Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

THE CATHOLIC UNIVERSITY OF AMERICA AND SUBSIDIARIES

April 30, 2018 and 2017

THE CATHOLIC UNIVERSITY OF AMERICA AND SUBSIDIARIES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
The Catholic University of America

We have audited the accompanying consolidated financial statements of The Catholic University of America and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of April 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 consolidated financial position of The Catholic University of America and its subsidiaries at April 30, 2018 and 2017, 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.

Grant Thornton LLP

Washington, D.C.
September 21, 2018

THE CATHOLIC UNIVERSITY OF AMERICA AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of April 30, 2018 and 2017
(in thousands)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 25,178	$ 21,452
Deposits with bond trustee	60,633	13
Accounts receivable:		
Student fees and other, net of allowance for doubtful accounts of $885 and $1,265, respectively	11,057	8,452
U.S. government and other agencies, net of allowance for doubtful accounts of $320 and $362, respectively	4,136	6,131
Student loans receivable, net of allowance for doubtful accounts of $1,050 and $1,192, respectively	7,454	7,454
Contributions receivable, net of allowance for doubtful accounts of $1,710 and $2,420, respectively	43,066	25,765
Investments	406,715	392,788
Deferred charges and other assets	6,082	5,184
Property and equipment, net	214,079	198,141
Interest in perpetual trusts	2,502	2,390
Total assets	$ 780,902	$ 667,770
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 32,902	$ 31,406
Deferred revenues, student deposits and other liabilities	8,141	8,294
Refundable advances from the U.S. government	6,579	6,852
Obligations under split-interest agreements	1,865	1,508
Asset retirement obligations	9,250	8,704
Indebtedness, net	151,636	90,382
Total liabilities	210,373	147,146
NET ASSETS		
Unrestricted	318,746	313,683
Temporarily restricted		
Split-interest agreements	11,145	11,210
CUA Foundation	63	105
Capital improvements	21,921	17,807
Department gifts and scholarships	99,116	76,974
	132,245	106,096
Permanently restricted		
Student loans	2,555	2,481
Endowment	113,622	95,070
Split-interest agreements	3,361	3,294
	119,538	100,845
Total net assets	570,529	520,624
Total liabilities and net assets	$ 780,902	$ 667,770

The accompanying notes are an integral part of these consolidated financial statements.

THE CATHOLIC UNIVERSITY OF AMERICA AND SUBSIDIARIES
Consolidated Statement of Activities
For the year ended April 30, 2018
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES AND SUPPORT				
Student tuition and fees, net	$ 125,593	$ -	$ -	$ 125,593
Federal and private grants and contracts	25,512	-	-	25,512
Contributions	11,310	22,351	-	33,661
Investment return designated for current operations	12,985	3,005	-	15,990
Sales and services of departments	1,639	-	-	1,639
Sales and services of auxiliary enterprises	32,641	-	-	32,641
Net assets released from restrictions	13,823	(13,823)	-	-
Other operating revenues	3,337	-	-	3,337
Total operating revenues and support	226,840	11,533	-	238,373
OPERATING EXPENSES				
Educational and general				
Instruction and departmental research	101,566	-	-	101,566
Sponsored research	20,174	-	-	20,174
Public service	2,420	-	-	2,420
Libraries	11,335	-	-	11,335
Student services	27,581	-	-	27,581
Institutional support	33,976	-	-	33,976
Auxiliary enterprises	29,513	-	-	29,513
Total operating expenses	226,565	-	-	226,565
Changes in net assets from operations	275	11,533	-	11,808
NONOPERATING ACTIVITIES				
Contributions restricted permanently or for capital purposes	5	8,485	15,644	24,134
Investment return in excess of amounts designated for current operations	8,100	5,924	1	14,025
Changes in the value of split-interest agreements	-	800	112	912
Net asset reclassifications	79	(152)	73	-
Loss on disposal of property and equipment	(108)	-	-	(108)
Reclassification of endowment earnings and gifts (Note 5)	(2,422)	(441)	2,863	-
Loss on debt extinguishment	(439)	-	-	(439)
Other nonoperating gains	213	-	-	213
Capital campaign costs (Note 2)	(640)	-	-	(640)
Changes in net assets from nonoperating activities	4,788	14,616	18,693	38,097
Changes in net assets	5,063	26,149	18,693	49,905
Net assets at beginning of year	313,683	106,096	100,845	520,624
Net assets at end of year	$ 318,746	$ 132,245	$ 119,538	$ 570,529

The accompanying notes are an integral part of this consolidated financial statement.

THE CATHOLIC UNIVERSITY OF AMERICA AND SUBSIDIARIES
Consolidated Statement of Activities
For the year ended April 30, 2017
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES AND SUPPORT				
Student tuition and fees, net	$ 122,757	$ -	$ -	$ 122,757
Federal and private grants and contracts	24,884	-	-	24,884
Contributions	10,161	6,498	-	16,659
Investment return designated for current operations	13,032	3,874	-	16,906
Sales and services of departments	1,584	-	-	1,584
Sales and services of auxiliary enterprises	31,971	-	-	31,971
Net assets released from restrictions	12,063	(12,063)	-	-
Other operating revenues	3,095	-	-	3,095
Total operating revenues and support	219,547	(1,691)	-	217,856
OPERATING EXPENSES				
Educational and general				
Instruction and departmental research	99,529	-	-	99,529
Sponsored research	18,904	-	-	18,904
Public service	2,479	-	-	2,479
Libraries	11,986	-	-	11,986
Student services	27,566	-	-	27,566
Institutional support	36,262	-	-	36,262
Auxiliary enterprises	28,082	-	-	28,082
Total operating expenses	224,808	-	-	224,808
Changes in net assets from operations	(5,261)	(1,691)	-	(6,952)
NONOPERATING ACTIVITIES				
Contributions restricted permanently or for capital purposes	98	11,300	4,069	15,467
Investment return in excess of amounts designated for current operations	13,777	6,633	6	20,416
Changes in the value of split-interest agreements	-	895	118	1,013
Net asset reclassifications	(1,658)	1,193	465	-
Reclassification of endowment earnings and gifts (Note 5)	6,083	(7,266)	1,183	-
Loss on disposal of property and equipment	(176)	-	-	(176)
Other nonoperating gains	528	-	-	528
Changes in net assets from nonoperating activities	18,652	12,755	5,841	37,248
Changes in net assets	13,391	11,064	5,841	30,296
Net assets at beginning of year	300,292	95,032	95,004	490,328
Net assets at end of year	$ 313,683	$ 106,096	$ 100,845	$ 520,624

The accompanying notes are an integral part of this consolidated financial statement.

