receivable	2,063	2,267
	<u>\$ 23,796</u>	<u>\$ 25,365</u>

As reflected in [Note 10](#), the University maintains a liability for government advances made in prior years to fund student loans, primarily under the Perkins Loan program, the balance of which was \$19,481 and \$18,736 at June 30, 2019 and 2018, respectively. Although the Perkins Loan program is in the process of being eliminated, no remittances of funding to the federal government were required during the year ended June 30, 2019. Due to significant restrictions that apply to government sponsored student loans, determining the fair value of student notes receivable is not practicable. The estimated fair value of non-student notes receivable approximated the carrying amount at June 30, 2019 and 2018.

As described in [Note 2](#), note receivable collections of \$1,834 are expected to be available for general expenditure within one year. Collections of government-funded student notes receivable are not considered available for general expenditure.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## NOTE 7. Investments

Investments reflected in the consolidated statements of financial position are summarized as follows at June 30:

	<u>2019</u>	<u>2018</u>
Notre Dame Endowment Pool assets	\$ 13,708,819	\$ 13,043,004
Other investments, associated with:		
Endowment and funds functioning as endowment	10,559	9,084
Working capital and other University designations	62,001	131,681
Split-interest agreements ( <a href="#">Note 17</a> )	9,616	9,876
Defined benefit pension plan ( <a href="#">Note 14</a> )	208,092	193,702
	<u>290,268</u>	<u>344,343</u>
	<u>\$ 13,999,087</u>	<u>\$ 13,387,347</u>

Liabilities associated with investments include the following at June 30:

	<u>2019</u>	<u>2018</u>
Liabilities representing the fair value of investments held on behalf of:		
Religious affiliates	\$ 1,369,369	\$ 1,280,904
Defined benefit pension plan ( <a href="#">Note 14</a> )	208,092	193,702
	<u>\$ 1,577,461</u>	<u>\$ 1,474,606</u>

The Notre Dame Endowment Pool ("NDEP") represents the University's primary investment portfolio. Certain investments, however, are held in specific instruments outside the NDEP to comply with donor requirements or other considerations. The pooled assets and liabilities of the NDEP are summarized as follows at June 30:

	<u>2019</u>	<u>2018</u>
NDEP assets	\$ 13,708,819	\$ 13,043,004
Equity interest in consolidated company <sup>1</sup>	68,604	66,529
NDEP net assets unitized	<u>\$ 13,777,423</u>	<u>\$ 13,109,533</u>

<sup>1</sup>The University is the sole owner of a limited liability company, the assets and liabilities of which are reflected in the consolidated financial statements. However, the estimated fair value of the University's equity interest in the company is included in NDEP net assets for unitization purposes.

Transactions within participating funds that constitute additions to or withdrawals from the NDEP are unitized on a quarterly basis. The unitized net assets of the NDEP were attributable to the following at June 30:

	<u>2019</u>	<u>2018</u>
Endowment and funds functioning as endowment	\$ 11,208,542	\$ 10,663,458
Working capital and other University designations	949,087	924,799
Student loan funds	1,298	1,221
Split-interest agreements ( <a href="#">Note 17</a> )	249,127	239,151
Funds invested on behalf of religious affiliates <sup>2</sup>	1,369,369	1,280,904
	<u>\$ 13,777,423</u>	<u>\$ 13,109,533</u>

<sup>2</sup>NDEP holdings were redeemable by religious affiliates at \$6,105.53 and \$5,799.00 per unit (whole dollars) at June 30, 2019 and 2018, respectively.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

The NDEP is comprised primarily of endowment-related holdings. As such, its investment objectives seek to preserve the real purchasing power of the endowment, while providing a stable source of financial support to its beneficiary programs. To satisfy its long-term rate of return objectives, the NDEP 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 NDEP maintains a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Investment assets are summarized in the following tables by asset class at June 30, 2019 and 2018, respectively:

	<b>2019</b>		
	NDEP	Other Investments	Total
Short-term investments	\$ 234,297	\$ 1,211	\$ 235,508
Public equities	5,454,375	53,223	5,507,598
Private equity	5,001,181	13,997	5,015,178
Multi-strategy	3,018,966	13,745	3,032,711
	13,708,819	82,176	13,790,995
Defined benefit pension plan investments ( <a href="#">Note 14</a> )	-	208,092	208,092
	<u>\$ 13,708,819</u>	<u>\$ 290,268</u>	<u>\$ 13,999,087</u>
	<b>2018</b>		
	NDEP	Other Investments	Total
Short-term investments	\$ 172,378	\$ 77,026	\$ 249,404
Public equities	5,684,875	48,097	5,732,972
Private equity	3,944,584	12,061	3,956,645
Multi-strategy	3,241,167	13,457	3,254,624
	13,043,004	150,641	13,193,645
Defined benefit pension plan investments ( <a href="#">Note 14</a> )	-	193,702	193,702
	<u>\$ 13,043,004</u>	<u>\$ 344,343</u>	<u>\$ 13,387,347</u>

Short-term investments include cash and cash equivalents, money market funds, securities with short-term maturities (such as commercial paper and government securities held either directly or via commingled pools with daily liquidity), and the fair value of certain derivative instrument assets (primarily futures, interest rate and equity contracts, all of which are insignificant). Public equities cover the U.S. as well as both developed and emerging markets overseas, and long/short hedge funds. Private equity primarily includes domestic and foreign buyout and venture capital funds. The multi-strategy class includes opportunistic investments in cyclical asset classes; core diversifiers that encompass hedge fund strategies where the manager has a broad mandate to invest in a variety of asset classes to generate returns less correlated with broad equities markets; and fixed income assets that provide capital protection and diversification given the low correlation to other asset classes.



