GONZAGA UNIVERSITY

# FINANCIAL REPORT 2017-18

GONZAGA UNIVERSITY

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Fiscal year 2017–18 started like most years with the welcome of a new freshmen class, other new degree seeking students pursuing graduate and undergraduate coursework, and the return of our current students after a summer spent furthering studies, journeying abroad, interning, or other pursuits.

As the year progressed we witnessed an amazing transformation in the academic and spiritual journey of our students. We watched their talents on display in the classroom, in the studio, in the laboratory, on stage, on the court or field, and in the community. We took pride in the success of our prior year graduating class, noting that 95% were either employed, continuing their education, or doing volunteer work. Together as a Gonzaga community, we celebrated many achievements, welcomed new friends, grieved losses, developed new ways of proceeding, and prayed for those in need.

We also witnessed a continued outpouring of support from our alumni, benefactors, and other friends as we near the close of our major fundraising campaign, “Gonzaga Will: The Campaign for our Future” (Campaign). Publically launched in 2015 with a goal of $250 million, the Campaign has raised over $350 million from over 40,000 donors. Campaign gifts have allowed us to finalize the construction of two facilities during the fiscal year (the Della Strada Jesuit Community and the Volkar Center for Athletic Achievement) and to continue efforts to complete the Myrtle Woldson Performing Arts Center expected to open in winter 2018. Such facilities add to other capital improvements made during the course of the Campaign, including the John J. Hemmingson University Center (student dining, student program, and administration), the Stevens Center (tennis and golf), Luger Field (soccer), the Center for Humanities (former Jesuit Residence), and the Boone Avenue Retail Center (campus bookstore, parking garage, and administrative offices). Campaign gifts have also allowed for increased opportunity for merit and need-based financial aid with a particular focus on closing the funding gap for Pell eligible students.

Fiscal year 2017–18 also marked the second year of the University of Washington School of Medicine–Gonzaga University Regional Health Partnership, with Gonzaga hosting approximately 160 first- and second-year medical students on its Spokane campus. Gonzaga provides faculty, student support services, and facilities for the University of Washington School of Medicine WWAMI program, a five-state regional, community-based medical education program.

Following is a summary related to the financial performance for the fiscal year ended May 31, 2018.

## Consolidated Statement of Financial Position

### *Assets*

Assets, totaling $827.1 million as of May 31, 2018, increased $24.5 million or 3.1% from the prior fiscal year. Total assets are comprised largely of cash and short-term investments, contributions receivable, long-term investments (primarily related to the endowment), and campus facilities.

Cash and cash equivalents and short-term investments totaled $88.7 million as of May 31, 2018, a decrease of $40.1 million or 31.1% from the prior fiscal year. These resources provide essential liquidity to cover operating costs, project funds to construct and maintain campus facilities, and capacity to satisfy debt service payments. Additionally, the funds support Strategic Plan initiatives and fund needed contingencies and reserves. The decrease during fiscal year 2017–18 is due largely to expenditures for construction in progress and other capital improvements totaling $57.3 million, with the remainder of the change resulting from cash generated from operations, changes in investments, cash receipts from gifts, debt payments, and other activity. In addition to amounts already expended as of May 31, 2018, we anticipate additional expenditures of approximately $26.3 million to complete the Myrtle Woldson Performing Arts Center, the Center for Humanities, and other in-process renovation projects.

Contributions receivable totaled $32.0 million as of May 31, 2018, an increase of $0.5 million from the prior fiscal year. Of this amount, $29.5 million is expected to be realized within the next five years. Contributions receivable are principally the result of the Campaign.

Long-term investments and beneficial interest in split interest agreements held by others totaled $305.5 million or 36.9% of total assets as of May 31, 2018. Long-term investments are substantially comprised of endowment assets. The diversified endowment investment pool net return was 11.5% for the fiscal year. A $4.4 million unrealized loss resulting largely from a change in the planned scale of a multi-family housing development on direct real property investments held in downtown Seattle was recorded in the current fiscal year. Investment net return together with new endowment gifts of $3.7 million are offset by an annual spending distribution of $8.8 million. In total, this resulted in an increase in long-term investments and beneficial interest in split interest agreements held by others of $10.8 million or 3.7% over the prior fiscal year.