THE CATHOLIC UNIVERSITY OF AMERICA AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended April 30, 2018 and 2017
(in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 49,905	$ 30,296
Adjustments to reconcile changes in net assets to cash and cash equivalents provided by operating activities		
Depreciation and amortization	13,533	12,621
Accretion expense	546	375
Amortization of debt issuance costs	118	477
Amortization of bond premium	(151)	(796)
Provision for bad debt expense	(1,274)	504
Net realized and unrealized gain on investments	(27,310)	(34,627)
Loss on disposal of property and equipment	112	193
Loss on extinguishment of debt	439	-
Receipt of contributed securities	(5,733)	(5,338)
Proceeds from sale of donated securities	5,467	5,155
(Increase) decrease in assets		
Accounts receivable	(188)	724
Deferred charges and other assets	(898)	577
Notes receivable	142	113
Contributions receivable	(16,591)	(4,034)
Interest in perpetual trusts	(112)	(117)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	267	2,703
Deferred revenues, student deposits and other liabilities	(153)	(735)
Refundable advances	(273)	(34)
Obligations under split-interest agreements	357	296
Asset retirement obligations	-	(76)
Contributions restricted for long-term investment	(10,500)	(4,052)
Net cash provided by operating activities	7,703	4,225
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(113,614)	(111,622)
Proceeds from sales and maturities of investments	126,997	120,449
Purchases of property and equipment	(28,354)	(18,523)
Purchases of investments with deposits held by bond trustee	(65,299)	(3)
Sales of investments within deposits held by bond trustee	4,679	-
Net cash used in investing activities	(75,591)	(9,699)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	10,500	4,052
Proceeds from sale of donated securities restricted for endowment	266	183
Proceeds from issuance of bonds	83,562	27,555
Principal payments of notes, bonds payable and line of credit	(20,905)	(30,831)
Loss on extinguishment of debt	(565)	-
Payment for debt issuance costs	(1,244)	(227)
Net cash provided by financing activities	71,614	732
Net increase (decrease) in cash and cash equivalents	3,726	(4,742)
Cash and cash equivalents at beginning of year	21,452	26,194
Cash and cash equivalents at end of year	$ 25,178	$ 21,452
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 4,155	$ 3,757
Cash paid during the year for taxes	$ 345	$ 405
Contributed securities	$ 5,733	$ 5,338
Non-cash transactions:		
Accrued expenses for purchases of property and equipment	$ 5,507	$ 4,278

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION

The Catholic University of America (the "University") is an independent institution of higher education located in Washington, D.C., offering programs of study leading to bachelor's, master's, and doctoral degrees in the liberal arts and sciences, religious studies, and several professional areas including engineering, architecture, social service, nursing, music, law and Canon Law. Its 176-acre campus is located in northeast Washington, D.C., approximately two miles from the United States Capitol. The University is sponsored by the Roman Catholic Bishops of the United States.

The creation of the University as a national institute of learning was proposed by the Roman Catholic Bishops of the United States meeting at the Second Plenary Council in Baltimore in 1866. The University was formally established as a center for graduate studies in theology by the Third Plenary Council in Baltimore in 1884. On April 19, 1887, the University was formally incorporated under Chapter 18 of the Revised Statutes of the United States relating to the District of Columbia. In 2013, the University affirmed its exemption from the 2011 DC Not for Profit Corporation Act, as a Congressionally charted institution of higher education. The University is vested with authority from the Holy See to grant the ecclesiastical degrees of Bachelor, Licentiate and Doctorate in Philosophy and Sacred Theology and Licentiate and Doctoral degrees in Canon Law.

There are approximately 400 full-time faculty members, along with approximately 3,300 undergraduate and 2,700 graduate students.

The accompanying consolidated financial statements include the accounts of the University's separately incorporated subsidiaries, the Albert E. and Angela T. Farone Foundation, Inc. ("Farone Foundation") and the Catholic University of America Foundation ("CUA Foundation"). The Farone Foundation's Board of Directors is comprised of five members, four of whom are officers or staff of the University and one independent member. The Farone Foundation was originally established in 1965 and reincorporated in 1981. In 2009, the Farone Foundation Board of Directors affirmed that the net assets were to be used towards the charitable, scientific, educational, literary and/or religious purposes of the University and to provide scholarships to certain students attending the University. The CUA Foundation's Board of Directors is comprised of three officers of the University. The CUA Foundation was originally established in 1980 to operate exclusively to support the University and its members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accrual Basis

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities; (2) disclosure of contingent assets and liabilities at the date of the financial statements; and (3) the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the determination of asset retirement obligations, allowances for doubtful accounts, obligations to annuitants under split-interest agreements, the allocation of costs amongst functional expense categories, the useful lives assigned to fixed assets, and the valuation of non-traditional investments. Actual results could differ materially, in the near term, from the amounts reported.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Unrestricted: Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted: Net assets subject to donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of the University pursuant to those stipulations.

Permanently Restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by the University the earnings from which are available for general or specific purposes.

Revenues from sources other than contributions are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions are reported as increases in the appropriate category of net assets. If a restriction is fulfilled in the same time period in which the contribution is received, the amount of the support is reported as unrestricted. Expenses are reported as decreases in unrestricted net assets. Investment income is reported as increases or decreases in unrestricted net assets unless its use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. An allowance is made for uncollectible contributions based upon management’s judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors. Contributions that are permanently restricted or restricted for capital purposes are recorded in nonoperating activities.

Contributed services are only recognized for those services that would need to be purchased by the University if not otherwise provided by donation, require specialized skills and are provided by individuals with those skills. For the years ended April 30, 2018 and 2017, the University recognized $4,800 and $227,000, respectively of contributed services for legal services.

From time to time, the University receives contributions from its board members and organizations affiliated with its board members. For the years ended April 30, 2018 and 2017, such contributions totaled approximately $19,411,000 and $1,997,000, respectively.