# Notes to Consolidated Financial Statements

(All amounts in thousands)

Investments in certain funds within public equities, opportunistic and core diversifiers measured at NAV (or its equivalent) are generally subject to restrictions that limit the University's ability to withdraw capital within the near term. Redemption terms for these funds typically restrict withdrawals of capital for a defined "lock-up" period after investment, and thereafter allow withdrawals on a quarterly or annual basis with notice periods ranging from 30 to 180 days. Lock-up periods for such funds generally expire within three years after the measurement date. In addition, investor capital in these funds attributable to illiquid investments, often referred to as "side pockets," generally is not available for redemption until the investments are realized by the fund. Most funds measured at NAV within private equity, as well as certain opportunistic funds, are not redeemable at the direction of the investor. These funds make distributions to investing partners as the underlying assets of the funds are liquidated. The University expects the underlying assets of these funds to be substantially liquidated over the next five to ten years, the timing of which would vary by fund and depend on market conditions as well as other factors. Investments in funds measured at NAV within fixed income are not subject to lock-ups and generally allow for withdrawals on a daily or monthly basis.

At June 30, 2019 and 2018, the fair value of a Level 3 partnership investment in the opportunistic class was measured using a discounted cash flow technique, the significant unobservable input to which is the discount rate (10%). The fair value of the investment was \$175,219 and \$173,097 at June 30, 2019 and 2018, respectively.

Changes in investments (excluding defined benefit pension plan assets) for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2019:

	<i>Beginning balance</i>	<i>Acquisitions</i>	<i>Dispositions</i>	<i>Net gain/(loss)</i>	<i>Ending balance</i>
Public equities - Non-U.S.	\$ -	\$ 48,094	\$ -	\$ 7,759	\$ 55,853
Private equity	12,061	2,449	(1,448)	935	13,997
Multi-strategy:					
Opportunistic	177,578	67,052	(456)	(29,817)	214,357
Fixed income	16,977	425,954	(389,061)	1,421	55,291
	<u>\$ 206,616</u>	<u>\$ 543,549</u>	<u>\$ (390,965)</u>	<u>\$ (19,702)</u>	<u>\$ 339,498</u>

During the year ended June 30, 2019, the University recognized net unrealized losses of \$21,153 on investments still held at June 30, 2019, for which fair value is measured using Level 3 inputs. There were no transfers involving Levels 1 or 2 during the year ended June 30, 2019.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

Changes in investments (excluding defined benefit pension plan assets) for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2018:

	<i>Beginning balance</i>	<i>Acquisitions</i>	<i>Dispositions</i>	<i>Net gain/(loss)</i>	<i>Ending balance</i>
Private equity	\$ 34,293	\$ 2,084	\$ (27,639)	\$ 3,323	\$ 12,061
Multi-strategy:					
Opportunistic	154,279	14,380	(1,989)	10,908	177,578
Fixed income	3,575	21,243	(7,707)	(134)	16,977
	<u>\$ 192,147</u>	<u>\$ 37,707</u>	<u>\$ (37,335)</u>	<u>\$ 14,097</u>	<u>\$ 206,616</u>

During the year ended June 30, 2018, the University recognized net unrealized gains of \$14,484 on investments still held at June 30, 2018, for which fair value is measured using Level 3 inputs. There were no transfers between levels during the year ended June 30, 2018.

Due to the pooled nature of assets held in the NDEP, a portion of any unrealized gains or losses is attributed to NDEP holdings of split-interest agreements and the University's religious affiliates.

## INVESTMENT RETURN

Investment return as reflected in the consolidated statements of changes in net assets is summarized as follows for the years ended June 30:

	<i>Without donor restrictions</i>	<i>With donor restrictions</i>	<b>2019 Total</b>
Income, net	\$ 34,615	\$ 41,533	\$ 76,148
Net gain:			
Realized	241,433	289,012	530,445
Unrealized	81,790	117,378	199,168
	<u>323,223</u>	<u>406,390</u>	<u>729,613</u>
	<u>\$ 357,838</u>	<u>\$ 447,923</u>	<u>\$ 805,761</u>
	<i>Without donor restrictions</i>	<i>With donor restrictions</i>	<b>2018 Total</b>
Income, net	\$ 15,126	\$ 26,656	\$ 41,782
Net gain:			
Realized	361,853	456,799	818,652
Unrealized	190,953	196,294	387,247
	<u>552,806</u>	<u>653,093</u>	<u>1,205,899</u>
	<u>\$ 567,932</u>	<u>\$ 679,749</u>	<u>\$ 1,247,681</u>

Investment income is reported net of related expenses of \$41,315 and \$61,605 for the years ended June 30, 2019 and 2018, respectively. Investment-related expenses consist of fees paid to external investment managers, as well as expenses related to internal investment office operations. Beginning in the year ended June 30, 2019, investment-related expenses also include a provision for excise taxes on investment returns.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

A portion of accumulated investment returns is distributed annually to beneficiary programs under the University's endowment spending policy. In addition, a portion of returns accumulated on working capital is distributed to supplement the University's general operating needs and other initiatives. Accumulated investment return distributed is summarized by source as follows for the years ended June 30:

	Operating			2019 Total
	Without donor restrictions	With donor restrictions	Non-operating	
Endowment (Note 16)	\$ 141,552	\$ 256,908	\$ 27,205	\$ 425,665
Working capital	71	-	-	71
	<u>\$ 141,623</u>	<u>\$ 256,908</u>	<u>\$ 27,205</u>	<u>\$ 425,736</u>

  

	Operating			2018 Total
	Without donor restrictions	With donor restrictions	Non-operating	
Endowment (Note 16)	\$ 105,541	\$ 249,937	\$ 22,907	\$ 378,385
Working capital	15,465	-	-	15,465
	<u>\$ 121,006</u>	<u>\$ 249,937</u>	<u>\$ 22,907</u>	<u>\$ 393,850</u>

## NOTE 8. Land, Buildings and Equipment

The following is a summary of land, buildings and equipment at June 30:

	2019	2018
Land and land improvements	\$ 213,004	\$ 221,353
Buildings	2,739,200	2,518,982
Equipment	375,391	347,783
Construction in progress	135,767	189,883
	<u>3,463,362</u>	<u>3,278,001</u>
Less accumulated depreciation	945,561	877,662
	<u>\$ 2,517,801</u>	<u>\$ 2,400,339</u>

Depreciation expense was \$96,815 and \$84,054 for the years ended June 30, 2019 and 2018, respectively.