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 domestic equities (27%), international equities (27%), fixed income (21%), alternative investments (15%), and real assets (10%). The pooled endowment achieved annualized returns ranking among the top 25% of higher education institutions nationwide for the one-, three-, five-, and ten-year periods ending June 30, 2017 (the most currently available data)[1]. The ten-year annualized return was 5.2% as of June 30, 2017, or 60 basis points higher than the NCSE average for all participants.

Property, plant, and equipment net totaled $372.0 million as of May 31, 2018, an increase of $53.3 million or 16.7% over the prior fiscal year. The University continues to invest in its physical facilities to support key academic initiatives, student services, housing, and overall infrastructure. The majority of the net increase stems from ongoing construction of the Myrtle Woldson Performing Arts Center, completion of the Della Strada Jesuit Community, and the Volkar Center for Athletic Achievement, among other capital projects, offset by depreciation expense. The University incorporates renewal and replacement spending within its annual operating budget in order to maintain a 152-acre main campus of more than 100 buildings.



[1] *Source: NACUBO Commonfund Study of Endowments® (NCSE), 2017*

### *Liabilities*

Liabilities totaled $266.1 million as of May 31, 2018, a decrease of $5.8 million or 2.1% over the prior fiscal 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 largely used to finance the construction and acquisition of property, plant, and equipment. As of May 31, 2018, notes and bonds payable decreased $3.3 million or 1.7% due to principal payments with no new borrowing. During fiscal year 2017, the University defeased or repaid approximately 68% of the prior bond obligations with the issuance of the Series 2016 A and 2016 B taxable bonds, including $28.0 million of additional net proceeds. Of the total outstanding notes and bonds payable as of May 31, 2018, approximately 95% of the principal outstanding represents notes and bonds payable that carry a fixed interest rate directly or through hedging. This largely fixed-rate structure provides a higher degree of certainty as to the annual debt service payments given that such rates are not subject to variability. Further, Gonzaga's currently scheduled annual total debt service and net interest rate swap obligations through fiscal year 2021–22 remain largely unchanged, ranging between $12.1 million and $12.6 million per year, subject to variability from the 5% of notes and bonds payable as of May 31, 2018, that have unhedged variable rate exposures. Together, the overall debt portfolio represents a 4.77% weighted average cost of borrowed funds (non-time weighted, proceeds-based calculation methodology). Selected bonds are rated by Moody's Investor Service and Fitch Ratings, and carry an "A3" (outlook stable) and "A" (outlook stable), respectively. These ratings were assigned to the Series 2016 A bonds at time of issuance and maintained for previously rated bonds.

### *Net Assets*

Net assets were $560.9 million as of May 31, 2018, an increase of $30.3 million or 5.7% over the prior fiscal year. The three primary drivers of annual changes in net assets are 1) the net change from operating activities; 2) net investment return of the endowment after the annual spending distribution; and 3) contributions towards nonoperating activities, such as capital and endowment contributions.

Unrestricted net assets totaled $245.6 million as of May 31, 2018, an increase of $33.1 million or 15.6% stemming from net changes from operating activities of $7.3 million and nonoperating activities of $25.8 million. Changes in nonoperating activities were largely driven by net assets released from restriction for the acquisition of capital assets.

Temporarily restricted net assets totaled $163.6 million as of May 31, 2018, a decrease of $10.0 million or 5.7%. The decrease was due primarily to net realized and unrealized investment return of $19.4 million and contributions of $20.5 million, both of which are offset by the release of restrictions of $47.1 million and transfers of $3.1 million, among other changes.

Permanently restricted net assets totaled $151.7 million as of May 31, 2018, an increase of $7.2 million or 5.0% primarily due to new permanently restricted contributions to the endowment fund of $3.7 million and transfers of $3.0 million.

## Consolidated Statement of Activities

The University categorizes changes in its net assets as either operating activities or nonoperating activities, each of which is summarized below:

### *Operating Activities*

For the year ended May 31, 2018, total operating activities resulted in a $6.4 million increase in net assets, compared with a $1.2 million decrease in the year prior. For the years ended May 31, 2018 and 2017, the operating margin was 2.8% and -0.5%, respectively. The primary drivers for the improved operating margin were an increase in net revenues from student tuition and fees (discussed below) and an increase in contributions of $5.0 million or 51.4%, offset by increases to total operating expenses of $6.0 million or 2.7%. The change in net assets from operating activities includes depreciation, the most significant noncash expense, which was $14.1 million and $12.1 million for the years ended May 31, 2018 and 2017, respectively. Excluding depreciation and other noncash items, Gonzaga generated cash from operating activities of $2.8 million and $3.8 million for the years ended May 31, 2018 and 2017, respectively.

