

GONZAGA UNIVERSITY
FINANCIAL REPORT 2014-15



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We at Gonzaga University are blessed with tremendous resources:

- An exceptional faculty dedicated to teaching, mentoring, and scholarly work,
- A supportive and creative staff,
- Engaged alumni all around the world,
- Thoughtful leadership from administration and board governance, and
- Benefactors and friends who provide incredible support for our community of Zags.

And of course, with the passing of each academic year, we have the distinct pleasure to support and serve a group of students who undergo faith-filled transformations of character. They develop rich interiors as analytical thinkers, knowledgeable practitioners, and imaginative problem-solvers.

This strength of human capital combined with our financial resources and campus facilities support a vibrant community anchored in our Jesuit tradition.

The enclosed 2014-15 consolidated financial statements provide a recent snapshot of Gonzaga's financial health. To follow are some summary observations related to financial performance.

Consolidated Statement of Financial Position

Assets

Gonzaga has a strong asset base of \$720.1 million as of May 31, 2015 – an all-time high, and an increase of 13.2% from the prior year. Gonzaga's asset base is comprised largely from cash and short-term investments, endowment (a large component of long-term investments), and campus facilities.

Together, cash, cash equivalents, and short-term investments totaled \$77.1 million as of May 31, 2015, as compared to \$57.8 million the prior year. These resources provide essential liquidity to cover operating costs, maintain campus facilities, and satisfy debt service payments. Further, the funds support Strategic Plan initiatives and fund contingencies and reserves.

Long-term investments (including beneficial interests in trusts) totaled \$231.6 million as of May 31, 2015, and represents close to one-third of Gonzaga's total assets. Long-term investments are substantially comprised of Gonzaga's endowment assets. Gonzaga's diversified endowment investment pool net return was 6.5% for the year. Investment return, coupled with new endowment gifts of \$28.9 million (of which \$24.4 million is recorded as a contribution receivable at May 31, 2015 and not included in the figures above) and annual spending distribution of \$6.6 million, resulted in an increase of 6.6% from the prior year. Over 60% of Gonzaga's endowment is designated for merit and need based scholarships.

The pooled endowment is invested on a total return basis to provide a long-term annual return equal to, or in excess of, the annual spending distribution plus inflation. The strategic target asset allocation of the endowment is as follows: domestic equities (27%), international equities (27%), fixed income (21%), alternative investments (15%) and real assets (10%). In comparison to other university endowment and foundations¹, Gonzaga's annualized one-, three-, five- and ten-year returns (measured as of June 30, 2014, the most currently available data) rank within the top one-third of all university endowments and foundations for all periods. The ten-year annualized return was 7.4% as of June 30, 2014, or 30 basis points higher than the NCSE average for all participants.

Property, plant, and equipment, net, totaled \$291.7 million as of May 31, 2015, up 16.7% or \$41.8 million over the prior year. Most notably, construction in progress increased \$43.4 million for the John J. Hemmingson University Center, which was near completion as of May 31, 2015 with the formal opening in late August 2015. The Hemmingson Center adds approximately 167,000 square feet of mixed use space for

academics, student activities, student dining, conferences and meetings, and retail functions. Functionally, the Hemmingson Center combines into one facility numerous functions that were historically spread throughout Gonzaga's campus. The Hemmingson Center is funded via a combination of contributions over a pledge period, use of operating funds, and bond financing. The Hemmingson Center achieved gold LEED certification as a green building and makes extensive use of natural light and geothermal heating and cooling.

Gonzaga recognizes the importance of an attractive campus, including open green spaces with river views, attractive housing and dining facilities, and modern academic and extracurricular spaces. Further, investment in other infrastructure, such as information technology, evidenced by \$3.7 million of construction in progress for network replacement, has never been more critical. The University incorporates renewal and replacement spending within its annual operating budget in order to maintain a 131 acre campus in Spokane, Washington with more than 100 buildings.

¹ Source: NACUBO *Commonfund Study of Endowments*® (NCSE), 2014

Liabilities

Gonzaga's liabilities totaled \$253.7 million as of May 31, 2015, an increase of less than 1% from the prior year. In addition to shorter-term obligations to vendors and employees, along with deferred revenues and refundable advances, the most significant liabilities are notes and bonds payable. Notes and bonds payable are used to finance property, plant and equipment. As of May 31, 2015, notes and bonds payable decreased \$5.9M or 3.2% from the prior year due to scheduled principal payments and no new debt issuance. Of the total notes and bonds payable outstanding as of May 31, 2015 (prior to unamortized net premium and excluding interest rate swaps), 94% of the principal outstanding represents notes and bonds that carry a fixed interest rate. This largely fixed-rate structure provides a high degree of certainty as to the annual debt service payments given such rates are not subject to variability. Further, Gonzaga's currently scheduled annual debt service through 2029 remains largely unchanged each year, subject to variability from the 6% of notes and bonds payable that are variable in nature. Together, bonds and notes payable represent a 4.8% weighted average cost of borrowed funds (measured at issuance) for the overall debt portfolio. Selected bonds are rated by Moody's Investor Service and Fitch Ratings, and carry an "A3" (outlook stable) and "A" (outlook stable), respectively.

Net Assets

Gonzaga's net assets were \$466.4 million as of May 31, 2015, an increase of \$83.5 million or 21.8% for the fiscal year – the most significant one year dollar increase in Gonzaga's history. The three primary drivers of annual changes in net assets for Gonzaga are 1) the net change from operating activities; 2) investment net return after the annual spending distribution; and 3) contributions towards non-operating activities, such as capital contributions and endowment contributions. Each of these categories is discussed below.

Consolidated Statement of Activities

Operating Activities

For the year ended May 31, 2015, operating activities resulted in a \$9.1 million increase in net assets, compared with a \$9.0 million increase the year prior. Gonzaga's operating budget is prepared on a conservative basis with the intent of generating a modest 3% to 5% margin as a percentage of operating revenues. Such margin provides opportunity to utilize funds for further investment in facilities, programmatic expansion, and other Strategic Plan initiatives. For the years ended May 31, 2015 and 2014, the operating margin percentages were 4.4% and 4.6%, respectively. The change in net assets from operating activities includes depreciation, the most significant non-cash expense. Excluding depreciation and other non-cash items, Gonzaga generated \$16.6 million and \$6.0 million in cash from operating activities for the years ended May 31, 2015 and 2014, respectively.

For the year ended May 31, 2015, operating revenues increased \$10.9 million or 5.6% from the prior year. The most significant component of operating revenues is student tuition and fees, net of institutional financial aid, which increased \$3.9 million or 2.8%. The change is driven by a net increase in tuition rate for undergraduate and graduate programs, offset by a 3.3% decrease in overall headcount enrollment. In addition to tuition and fees, all other operating revenue categories increased over the prior year. Approximately 98% of full-time undergraduate students receive some form of merit or need-based institutional financial aid. While operating revenues come largely from student tuition and fees, endowment distributions and contributions are important revenue diversifiers that help offset the cost of a Gonzaga education for all students, particularly to support institutional financial aid.

For the year ended May 31, 2015, total operating expenses increased \$10.7 million or 5.8% from the prior year. Instructional expenses is the largest category and comprises 41% of operating expenses, with an increase of 2.9% from the prior year. Student services experienced the most notable increase, driven by a number of programmatic changes in areas such as graduate student recruitment and retention. Gonzaga, like other colleges and universities, incurs significant costs in the form of salaries and benefits, representing 61.7% of total operating costs with an increase of 4.9% from the prior year. The change is driven by a 2.7% increase in employee headcount, annual compensation increases, and changes in employee benefit costs.

Nonoperating Activities

In addition to operations, Gonzaga reports other changes in net assets from those activities that are not directly attributable to the annual operations. Most notably, contributions for the acquisition of capital assets and endowments together were \$70.5 million for the year ended May 31, 2015, the largest in Gonzaga's history, of which over half came from one benefactor. Further, the net return on investments beyond the amount used for the annual spending distribution was \$4.3 million, a significant decrease from \$17.8 million in the prior year, largely attributable to a decrease in the annual net investment return from 15.6% to 6.5%.