The University recorded accounts payable and construction retainage associated with construction in progress costs of \$12,538 and \$8,443, respectively, at June 30, 2019. Accounts payable and construction retainage associated with construction in progress costs were \$29,378 and \$15,136, respectively, at June 30, 2018.

Changes in conditional asset retirement obligations are summarized as follows for the years ended June 30:

	2019	2018
Beginning of year	\$ 25,330	\$ 24,354
Obligations incurred	-	973
Obligations settled	(735)	(851)
Accretion expense	880	854
End of year (Note 11)	<u>\$ 25,475</u>	<u>\$ 25,330</u>

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## NOTE 9. Short-Term Borrowing

At June 30, 2019, the University maintained a \$400,000 self-liquidity commercial paper program under which it could issue taxable commercial paper.

The University also maintained unsecured lines of credit with commercial banks in the aggregate amount of \$575,000 to be utilized primarily for working capital purposes. A \$50,000 line of credit with no outstanding balance at June 30, 2019, expires in January 2020. Termination dates for remaining lines of credit available at June 30, 2019, ranged from January 2021 to November 2022.

Total outstanding balances on short-term borrowing are summarized below at June 30:

	2019		2018
Commercial paper	\$ 125,723	\$	115,611
Lines of credit	31,000		35,864
	<u>\$ 156,723</u>	<u>\$</u>	<u>151,475</u>

Total costs incurred on short-term borrowing, including interest and related fees, were approximately \$4,761 and \$4,538 for the years ended June 30, 2019 and 2018, respectively.

## NOTE 10. Deferred Revenue and Refundable Advances

Deferred revenue and refundable advances are summarized as follows at June 30:

	2019		2018
Deferred ticket sales and other revenues from intercollegiate athletics	\$ 67,363	\$	73,315
Deferred tuition and other student revenues	14,393		14,560
Refundable advances for research and other sponsored programs ( <a href="#">Note 19</a> )	61,848		25,144
Government advances for student loans ( <a href="#">Note 6</a> )	19,481		18,736
Other deferred revenues	3,985		8,745
	<u>\$ 167,070</u>	<u>\$</u>	<u>140,500</u>

## NOTE 11. Deposits and Other Liabilities

Deposits and other liabilities are summarized as follows at June 30:

	2019		2018
Accrued compensation and employee benefits	\$ 84,540	\$	67,174
Pledges payable	41,400		44,050
Conditional asset retirement obligations ( <a href="#">Note 8</a> )	25,475		25,330
Payroll and other taxes payable	19,379		13,771
Accrued interest expense	14,422		14,272
Construction retainage ( <a href="#">Note 8</a> )	8,443		15,136
Debt-related derivative instruments ( <a href="#">Note 13</a> )	39,203		14,493
Student organization funds and other deposits	6,822		5,805
Self-insurance reserves	4,624		5,064
Other liabilities	5,868		10,576
	<u>\$ 250,176</u>	<u>\$</u>	<u>215,671</u>



# Notes to Consolidated Financial Statements

(All amounts in thousands)

## NOTE 12. Bonds and Notes Payable

Bonds and notes payable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Obligations of the University:		
Taxable Fixed Rate Bonds	\$ 1,060,000	\$ 1,060,000
St. Joseph County (Indiana) Educational Facilities Revenue Bonds	7,890	7,890
	<u>1,067,890</u>	<u>1,067,890</u>
Obligations of consolidated company:		
Mortgage note payable	43,687	44,551
	<u>\$ 1,111,577</u>	<u>\$ 1,112,441</u>

The aggregate scheduled maturities of bonds and notes payable are summarized by fiscal year as follows:

2020	\$ 980
2021	1,021
2022	1,064
2023	1,109
2024	1,155
Thereafter	<u>1,106,248</u>
	<u>\$ 1,111,577</u>

### TAXABLE FIXED RATE BONDS

Proceeds from Taxable Fixed Rate Bonds bear no restrictions on use and constitute unsecured general obligations of the University. The associated interest is taxable to investors. The following issues were outstanding at June 30:

	<i>Fiscal year of maturity</i>	<i>Rate of interest</i>	<u>2019</u>	<u>2018</u>
Series 2010	2041	4.90%	\$ 160,000	\$ 160,000
Series 2012	2043	3.72%	100,000	100,000
Series 2015	2045	3.44%	400,000	400,000
Series 2017	2048	3.39%	400,000	400,000
			<u>\$ 1,060,000</u>	<u>\$ 1,060,000</u>

Proceeds from the Series 2017 bonds were net of \$1,311 in underwriter's discounts, which are reflected within operating expenses for the year ended June 30, 2018. Interest costs incurred on Taxable Fixed Rate Bonds were \$38,885 and \$32,703 during the years ended June 30, 2019 and 2018, respectively.

### ST. JOSEPH COUNTY (INDIANA) EDUCATIONAL FACILITIES REVENUE BONDS

The proceeds from St. Joseph County (Indiana) Educational Facilities Revenue Bonds ("SJC bonds") were restricted to the campus facilities projects specified in the respective offering documents. SJC bonds represent general obligations of the University and are not collateralized by any facilities. Interest on SJC bonds is tax-exempt to investors.

SJC bonds outstanding at June 30, 2019 and 2018, were from the Series 1996 issue, bearing interest at a fixed rate of 6.50% and maturing in 2026. Related interest costs were \$513 and \$5,395 for the years ended June 30, 2019 and 2018, respectively.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## **MORTGAGE NOTES**

The University is the sole owner of a limited liability company, the activities of which are reflected in the University's consolidated financial statements. The company's assets consist primarily of real estate, the acquisition of which was financed in part with a note payable. Under the terms, the note bears interest at a fixed rate of 4.11 percent, and is due on February 1, 2025. The note is not a general obligation of the University and is fully collateralized by the property mortgaged. Interest costs of \$1,813 and \$1,851 related to the note are reflected within non-operating changes in net assets without donor restrictions for the years ended June 30, 2019 and 2018, respectively.