Income Taxes

The University and its subsidiaries are recognized as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code ("IRC"), except on activities unrelated to their exempt purposes. No provision for income taxes is required for the years ended April 30, 2018 and 2017, as the University had no material net unrelated business income. The University has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and, to identify and evaluate other matters that may be considered tax positions. The tax years ended April 30, 2018, 2017, 2016 and 2015 are still open to audit for both federal and state purposes.

The University follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. The University has determined that there are no material uncertain tax positions that require recognition or disclosure in its financial statements.

Consolidation

All significant intercompany accounts and transactions have been eliminated in the preparation of the accompanying consolidated financial statements.

Cash Equivalents

All highly liquid investments purchased with an original maturity at date of purchase of three months or less are considered to be cash equivalents. Cash equivalents include money market funds of $6,279,000 and $6,253,000 and short-term securities of $2,640,000 and $3,229,000 at April 30, 2018 and 2017, respectively.

Notes and Student Loans Receivable

The University records an allowance for doubtful accounts (credit losses) for the following notes and student loans receivables (in thousands):

	2018		2017	
	Receivable Balance	Allowance	Receivable Balance	Allowance
Perkins loans	$ 5,708	$ 632	$ 5,674	$ 624
Other student loans and other receivables	2,796	418	2,972	568
Notes and student loans receivable	$ 8,504	$ 1,050	$ 8,646	$ 1,192

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio including reviewing economic risks associated with each loan category. The University's Perkins loans receivable represents amounts due from current and former students under the Federal Perkins Loan program. Loans disbursed under the Federal Perkins Loan program are able to be assigned to the Federal Government in certain non-repayment situations. In these situations, the Federal portion of the loan balance is guaranteed. Management believes that the allowance for credit losses at April 30, 2018 is adequate to absorb credit losses inherent in the portfolio as of that date. On September 30, 2017, the authority for schools to make new loans under its Federal Perkins Loan program ended and final disbursements to students were permitted through June 30, 2018. The University does not plan to liquidate its Perkins Loan Fund and intends to assign the remaining loans outstanding to the U.S. Department of Education.

Investments

Purchased investments are stated at fair value. Purchases and sales are recorded on the trade date. All cash and money market funds held by investment managers are reported as investments. Investments acquired by gifts or bequests are stated at market or appraised value at the date of receipt.

Property and Equipment

Property and equipment are recorded at cost or fair value if acquired by gift. Certain costs associated with the financing of asset purchases or construction are deferred and amortized over the term of the financing in a method that approximates the interest rate method. Repairs and maintenance costs occurring in the normal course of business that do not add to the useful life of the underlying asset are expensed as incurred.

Depreciation is computed by the straight-line method using the half-year convention over the estimated useful lives of the assets. The estimated useful lives are: land and building improvements, 20 years; buildings, generally 40 years; leasehold improvements, 10 years; furniture, equipment, computer systems, and library books, 5 years; and bulk purchases, 3 years.

Collections

The University's collections are held for public exhibition, education and research in furtherance of the University's educational and public service mission. These collections, which were acquired through purchases and contributions since the University's inception, are not recognized as assets on the consolidated statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the consolidated financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. There were no deaccessions during the years ended April 30, 2018 and 2017.

Student Tuition and Fees

Student tuition and fee revenues are recognized as revenue over the academic term to which they relate. Tuition and fees relating to incomplete terms are apportioned, deferred and recognized in the fiscal year in which the instruction occurs.

Refundable Advances from the U.S. Government

Funds provided by the United States Government under the Federal Perkins Loan and the Nursing Student Loan Programs are loaned to qualified students and may be reloaned after collection. Such funds are ultimately refundable to the U.S. Department of Education.

Functional Expenses

Costs related to the operation and maintenance of physical plant, including depreciation of property and equipment and interest expense, are allocated among the functional expense categories benefitted based upon square footage. Institutional support is considered a supporting service. All other expense functions are considered program expenses.

Fundraising

Fundraising expenses totaling approximately $6,971,000 and $6,588,000 are included in institutional support for the years ended April 30, 2018 and 2017, respectively. In fiscal year 2018, the University continued the quiet phase of a comprehensive campaign to grow its endowment and capital infrastructure. Incremental costs of $640,000 for the year ended April 30, 2018 associated with the execution of the campaign have been included as part of nonoperating activities.

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation. Specifically, the University reclassified deposits with bond trustee totaling $13,000 from deferred charges and other assets and also reclassified certain receivables totaling $429,000 from deferred charges and other assets to accounts receivable, student fees and other, net of allowance for doubtful accounts on the consolidated statement of financial position as of April 30, 2017. There were no changes to total assets, liabilities, net assets, revenues, expenses or changes in net assets as previously reported in the fiscal 2017 financial statements. See also Note 5 with respect to certain reclassifications recorded pertaining to the University's endowment.

Fair Value of Financial Instruments

Fair value accounting standards establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows. All fair value amounts and disclosures are classified according to the following framework:

Level 1 - Fair value is based upon unadjusted, quoted prices for identical assets or liabilities in active, accessible markets.

Level 2 - Fair value is based upon either quoted prices for identical assets in an inactive market or similar items in active/inactive markets.

Level 3 - Fair value is based upon other unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset/liability.

In general, for Level 2 and Level 3 investments, the University utilizes the respective investment manager of the asset to provide a valuation estimate based on techniques discussed later and processes which have been reviewed by management for propriety and consistency with consideration given to asset type and investment strategy. Management makes best estimates based on the information available. The following estimates and assumptions were used to determine the fair value of each class of financial instruments. There were no changes in the fair value methodology, levels, or classification of investments during the year ended April 30, 2018.

Financial Instruments Measured at Fair Value on a Recurring Basis

The University determines the fair value of its deposits with bond trustee and investments in publicly traded securities and foreign currency using quoted market prices from active markets as of the reporting date.

The fair value of investments in equity securities is based on available closing prices in an active market. The fair value of investments in debt securities is based upon the price of similar issues in an active market. The fair value of investments in limited partnerships and private equity, venture capital, natural resource and hedge funds is determined by using the University's percentage of ownership interest in each of the investments and the estimated fair value. The general partner determines the estimated fair value of a partnership based upon the fair value of the partnership's investments and discloses that value in their annual financial statements.

The valuation process for these investments is subject to review and oversight by management. In connection with this process, management reviews the details of the information obtained from the investment company and considers: (i) the measurement date; (ii) the basis of accounting; and (iii) other information obtained during the year through investment monitoring procedures. The University may adjust the obtained fair value for outside inputs such as the cash activity since the date of the annual financial statements, agreement restrictions, secondary market considerations and any liquidity constraints.