For the year ended May 31, 2018, total operating revenues increased $13.6 million or 6.2% from the prior year. The most significant component of operating revenues is student tuition and fees, net of institutional financial aid, which increased $6.3 million or 4.1%. The change is driven by an increase in undergraduate tuition of $8.9 million stemming from a 4.0% tuition rate increase, an increase in undergraduate enrollment of 49 students, and stable retention rates, partially offset by a slightly higher tuition discount rate for the freshmen class. Graduate revenues, including law, increased $1.5 million due largely to an increase in overall credit generation of 1.0% and changes in the tuition rate per graduate credit that vary by program. While operating revenues come largely from student tuition and fees, contributions and endowment distributions 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, 2018, total operating expenses increased $6.0 million or 2.7% from the prior year. Instructional expenses is the largest category and comprises 39.2% of operating expenses, with an increase of 3.4% from the prior fiscal year due primarily to increases in faculty compensation for annual adjustments and enrollment increases and associated benefit costs.

Gonzaga, like all colleges and universities, incurs significant costs in the form of salaries, wages, and benefits, representing 61.6% of total operating costs. Overall, salaries, wages, and benefits increased $5.6 million over the prior year, largely driven by annual salary increases for faculty and staff, legislation in the state of Washington to increase hourly minimum wage, changes in employee headcount, and increased 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 contributions for endowments together were $9.8 million for the year ended May 31, 2018, a decrease of $26.3 million compared to the prior fiscal year. The change is largely due to the timing and magnitude of various gifts during the Campaign. Another significant nonoperating activity is investment performance. The net return on investment activity beyond the amount used for the annual spending distribution was $11.4 million, a $5.8 million decrease from the prior fiscal year.

### Closing Remarks

As we close the 2017–18 fiscal year, the University is poised to continue as an exemplary learning community that educates students for lives of leadership and service for the common good. The University expects to enroll another remarkable class of freshmen for the 2018–19 academic year, similar in size and equally as accomplished as the year prior. We look forward to the opening of the Myrtle Woldson Performing Arts Center and full utilization of other newly opened facilities, each providing expanded opportunities for our students, faculty, staff, and the Della Strada Jesuit community.

Gonzaga will continue its deep tradition to intentionally develop the whole person—intellectually, spiritually, culturally, physically, and emotionally. Filled with faith, purpose, and confidence that Gonzaga University will continue to thrive and flourish, we remain forever grateful to all those, past and present, whose belief in the University allows our community to fulfill our mission.

Joe

Joe Smith
Chief Financial Officer

August 2018

# Gonzaga University
## Selected Data (in thousands) (unaudited)

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

| **As of May 31** | **2018** | **2017** | **2016** | **2015*** | **2014*** |
|---|---|---|---|---|---|
| **Consolidated Statement of Financial Position Data** | | | | | |
| Cash, cash equivalents, and short-term investments | $ 88,650 | $ 128,749 | $ 74,919 | $ 77,119 | $ 57,818 |
| Contributions receivable, net | 32,020 | 31,520 | 81,665 | 78,719 | 25,381 |
| Long-term investments (1) | 305,548 | 294,781 | 230,321 | 231,621 | 217,267 |
| Property, plant, and equipment, net | 371,950 | 318,679 | 296,957 | 291,696 | 249,891 |
| Total assets | 827,088 | 802,600 | 724,478 | 717,879 | 633,433 |
| Notes and bonds payable | 188,772 | 192,061 | 170,250 | 176,097 | 181,829 |
| Total liabilities | 266,148 | 271,961 | 241,287 | 251,512 | 250,588 |
| Unrestricted net assets | 245,571 | 212,454 | 204,334 | 167,172 | 165,982 |
| Temporarily restricted net assets | 163,625 | 173,605 | 162,444 | 173,038 | 121,536 |
| Permanently restricted net assets | 151,744 | 144,580 | 116,413 | 126,157 | 95,327 |
| Total net assets | 560,940 | 530,639 | 483,191 | 466,367 | 382,845 |