Selected Data

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

Closing Remarks

With the successful close of our most recent fiscal year and the collective energy of the Gonzaga community focused on the academic year ahead, we have reasons to believe it will be a year full of optimism and new opportunities. Filled with faith, purpose and confidence, Gonzaga University will continue to thrive and flourish. Speaking on behalf of the Gonzaga community, we remain forever grateful to all those whose belief in this mission of the Society of Jesus allows us to continue this important work.



Charles J. Murphy
Vice President for Finance
August 2015

Selected Data (Dollars in thousands)

As of May 31	2015	2014	2013	2012	2011
Consolidated Statement of Financial Position Data					
Cash, cash equivalents, and short-term investments	\$ 77,119	\$ 57,818	\$ 74,794	\$ 59,160	\$ 43,096
Contributions receivable, net	78,719	25,381	23,061	9,540	12,555
Long-term investments ⁽¹⁾	231,621	217,267	180,823	152,177	153,836
Property, plant, and equipment, net	291,696	249,891	228,894	218,114	220,873
Total assets	720,070	635,834	549,767	482,090	476,744
Notes and bonds payable	178,288	184,230	135,445	132,101	136,764
Total liabilities	253,703	252,989	205,517	194,124	192,611
Unrestricted net assets	167,172	165,982	149,547	132,479	128,497
Temporarily restricted net assets	173,038	121,536	107,441	73,333	80,405
Permanently restricted net assets	126,157	95,327	87,262	82,154	75,231
Total net assets	\$ 466,367	\$ 382,845	\$ 344,250	\$ 287,966	\$ 284,133
For the year ended May 31	2015	2014*	2013*	2012*	2011*
Consolidated Statement of Activities and Other Data					
Student tuition and fees, net of institutional financial aid	\$ 142,770	\$ 138,903	\$ 135,707	\$ 134,351	\$ 125,631
Total operating revenues ⁽²⁾	203,956	193,096	189,586	185,767	180,383
Total operating expenses ⁽²⁾	194,883	184,152	176,591	175,868	167,257
Increase in net assets from operations ⁽²⁾	9,073	8,944	12,995	9,899	13,126
Increase (decrease) in net assets from nonoperating activities ⁽³⁾	74,449	29,651	43,289	(6,066)	23,736
Increase in total net assets	83,522	38,595	56,284	3,833	36,862
Pooled investment fund return	6.5%	15.6%	18.1%	-3.1%	21.1%
Measured in the fall of the applicable fiscal year	2015	2014	2013	2012	2011
Other Data					
Enrollment by Headcount					
Undergraduate	4,837	4,896	4,906	4,865	4,805
Graduate	2,178	2,322	2,417	2,392	2,422
Law	339	387	460	507	511
Total enrollment	7,354	7,605	7,783	7,764	7,738
Employees ⁽⁴⁾					
Faculty	436	434	428	421	410
Staff and administration	811	780	761	737	740
Total employees	1,247	1,214	1,189	1,158	1,150

* Certain reclassifications were made to prior periods to conform with the May 31, 2015 consolidated financial statement presentation.

⁽¹⁾ Includes beneficial interests in trusts.

⁽²⁾ Refer to note 2 in the notes accompanying the consolidated financial statements for the definition of operating activities. Amounts reported are for all net asset classifications.

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

⁽⁴⁾ Employee figures include part-time faculty and staff and exclude part-time student employees.

REPORT OF INDEPENDENT AUDITORS

President and Board of Trustees
Gonzaga University

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Gonzaga University (a Washington nonprofit corporation), which comprise the consolidated statements of financial position as of May 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

REPORT OF INDEPENDENT AUDITORS (continued)

We believe that the audit evidence 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 statements of financial position of Gonzaga University as of May 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

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

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Spokane, Washington
August 26, 2015

Consolidated Statements of Financial Position *(Dollars in thousands)*

Assets

	May 31	
	2015	2014
Cash and cash equivalents	\$ 37,538	\$ 34,283
Short-term investments	39,581	23,535
Accounts and interest receivable, net	7,994	10,979
Prepaid expenses	4,185	3,557
Contributions receivable, net	78,719	25,381
Student loans receivable, net	15,373	15,465
Deposits with bond trustees	13,363	55,476
Long-term investments	224,097	209,603
Beneficial interests in trusts	7,524	7,664
Property, plant, and equipment, net	291,696	249,891
Total assets	<u>\$ 720,070</u>	<u>\$ 635,834</u>

Liabilities And Net Assets

LIABILITIES

Accounts and other payables	\$ 13,401	\$ 17,156
Accrued salaries, taxes, and benefits	16,571	16,315
Deferred revenues and refundable advances	21,274	11,451
Split-interest agreement obligations	5,762	5,976
Federal student loan program	10,953	10,987
Obligation under interest rate swaps	7,454	6,874
Notes and bonds payable	178,288	184,230
Total liabilities	<u>253,703</u>	<u>252,989</u>

NET ASSETS

Unrestricted	167,172	165,982
Temporarily restricted	173,038	121,536
Permanently restricted	126,157	95,327
Total net assets	<u>466,367</u>	<u>382,845</u>
Total liabilities and net assets	<u>\$ 720,070</u>	<u>\$ 635,834</u>

See accompanying notes.

Consolidated Statements of Activities (Dollars in thousands)

	Year Ended May 31, 2015				Year Ended May 31, 2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Operating Revenues					
Student tuition and fees, net	\$ 223,123	\$ -	\$ -	\$ 223,123	\$ 216,747
Less institutional financial aid	(80,353)	-	-	(80,353)	(77,844)
	142,770	-	-	142,770	138,903
Contributions	2,618	6,751	-	9,369	8,756
Grants and contracts	2,234	-	-	2,234	2,030
Return on investments designated for operations	1,218	6,848	-	8,066	6,725
Auxiliary enterprises	26,810	-	-	26,810	26,524
Other sources	14,657	50	-	14,707	10,158
	190,307	13,649	-	203,956	193,096
Net assets released from restrictions	10,549	(10,549)	-	-	-
Total operating revenues	200,856	3,100	-	203,956	193,096
Operating Expenses					
Instruction	79,504	-	-	79,504	77,236
Libraries	5,710	-	-	5,710	5,902
Student services	17,647	-	-	17,647	13,406
Organized activities	21,542	-	-	21,542	19,593
General administrative and institutional	36,432	-	-	36,432	34,041
Operation and maintenance of plant	10,676	-	-	10,676	11,023
Auxiliary enterprises	23,372	-	-	23,372	22,951
Total operating expenses	194,883	-	-	194,883	184,152
Increase in net assets from operations	5,973	3,100	-	9,073	8,944
Nonoperating Activities					
Contributions for acquisition of capital assets, net	-	41,670	-	41,670	3,520
Contributions to endowment funds, net	-	-	28,874	28,874	7,295
(Loss) gain on disposal of equipment	(226)	-	-	(226)	31
Return on investments, net of amounts designated for operations	318	3,754	183	4,255	17,770
Change in value of interest rate swaps	(580)	-	-	(580)	(130)
Change in value of split interest agreements	-	182	274	456	1,165
Net assets released from restrictions for acquisition of capital assets	611	(611)	-	-	-
Transfers	(4,906)	3,407	1,499	-	-
Total nonoperating activities	(4,783)	48,402	30,830	74,449	29,651
Increase in net assets	1,190	51,502	30,830	83,522	38,595
Net assets at beginning of year	165,982	121,536	95,327	382,845	344,250
Net assets at end of year	\$ 167,172	\$ 173,038	\$ 126,157	\$ 466,367	\$ 382,845

See accompanying notes.