## **NOTE 13.**

### **Derivative Instruments**

The University utilizes interest rate swap agreements to manage interest rate risk associated with variable rate bonds. Although the University currently has no outstanding variable rate bonds, the University held a single forward starting swap agreement during the years ended June 30, 2019 and 2018, in anticipation of future bond issues. Under the terms of the swap agreement, the University would pay a fixed rate of 3.27 percent and receive a variable rate equal to 100 percent of the one-month London Interbank Offered Rate ("LIBOR") on a total notional amount of \$154,894 for a thirty year term beginning March 1, 2021. The University also utilizes a variety of derivative instruments within the NDEP, which may include certain options contracts, forward currency contracts, and futures contracts, the balances and activity for which are insignificant.

Derivatives by their nature bear, to varying degrees, elements of market risk and credit risk that are not reflected in the amounts recorded in financial statements. Market risk in this context represents the potential for changes in the value of derivative instruments due to levels of volatility and liquidity or other events affecting the underlying asset, reference rate, or index, including those embodied in interest and foreign exchange rate movements and fluctuations in commodity or security prices. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of a contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts recognized in the consolidated statements of financial position, not the notional amounts of the instruments, and is further limited by the collateral arrangements as specified for specific instruments.

The debt-related interest rate swap described above has credit-risk-related contingent features that could require the University to post collateral on the instrument when in a net liability position in the event of a downgrade to the rating on the University's debt. The aggregate fair value of the swap was a liability position of \$39,203 and \$14,493 at June 30, 2019 and 2018, respectively. If the credit-risk-related contingent features associated with this instrument had been triggered, the University would have been required to post collateral to its counterparty in an amount up to the full liability position of the instrument, depending on the level of the University's credit rating. Based on the quality of its credit rating, the University had posted no collateral associated with this instrument at either June 30, 2019, or June 30, 2018.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

The notional amounts and estimated fair values of the debt-related interest rate swap at June 30, 2019 and 2018, respectively, are summarized below:

	<u>2019</u>		<u>2018</u>
Notional amounts	\$ 154,894	\$	154,894
Fair value, as reflected in the statements of financial position:			
Deposits and other liabilities ( <a href="#">Note 11</a> )	\$ 39,203	\$	14,493

Fair value measurements are based on observable interest rates that would fall within Level 2 of the hierarchy of fair value inputs. Gross and net-by-counterparty derivative assets and liabilities were the same at June 30, 2019 and 2018.

The net gain or loss on debt-related interest rate swaps is reported as such within non-operating changes in net assets without donor restrictions. A net loss of \$24,710 and a net gain of \$4,424 were reported during the years ended June 30, 2019 and 2018, respectively. No periodic settlements were required during the years ended June 30, 2019 and 2018.

## NOTE 14.

### Pension and Other Postretirement Benefits

#### DEFINED CONTRIBUTION RETIREMENT SAVINGS PLAN

Faculty, exempt staff, and non-exempt staff hired on or after January 1, 2018, participate in the University of Notre Dame 403(b) Retirement Plan, a defined contribution retirement plan, upon meeting eligibility requirements. The plan, operated under section 403(b) of the Internal Revenue Code, is funded by mandatory employee contributions and University contributions. All faculty and staff may also participate in the plan on a voluntary basis by making voluntary employee contributions up to the annual limit established by the Internal Revenue Service. Participants are immediately vested in the plan, and may direct their contributions and the University's contributions on their behalf to plan investments. The University's share of the cost of these benefits was \$38,710 and \$35,574 for the years ended June 30, 2019 and 2018, respectively.

#### DEFINED BENEFIT PENSION PLAN AND POSTRETIREMENT MEDICAL INSURANCE BENEFITS

Retirement benefits are provided for University staff under a defined benefit pension plan, for which the University serves as trustee and administrator. This plan provides benefits for certain non-exempt staff, but was closed to new participants effective January 1, 2018. Retirement benefits are based on the employee's total years of service and final average pay as defined by the plan. Plan participants are fully vested after five years of service. The University funds the plan with annual contributions that meet minimum requirements under the Employee Retirement Income Security Act of 1974 and Pension Protection Act of 2006.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

Other postretirement benefit plans offered by the University provide either medical insurance benefits for retirees and their spouses or Health Reimbursement Accounts upon which Medicare-eligible retirees may draw to purchase individual Medicare supplemental coverage. Employees are eligible for such benefits if they retire after attaining specified age and service requirements while employed by the University. The plans hold no assets and are funded by the University as claims are paid.

The University recognizes the full funded status of its defined benefit pension and other postretirement benefit plans in the consolidated statements of financial position. Accordingly, the liability for pension benefits as recognized in the consolidated statements of financial position represents the excess of the actuarially determined projected benefit obligation ("PBO") over the fair value of plan assets at year end. The liability for other postretirement benefits as recognized in the consolidated statements of financial position represents the actuarially determined accumulated postretirement benefit obligation ("APBO") at year end. The following table summarizes the liabilities for pension and other postretirement benefits reflected in the consolidated statements of financial position at June 30:

	<b>2019</b>	<b>2018</b>
Liability for pension benefits:		
PBO at end of year	\$ 280,927	\$ 253,300
Less: Fair value of plan assets at end of year ( <a href="#">Note 7</a> )	208,092	193,702
	<u>72,835</u>	<u>59,598</u>
Liability for other postretirement benefits (APBO at year end)	48,120	43,301
	<u>\$ 120,955</u>	<u>\$ 102,899</u>

Changes in the actuarially determined benefit obligations are summarized below for the years ended June 30:

	<i>Pension benefits (PBO)</i>		<i>Other postretirement benefits (APBO)</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Beginning of year	\$ 253,300	\$ 256,819	\$ 43,301	\$ 49,583
Service cost	6,657	7,885	2,121	2,187
Interest cost	10,560	10,107	1,790	1,676
Actuarial loss/(gain)	19,579	(10,426)	2,237	(8,963)
Benefit payments	(9,169)	(8,801)	(1,258)	(1,182)
Plan amendments	-	-	(71)	-
Gain due to curtailment	-	(2,284)	-	-
End of year	<u>\$ 280,927</u>	<u>\$ 253,300</u>	<u>\$ 48,120</u>	<u>\$ 43,301</u>

The accumulated benefit obligation associated with pension benefits was \$259,871 and \$231,277 at June 30, 2019 and 2018, respectively. A curtailment gain of \$2,284 was recognized during the year ended June 30, 2018, for active participants who chose to move to the 403(b) Retirement Plan for future benefits effective January 1, 2018.