| **For the year ended May 31** | **2018** | **2017** | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|
| **Consolidated Statement of Activities and Other Data** | | | | | |
| Student tuition and fees, net of institutional financial aid | $ 161,277 | $ 154,985 | $ 151,410 | $ 142,770 | $ 138,903 |
| Total operating revenues (2) | 231,953 | 218,339 | 214,689 | 203,956 | 193,096 |
| Total operating expenses (2) | 225,525 | 219,490 | 209,289 | 194,883 | 184,152 |
| Increase (decrease) in net assets from operations (2) | 6,428 | (1,151) | 5,400 | 9,073 | 8,944 |
| Increase in net assets from nonoperating activities (3) | 23,873 | 48,599 | 11,424 | 74,449 | 29,651 |
| Increase in total net assets | 30,301 | 47,448 | 16,824 | 83,522 | 38,595 |
| Pooled investment fund return | 11.5% | 14.0% | -2.0% | 6.5% | 15.6% |

| **Measured in the fall of the applicable fiscal year** | **2018** | **2017** | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|
| **Other Data** | | | | | |
| Enrollment by headcount | | | | | |
| Undergraduate | 5,209 | 5,160 | 5,041 | 4,837 | 4,896 |
| Graduate | 1,981 | 2,100 | 2,111 | 2,178 | 2,322 |
| Law | 316 | 312 | 339 | 339 | 387 |
| Total enrollment | 7,506 | 7,572 | 7,491 | 7,354 | 7,605 |
| Employees (4) | | | | | |
| Faculty | 448 | 447 | 435 | 436 | 434 |
| Staff and administration | 862 | 852 | 815 | 811 | 780 |
| Total employees | 1,310 | 1,299 | 1,250 | 1,247 | 1,214 |

* Certain reclassifications were made to prior periods to be in accordance with the May 31, 2018, consolidated financial statement presentation.

(1) Includes beneficial interest in split-interest agreements held by others.

(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.

MOSSADAMS

# Report of Independent Auditors

The President and Board of Trustees
Gonzaga University

## Report on the 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, 2018 and 2017, 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.

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gonzaga University as of May 31, 2018 and 2017, and the consolidated 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

***Other Information***

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

The Letter from the Chief Financial Officer and Selected Data, which are the responsibility of management, are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Moss Adams LLP

Spokane, Washington
August 31, 2018

### ASSETS

| | (in thousands) May 31, 2018 | (in thousands) May 31, 2017 |
|---|---|---|
| Cash and cash equivalents | $ 27,158 | $ 12,052 |
| Short-term investments | 61,492 | 116,697 |
| Accounts and interest receivable, net | 9,742 | 10,450 |
| Prepaid expenses | 3,603 | 3,116 |
| Contributions receivable, net | 32,020 | 31,520 |
| Student loans receivable, net | 15,575 | 15,288 |
| Deposits with bond trustees | - | 17 |
| Long-term investments | 297,862 | 287,169 |
| Beneficial interest in split-interest agreements held by others | 7,686 | 7,612 |
| Property, plant, and equipment, net | 371,950 | 318,679 |
| Total assets | $ 827,088 | $ 802,600 |

### LIABILITIES AND NET ASSETS

| | 2018 | 2017 |
|---|---|---|
| LIABILITIES | | |
| Accounts and other payables | $ 16,017 | $ 16,685 |
| Accrued salaries, taxes, and benefits | 20,082 | 19,559 |
| Interest payable | 1,303 | 1,333 |
| Deferred revenues and refundable advances | 20,353 | 20,557 |
| Split-interest agreement obligations | 5,346 | 5,463 |
| Federal student loan program | 10,683 | 10,902 |
| Obligation under interest rate swaps | 3,592 | 5,401 |
| Notes and bonds payable | 188,772 | 192,061 |
| Total liabilities | 266,148 | 271,961 |
| NET ASSETS | | |
| Unrestricted | 245,571 | 212,454 |
| Temporarily restricted | 163,625 | 173,605 |
| Permanently restricted | 151,744 | 144,580 |
| Total net assets | 560,940 | 530,639 |
| Total liabilities and net assets | $ 827,088 | $ 802,600 |