Consolidated Statements of Activities *(Dollars in thousands)*

	Year Ended May 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees, net	\$ 216,747	\$ -	\$ -	\$ 216,747
Less institutional financial aid	(77,844)	-	-	(77,844)
	138,903	-	-	138,903
Contributions	4,209	4,547	-	8,756
Grants and contracts	2,030	-	-	2,030
Return on investments designated for operations	1,085	5,640	-	6,725
Auxiliary enterprises	26,524	-	-	26,524
Other sources	10,146	12	-	10,158
	182,897	10,199	-	193,096
Net assets released from restrictions	10,186	(10,186)	-	-
Total operating revenues	193,083	13	-	193,096
Operating Expenses				
Instruction	77,236	-	-	77,236
Libraries	5,902	-	-	5,902
Student services	13,406	-	-	13,406
Organized activities	19,593	-	-	19,593
General administrative and institutional	34,041	-	-	34,041
Operation and maintenance of plant	11,023	-	-	11,023
Auxiliary enterprises	22,951	-	-	22,951
Total operating expenses	184,152	-	-	184,152
Increase in net assets from operations	8,931	13	-	8,944
Nonoperating Activities				
Contributions for acquisition of capital assets, net	(492)	4,012	-	3,520
Contributions to endowment funds, net	-	53	7,242	7,295
Gain on disposal of equipment	31	-	-	31
Return on investments, net of amounts designated for operations	1,834	15,986	(50)	17,770
Change in value of interest rate swaps	(130)	-	-	(130)
Change in value of split interest agreements	-	531	634	1,165
Net assets released from restrictions for acquisition of capital assets	6,685	(6,685)	-	-
Transfers	(424)	185	239	-
Total nonoperating activities	7,504	14,082	8,065	29,651
Increase in net assets	16,435	14,095	8,065	38,595
Net assets at beginning of year	149,547	107,441	87,262	344,250
Net assets at end of year	\$ 165,982	\$ 121,536	\$ 95,327	\$ 382,845

See accompanying notes.

Consolidated Statements Of Cash Flows *(Dollars in thousands)*

	Years Ended May 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 83,522	\$ 38,595
Adjustments to reconcile increase in net assets to net cash from operating activities		
Depreciation and amortization	9,268	9,243
Provision for uncollectible receivables	528	1,957
Loss (gain) on disposal of fixed assets	226	(31)
Contributions restricted for long-term purposes	(70,544)	(12,230)
Interest and dividends restricted for long-term investment	(3,896)	(3,664)
Net realized and unrealized gain on investments	(7,106)	(20,304)
Change in value of interest rate swaps	580	130
Change in value of split interest agreements	(456)	(1,165)
Other change in assets and liabilities, net	4,495	(6,552)
Net cash from operating activities	16,617	5,979
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	(47,921)	(24,665)
Proceeds from sale of property and equipment	29	72
Proceeds from sale of investments	59,660	25,244
Purchase of investments	(82,172)	(63,239)
Issuance of student loans receivable	(2,451)	(2,894)
Repayment of student loans receivable	2,379	2,144
Reimbursements from deposits held with bond trustees	41,949	9,529
Net cash used by investing activities	(28,527)	(53,809)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term purposes	17,492	7,691
Proceeds from contributions for split interest agreements	112	579
Proceeds from issuance of bonds	-	1,331
Payments on notes and bonds	(5,942)	(5,592)
Payments on split-interest agreements	(359)	(279)
Interest and dividends restricted for long-term investment	3,896	3,664
Net change in student loan liability	(34)	(75)
Net cash from financing activities	15,165	7,319
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,255	(40,511)
CASH AND CASH EQUIVALENTS, beginning of year	34,283	74,794
CASH AND CASH EQUIVALENTS, end of year	\$ 37,538	\$ 34,283
SUPPLEMENTAL DISCLOSURES		
Interest paid (net of capitalized interest of \$1,967 and \$861 for 2015 and 2014, respectively)	\$ 8,514	\$ 7,055
Proceeds from issuance of bonds deposited with bond trustees (net of bond issuance costs of \$-0- and \$551 for 2015 and 2014, respectively)	-	51,795
Noncash acquisition of property, plant, and equipment	2,820	5,595
Noncash gifts of investments and property, plant, and equipment	426	873

See accompanying notes.

Note 1 – Organization

Gonzaga University is an independent, accredited coeducational higher education institution founded in 1887 by the Society of Jesus. The Corporation of Gonzaga University (Corporation) was incorporated in the state of Washington in 1894 as a tax-exempt charitable organization located in Spokane, Washington. The consolidated financial statements include the accounts of the Corporation, the Gonzaga Law School Foundation (Foundation), and Immobiliare Gonzaga Srl. (collectively, the University). The purpose of the Foundation is to provide financial support to the University's Law School. Immobiliare Gonzaga Srl. is an Italian corporation formed to purchase and remodel a classroom/administration building used in the University's Florence, Italy, program.

The primary source of revenue is tuition from undergraduate, graduate (including online programs), and law programs through the college of Arts & Sciences, and schools of Business, Engineering & Applied Science, Education, Nursing & Human Physiology, Professional Studies, and Law. Other sources of revenue include room, board dining, contributions, return on investments, fees, athletic tickets, and sponsorships.

Note 2 – Summary of Significant Accounting Policies

The accounting policies of the University reflect practices common to universities and colleges and conform to accounting principles generally accepted in the United States of America (GAAP). Significant policies are summarized below.

Basis of presentation – The accompanying consolidated financial statements have been prepared with net assets, revenues, expenses, gains, and losses classified into three categories based on the existence or absence of donor-imposed restrictions. The net assets of the University are classified and defined as follows:

Unrestricted net assets – Net assets are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board. All revenues, expenses, gains, and losses that are not changes in temporarily or permanently restricted net assets are considered unrestricted.

Temporarily restricted net assets – Net assets are subject to donor-imposed restrictions that will be met by actions of the University or the passage of time. This includes gifts as well as income and net gains and losses accruing on those gifts, whose use by the University is subject to donor-imposed stipulations.

Permanently restricted net assets – Net assets are subject to donor-imposed restrictions that are permanently maintained by the University. Generally, the donors of these assets permit the University to use all or part of the return on related investments for general or specific purposes. This includes gifts, trusts, and contributions that by donor restriction require the corpus be invested in perpetuity.

Consolidation – All significant inter-entity transactions and balances have been eliminated. The summarized consolidating statements of financial position for the University are as follows:

	For the Year ended May 31, 2015				
	Corporation	Foundation	Immobiliare Gonzaga Srl.	Inter-entity Elimination	Consolidated Total
Assets	\$ 718,344	\$ 20,200	\$ 5,156	\$ (23,630)	\$ 720,070
Liabilities	\$ 272,829	\$ -	\$ 4,504	\$ (23,630)	\$ 253,703
Net Assets					
Unrestricted	166,520	3,494	652	(3,494)	167,172
Temporarily restricted	160,246	9,298	-	3,494	173,038
Permanently restricted	118,749	7,408	-	-	126,157
Total net assets	445,515	20,200	652	-	466,367
Total liabilities and net assets	\$ 718,344	\$ 20,200	\$ 5,156	\$ (23,630)	\$ 720,070

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – Cash and cash equivalents consist of cash balances and short-term, highly liquid investments with remaining maturities at the date of purchase of 90 days or less. Amounts also include money market mutual funds, all of which comply with Rule 2a-7 of the Investment Company Act of 1940, which seeks to limit the risk of money market funds. The University holds cash and cash equivalents at several major financial institutions, which during the course of the year may exceed the amounts insured by the Federal Depository Insurance Corporation (FDIC). Assets with the characteristics of cash and cash equivalents that are held in donor-restricted endowment funds are reported as long-term investments.

Included in cash and cash equivalents are assets restricted for investment in property, plant, and equipment of \$9,974 and \$573 as of May 31, 2015 and 2014, respectively.

Deposits with Bond Trustees – Amounts consist of bond funds held in investments as permitted under the Washington Higher Education Facilities Authority (Authority or WHEFA) documents. The funds are restricted to the purpose designated in the bond documents. These investment securities are exposed to various interest rate, market, and credit risks, and changes in risks could possibly materially affect the consolidated financial statements.

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

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

The University's investments are recorded in the consolidated financial statements at fair value. Return on investments, including unrealized and realized gains or losses, as well as all dividends, interest, and other investment income, is shown in the consolidated statements of activities. Return on investments is reported as an increase in unrestricted, temporarily restricted, or permanently restricted net assets, depending on donor-imposed restrictions. Investments contributed to the University are recorded at the fair value at the date of contribution.