Fair value measurement accounting guidance requires for all Level 3 fair value measurements the disclosure of quantitative information about significant unobservable inputs used. An exception to providing additional quantitative measures is allowed when the University is using unadjusted third-party pricing and net asset valuation ("NAV"), assuming that additional quantitative information is provided with regard to the University's valuation process to obtain comfort with the third-party prices provided. A discussion of the process is described below with the other required NAV disclosures and therefore the University intends to adhere to this exception.

During fiscal year 2008, the University entered into a transfer agreement with an unrelated party to develop the University's South Campus for sale and long-term ground lease. The property at South Campus is included in investments as investment properties and reported at fair value. The fair value of the University's real estate investment properties is calculated based on most recent rates from negotiations with buyers and development partners. Real estate assets are included in Level 3 as significant unobservable inputs and management's judgment is used in the valuation process. As of April 30, 2018 and 2017, respectively, $34,517,000 and $34,410,000 of the University's real estate investment fair value is not based upon NAV. Quantitative information about Level 3 fair value measurements not based upon NAV are as follows for the years ended April 30, 2018 and 2017 (in thousands):

	Valuation Technique	Unobservable Input	Effect
Real estate - land parcels under lease agreements	Discounted cash flow	Capitalization Rate	3.00% - 6.75%

Changes in any of the significant inputs presented in the table above may result in a significant change in the fair value measurement of the real estate asset.

Financial Instruments Measured at Fair Value on a Non-Recurring Basis

The University determines the fair value of its contributions receivable on the date of receipt and split-interest agreement assets and liabilities through an evaluation of what price could be obtained to sell those assets or transfer those liabilities. Contributions receivable recorded prior to May 1, 2008, were discounted to the net present value of the future cash flows based upon a risk-free rate. In accordance with fair value accounting standards, the University has determined that those assets and liabilities would be transferred at pricing similar to borrowing rates available to the University. Therefore, the University has discounted contributions receivable and split-interest agreement assets and liabilities received during the years ended April 30, 2018 and 2017 at its approximate borrowing rates. Once assigned, discount rates are not subsequently revised.

The University determines the fair value of its asset retirement obligations through an evaluation of what price could be obtained to sell the related assets or transfer those liabilities. Asset retirement obligations recorded prior to May 1, 2010, were discounted to the net present value of the future cash flows based upon a risk-free rate. In accordance with fair value accounting standards, the University has determined that any new asset retirement obligations incurred would be transferred at pricing similar to borrowing rates available to the University.

The following items are recorded at fair value as of April 30, 2018 (in thousands):

Description	Level 1	Level 2	Level 3	Reported at NAV	Total
Recurring Fair Value Measurements					
Investments:					
Money market funds and temporary investments	$ 3,539	$ 9,223	$ -	$ -	$ 12,762
Equity securities:					
Domestic	22,902	-	-	-	22,902
International	64,552	-	-	-	64,552
Equity mutual funds	59,162	-	-	17,539	76,701
Debt securities:					
Government	-	-	-	5,736	5,736
Corporate	-	4,595	-	-	4,595
Securitized	-	22	-	-	22
Other	-	22	-	-	22
Fixed income mutual funds	1,870	-	-	54,297	56,167
Fixed income commingled fund of funds	-	-	-	11,134	11,134
Private equity and limited partnerships:					
Venture capital investments	-	-	-	3,201	3,201
Corporate finance	-	-	-	14,285	14,285
Real estate	-	-	-	7,986	7,986
Natural resources	-	-	-	3,545	3,545
Hedge funds:					
Domestic equity	-	-	-	27,053	27,053
Global equity	-	-	-	21	21
Relative value	-	-	-	718	718
Diversifying fund	-	-	-	40,778	40,778
Natural resources	-	-	-	19,935	19,935
Real estate	83	-	34,517	-	34,600
Total investments	$ 152,108	$ 13,862	$ 34,517	$ 206,228	$ 406,715
Cash and cash equivalents:					
Cash held in foreign currency	$ 168	$ -	$ -	$ -	$ 168
Deposits with bond trustee	$ 60,633	$ -	$ -	$ -	$ 60,633
Interest in perpetual trusts	$ -	$ -	$ 2,502	$ -	$ 2,502
Non-Recurring Measurement:					
Liabilities:					
Obligations under split-interest agreements	$ -	$ -	$ 1,865	$ -	$ 1,865
Asset retirement obligations	$ -	$ -	$ 9,250	$ -	$ 9,250

The following items are recorded at fair value as of April 30, 2017 (in thousands):

Description	Level 1	Level 2	Level 3	Reported at NAV	Total
Recurring Fair Value Measurements					
Investments:					
Money market funds and temporary investments	$ 2,728	$ 8,636	$ -	$ -	$ 11,364
Equity securities:					
Domestic	22,328	-	-	-	22,328
International	56,849	-	-	-	56,849
Equity mutual funds	56,686	-	-	22,872	79,558
Equity commingled fund of funds	-	-	-	10,947	10,947
Debt securities:					
Government	-	-	-	5,721	5,721
Corporate	-	3,904	-	-	3,904
Securitized	-	127	-	-	127
Other	-	22	-	-	22
Fixed income mutual funds	1,905	-	-	21,823	23,728
Fixed income commingled fund of funds	-	-	-	10,594	10,594
Private equity:					
Venture capital investments	-	-	-	3,729	3,729
Corporate finance	-	-	-	15,501	15,501
Real estate	-	-	-	8,660	8,660
Natural resources	-	-	-	3,366	3,366
Hedge funds:					
Domestic equity	-	-	-	25,849	25,849
Emerging equity	-	-	-	6,385	6,385
Global equity	-	-	-	442	442
Relative value	-	-	-	12,642	12,642
Diversifying fund	-	-	-	39,874	39,874
Natural resources	-	-	-	16,749	16,749
Real estate	39	-	34,410	-	34,449
Total investments	$ 140,535	$ 12,689	$ 34,410	$ 205,154	$ 392,788
Cash and cash equivalents:					
Cash held in foreign currency	$ 177	$ -	$ -	$ -	$ 177
Deposits with bond trustee	$ 13	$ -	$ -	$ -	$ 13
Interest in perpetual trusts	$ -	$ -	$ 2,390	$ -	$ 2,390
Non-Recurring Measurement					
Liabilities:					
Obligations under split-interest agreements	$ -	$ -	$ 1,508	$ -	$ 1,508
Asset retirement obligations	$ -	$ -	$ 8,704	$ -	$ 8,704