The change in the fair value of pension plan assets is summarized below for the years ended June 30:

	<b>2019</b>	<b>2018</b>
Fair value of plan assets at beginning of year	\$ 193,702	\$ 172,502
Actual return on plan assets	11,559	13,501
Employer contributions	12,000	16,500
Benefit payments	(9,169)	(8,801)
Fair value of plan assets at end of year	<u>\$ 208,092</u>	<u>\$ 193,702</u>

# Notes to Consolidated Financial Statements

(All amounts in thousands)

The components of net periodic benefit cost recognized in the consolidated statements of changes in net assets are summarized as follows for the years ended June 30:

	<i>Pension benefits</i>		<i>Other postretirement benefits</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Operating expense - service cost	\$ 6,657	\$ 7,885	\$ 2,121	\$ 2,187
Non-operating expenses:				
Interest cost	10,560	10,107	1,790	1,676
Expected return on plan assets	(12,598)	(11,323)	-	-
Amounts recognized previously as non-operating changes in net assets:				
Amortization of net loss	2,781	4,305	-	117
Amortization of prior service cost/(credit)	358	598	(40)	(78)
Net amortization	3,139	4,903	(40)	39
Total non-operating expenses	1,101	3,687	1,750	1,715
Total net periodic benefit cost	\$ 7,758	\$ 11,572	\$ 3,871	\$ 3,902

The amortization of any prior service cost or credit is determined using straight-line amortization over the average remaining service period of employees expected to receive benefits under the respective plans.

Gains or losses and other changes in the actuarially determined benefit obligations arising in the current period, but not included in net periodic benefit cost, are recognized as non-operating changes in the consolidated statements of changes in net assets. These changes are reflected net of a contra-expense adjustment for amounts recognized previously, but included as components of net periodic benefit cost in the current period. Accordingly, the net non-operating change in net assets without donor restrictions related to pension and other postretirement benefits is summarized as follows for the years ended June 30:

	<i>Pension benefits</i>		<i>Other postretirement benefits</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net actuarial gain/(loss)	\$ (20,618)	\$ 14,888	\$ (2,237)	\$ 8,963
Plan amendments	-	-	71	-
Adjustment for components of net periodic benefit cost recognized previously	3,139	4,903	(40)	39
	\$ (17,479)	\$ 19,791	\$ (2,206)	\$ 9,002

Cumulative amounts recognized as non-operating changes in net assets without donor restrictions that had not yet been reflected within net periodic benefit cost are summarized as follows at June 30:

	<i>Pension benefits</i>		<i>Other postretirement benefits</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net loss	\$ 69,677	\$ 51,840	\$ 5,488	\$ 3,251
Prior service cost/(credit)	441	799	(62)	(31)
	\$ 70,118	\$ 52,639	\$ 5,426	\$ 3,220

# Notes to Consolidated Financial Statements

(All amounts in thousands)

The University expects to amortize the following as components of net periodic benefit cost during the year ending June 30, 2020:

	<i>Pension benefits</i>	<i>Other postretirement benefits</i>
Net loss	\$ 4,666	\$ 73
Prior service cost/(credit)	358	(18)

The following weighted-average assumptions were used in measuring the actuarially determined benefit obligations (PBO for pension benefits and APBO for other postretirement benefits) at June 30:

	<i>Pension benefits</i>		<i>Other postretirement benefits</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Discount rate	3.75%	4.25%	3.75%	4.25%
Rate of compensation increase	3.00%	3.00%		
Health care cost trend rate (grading to 5.00% in 2024)			7.00%	7.25%

The following weighted-average assumptions were used in measuring the actuarially determined net periodic benefit costs for the years ended June 30:

	<i>Pension benefits</i>		<i>Other postretirement benefits</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Discount rate	4.25%	4.00%	4.25%	4.00%
Expected long-term rate of return on plan assets	6.50%	6.50%		
Rate of compensation increase	3.00%	3.00%		
Health care cost trend rate (grading to 5.00% in 2024)			7.25%	7.50%

The expected long-term rate of return on pension plan assets is based on the consideration of both historical and forecasted investment performance, given the targeted allocation of the plan's assets to various investment classes.

A one-percentage-point increase in the assumed health care cost trend rate would have increased aggregate service and interest costs and the APBO associated with postretirement medical benefits by approximately \$113 and \$696, respectively. A one-percentage-point decrease in the assumed health care cost trend rate would have decreased aggregate service and interest costs and the APBO by approximately \$101 and \$637, respectively.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

The projected payments to beneficiaries under the respective plans for each of the five fiscal years subsequent to June 30, 2019, are as follows:

	<u>Pension benefits</u>	<u>Other postretirement benefits</u>
2020	\$ 11,177	\$ 1,929
2021	11,658	2,113
2022	12,246	2,294
2023	12,851	2,499
2024	13,431	2,679

Projected aggregate payments for pension benefits and other postretirement benefits for the five-year period ending June 30, 2029, are \$76,670 and \$15,760, respectively. The University's estimated contributions to the defined benefit pension plan for the year ending June 30, 2020, are \$10,000.

## DEFINED BENEFIT PENSION PLAN ASSETS

The plan's assets are invested in a manner that is intended to preserve the purchasing power of the plan's assets and provide payments to beneficiaries. Thus, a rate of return objective of inflation plus 5.0 percent is targeted.

The investment portfolio of the plan, which is invested with external investment managers, is diversified in a manner that is intended to achieve the return objective and reduce the volatility of returns. The plan 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) over a long-term time horizon.