# Gonzaga University
## Consolidated Statements of Activities

(in thousands)

| | Year Ended May 31, 2018 | | | | Year Ended May 31, 2017 |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| Operating revenues | | | | | |
| Student tuition and fees, net | $ 264,077 | $ - | $ - | $ 264,077 | $ 251,736 |
| Less institutional financial aid | (102,800) | - | - | (102,800) | (96,751) |
| | 161,277 | - | - | 161,277 | 154,985 |
| Contributions | 380 | 14,397 | - | 14,777 | 9,760 |
| Grants and contracts | 1,259 | - | - | 1,259 | 1,433 |
| Return on investments designated for operations | 3,198 | 7,154 | - | 10,352 | 8,811 |
| Auxiliary enterprises | 28,820 | - | - | 28,820 | 28,373 |
| Other sources | 15,402 | 66 | - | 15,468 | 14,977 |
| | 210,336 | 21,617 | - | 231,953 | 218,339 |
| Net assets released from restrictions | 22,466 | (22,466) | - | - | - |
| Total operating revenues | 232,802 | (849) | - | 231,953 | 218,339 |
| Operating expenses | | | | | |
| Instruction | 88,466 | - | - | 88,466 | 85,566 |
| Libraries | 6,572 | - | - | 6,572 | 6,417 |
| Student services | 19,648 | - | - | 19,648 | 19,931 |
| Organized activities | 27,782 | - | - | 27,782 | 26,313 |
| General administrative and institutional | 45,953 | - | - | 45,953 | 43,469 |
| Operation and maintenance of plant | 11,220 | - | - | 11,220 | 11,438 |
| Auxiliary enterprises | 25,884 | - | - | 25,884 | 26,356 |
| Total operating expenses | 225,525 | - | - | 225,525 | 219,490 |
| Increase (decrease) in net assets from operations | 7,277 | (849) | - | 6,428 | (1,151) |
| Nonoperating activities | | | | | |
| Contributions for acquisition of capital assets, net | - | 6,139 | - | 6,139 | 9,264 |
| Contributions to endowment funds, net | - | - | 3,691 | 3,691 | 26,856 |
| Gain on disposal of equipment | 110 | - | - | 110 | 23 |
| Return on investments, net of amounts designated for operations | (1,041) | 12,292 | 160 | 11,411 | 17,247 |
| Loss on defeasance and refunding of bonds, net | - | - | - | - | (9,572) |
| Gain on settlement | 195 | - | - | 195 | 2,306 |
| Change in value of interest rate swaps | 1,809 | - | - | 1,809 | 1,808 |
| Change in value of split-interest agreements | - | 206 | 312 | 518 | 667 |
| Net assets released from restrictions for acquisition of capital assets | 24,679 | (24,679) | - | - | - |
| Transfers | 88 | (3,089) | 3,001 | - | - |
| Total nonoperating activities | 25,840 | (9,131) | 7,164 | 23,873 | 48,599 |
| Increase (decrease) in net assets | 33,117 | (9,980) | 7,164 | 30,301 | 47,448 |
| Net assets at beginning of year | 212,454 | 173,605 | 144,580 | 530,639 | 483,191 |
| Net assets at end of year | $ 245,571 | $ 163,625 | $ 151,744 | $ 560,940 | $ 530,639 |



See accompanying notes.