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

Split-interest agreements – The University is the irrevocable beneficiary of the income or the residual interest of assets in charitable trusts held by outside trustees. At the date of donation, the University recognizes its beneficial interest in the outside trust as a contribution at fair value, which is measured as the present value of the estimated expected future benefits to be received. The contribution revenue recognized is classified as an increase in either temporarily or permanently restricted net assets based on the time or use restrictions placed by the donor upon the University's beneficial interest in the trust. Periodic adjustments to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate are recognized as change in value of split-interest agreements.

The University has legal title, as trustee, to irrevocable charitable remainder trusts and also receives contributions in connection with charitable gift annuity contracts. Actuarial methods are used to record these annuities and trusts using discount rates ranging from 4% to 6%. When a gift is received, the present value of future expected payments to the beneficiaries is recorded as a liability based upon life expectancy tables and discount rate assumptions and the remainder is recorded as a contribution. Annuity and trust assets are reported at fair value and included within long-term investments on the consolidated statements of financial position. Investment returns, beneficiary payments, and direct costs of funds management are charged to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses resulting from changes in fair value and life expectancy. The University maintains separate funds adequate to meet future payments under its charitable gift annuity contracts as required by state laws. The total investments held in separate funds were \$3,474 and \$3,555 as of May 31, 2015 and 2014, respectively. The corresponding amount included in split-interest agreement obligations to meet future payments under gift annuity contracts was \$1,571 and \$1,607 as of May 31, 2015 and 2014, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

Accounts and contributions receivable, net – Accounts receivable from students included in accounts and interest receivable, net, in the consolidated statements of financial position are reported net of an allowance for doubtful accounts. Accounts receivable are written off only when they are deemed to be permanently uncollectible.

Contributions, including unconditional promises to give, are recognized as revenue when the donor's commitment is made. Unconditional promises are recognized at the estimated present value of the future cash flows using discount rates, net of allowances for doubtful accounts. The discounts are determined using a rate that is commensurate with the risks involved and applicable to the years in which the promises are received. Based upon historical pledge payments and current information, an allowance for doubtful accounts is determined. Account balances are charged off against the allowance when collection is considered remote. Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted revenue.

Student loans receivable, net – Student loans receivable primarily consist of amounts due from students under the University's repayable financial aid programs and are stated net of allowance for doubtful accounts. The notes receivable bear interest ranging from 5% to 6% and are generally repayable to the University over a period not to exceed 10 years.

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

Building and improvements	25 - 50 years
Equipment and furniture	3 - 5 years
Library books	10 years

Revenue recognition – Student tuition, fees, room, and board dining are recognized in the period in which the services are provided. Grant revenue is recognized when the services are provided for performance grants or when the funds are expended for cost-reimbursement grants. Interest income on student loans is recognized when charged.

Student tuition and fees are reflected net of student marketing and recruiting costs of \$200 and \$3,290 for the years ended May 31, 2015 and 2014, respectively, which represent the amount paid to an unrelated third party for certain of the University's graduate distance learning programs where, from a revenue recognition standpoint, the University is considered an agent in the transaction.

Advertising – Costs expensed for the years ended May 31, 2015 and 2014, were \$3,841 and \$1,989, respectively.

Fund-raising expenses – Costs related to fund-raising are expensed as incurred and for the years ended May 31, 2015 and 2014, were \$4,554 and \$4,329, respectively.

Derivative financial instruments – GAAP establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are reflected on the consolidated statements of financial position at estimated fair value.

Income taxes – The Internal Revenue Service (IRS) has recognized the Corporation and Foundation as exempt from tax under the provisions of Section 501(c)(3) of the Internal Revenue Code, except to the extent of unrelated business income under Sections 511 through 515. Unrelated business income tax, if any, is immaterial. As of May 31, 2015 and 2014, the University had no uncertain tax positions requiring accrual. The University may be subject to routine audit by the IRS; however, there are currently no audits for any tax periods in progress. The University's management believes it is no longer subject to income tax examination for years prior to 2011.

Operating and nonoperating activities – The University's measure of operating activities, presented in the consolidated statements of activities, includes all transactions that are incurred in the course of the normal business operations of the University. Operating expenses are reported by functional categories, after allocating costs for interest on long-term indebtedness and depreciation.

Nonoperating activities presented in the consolidated statements of activities include transactions that result from something other than the on-going day-to-day activity of the University.

Notes to Consolidated Financial Statements *(Dollars in thousands)*

Note 2 – Summary of Significant Accounting Policies (continued)

Concentrations of financial aid – A significant number of students attending the University receive financial assistance from the U.S. government student financial aid programs. These programs require the University to comply with recordkeeping, eligibility, and other requirements. Failure to comply with such U.S. government requirements could result in the loss of U.S. government financial assistance to the University's students and adversely impact the operations of the University.

Use of estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications were made to the 2014 consolidated financial statements to conform to the 2015 presentation. The reclassifications have no effect on the change in net assets as previously reported.

Subsequent events – The University has evaluated subsequent events through August 26, 2015, which is the date the consolidated financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

Note 3 – Accounts and Interest Receivable

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

	2015	2014
Government grants and loan funds	\$ 5,709	\$ 8,104
Student receivables	1,121	1,230
Miscellaneous receivables	992	1,505
Accrued interest receivable	272	240
	8,094	11,079
Less allowance for doubtful accounts	(100)	(100)
	<u>\$ 7,994</u>	<u>\$ 10,979</u>

Note 4 – Contributions Receivable

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

	2015	2014
In one year or less		
Between one year and five years	\$ 58,257	\$ 6,747
More than five years	14,811	12,637
Less present value discounts	16,818	17,244
	(10,390)	(10,238)
Less allowance for doubtful accounts	79,496	26,390
	(777)	(1,009)
	<u>\$ 78,719</u>	<u>\$ 25,381</u>

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

	2015	2014
Unrestricted	\$ 23	\$ 51
Temporarily restricted for financial aid and other	4,249	4,311
Temporarily restricted for property, plant, and equipment	44,385	15,183
Endowment for financial aid and endowed chairs	30,062	5,836
	<u>\$ 78,719</u>	<u>\$ 25,381</u>

Notes to Consolidated Financial Statements *(Dollars in thousands)*

Note 5 – Student Loans Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs and institutional resources.

At May 31, student loans consisted of the following:

	2015	2014
Federal government programs	\$ 14,262	\$ 14,578
Institutional programs	1,425	1,202
	15,687	15,780
Less allowance for doubtful accounts	(314)	(315)
Student loans receivable, net	<u>\$ 15,373</u>	<u>\$ 15,465</u>

The University participates in the Perkins and Nursing federal revolving loan programs. The availability of funds for new loans under the programs is dependent on reimbursements to the programs from repayments on outstanding loans. Funds advanced by the federal government are ultimately refundable to the government. Outstanding loans cancelled under the programs result in a reduction of the funds available for new loans and a decrease in the liability to the government. The net liability due to the government was \$10,953 and \$10,987 at May 31, 2015 and 2014, respectively.

At May 31, 2015 and 2014, the following amounts were past due under all student loan programs:

May 31,	1-59 Days Past Due	60-89 Days Past Due	90-119 Days Past Due	120-179 Days Past Due	180-729 Days Past Due	730+ Days Past Due	Total Past Due
2015	\$ 637	\$ 236	\$ 35	\$ 52	\$ 405	\$ 573	\$ 1,938
2014	\$ 945	\$ 206	\$ 27	\$ 24	\$ 303	\$ 561	\$ 2,066

Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which in management's judgment could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

Note 6 – Investments

Short-term investments at May 31 are as follows:

	2015	2014
At market		
Fixed income securities	<u>\$ 39,581</u>	<u>\$ 23,535</u>

Short-term investments are comprised of operating funds, managed as a ladder portfolio and mutual fund investments, with the objectives of preserving principal, maintaining an appropriate degree of liquidity, and generating an appropriate risk-adjusted return. The remaining weighted-average maturity of the nonmutual fund short-term investment portfolio was 1.14 years as of May 31, 2015.