Actual and targeted allocations of the plan's investments by asset class were as follows at June 30:

	<u>2019</u>	<u>2018</u>	<u>Target</u>
Short-term investments	3.2%	1.4%	0.0%
Public equities	54.1%	55.7%	50.0%
Fixed income	19.0%	19.9%	15.0%
Hedge funds	14.2%	13.0%	20.0%
Private equity	9.1%	8.5%	10.0%
Real assets	0.4%	1.5%	5.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Asset allocation targets reflect the need for a modestly higher weighting in equity-based investments to achieve the return objective. Decisions regarding allocations among asset classes are made when such actions are expected to produce incremental return, reduce risk, or both. The investment characteristics of an asset class—including expected return, risk, correlation, and its overall role in the portfolio—are analyzed when making such decisions. The role of each asset class within the overall asset allocation of the plan is described as follows:

**Public equities**—Provides access to liquid markets and serves as a long-term hedge against inflation.

**Fixed income**—Provides a stable income stream and greater certainty of nominal cash flow relative to the other asset classes. Given the low correlation to other asset classes, fixed income assets also enhance diversification and serve as a hedge against financial turmoil or periods of deflation.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

**Hedge funds**—Enhances diversification while providing equity-like returns and opportunities to benefit from short-term inefficiencies in global capital markets.

**Private equity**—Provides attractive long-term, risk-adjusted returns by investing in inefficient markets.

**Real assets**—Provides attractive return prospects, further diversification, and a hedge against inflation.

Fair value measurements of plan investments at June 30, 2019 and 2018, respectively, are categorized below by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement or NAV:

	2019							
	Level 1		Level 2		Level 3		NAV	Total
Short-term investments	\$	6,591	\$	-	\$	-	\$	6,591
Public equities:								
U.S.		54,582		-		-	15,243	69,825
Non-U.S.		25,799		-		-	16,857	42,656
Fixed income		3,130		-		-	36,421	39,551
Hedge funds		-		-		-	29,574	29,574
Private equity		-		-		-	18,923	18,923
Real assets		-		-		-	972	972
	\$	90,102	\$	-	\$	-	\$ 117,990	\$ 208,092

	2018							
	Level 1		Level 2		Level 3		NAV	Total
Short-term investments	\$	2,616	\$	-	\$	-	\$	2,616
Public equities:								
U.S.		52,147		-		-	13,641	65,788
Non-U.S.		14,715		-		-	27,315	42,030
Fixed income		38,516		-		-	-	38,516
Hedge funds		-		-		-	25,123	25,123
Private equity		-		-		-	16,478	16,478
Real assets		1,332		-		-	1,819	3,151
	\$	109,326	\$	-	\$	-	\$ 84,376	\$ 193,702

The plan is committed under contracts with certain investment managers to periodically advance additional funding as capital calls are exercised. Capital calls are generally exercised over a period of years and are subject to fixed expiration dates or other means of termination. Total commitments of \$15,468 and \$22,520 were uncalled at June 30, 2019 and 2018, respectively.



# Notes to Consolidated Financial Statements

(All amounts in thousands)

## NOTE 15.

### Net Assets

Net assets without donor restrictions consist of the following at June 30:

	2019	2018
University-designated endowment ( <a href="#">Note 16</a> )	\$ 4,580,318	\$ 4,370,115
Other net assets	1,513,851	1,474,014
	<u>\$ 6,094,169</u>	<u>\$ 5,844,129</u>

Net assets with donor restrictions are summarized as follows at June 30:

	2019	2018
Endowment funds ( <a href="#">Note 16</a> )	\$ 6,985,646	\$ 6,694,943
Split-interest agreements ( <a href="#">Note 17</a> )	72,225	67,264
Expendable funds restricted for:		
Operating purposes	229,078	213,767
Investment in land, buildings and equipment	328,305	291,772
Other net assets	8,595	8,486
	<u>\$ 7,623,849</u>	<u>\$ 7,276,232</u>

As described in [Note 5](#), restricted expendable funds include contributions receivable of \$243,466 and \$241,036 at June 30, 2019 and 2018, respectively. As reflected in [Note 5](#) and [Note 16](#), endowment funds include \$297,599 and \$337,405 in contributions receivable at June 30, 2019 and 2018, respectively.

Net assets released from restrictions represent the satisfaction of time or purpose restrictions and are summarized below for the years ended June 30:

	2019	2018
For operations:		
Scholarships and fellowships awarded	\$ 101,566	\$ 96,813
Expenditures for operating purposes	189,420	171,549
	290,986	268,362
For long-term investment	68,874	169,241
	<u>\$ 359,860</u>	<u>\$ 437,603</u>

## NOTE 16.

### Endowment

The University's endowment consists of individual funds established for a variety of purposes. Net assets associated with endowment funds, including funds functioning as endowment, are classified and reported in accordance with any donor-imposed restrictions or University designations.

Expendable funds with purpose-related restrictions that have been designated as endowment at the University's discretion, as well as endowment funds for which the donor has granted the University flexibility to expend or redirect to another purpose are classified as university-designated endowment funds *with donor restrictions*.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

Endowment funds at June 30, 2019, are summarized as follows:

	Without donor restrictions (Note 15)	With donor restrictions (Note 15)	Total
Funds established to support:			
Scholarships and fellowships	\$ 751,335	\$ 2,544,617	\$ 3,295,952
Academic, religious and student programs	405,437	1,750,018	2,155,455
Faculty chairs	174,225	1,638,333	1,812,558
Capital projects	866,877	65,211	932,088
Athletics	182,144	168,418	350,562
Libraries	10,226	236,375	246,601
General operations	2,000,804	124,472	2,125,276
Other	189,270	160,603	349,873
	<u>4,580,318</u>	<u>6,688,047</u>	<u>11,268,365</u>
Contributions receivable (Note 5)	-	297,599	297,599
	<u>\$ 4,580,318</u>	<u>\$ 6,985,646</u>	<u>\$ 11,565,964</u>
Donor-restricted endowment, principal	\$ -	\$ 2,331,645	\$ 2,331,645
Donor-restricted endowment, appreciation		3,758,121	3,758,121
University-designated endowment	4,580,318	598,281	5,178,599
	<u>4,580,318</u>	<u>6,688,047</u>	<u>11,268,365</u>
Contributions receivable (Note 5)	-	297,599	297,599
	<u>\$ 4,580,318</u>	<u>\$ 6,985,646</u>	<u>\$ 11,565,964</u>