| | (in thousands) Year Ended May 31, 2017 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Operating revenues | | | | |
| Student tuition and fees, net | $ 251,736 | $ - | $ - | $ 251,736 |
| Less institutional financial aid | (96,751) | - | - | (96,751) |
| | 154,985 | - | - | 154,985 |
| Contributions | 825 | 8,935 | - | 9,760 |
| Grants and contracts | 1,433 | - | - | 1,433 |
| Return on investments designated for operations | 2,343 | 6,468 | - | 8,811 |
| Auxiliary enterprises | 28,373 | - | - | 28,373 |
| Other sources | 14,935 | 42 | - | 14,977 |
| | 202,894 | 15,445 | - | 218,339 |
| Net assets released from restrictions | 16,038 | (16,038) | - | - |
| Total operating revenues | 218,932 | (593) | - | 218,339 |
| Operating expenses | | | | |
| Instruction | 85,566 | - | - | 85,566 |
| Libraries | 6,417 | - | - | 6,417 |
| Student services | 19,931 | - | - | 19,931 |
| Organized activities | 26,313 | - | - | 26,313 |
| General administrative and institutional | 43,469 | - | - | 43,469 |
| Operation and maintenance of plant | 11,438 | - | - | 11,438 |
| Auxiliary enterprises | 26,356 | - | - | 26,356 |
| Total operating expenses | 219,490 | - | - | 219,490 |
| Decrease in net assets from operations | (558) | (593) | - | (1,151) |
| Nonoperating activities | | | | |
| Contributions for acquisition of capital assets, net | - | 9,264 | - | 9,264 |
| Contributions to endowment funds, net | - | - | 26,856 | 26,856 |
| Gain on disposal of equipment | 23 | - | - | 23 |
| Return on investments, net of amounts designated for operations | 2,924 | 14,091 | 232 | 17,247 |
| Loss on defeasance and refunding of bonds, net | (9,572) | - | - | (9,572) |
| Gain on settlement | 2,306 | - | - | 2,306 |
| Change in value of interest rate swaps | 1,808 | - | - | 1,808 |
| Change in value of split-interest agreements | - | 415 | 252 | 667 |
| Net assets released from restrictions for acquisition of capital assets | 1,416 | (1,416) | - | - |
| Transfers | 9,773 | (10,600) | 827 | - |
| Total nonoperating activities | 8,678 | 11,754 | 28,167 | 48,599 |
| Increase in net assets | 8,120 | 11,161 | 28,167 | 47,448 |
| Net assets at beginning of year | 204,334 | 162,444 | 116,413 | 483,191 |
| Net assets at end of year | $ 212,454 | $ 173,605 | $ 144,580 | $ 530,639 |

# Gonzaga University
## Consolidated Statements of Cash Flows

| | (in thousands) Years Ended May 31, 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | $ 30,301 | $ 47,448 |
| Adjustments to reconcile increase in net assets to net cash from operating activities | | |
| Depreciation and amortization | 14,202 | 12,199 |
| Provision (recovery) for uncollectible receivables | 1,681 | (19) |
| Gain on disposal of equipment | (110) | (23) |
| Contributions restricted for long-term purposes | (9,830) | (36,120) |
| Interest and dividends restricted for long-term investment | (5,167) | (3,537) |
| Net realized and unrealized (gain) loss on investments | (14,625) | (20,815) |
| Loss on defeasance and refunding of bonds, net | - | 9,572 |
| Gain on settlement | (195) | (2,306) |
| Change in value of interest rate swaps | (1,809) | (1,808) |
| Change in value of split-interest agreements | (518) | (667) |
| Other change in assets and liabilities, net | (11,160) | (78) |
| Net cash from operating activities | 2,770 | 3,846 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property, plant, and equipment | (57,318) | (25,599) |
| Proceeds from sale of property and equipment | 143 | 27 |
| Proceeds from sale of investments | 114,385 | 63,063 |
| Purchase of investments | (54,484) | (105,195) |
| Issuance of student loans receivable | (2,740) | (1,926) |
| Repayment of student loans receivable | 2,347 | 2,424 |
| Reimbursements from deposits held with bond trustees | 17 | 256 |
| Net cash from investing activities | 2,350 | (66,950) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from contributions restricted for long-term purposes | 8,328 | 27,965 |
| Proceeds from contributions for split-interest agreements | 170 | 160 |
| Proceeds from issuance of notes and bonds | - | 28,002 |
| Proceeds from settlement | 195 | 2,306 |
| Payments on notes and bonds | (3,421) | (3,716) |
| Payments on split-interest agreements | (234) | (222) |
| Interest and dividends restricted for long-term investment | 5,167 | 3,537 |
| Net change in student loan liability | (219) | 38 |
| Net cash from financing activities | 9,986 | 58,070 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 15,106 | (5,034) |
| CASH AND CASH EQUIVALENTS, beginning of year | 12,052 | 17,086 |
| CASH AND CASH EQUIVALENTS, end of year | $ 27,158 | $ 12,052 |
| SUPPLEMENTAL DISCLOSURES | | |
| Interest paid (includes capitalized interest of $1,021 and $595 for 2018 and 2017, respectively) | $ 9,167 | $ 9,396 |
| Noncash acquisition of property, plant, and equipment | 9,938 | 8,139 |
| Noncash gifts of investments and property, plant, and equipment | 462 | 59,592 |
| Proceeds from issuance of bonds deposited with bond trustees used for the defeasance of bonds (net of underwriter's discount of $306) | - | 114,764 |
| Transfer of amounts from deposits with bond trustees used for the defeasance of bonds | - | 12,544 |