Long-term investments at May 31 are as follows:

	2015	2014
At market		
Cash and cash equivalents	\$1,679	\$4,437
Equity securities	97,394	105,811
Fixed income securities	41,410	38,830
Alternatives	70,945	47,687
Split-interest agreements	11,246	11,397
Other	1,423	1,441
	<u>\$ 224,097</u>	<u>\$ 209,603</u>

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 6 – Investments (continued)

Long-term investments are largely comprised of donor-restricted and board-designated funds, and also include excess unrestricted operating funds. Long-term investments are managed within various investment portfolios. See Note 7 for return objectives and risk parameters for such funds.

For the years ended May 31 the University's total return on investments and cash and cash equivalents includes:

	2015	2014
Net unrealized and realized gain on investments held at market	\$ 7,106	\$ 20,304
Interest income and dividends	5,215	4,191
Total return on investments and cash and cash equivalents	\$ 12,321	\$ 24,495
Amounts withdrawn under spending policy	\$ 6,643	\$ 5,859

Note 7 – Endowment

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

Endowment net asset composition by type of fund is summarized as follows:

	As of May 31, 2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment funds	\$ (200)	\$ 63,961	\$ 126,157
Board-designated funds*	14,548	19,848	-
	\$ 14,348	\$ 83,809	\$ 126,157

*Amounts shown as temporarily restricted Board-designated funds have a donor-restriction as to purpose but were not donor-endowed.

	As of May 31, 2014		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment funds	\$ (201)	\$ 60,340	\$ 95,327
Board-designated funds*	16,174	19,006	-
	\$ 15,973	\$ 79,346	\$ 95,327

*Amounts shown as temporarily restricted Board-designated funds have a donor-restriction as to purpose but were not donor-endowed.

Interpretation of relevant law – Under the Washington Uniform Prudent Management of Institutional Funds Act (WUPMIFA), the Board has adopted as policy for donor-restricted endowment funds the requirement to preserve the original fair value of the initial gift and any subsequent gifts (as of the respective gift date), along with any accumulations to the permanent endowment made at the direction of the donor, absent explicit donor stipulations to the contrary. Together, these amounts become the permanently restricted value of the funds. Net endowment earnings that have not been appropriated for expenditure become the temporarily restricted value of the funds.

In accordance with WUPMIFA, the University considers the following factors in making a determination to appropriate or accumulate income from donor-restricted endowment funds:

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

Note 7 – Endowment (continued)

Return objectives and risk parameters – The University has adopted an investment and spending policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The University’s goal for its endowment funds, over time, is to provide an average annualized return of approximately 5% in excess of the Higher Education Price Index (HEPI) over a market cycle of three to five years. To satisfy this goal, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University maintains a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy – The University has a policy of appropriating for expenditure each year based upon a hybrid rate that is the sum of two components:

- 70% based upon the HEPI for the Pacific Region applied to the prior year endowment spending amount.
- 30% based upon a rate of 4% to 5% of a three-year rolling average of the fund’s total market value, measured quarterly.

Absent donor stipulations to the contrary, the University will not appropriate for expenditure from a permanent endowment fund if such expenditure will result in the fair value of the fund falling below the permanently restricted value of the fund, measured as of May 31 of the fiscal year of appropriation.

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration. Deficiencies of this nature reported in unrestricted net assets were \$200 and \$201 as of May 31, 2015 and 2014, respectively.

Changes in endowment net assets are summarized as follows:

For the Year Ended May 31, 2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 15,973	\$ 79,346	\$ 95,327	\$ 190,646
Investment return				
Investment income	297	3,580	19	3,896
Net gain (realized and unrealized)	553	6,237	438	7,228
Total investment return	850	9,817	457	11,124
Contributions	-	-	28,874	28,874
Amount distributed for operating activities	(531)	(6,112)	-	(6,643)
Transfers	(1,944)	758	1,499	313
Net assets, end of year	\$ 14,348	\$ 83,809	\$ 126,157	\$ 224,314

For the Year Ended May 31, 2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 13,316	\$ 62,889	\$ 87,262	\$ 163,467
Investment return				
Investment income	339	3,303	22	3,664
Net gain (realized and unrealized)	1,989	18,101	562	20,652
Total investment return	2,328	21,404	584	24,316
Contributions	-	-	7,242	7,242
Amount distributed for operating activities	(494)	(5,365)	-	(5,859)
Transfers	823	418	239	1,480
Net assets, end of year	\$ 15,973	\$ 79,346	\$ 95,327	\$ 190,646

Notes to Consolidated Financial Statements *(Dollars in thousands)*

Note 8 – Property, Plant, and Equipment, Net

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

	2015	2014
Land	\$ 8,024	\$ 7,491
Buildings and improvements	292,878	291,482
Equipment and furniture	21,835	23,819
Artwork	3,614	3,507
Library books	5,172	5,082
Construction in progress	66,101	19,123
	397,624	350,504
Less accumulated depreciation	(105,928)	(100,613)
	<u>\$ 291,696</u>	<u>\$ 249,891</u>

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

Project	Cost to Date May 31, 2014	Current Year Additions	Placed into Service	Cost to Date May 31, 2015
The John J. Hemmingson University Center	\$ 17,376	\$43,368	\$ -	\$60,744
Network Replacement	-	3,667	-	3,667
All other projects	1,747	1,474	(1,531)	1,690
Total	<u>\$19,123</u>	<u>\$48,509</u>	<u>\$(1,531)</u>	<u>\$ 66,101</u>

Project	Cost to Date May 31, 2013	Current Year Additions	Placed into Service	Cost to Date May 31, 2014
The John J. Hemmingson University Center	\$ 2,039	\$15,337	\$ -	\$17,376
The Boone Avenue Retail Center	13,312	1,898	(15,210)	-
The Stevens Center	947	6,114	(7,061)	-
All other projects	2,642	3,308	(4,203)	1,747
Total	<u>\$18,940</u>	<u>\$26,657</u>	<u>\$(26,474)</u>	<u>\$19,123</u>

Note 9 – Deferred Revenues and Refundable Advances

As of May 31, deferred revenues and refundable advances consisted of the following:

	2015	2014
Deferred revenues	\$ 10,897	\$10,406
Refundable advances	10,377	1,045
	<u>\$ 21,274</u>	<u>\$11,451</u>

Deferred revenues include amounts received for tuition, fees, certain auxiliary activities, grants, and contracts which have not yet been earned, as well as student deposits.

Refundable advances consists of vendor incentive payments that will be recognized as a reduction of operating expenses during the term of the agreement, which expires in 2029.

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 10 – Bonds and Notes Payable

As of May 31, notes and bonds payable consisted of the following:

	2015	2014
Tax Exempt Bonds issued through the Authority		
Series 2013 A	\$ 33,000	\$ 33,000
Series 2012 A	7,305	7,305
Series 2010 A	27,170	30,445
Series 2009 B	50,705	51,860
Series 2009 A	34,495	35,545
Taxable Bonds issued through the Authority		
Series 2013 B	20,000	20,000
Convertible Rate Bonds issued through the Authority		
Series 2012 B	2,940	3,130
Other notes	958	1,086
	176,573	182,371
Unamortized net premium	1,715	1,859
	<u>\$ 178,288</u>	<u>\$ 184,230</u>

The Series 2013 A bonds have an original issuance of \$33,000 and were issued in conjunction with the Series 2013 B bonds. The interest rate is fixed at 5.25%. Principal payments begin in 2041 with final maturity in 2043, and the bonds are callable at par in 2023.

The Series 2012 A bonds have an original issuance of \$7,305 and were issued in conjunction with the Series 2012 B bonds as a private placement with a national bank. Interest is variable and calculated monthly based on 70% of one-month LIBOR plus 92 basis points, with an effective interest rate of 1.046% and 1.026% as of May 31, 2015 and 2014, respectively. Repayment is based on a 30 year amortization, and the private placement matures in 2022 with a bank option to extend. The bonds are pre-payable without penalty.