Endowment funds at June 30, 2018, are summarized as follows:

	Without donor restrictions (Note 15)	With donor restrictions (Note 15)	Total
Funds established to support:			
Scholarships and fellowships	\$ 651,563	\$ 2,405,391	\$ 3,056,954
Academic, religious and student programs	421,739	1,616,190	2,037,929
Faculty chairs	163,473	1,555,903	1,719,376
Capital projects	801,951	107,413	909,364
Athletics	164,369	156,871	321,240
Libraries	9,984	226,594	236,578
General operations	1,974,195	117,699	2,091,894
Other	182,841	171,477	354,318
	<u>4,370,115</u>	<u>6,357,538</u>	<u>10,727,653</u>
Contributions receivable (Note 5)	-	337,405	337,405
	<u>\$ 4,370,115</u>	<u>\$ 6,694,943</u>	<u>\$ 11,065,058</u>
Donor-restricted endowment, principal	\$ -	\$ 2,148,631	\$ 2,148,631
Donor-restricted endowment, appreciation		3,592,791	3,592,791
University-designated endowment	4,370,115	616,116	4,986,231
	<u>4,370,115</u>	<u>6,357,538</u>	<u>10,727,653</u>
Contributions receivable (Note 5)	-	337,405	337,405
	<u>\$ 4,370,115</u>	<u>\$ 6,694,943</u>	<u>\$ 11,065,058</u>

# Notes to Consolidated Financial Statements

(All amounts in thousands)

The fair value of assets associated with individual donor-restricted endowments may fall below the level required by donor stipulations when the timing of contributions coincides with unfavorable market fluctuations. There was no such unrealized depreciation at June 30, 2019, and June 30, 2018.

Endowment funds are invested primarily in the NDEP, described in [Note 7](#). However, certain funds are invested outside of the NDEP in accordance with donor requirements and other considerations.

Changes in endowment funds are summarized as follows for the years ended June 30:

	Without donor restrictions	With donor restrictions	<b>2019</b> Total
Beginning of the year	\$ 4,370,115	\$ 6,694,943	\$ 11,065,058
Contributions	9,039	132,569	141,608
Investment return:			
Investment income	28,390	41,449	69,839
Net gain on investments	291,064	404,676	695,740
Accumulated investment return distributed ( <a href="#">Note 7</a> )	(168,728)	(256,937)	(425,665)
Other changes, net <sup>1</sup>	50,438	(31,054)	19,384
	<u>\$ 4,580,318</u>	<u>\$ 6,985,646</u>	<u>\$ 11,565,964</u>
	Without donor restrictions	With donor restrictions	<b>2018</b> Total
Beginning of the year	\$ 3,622,191	\$ 6,062,745	\$ 9,684,936
Contributions	25,680	217,955	243,635
Investment return:			
Investment income	16,884	25,012	41,896
Net gain on investments	469,228	652,798	1,122,026
Accumulated investment return distributed ( <a href="#">Note 7</a> )	(128,419)	(249,966)	(378,385)
Other changes, net <sup>1</sup>	364,551	(13,601)	350,950
	<u>\$ 4,370,115</u>	<u>\$ 6,694,943</u>	<u>\$ 11,065,058</u>

<sup>1</sup>Reflects the effects of changes in donor intent and management-directed allocations that result in additions to or withdrawals from endowment. During the year ended June 30, 2018, \$325,000 in net assets without donor restrictions was formally designated as funds functioning as endowment for the support of general operations of the University.

The University has adopted an endowment spending policy that attempts to meet three objectives: (1) provide a predictable, stable stream of earnings to fund participants; (2) ensure the purchasing power of this revenue stream does not decline over time; and (3) ensure the purchasing power of the endowment assets does not decline over time. Under this policy, as approved by the Board of Trustees, investment income, as well as a prudent portion of appreciation, may be appropriated to support the needs of fund participants.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

Accumulated investment return distributed (i.e., appropriated) under the University's endowment spending policy is summarized below by the purposes associated with applicable funds for the years ended June 30:

	Without donor restrictions	With donor restrictions	2019 Total
Operating purposes:			
Scholarships and fellowships	\$ 27,558	\$ 103,386	\$ 130,944
Academic, religious and student programs	9,394	67,666	77,060
Faculty chairs	6,652	63,269	69,921
Athletics	7,050	6,464	13,514
Libraries	428	9,765	10,193
General operations	89,133	5,131	94,264
Other	1,337	1,227	2,564
	<u>141,552</u>	<u>256,908</u>	<u>398,460</u>
Capital projects	27,176	29	27,205
	<u>\$ 168,728</u>	<u>\$ 256,937</u>	<u>\$ 425,665</u>
	Without donor restrictions	With donor restrictions	2018 Total
Operating purposes:			
Scholarships and fellowships	\$ 23,393	\$ 101,422	\$ 124,815
Academic, religious and student programs	5,890	65,433	71,323
Faculty chairs	6,543	61,206	67,749
Athletics	6,248	6,364	12,612
Libraries	436	9,160	9,596
General operations	62,542	5,077	67,619
Other	489	1,275	1,764
	<u>105,541</u>	<u>249,937</u>	<u>355,478</u>
Capital projects	22,878	29	22,907
	<u>\$ 128,419</u>	<u>\$ 249,966</u>	<u>\$ 378,385</u>

## NOTE 17.

### Split-Interest Agreements

The University's split-interest agreements consist principally of charitable gift annuities and irrevocable charitable remainder trusts for which the University serves as trustee. Split-interest agreement net assets consisted of the following at June 30:

	Without donor restrictions	With donor restrictions (Note 15)	2019 Total	2018 Total
Charitable trust assets, held in:				
NDEP (Note 7)	\$ -	\$ 249,127	\$ 249,127	\$ 239,151
Other investments (Note 7)	-	9,616	9,616	9,876
	<u>-</u>	<u>258,743</u>	<u>258,743</u>	<u>249,027</u>
Less obligations <sup>1</sup> associated with:				
Charitable trusts	-	181,332	181,332	176,397
Charitable gift annuities	3,124	5,186	8,310	8,701
	<u>3,124</u>	<u>186,518</u>	<u>189,642</u>	<u>185,098</u>
	<u>\$ (3,124)</u>	<u>\$ 72,225</u>	<u>\$ 69,101</u>	<u>\$ 63,929</u>

<sup>1</sup>Represents the present value of estimated future benefit payments to beneficiaries.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

Assets contributed pursuant to the University's charitable gift annuity program are not held in trust and based on the nature of the agreements are designated as funds functioning as endowment. The aggregate fair value of these assets was \$34,937 and \$35,609 at June 30, 2019 and 2018, respectively.