The activity for the Level 3 investments is as follows for the year ended April 30, 2018 (in thousands):

	Beginning Balance at April 30, 2017	Total Gain/(Loss)	Purchases	Sales	Transfers In/Out of Level	Ending Balance at April 30, 2018	Change in Unrealized Gain/(Loss) for Positions Still Held
Level 3 Assets:							
Real estate	$ 34,410	$ 762	$ 4	$ (659)	$ -	$ 34,517	$ 762
Interest in perpetual trusts	2,390	112	-	-	-	2,502	112
Total	$ 36,800	$ 874	$ 4	$ (659)	$ -	$ 37,019	$ 874

The activity for the Level 3 investments is as follows for the year ended April 30, 2017 (in thousands):

	Beginning Balance at May 1, 2016	Total Gain/(Loss)	Purchases	Sales	Transfers In/Out of Level	Ending Balance at April 30, 2017	Change in Unrealized Gain/(Loss) for Positions Still Held
Level 3 Assets:							
Real estate	$ 32,150	$ 1,601	$ 659	$ -	$ -	$ 34,410	$ 1,601
Interest in perpetual trusts	2,273	117	-	-	-	2,390	117
Total	$ 34,423	$ 1,718	$ 659	$ -	$ -	$ 36,800	$ 1,718

The gains and losses (realized and unrealized) reported above for investments for the years ended April 30, 2018 and 2017 are included in Investment Return in Excess of Amounts Designated for Current Operations on the accompanying consolidated statements of activities.

As a practical expedient, the University is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The University's investments in private equity, real assets and hedge funds are fair valued based on the most current NAV, adjusted through April 30, 2018 and 2017.

The University performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with US GAAP. The University has assessed factors including, but not limited to, managers' compliance with fair value measurement standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The NAV and redemption information for these investments as of April 30, 2018 and 2017 is as follows (in thousands):

Category	2018 Fair Value	Unfunded Commitments	2017 Fair Value	Redemption Frequency	Redemption Notice Period
Equity [1]					
Mutual funds	$ 17,539	$ -	$ 22,872	Daily	2 days
Commingled fund of funds	-	-	10,947	Weekly	5 days
Fixed income [2]					
Mutual funds	54,297	-	21,823	Daily	2 days
Commingled fund of funds	11,134	-	10,594	Monthly	5 days
Debt securities [3]					
Government	5,736	-	5,721	Daily	2 days
Private equity [4]					
Venture capital investments	3,201	211	3,729	Upon Liquidation	
Corporate finance	14,285	3,065	15,501	Upon Liquidation	
Real estate	7,986	2,108	8,660	Upon Liquidation	
Natural resources	3,545	714	3,366	Upon Liquidation	
Hedge funds [5]					
Domestic equity	27,053	-	25,849	Weekly	5 days
Emerging equity	-	-	2,617	Semi-Monthly	2 days
Emerging equity	-	-	3,768	Monthly	15 - 30 days
Global equity	21	-	442	Quarterly	95 days
Relative value	718	-	12,642	Annually	95 days
Diversifying fund	40,778	-	39,874	Quarterly	65 days
Natural resources	19,935	-	16,749	Daily	2 days
Total	$ 206,228	$ 6,098	$ 205,154		

(1) This asset class includes domestic and international common stocks, American Depository Receipts (ADRs), preferred stocks, and convertible stocks traded on the world's stock exchanges or over-the-counter markets.

(2) This component includes both the domestic fixed income market and the markets of the world's other economies. It includes but is not limited to U.S. Treasury and government agency bonds, foreign government and supranational debt, public and private corporate debt, mortgages and asset-backed securities, and non-investment grade debt. Fixed income also includes money market instruments, including, but not limited to, commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and U.S. Treasury and agency obligations.

(3) Investments include U.S. Treasury inflation-indexed securities and non-U.S. dollar denominated inflation-indexed securities. Inflation-indexed securities are fixed income securities that are structured to provide protection against inflation.

(4) Investments include domestic and international venture capital and private equity investments, held in the form of professionally managed pooled limited partnership investments.

(5) Investments include commodities, natural resources, real estate, and domestic and international marketable alternatives.

The University has made commitments to various private equity funds. The University expects these funds to be called over the next 1 to 4 years. Distributions are expected over the next 6 to 8 years, as the underlying assets are sold.

Net Asset Reclassifications

Net asset reclassifications represent amounts that change net asset classification due to meeting the dollar threshold to qualify as an endowment, liquidation of annuities after the death of the donor, or a change in the donor's restriction on a gift.

Concentration of Credit Risk

The University places its cash and temporary cash investments in money market mutual funds and bank overnight deposits with various financial institutions. Cash and cash equivalent balances are in excess of the FDIC insurance limit. The University has not experienced any losses on its cash and cash equivalents. The University has also invested its excess cash in a diversified, short-term, investment grade, tax-exempt bond fund that is classified under money market funds and temporary investments.

Tuition receivables are not collateralized; however, credit risk is minimized as a result of the diverse nature of the University's student base. The University establishes an allowance for doubtful accounts based upon historical collection trends and other information.

New Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07: Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its equivalent) ("ASU 2015-07") to ensure that all investments categorized in the fair value hierarchy are classified using a consistent approach and to eliminate any diversity in the practice related to how certain investments measured at NAV with redemption dates in the future are categorized within the fair value hierarchy. The amendments in ASU 2015-7 are effective for fiscal years beginning after December 15, 2015 with earlier application permitted and should be applied retrospectively to all period presented. The University adopted this accounting pronouncement for the year ended April 30, 2017. Therefore, all alternative investments that are fair valued using the practical expedient are excluded from the fair value hierarchy disclosures and are reflected separately in the tabular disclosure as reported at NAV.

In January 2016, the FASB issued ASU 2016-01: Financial Instruments - Overall (Subtopic 825-10) ("ASU 2016-01") which eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. The amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017 with earlier application permitted and should be applied retrospectively to all period presented. The University early adopted this accounting pronouncement for the year ended April 30, 2017. Therefore, the fair values of the University's student loans receivable and indebtedness as of April 30, 2018 and 2017 have not been disclosed.

3. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable at April 30, 2018 and 2017 are summarized as follows (in thousands):

	2018	2017
Unconditional promises expected to be collected in		
Less than one year	$ 16,386	$ 8,601
One year to five years	29,061	17,931
Over five years	1,952	4,046
	47,399	30,578
Less unamortized discount on contributions receivable	(2,623)	(2,393)
Net present value of contributions receivable	44,776	28,185
Less allowance for uncollectible contributions	(1,710)	(2,420)
Contributions receivable, net	$ 43,066	$ 25,765

The University discounted contributions receivable using rates ranging between 2.5% and 2.98% and between 3.4% and 4.83% at April 30, 2018 and 2017, respectively. The University has outstanding conditional pledges totaling $19,283,000 and $22,154,000 outstanding at April 30, 2018 and 2017, respectively. For the remaining balance, the condition specifies that certain criteria be met and information be provided back to the donor before the next installment can be received. The University recognized revenue related to these conditional pledges of $5,871,000 and $5,596,000 during the years ended April 30, 2018 and 2017, respectively, following satisfaction of the donor stipulated conditions. The University also has been named as a beneficiary of numerous wills and trusts as of April 30, 2018 and 2017. As described in Note 2, the University does not recognize such bequests as contribution revenue until they become unconditional, irrevocable promises to give.

The University is a named beneficiary of trusts administered by various financial institutions. The estimated net present value of the expected future cash flows, which approximates the University's value of its interest in the trusts, totals $10,995,000 and $9,569,000 at April 30, 2018 and 2017, respectively, as a part of contributions receivable, net. Changes in the University's interest in the value of the trust assets are recognized as temporarily restricted changes in the value of split-interest agreements.

4. INVESTMENTS

Investments by type at April 30, 2018 and 2017 are as follows (in thousands):

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Money market funds and temporary investments	$ 12,762	$ 12,762	$ 11,364	$ 11,364
Equity investments	117,190	164,155	125,819	169,682
Fixed income investments	78,184	77,676	43,780	44,096
Private equity	19,976	29,017	25,137	31,256
Hedge funds	75,909	88,506	88,102	101,941
Real estate	166	34,599	125	34,449
	$ 304,187	$ 406,715	$ 294,327	$ 392,788

Investment Income

Total net investment gains for the years ended April 30, 2018 and 2017 consists of the following (in thousands):

	2018	2017
Interest and dividends	$ 3,650	$ 3,697
Realized gains, net	23,548	8,467
Unrealized gains, net	3,762	26,160
Investment management expenses	(945)	(1,002)
Total net investment gain	$ 30,015	$ 37,322
Operating - investment return designated for operations	$ 15,990	$ 16,906
Nonoperating - investment return in excess of amounts designated for operations	14,025	20,416
Total net investment gain	$ 30,015	$ 37,322

5. ENDOWMENT

The University's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an average rate of return of more than 5% as measured over rolling 5 year periods within risk levels defined by the Trustees. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University has a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value over the prior 12 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment. During fiscal years 2018 and 2017, the Board also appropriated an additional payout of $6,111,000 and $5,291,000 from non-endowed, designated funds to support various University initiatives and central University operations.

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and accounting standards related to net asset classification guides endowment reporting. The University's Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the respective donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to its permanent endowment, (b) the original value of subsequent gifts to its permanent endowment, and (c) income accumulations, if specified by the applicable donor gift instrument.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until such amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. The University considers the following factors in setting its annual spending rate:

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

The endowment consists of the following as of April 30, 2018 and 2017 (in thousands):

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (103)	$ 50,596	$ 108,736	$ 159,229
Board-designated endowment funds	90,604	-	-	90,604
Total endowment funds	$ 90,501	$ 50,596	$ 108,736	$ 249,833

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (23)	$ 44,271	$ 94,345	$ 138,593
Board-designated endowment funds	75,288	-	-	75,288
Total endowment funds	$ 75,265	$ 44,271	$ 94,345	$ 213,881

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or DC UPMIFA requires the University to retain as a fund of permanent duration. In accordance with accounting guidance for not-for-profit organizations, deficiencies of this nature that are reported in unrestricted net assets totaled $103,000 and $23,000 as of April 30, 2018 and 2017, respectively.

As a result of a self-evaluation of policies and practices related to the endowment, the University reclassified certain historical earnings and gifts in accordance with donor stipulations and DC UPMIFA standards for endowment accounting. The total impact of these historical net asset reclassifications are reflected within the University's operations as "Net asset reclassification of endowment earnings and gifts" on the consolidated statement of activities for the years ended April 30, 2018 and 2017. The impact of these historical net asset reclassifications on the University's endowment for the years ended April 30, 2018 and 2017 are reflected as "Net asset reclassifications" in the tables below. Additionally, during 2018 and 2017, the University identified a board-designated, quasi-endowed (unrestricted) fund that was being separately invested outside of the University's endowment pool and another similarly purposed fund which was not included as part of a prior year endowment disclosure. Accordingly, in the endowment tables presented below, amounts corresponding to the transfers-in line for each of the years ending April 30, 2018 and 2017, totaling $15,143,000 and $10,143,000, respectively, reflect the addition of these respective quasi-endowment funds as part of the endowment pool of the University.

By net asset classification, the University had the following endowment-related activities for the years ended April 30, 2018 and 2017 (in thousands):

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 75,265	$ 44,271	$ 94,345	$ 213,881
Investment return:				
Investment income	203	1,058	-	1,261
Net appreciation	6,050	11,273	-	17,323
Total investment return	6,253	12,331	-	18,584
Contributions to endowment	5	-	11,725	11,730
Amounts appropriated for expenditures	(2,904)	(6,663)	-	(9,567)
	3,354	5,668	11,725	20,747
Other changes:				
Transfer in separately managed funds not previously included in the endowment	15,143	-	-	15,143
Net asset reclassifications	(3,261)	657	2,666	62
	11,882	657	2,666	15,205
Endowment net assets, end of year	$ 90,501	$ 50,596	$ 108,736	$ 249,833