The Series 2010 A bonds have an original issuance of \$42,420. The interest rates are fixed, and range from 2.50% to 5.00% based on the underlying bond maturities. The final maturity is in 2029, and the bonds are callable at par in 2019.

The Series 2009 B bonds have an original issuance of \$53,460. The interest rates are fixed, and range from 3.00% to 5.00% based on the underlying bond maturities. The final maturity is in 2029, and the bonds are callable at par in 2019.

The Series 2009 A bonds have an original issuance of \$39,845. The interest rates are fixed, and range from 4.00% to 6.25% based on the underlying bond maturities. The final maturity is in 2029, and the bonds are callable at par in 2019.

The Series 2013 B bonds are taxable, have an original issuance of \$20,000, and were issued in conjunction with the Series 2013 A bonds. The interest rate is fixed at 6.00%. Principal payments begin in 2039 with final maturity in 2040, and the bonds have an optional make whole call.

The Series 2012 B bonds have an original issuance of \$3,320, and were issued in conjunction with the Series 2012 A bonds as a private placement with a national bank. The Series 2012 B bonds were tax exempt at issuance and as of May 31, 2015 and 2014, and may be converted to taxable at the discretion of the University. Tax exempt interest is variable and calculated monthly based on 70% of one-month LIBOR plus 92 basis points, with an effective interest rate of 1.046% and 1.026% as of May 31, 2015 and 2014, respectively. Upon rate conversion, taxable interest will be variable and calculated monthly based on one-month LIBOR plus 120 basis points. Repayment is based on a 16-year amortization, and the private placement matures in 2022 with a bank option to extend. The bonds are pre-payable without penalty.

Other notes are due in various installments through 2093. Interest rates range from 5.00% to 7.75%.

Notes to Consolidated Financial Statements *(Dollars in thousands)*

Note 10 – Bonds and Notes Payable (continued)

The Tax Exempt Bonds, Taxable Bonds, and Convertible Rate Bonds (together, the WHEFA bonds) are secured on a parity basis by a pledge of, and lien on, all unrestricted current fund revenues, as defined in the loan agreement, and the University's interest in certain funds and reserves held by the Bond Trustee.

In relation to the WHEFA bonds, the University has agreed to certain covenants, including covenants to maintain its accredited status, limit its ability to incur additional indebtedness, limit encumbrances on parts of its campus, and maintain certain financial ratios as defined in the related agreements.

The Series 2009 A, Series 2009 B, and Series 2010 A bonds require a debt service reserve fund, which is funded and included in the University's deposit with the bond trustee. Deposits with bond trustees at May 31 consist of the following:

	2015	2014
Project funds	\$ -	\$ 40,143
Debt service reserve funds	12,889	13,080
Capitalized interest and debt service funds	474	2,253
	<u>\$ 13,363</u>	<u>\$ 55,476</u>

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

Years ending May 31,	Principal
2016	\$ 6,068
2017	6,350
2018	6,627
2019	6,958
2020	7,145
Thereafter	<u>143,425</u>
	176,573
Unamortized net premium	<u>1,715</u>
	<u>\$ 178,288</u>

The University has committed lines of credit, each with separate banks. At May 31, the lines of credit consist of the following:

Line of Credit	Rate	Term	Security	Available Credit	Outstanding Advances	
					2015	2014
Revolving operating	One-month LIBOR plus 1.00%	12/1/2015	Parity lien on unrestricted gross revenue	\$ 10,000	\$ -	\$ -
Revolving capital	One-month LIBOR plus 1.50%	12/18/2015	Parity lien on unrestricted gross revenue and certain deposit and security accounts	5,000	-	-
Revolving capital	One-month LIBOR plus 2.00%	12/20/2015	Unsecured	5,000	-	-

Note 11 – Derivative Instruments and Hedging Activities

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

In connection with previously refunded WHEFA bonds, the University entered into the following interest rate swap agreements (swaps):

Notional Amount on Effective Date	Effective Date	Maturity Date	University Pays	University Receives
\$ 35,550	10/1/2014	4/1/2034	4.1195%	67% of one-month LIBOR if 3.50% or greater or 77% of one-month LIBOR if less than 3.50%
7,325	10/1/2012	4/1/2022	4.1680%	70% of one-month LIBOR

In prior years, the University used variable-rate debt to finance the construction and acquisition of property, plant, and equipment. The University entered into swaps in order to obtain a synthetic fixed rate and to hedge the risk of changes in interest payments on the bonds caused by changes in the market rates. The swaps are secured on a parity basis with the WHEFA bonds. The above swaps can be terminated by the University at market rates at any time during the term of the respective swap.

The swap transactions involve both credit and market risk. The notional amounts do not represent direct credit exposure. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid. If the University's bond rating falls below BBB+ by S&P or Baa1 by Moody's Investor Service (Moody's), the swap counterparty can require the University to post collateral equal to the liability for the University's obligation under the swaps. The current credit rating on selected bonds payable, as provided by Moody's, is A3 with a stable outlook.

The swaps were issued at market terms so they had no fair value at inception. The carrying amount of the swaps has been adjusted to the fair value at the end of the fiscal year. A derivative liability of \$7,454 and \$6,874 as of May 31, 2015 and 2014, respectively, are shown as an obligation under interest rate swaps on the consolidated statements of financial position.

Net realized losses associated with the swaps were \$1,201 and \$256 for the years ended May 31, 2015 and 2014, respectively, and characterized as interest expense (natural classification) and allocated among operating expenses on the accompanying consolidated statement of activities. The change in unrealized loss associated with the swaps were \$580 and \$130 for the years ended May 31, 2015 and 2014, respectively, and included in change in value of interest rate swaps on the accompanying consolidated statements of activities.

Note 12 – Retirement Plans

Retirement benefits are provided to all employees (excluding students) working a minimum of 1,000 hours per year under a 403(b) defined contribution plan (Plan). Beginning the first day of the month following one year of service, eligible employees are required to contribute 5% of their salary and the University contributes 8.5%. All contributions vest immediately and are subject to annual IRS limitations. Investment choices are offered through two providers: TIAA-CREF and Fidelity Investments. The University's expense for the Plan was \$6,058 and \$5,851 for the years ended May 31, 2015 and 2014, respectively.

Voluntary employee contributions and accumulated earnings to the 457(b) plan of \$2,182 and \$1,908 as of May 31, 2015 and 2014, respectively, are included in long-term investments and accrued benefits payable. By IRS regulations, these funds are considered to be assets of the University until distributed to participants.

Note 13 – Net Assets

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

	2015	2014
Unrestricted		
Available for operations	\$ 32,310	\$ 34,771
Invested in property, plant, and equipment	112,195	107,346
Board-designated quasi-endowment funds	14,548	16,174
Board-designated for investment in property, plant, and equipment	8,119	7,691
Total unrestricted	<u>\$ 167,172</u>	<u>\$ 165,982</u>
Temporarily Restricted		
Unappropriated donor-restricted endowment earnings	\$ 63,961	\$ 60,340
Board-designated quasi-endowment funds	19,848	19,006
Property, plant, and equipment	59,517	18,168
Program support	19,931	13,887
Financial aid	3,917	4,136
Academic chairs	1,499	1,551
Student loan program	222	440
Split-interest agreements	4,143	4,008
Total temporarily restricted	<u>\$ 173,038</u>	<u>\$ 121,536</u>
Permanently Restricted		
Financial aid	\$91,771	\$62,214
Program support	16,106	15,136
Academic chairs	12,673	12,431
Split-interest agreements	4,659	4,490
Student loan program	948	1,056
Total permanently restricted	<u>\$ 126,157</u>	<u>\$ 95,327</u>

Note 14 – Commitments and Contingencies

Commitments – As of May 31, 2015, the University had outstanding, but not yet payable, purchase commitments in the amount of \$5,687 related to the construction of campus facilities.

Contingencies – The University is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the results of these matters will not have a significant impact on the consolidated financial statements.

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

Note 15 – Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques utilized maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs are developed based on market data obtained from sources independent of the University. Unobservable inputs reflect the University's own assumptions about market inputs based on its own data.