Changes in split-interest agreement net assets are summarized below for the years ended June 30:

	<i>Without donor restrictions</i>	<i>With donor restrictions</i>	<b>2019 Total</b>	<b>2018 Total</b>
Beginning of the year	\$ (3,335)	\$ 67,264	\$ 63,929	\$ 90,040
Contributions:				
Assets received	-	20,814	20,814	17,742
Discounts recognized <sup>1</sup>	-	(14,097)	(14,097)	(12,764)
	-	6,717	6,717	4,978
Change in value of agreements:				
Investment return, net	-	14,809	14,809	27,365
Payments to beneficiaries	(425)	(14,487)	(14,912)	(15,222)
Actuarial adjustments and other changes in obligations	211	9,342	9,553	(5,853)
	(214)	9,664	9,450	6,290
Transfers and other changes, net	425	(11,420)	(10,995)	(37,379)
	<u>\$ (3,124)</u>	<u>\$ 72,225</u>	<u>\$ 69,101</u>	<u>\$ 63,929</u>

<sup>1</sup>Represents the present value of estimated future benefit payments to beneficiaries.

## NOTE 18. Net Tuition and Fees

Tuition and fees are recognized net of discounts granted in the form of undergraduate scholarships (including grants-in-aid to student-athletes) and graduate and professional fellowships. Net tuition and fees is comprised of the following for the years ended June 30:

	<b>2019</b>		
	<i>Tuition and fees</i>	<i>Scholarships and fellowships</i>	<i>Net tuition and fees</i>
Undergraduate programs	\$ 465,030	\$ (181,625)	\$ 283,405
Graduate and professional programs	194,120	(136,170)	57,950
	<u>\$ 659,150</u>	<u>\$ (317,795)</u>	<u>\$ 341,355</u>
	<b>2018</b>		
	<i>Tuition and fees</i>	<i>Scholarships and fellowships</i>	<i>Net tuition and fees</i>
Undergraduate programs	\$ 444,467	\$ (172,831)	\$ 271,636
Graduate and professional programs	185,145	(127,662)	57,483
	<u>\$ 629,612</u>	<u>\$ (300,493)</u>	<u>\$ 329,119</u>

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## NOTE 19. Grants and Contracts

The University recognized operating revenues based on direct expenditures and related indirect costs funded by grants and contracts as follows for the years ended June 30:

	<i>Direct</i>	<i>Indirect</i>	<b>2019 Total</b>	<b>2018 Total</b>
Provided for:				
Research	\$ 105,337	\$ 27,638	\$ 132,975	\$ 126,074
Other sponsored programs	13,198	618	13,816	14,145
	<u>\$ 118,535</u>	<u>\$ 28,256</u>	<u>\$ 146,791</u>	<u>\$ 140,219</u>
	<i>Direct</i>	<i>Indirect</i>	<b>2019 Total</b>	<b>2018 Total</b>
Provided by:				
Federal agencies	\$ 87,126	\$ 25,605	\$ 112,731	\$ 102,210
State and local agencies	927	27	954	1,699
Private organizations	30,482	2,624	33,106	36,310
	<u>\$ 118,535</u>	<u>\$ 28,256</u>	<u>\$ 146,791</u>	<u>\$ 140,219</u>

As reflected in [Note 10](#), the University had received \$61,848 in refundable advances on awards as of June 30, 2019. In addition, the University had unexpended grant awards of approximately \$125,000 for which funding has not been received. Revenue for these awards will be recognized as their associated conditions are fulfilled.

Funding for federally sponsored research and other programs is received from the U.S. government, as well as from other universities and private organizations that subcontract sponsored research to the University. The University's primary sources of federal research support are the Department of Health and Human Services and the National Science Foundation.

The University also administers certain federally sponsored programs, primarily related to student financial aid, for which it recognizes neither revenues nor expenses. Receipts and disbursements for such programs totaled \$16,384 for the year ended June 30, 2019, including \$7,797 related to Reserve Officers Training Corps ("ROTC") scholarships. Receipts and disbursements for the year ended June 30, 2018, were \$15,174, including \$7,196 in ROTC scholarships.

# Notes to Consolidated Financial Statements

(All amounts in thousands)

## NOTE 20.

### Sales and Services of Auxiliary Enterprises

Revenues recognized from auxiliary enterprises are summarized as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Intercollegiate athletics:		
Contract-based revenues	\$ 121,828	\$ 101,019
Other revenues	31,378	32,029
Student residential, dining and laundry revenues, net	95,823	92,649
Retail food services and hotel revenues	26,471	26,558
Event management services	13,229	1,264
Other auxiliary revenues	18,451	18,047
	<u>\$ 307,180</u>	<u>\$ 271,566</u>

## NOTE 21.

### Contingencies and Commitments

The University is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University's financial position.

All funds expended in conjunction with government grants and contracts are subject to audit by government agencies. In the opinion of management, any liability resulting from these audits will not have a material effect on the University's financial position.

The University leases space and equipment for academic and administrative purposes under noncancelable operating leases. Minimum future payments under these lease agreements are summarized by fiscal year as follows:

2020	\$ 2,997
2021	2,611
2022	2,375
2023	2,240
2024	2,152
2025 through 2080	<u>60,800</u>
	<u>\$ 73,175</u>

At June 30, 2019, the University also has contractual commitments of approximately \$70,000 related to ongoing major construction projects. Estimated remaining expenditures on these projects, certain of which are likely to span multiple fiscal years, are approximately \$220,000.