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 69,054	$ 48,928	$ 88,811	$ 206,793
Investment return:				
Investment income	557	964	1	1,522
Net appreciation	6,442	12,263	12	18,717
Total investment return	6,999	13,227	13	20,239
Contributions to endowment	44	-	4,077	4,121
Amounts appropriated for expenditures	(3,615)	(7,559)	-	(11,174)
Transfers	-	-	150	150
	3,428	5,668	4,240	13,336
Other changes:				
Removal of historical temporarily restricted split-interest agreement activity	-	(1,077)	-	(1,077)
Transfer in board designated funds not previously included in the endowment	10,143	-	-	10,143
Net asset reclassifications	(7,360)	(9,248)	1,294	(15,314)
	2,783	(10,325)	1,294	(6,248)
Endowment net assets, end of year	$ 75,265	$ 44,271	$ 94,345	$ 213,881

6. SPLIT-INTEREST AGREEMENTS AND INTERESTS IN TRUSTS

The University has established a planned giving program that benefits both the University, as well as other donor stipulated beneficiaries. Such contribution to the University are termed split-interest agreements and include: perpetual trusts, charitable lead and remainder trusts, and charitable gift annuities.

Split-Interest Agreements

The University has assets of certain charitable remainder trusts included in its investment portfolio. The trust agreements stipulate annuity payments to the beneficiaries based on agreed-upon rates. The liabilities associated with these annuity payments are recorded as split-interest agreements in the accompanying consolidated statements of financial position. The University discounted the split-interest liabilities using rates ranging between 1.5% and 10.0% at April 30, 2018 and 2017, respectively. Changes in the values of the trusts and liabilities are recorded as changes in the value of split-interest agreements in the accompanying consolidated statements of activities.

The activity for the split-interest agreement liabilities for the years ended April 30, 2018 and 2017 is as follows (in thousands):

	2018	2017
Split-interest agreement liabilities, beginning of year	$ 1,508	$ 1,212
New gifts	298	267
Change in value	59	29
Split-interest agreement liabilities, end of year	$ 1,865	$ 1,508

Perpetual Trusts

The University is named as a beneficiary of four perpetual trusts administered by independent financial institutions. The estimated present value of the expected future cash flows, which approximates the University's value of its interest in the trusts, totals $2,502,000 and $2,390,000 at April 30, 2018 and 2017, respectively. The trusts are recognized as assets and as part of permanently restricted net assets in the accompanying consolidated financial statements. The University's share of the change in the fair value of the trusts' assets is recognized as permanently restricted investment income. Interest and dividends distributed from the trusts are recorded as unrestricted or temporarily restricted investment income based on donor stipulations, if any.

Charitable Gift Annuities

The University maintained adequate reserves pertaining to its outstanding charitable gift annuity agreements in accordance with the Code of Maryland Regulations as of April 30, 2018 and 2017.

7. PROPERTY AND EQUIPMENT, NET

Property and equipment at April 30, 2018 and 2017 are summarized as follows (in thousands):

	2018	2017
Land	$ 23,525	$ 23,525
Buildings and building improvements	318,856	310,728
Building retirement costs	2,750	2,750
Leasehold improvements	5,714	5,714
Construction work in process	22,618	6,810
Furniture, equipment, computer systems, and library books	85,596	83,099
	459,059	432,626
Less: Accumulated depreciation	(244,980)	(234,485)
Property and equipment, net	$ 214,079	$ 198,141

The University has no outstanding liability for equipment held under capital leases as of April 30, 2018 and 2017.

Included in construction work in process at April 30, 2018 and 2017 are costs associated with the renovation of University academic buildings recreational center and improvement for Campus Energy. These University projects are expected to be completed in fiscal 2020.

In the year ended April 30, 2012, the University leased a portion of its land to an independent party. The land is recorded at fair value and is included in investments. The fair value of the leased land totals $34,513,000 and $34,410,000 at April 30, 2018 and 2017, respectively (see also Note 2).

In accordance with accounting standards for costs of computer software developed or obtained for internal use, the University has capitalized certain internal labor costs for time incurred on the application development stages of these projects. Capitalized internal labor costs totaled $1,033,000 and $780,000 at April 30, 2018 and 2017, respectively.

In accordance with conditional asset retirement obligation accounting standards, as of April 30, 2018 and 2017, the University has capitalized $2,750,000 and $2,750,000 of asset retirement costs, respectively, with accumulated depreciation balances of $2,554,000 and $2,543,000, respectively. The asset retirement obligation as of April 30, 2018 and 2017 totals $9,250,000 and $8,704,000, respectively, and is recorded as a liability on the accompanying consolidated statements of financial position. The University's asset retirement obligations are primarily associated with the cost and removal of asbestos, lead paint and asset decommissioning identified in University owned properties.

The activity for the asset retirement obligations for the years ended April 30, 2018 and 2017 is as follows (in thousands):

	2018	2017
Asset retirement obligations, beginning of year	$ 8,704	$ 8,405
Change in estimated cash flows	-	289
Abatement/decrease in liabilities	-	(365)
Accretion expense	546	375
Asset retirement obligations, end of year	$ 9,250	$ 8,704

8. INDEBTEDNESS

Indebtedness at April 30, 2018 and 2017 consists of the following (in thousands):

	Scheduled Maturities	Ending Interest Rate	2018 Amount Outstanding	2017 Amount Outstanding
Tax-Exempt Bonds				
2017C Series District of Columbia Revenue Bonds	Oct. 1, 2034	Fixed 2.83%	$ 17,335	$ -
2017B Series District of Columbia Revenue Bonds	Oct. 1, 2047	Fixed 4.00%	58,400	-
2017A Series District of Columbia Revenue Bonds	Oct. 1, 2029	Fixed 2.87%	25,785	27,555
2015 Series District of Columbia Revenue Bonds	Oct. 1, 2037	Fixed 2.78%	34,540	34,765
2010 Series District of Columbia Revenue Bonds	Oct. 1, 2034	Fixed 5.00%	9,135	27,715
Total bonds payable			145,195	90,035
Non-recourse Debt				
U.S. Department of Education-McMahon Hall	Aug. 1, 2021	Fixed 5.50%	645	809
U.S. Department of Education-Centennial Village	Oct. 1, 2020	Fixed 3.00%	259	425
Total notes payable			904	1,234
Unamortized Bond Premium			7,892	757
Unamortized Issuance Costs			(2,355)	(1,644)
Total indebtedness			$ 151,636	$ 90,382

The foregoing bonds and notes as of April 30, 2018 are payable as follows (in thousands):

2019	$ 4,513
2020	4,564
2021	4,637
2022	4,690
2023	4,765
Thereafter	122,930
	146,099
Unamortized bond premium and issuance costs, net	5,537
Total indebtedness	$ 151,636

Interest expense for the years ended April 30, 2018 and 2017 totaled approximately $3,635,000 and $3,080,000, respectively. There was no capitalized interest for the years ended April 30, 2018 and 2017. Management believes that the University was in compliance with debt covenants as of April 30, 2018 and 2017. Cash paid for interest totaled approximately $4,155,000 and $3,757,000 for the years ended April 30, 2018 and 2017, respectively.