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

- Level 1** Inputs consist of quoted market prices in active markets for identical assets or liabilities the University has the ability to access at the measurement date.
- Level 2** Inputs consist of valuations other than quoted prices included in Level 1 that are observable by the University for the related asset or liability.
- Level 3** Inputs consist of unobservable valuations related to the asset or liability.

Transfers between the levels are recognized on the actual date of the transaction or circumstance that caused the transfer.

The tables on the following pages present assets and liabilities that are measured and carried at fair value on a recurring basis at May 31, 2015 and 2014.

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 15 – Fair Value of Financial Instruments (continued)

	2015			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 37,538	\$ 37,538	\$ -	\$ -
Short-term investments				
Domestic fixed income mutual fund	5,008	5,008	-	-
U.S. government and agency obligations	17,106	-	17,106	-
Corporate bonds	15,815	-	15,815	-
Municipal bonds	520	-	520	-
Asset-backed obligations	1,132	-	1,132	-
Deposits with bond trustees				
Money market funds	187	187	-	-
U.S. government and agency obligations	12,751	-	12,751	-
Corporate bonds	425	-	425	-
Long-term investments				
Cash and cash equivalents	1,679	1,679	-	-
Equity securities				
Mutual funds, index funds, and commingled funds				
Domestic	31,837	31,837	-	-
International	43,254	25,835	17,419	-
Direct ownership - public and privately held stock	22,303	20,376	1,126	801
Fixed income securities				
Mutual funds and index funds				
Domestic	35,469	35,469	-	-
International	5,591	5,591	-	-
Corporate bonds	350	-	350	-
Alternatives				
Managed diversified global multi-asset partnership	37,367	-	-	37,367
Private equity limited partnership investments				
Private credit	8,126	-	-	8,126
Diversified funds of funds	7,311	-	-	7,311
Real estate funds	10,480	-	-	10,480
Hedge and other funds	7,661	-	-	7,661
Assets held under split interest agreements				
Cash and cash equivalents	277	277	-	-
Equity mutual funds	7,120	7,120	-	-
Equity- direct ownership	658	658	-	-
Fixed income mutual funds	3,191	3,191	-	-
Other	1,423	374	1,049	-
Beneficial interests in trusts	7,524	-	-	7,524
Total assets	<u>\$ 322,103</u>	<u>\$ 175,140</u>	<u>\$ 67,693</u>	<u>\$ 79,270</u>
Obligation under interest rate swaps	<u>\$ (7,454)</u>	<u>\$ -</u>	<u>\$ (7,454)</u>	<u>\$ -</u>
Total liabilities	<u>\$ (7,454)</u>	<u>\$ -</u>	<u>\$ (7,454)</u>	<u>\$ -</u>

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 15 – Fair Value of Financial Instruments (continued)

	2014			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 34,283	\$ 34,283	\$ -	\$ -
Short-term investments				
U.S. government and agency obligations	10,203	-	10,203	-
Corporate bonds	11,380	-	11,380	-
Municipal bonds	552	-	552	-
Asset-backed obligations	1,400	-	1,400	-
Deposits with bond trustees				
Money market funds	6,463	6,463	-	-
U.S. government and agency obligations	21,104	-	21,104	-
Corporate bonds	27,909	-	27,909	-
Long-term investments				
Cash and cash equivalents	4,437	4,437	-	-
Equity securities				
Mutual funds, index funds, and commingled funds				
Domestic	33,834	29,585	4,249	-
International	44,849	33,009	11,840	-
Direct ownership - public and privately held stock	27,128	25,194	1,133	801
Fixed income securities				
Mutual funds and index funds				
Domestic	27,319	27,319	-	-
International	5,876	5,876	-	-
Corporate bonds	4,358	-	4,358	-
U.S. government and agency obligations	1,277	-	1,277	-
Alternatives				
Managed diversified global multi-asset partnership	19,370	-	-	19,370
Private equity limited partnership investments				
Private credit	6,377	-	-	6,377
Diversified funds of funds	9,825	-	-	9,825
Real estate funds	11,356	-	-	11,356
Hedge and other funds	759	-	-	759
Assets held under split interest agreements				
Cash and cash equivalents	504	504	-	-
Equity mutual funds	6,978	6,978	-	-
Equity- direct ownership	648	648	-	-
Fixed income mutual funds	3,267	3,267	-	-
Other	1,441	222	1,219	-
Beneficial interests in trusts	7,664	-	-	7,664
Total assets	<u>\$ 330,561</u>	<u>\$ 177,785</u>	<u>\$ 96,624</u>	<u>\$ 56,152</u>
Obligation under interest rate swaps	<u>\$ (6,874)</u>	<u>\$ -</u>	<u>\$ (6,874)</u>	<u>\$ -</u>
Total liabilities	<u>\$ (6,874)</u>	<u>\$ -</u>	<u>\$ (6,874)</u>	<u>\$ -</u>

Note 15 – Fair Value of Financial Instruments (continued)

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

Level 1 assets include:

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

Level 2 assets and liabilities include:

- Investments in U.S. government and agency obligations, corporate bonds, municipal bonds, and asset-backed obligations. These investments use other observable inputs to measure fair value such as dealer market prices for comparable investments based on interest rates, spreads, and trade activity in the market.
- Investments in domestic and international commingled equity funds valued using the fund managers' respective net asset values, derived from active market exchange values of the underlying fund investments at the last reported sales price.
- Investments in privately held stock valued using the market approach using recent sales.
- Investments in real property assets valued using tax assessed values, which approximate market values.
- Interest rate swaps valued using estimates of the related LIBOR rates and the BMA municipal swap index rates during the term of the swap agreements.

Level 3 assets include:

- Alternative investments that are not readily marketable or redeemable and valued utilizing the most current information provided by the fund managers using the net asset value per share of the respective fund as a practical expedient to estimate the fair value of the University's interest in the respective fund.
- Privately held stock valued based on the net asset value of the investment, which approximates market value.
- Beneficial interests in the future cash flows of eight different trusts, valued under the income approach, calculated using a discounted cash flow analysis based on the expected annuity payments to be made over the remaining life of each respective beneficial interest, utilizing a risk-free rate adjusted for the inherent risk of the assets held in trust and the risk of nonperformance. The primary unobservable inputs for beneficial interests in trusts are the applicable discount rates, which range from 3.1% to 6.0%, and applicable life expectancies, which range from 5 to 25 years. A 1.0% increase in each of the underlying discount rates would decrease the fair value by approximately \$798. A 1.0% decrease in each of the underlying discount rates would increase the fair value by approximately \$1,071. The sensitivity associated with changes in life expectancies is not quantified.

Notes to Consolidated Financial Statements *(Dollars in thousands)*

Note 15 – Fair Value of Financial Instruments (continued)

Following is a reconciliation of activity for the years ended May 31, 2015 and 2014, of assets classified as Level 3.

	Privately Held Stock	Managed Diversified Global Multi-Asset Partnership	Private Credit	Diversified Funds of Funds
Balance, May 31, 2013	\$ 877	\$ 16,583	\$ 2,068	\$ 10,125
Net realized gains	-	248	279	1,499
Net unrealized gains (losses)	(76)	2,539	161	812
Return of capital/transfers to income	-	-	(1,828)	(2,814)
Purchases/capital calls	-	-	5,697	203
Balance, May 31, 2014	801	19,370	6,377	9,825
Net realized gains	-	1,602	855	1,377
Net unrealized gains (losses)	-	1,395	(240)	(1,495)
Return of capital/transfers to income	-	-	(704)	(2,537)
Purchases/capital calls	-	15,000	1,838	141
Balance, May 31, 2015	<u>\$ 801</u>	<u>\$ 37,367</u>	<u>\$ 8,126</u>	<u>\$ 7,311</u>

	Real Estate Funds	Hedge and Other Funds	Beneficial Interests in Trusts	Total
Balance, May 31, 2013	\$ 11,244	\$ 656	\$ 7,818	\$ 49,371
Net realized gains	631	58	-	2,715
Net unrealized gains (losses)	1,773	127	370	5,706
Return of capital/transfers to income	(2,292)	(346)	(524)	(7,804)
Purchases/capital calls	-	264	-	6,164
Balance, May 31, 2014	11,356	759	7,664	56,152
Net realized gains	504	590	-	4,928
Net unrealized gains (losses)	1,228	114	550	1,552
Return of capital/transfers to income	(2,608)	(79)	(690)	(6,618)
Purchases/capital calls	-	6,277	-	23,256
Balance, May 31, 2015	<u>\$ 10,480</u>	<u>\$ 7,661</u>	<u>\$ 7,524</u>	<u>\$ 79,270</u>

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 15 – Fair Value of Financial Instruments (continued)

Net unrealized gains included in the consolidated statements of activities as a component of nonoperating return on investments, net of amounts designated for operations for Level 3 assets still held at May 31, 2015, are \$5,741.