Series 2017 Bonds

In November 2017, the University issued $17,335,000 District of Columbia Tax - Exempt Private Placement Bond Series 2017C refinancing a portion of the outstanding District of Columbia Revenue Bonds Series 2010.

In November 2017, the University issued $58,400,000 District of Columbia Tax - Exempt Revenue Bonds Series 2017B for the purpose of construction related projects on the University's campus.

In April 2017, the University issued $27,555,000 District of Columbia Refunding Revenue Bonds Series 2017A for the purpose of refunding a portion of the outstanding District of Columbia Revenue Bonds Series 2007.

Covenants of the Series 2017 Bonds loan agreements require the University to maintain liquid unrestricted net assets with a value which is equal to at least 80% of the outstanding principal amount of all long-term indebtedness which is on parity with Series 2017 Bonds.

Series 2015 Bonds

In December 2015, the University issued $35,065,000 District of Columbia Refunding Revenue Bonds Series 2015 for the purpose of refunding a portion of the outstanding District of Columbia Revenue Bonds Series 2007.

Covenants of the Series 2015 Bonds loan agreement require the University to maintain liquid unrestricted net assets with a value which is equal to at least 80% of the outstanding principal amount of all long-term indebtedness which is on parity with Series 2015 Bonds.

Series 2010 Bonds

In August 2010, the University issued $38,010,000 District of Columbia Refunding Revenue Bonds Series 2010 for the purpose of refunding the outstanding District of Columbia Revenue Bonds Series 1999 and The Catholic University of America Taxable Variable Rate Demand Bonds Series 2004. In November 2017, $16,725,000 of the District of Columbia Revenue Bonds Series 2010 was refinanced with the District of Columbia Tax - Exempt Revenue Bonds Series 2017C. Series 2010 Bonds in the amount of $9,135,000 remain outstanding at April 30, 2018.

Covenants of the Series 2010 Bonds loan agreements require the University to maintain liquid unrestricted net assets with a value which is equal to at least 80% of the outstanding principal amount of all long-term indebtedness which is on parity with Series 2010 Bonds.

Lines of Credit

As of April 30, 2018 and 2017, the University had one line of credit with SunTrust Bank, totaling $9 million. At April 30, 2018 and 2017, none of the $9 million line of credit is drawn, and all is therefore available to the University for further financing. Draws on the $9 million line of credit are payable in monthly installments of principal and interest. The interest rate on the line of credit is based on LIBOR interest rate plus 1.25%. The line of credit matures on November 29, 2018.

9. SCHOLARSHIP ALLOWANCES

The University awarded $90,990,000 and $86,486,000 in merit and need-based scholarships and tuition waivers to its students for the years ended April 30, 2018 and 2017, respectively. Student tuition and fees revenue are reported net of scholarships in the accompanying consolidated statements of activities.

10. EMPLOYEE BENEFIT PLANS

Eligible employees of the University may participate in a contributory pension and retirement plan administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund. Under this plan, contributions are fully vested and are transferable by the employees to other covered employer plans. Participating employees can contribute a percentage of their base salary not to exceed the maximum amount allowed by IRC Section 415. Eligible employees may contribute 0.0%, 2.5%, or 5.0% of their pre-tax income to the plan. The University matches the contributions with 5.0%, 7.5%, and 10.0%, respectively. The University’s contribution to this plan totaled $8,027,000 and $7,588,000 for the years ended April 30, 2018 and 2017, respectively.

Employees who retire from the University are also eligible for a life insurance benefit of $5,500. The net present value of the liability for this benefit is $2,692,000 and $2,767,000 as of April 30, 2018 and 2017, respectively. This benefit program is unfunded.

11. COMMITMENTS

As of April 30, 2018, the University had entered into several construction agreements. Under these agreements, the University is obligated for approximately $44,677,000 of which $20,721,000 has been incurred at April 30, 2018.

The University has outstanding commitments to invest approximately $6,098,000 in certain private equity investments as of April 30, 2018.

On April 4, 2013, the University entered into a Letter of Credit with a governmental regulatory agency as required by that agency. The Letter of Credit for $450,000 will be funded to a trust account if the University ever decides to decommission certain assets. As of April 30, 2018, the University has no plans to decommission those assets.

The University leases certain office space and equipment under long-term leases, the last of which expires in fiscal year 2024. Future minimum rental payments under operating leases having initial or remaining lease terms in excess of one year are (in thousands):

Year	
2019	$ 2,187
2020	1,164
2021	882
2022	580
2023	597
Thereafter	125
	$ 5,535

The University has leased out portions of its South Campus property under long-term leases. The lease revenue escalates based upon the Consumer Price Index each year. The estimated future minimum rental receipts for the next five years and in total thereafter are (in thousands):

Year	
2019	$ 1,284
2020	1,290
2021	1,297
2022	1,303
2023	1,310
Thereafter	145,064
	$ 151,548

There are no outstanding capital lease liabilities as of April 30, 2018. Rent expense totaled $1,703,000 and $1,716,000 for the years ended April 30, 2018 and 2017, respectively.

12. CONTINGENCIES

The University is a party to litigation arising out of the normal conduct of its operations. In the opinion of the University's administration, the ultimate resolution of these matters will not have a materially adverse effect upon the University's financial position, changes in net assets or cash flows.

The University receives a portion of its revenue from government grants and contracts, all of which are subject to audit. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amounts received in excess of allowable costs. Management is of the opinion that no material unrecorded liability will result from such audits.

13. SUBSEQUENT EVENTS

In preparing the accompanying consolidated financial statements, the University has evaluated events and transactions for potential recognition or disclosure through September 21, 2018, the date the financial statements were issued. No matters requiring recognition or disclosure were noted.