Redemption, funding commitments, restrictions, and other information associated with the nature and valuation of applicable Level 2 and Level 3 investments are as follows:

	Fair Value at May 31, 2015	Unfunded Cash Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period	Investment Strategies and Other Restrictions
Commingled funds (Level 2)	\$ 17,419	\$ -	(a)	(a)	(a)
Managed diversified global multi-asset partnership (Level 3)	37,367	-	(b)	(b)	(b)
Private equity limited partnership investments (Level 3)					
Private credit	8,126	10,365	(c)	n/a	(c)
Diversified fund of funds	7,311	343	(d)	n/a	(d)
Real estate funds	10,480	-	(e)	(e)	(e)
Hedge and other funds	7,661	2,506	(f)	(f)	(f)
	<u>\$ 88,364</u>	<u>\$ 13,214</u>			

a) Each of the two funds in this category can be redeemed monthly with 15 days notice, unless any withdrawal would have a materially adverse effect on the respective fund. Each fund's investment objective is to achieve long-term capital appreciation by investing in a portfolio of primarily international and emerging market companies.

b) The University may receive up to 5% of this capital account balance in the fund as an automatic annual distribution. Currently, the University has elected to retain this 5% of its capital balance in the fund. The University may change this election annually, and the election must be made in the first quarter of the calendar year preceding the first calendar year to which the distribution applies, and amounts will be distributed within 90 days of the end of the calendar year, or within 10 business days after the fund's audited financial statements for the year are completed.

For distributions in excess of the automatic annual distribution, the University may request the withdrawal of all or a portion of its capital account, with a minimum withdrawal of at least \$1,000, on the last day of any calendar year by providing a withdrawal request at any time during the fourth quarter of the preceding calendar year. The amount requested to be withdrawn will be apportioned between the liquid portion and limited liquidity portion of the University's capital account, as determined based on the liquidity attributes of the underlying fund investments. As of May 31, 2015, the value of the liquid portion is \$23,177. The fund will make a distribution within 30 days after the effective withdrawal date in an amount not less than 90% of the liquid portion, with the remaining liquid portion amount paid subsequent to the fund's financial statement audit. For withdrawal amounts attributable to the limited liquidity portion, distributions will be made within 45 days after the realization or deemed realization of assets held in that account. Distributions may be made in cash or in fund assets (or both). The fund general partner can also suspend the rights of the University and other limited partners to make withdrawals or receive distributions for all or part of any period of market disruption. The fund general partner may also limit withdrawals such that they do not exceed 15% of the liquid subaccount balance.

The fund's objective is to manage and grow long-term capital with equity-like annual returns of 10-12% over time, with lower than average risk, with investments in fixed income, public equities, absolute return strategies, real assets, and private equity.

c) This category includes three private credit funds, including a mezzanine debt fund, a special opportunities fund, and a European direct fund. Each fund is nonredeemable and can be sold only on the secondary market as long as the respective fund general partner receives an opinion from counsel that such a transfer is not in violation of certain sanctions of the Securities Act, Investment Company Act, and/or federal tax laws. Distributions are received through the liquidation of the underlying assets of the funds. It is estimated the underlying assets of the funds will be liquidated between 2018 and 2024.

Note 15 – Fair Value of Financial Instruments (continued)

d) This category includes four private equity funds, with underlying investments in domestic equity, buyout, venture capital, and private equity funds. Each fund has the objective to generate capital appreciation at a rate in excess of that historically generated by investments in publically traded equity securities. The funds can only be redeemed through the liquidation of underlying assets, and as underlying assets are liquidated, distributions are received. It is estimated that the underlying assets of the illiquid funds will be liquidated between 2015 and 2024.

e) This category includes two real estate funds that are primarily invested in U.S. commercial and residential real estate. Investments representing 68% of the investments in this category can be redeemed with at least 90 day notice, as liquid assets in the fund permits. The remaining portion of real estate funds can only be redeemed through liquidation of the underlying assets, which is anticipated to occur by 2016.

f) This category includes a hedge fund (76%) and three private equity funds (24%). The hedge fund seeks to efficiently capture a diversified set of classic hedge fund strategies with little or no correlation to traditional assets classes, and can be withdrawn with 75 days notice. The three private equity funds invest in privately-held entities with potential for significant growth in revenue and earnings. Each fund is nonredeemable and can be sold only on the secondary market as long as the respective fund general partner receives an opinion from counsel that such a transfer is not in violation of certain sanctions of the Securities Act, Investment Company Act, and/or federal tax laws. It is estimated that the underlying assets of the funds will be liquidated between 2015 and 2024.

The following methods and assumptions were used to estimate the fair value of each class of financial assets and liabilities that are disclosed, but not carried at fair value:

Notes receivable (Level 2) – Carrying value approximates fair value for notes receivable, which are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms subject to significant restriction as to their transfer or disposition.

Contributions receivable (Level 2) – Carrying value approximates fair value based on the present value of expected future cash flows, less an allowance for doubtful accounts.

WHEFA bonds (Level 2) – Fair values are determined using future cash flows discounted at a rate of interest currently offered for debt with similar remaining maturities. The fair value and carrying value of the WHEFA bonds payable at May 31, 2015, were approximately \$194,720 and \$177,330, respectively. The fair value and the carrying value of the WHEFA bonds payable at May 31, 2014, were approximately \$197,769 and \$183,144, respectively.

Valuation limitations – The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. In addition, while the University believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Note 16 – Related Parties

Contributions receivable and contributions revenue includes amounts due from members of the Board as listed below:

	2015	2014
Contributions receivable, net	\$ 11,423	\$ 12,962
Contributions revenue	1,783	3,194

The University maintains several banking relationships with one bank functioning as the primary bank and other banks providing supplemental banking services. The University has bank deposits and a line of credit with a supplemental bank whose chairman and CEO is a member of the Board.

Unrestricted Operating Expenses Combined by Natural Classification *(Dollars in thousands)*

The University's unrestricted operating expenses in the statements of activities are combined by natural expenditures as of May 31 as follows.

	<u>2015</u>	<u>2014</u>
Salaries and benefits	\$ 120,198	\$ 114,577
Meetings, travel, and memberships	11,391	11,182
Depreciation	9,057	9,040
Board dining expenses	8,225	8,718
Occupancy, telephone, utilities, and insurance	9,846	8,483
Materials, supplies, printing, and postage	8,744	8,119
Interest and fees on debt	8,586	7,556
Professional fees and contracted services	4,988	5,316
Maintenance and rentals	4,217	4,713
Advertising, promotion, and recruitment	3,881	2,044
Other expenses	5,750	4,404
	<u>\$ 194,883</u>	<u>\$ 184,152</u>

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Mission Statement

Gonzaga University is an exemplary learning community that educates students for lives of leadership and service for the common good. In keeping with its Catholic, Jesuit, and humanistic heritage and identity, Gonzaga models and expects excellence in academic and professional pursuits and intentionally develops the whole person — intellectually, spiritually, physically, and emotionally.

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

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

Vision Statement

Gonzaga is a premier liberal-arts based university recognized nationally for providing an exemplary Jesuit education that empowers its graduates to lead, shape and serve their chosen fields and communities to which they belong.



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