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), Immobiliare Gonzaga Srl., Woldson Western 00 LLC, Woldson Western 01 LLC, and Woldson Western 25 LLC (LLCs) (collectively, University). The purpose of the Foundation is to provide financial support to the University's Law School. Immobiliare Gonzaga Srl. is an Italian corporation that owns land and a classroom/administration building used in the University's Florence, Italy, program. The purpose of the LLCs is to accept, hold, develop, lease, and operate property bequeathed to the Corporation.

The primary source of revenue is tuition and fees from undergraduate, graduate, and law programs through the college of Arts & Sciences, and schools of Business, Engineering & Applied Science, Education, Nursing & Human Physiology, Leadership Studies, and Law. Other sources of revenue include room and board, contributions, grants and contracts, return on investments, athletic tickets and sponsorships, and other sales and services.

**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 that 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 that 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 that 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.

**(in thousands)**

**Note 2 – Summary of Significant Accounting Policies (continued)**

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

| | For the Year Ended May 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Corporation and LLCs | Foundation | Immobiliare Gonzaga Srl. | Inter-Entity Elimination | Consolidated Total |
| Assets | $ 825,857 | $ 24,032 | $ 4,901 | $ (27,702) | $ 827,088 |
| Liabilities | $ 289,345 | $ 1 | $ 4,504 | $ (27,702) | $ 266,148 |
| NET ASSETS | | | | | |
| Unrestricted | 245,174 | 2,067 | 397 | (2,067) | 245,571 |
| Temporarily restricted | 149,593 | 11,965 | - | 2,067 | 163,625 |
| Permanently restricted | 141,745 | 9,999 | - | - | 151,744 |
| Total net assets | 536,512 | 24,031 | 397 | - | 560,940 |
| Total liabilities and net assets | $ 825,857 | $ 24,032 | $ 4,901 | $ (27,702) | $ 827,088 |

**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 that 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, exceeded 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 and short-term investments are assets that are donor restricted for investment in property, plant, and equipment of $26,152 and $45,418 as of May 31, 2018 and 2017, respectively.

**Investments** – Except for direct investments in real property, 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, or where the nature of the gift calls for it to be separately invested, those assets are separately invested and managed.

**Note 2 – Summary of Significant Accounting Policies (continued)**

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.

**Beneficial interest in split-interest agreements held by others** – The University is the irrevocable beneficiary of the income or the residual interest of assets in charitable split-interest agreements held by outside entities. At the date of donation, the University recognizes its beneficial interest in the outside split-interest agreement as a contribution at fair value that 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 split-interest agreement. 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.

**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 $3,597 and $3,456 as of May 31, 2018 and 2017, respectively. The corresponding amount included in split-interest agreement obligations to meet future payments under gift annuity contracts was $1,603 and $1,587 as of May 31, 2018 and 2017, 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 | 3–10 years |
| Library books | 10 years |

Asset retirement obligations include legal environmental obligations associated with the retirement of long-lived assets. These liabilities are recorded at fair value when incurred and are capitalized by increasing the carrying amount of the associated long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated on a straight-line basis through the estimated date of retirement. The liability is removed when the obligation is settled.

**Revenue recognition** – Student tuition, fees, and room and board are recognized in the period that the services are provided. Contributions, including unconditional promises to give, are recognized in the period received and are reported as increases in the appropriate category of net assets. Conditional or contingent contributions and awards are not recorded as revenue until the conditions on which they depend have been substantially met. Grant and contracts revenue considered to be exchange transactions are not recorded as revenue until related costs are incurred. Return on investments are recorded on the accrual basis of accounting. Other sources of revenue not otherwise categorized are recognized in the fiscal year in which they are earned.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Advertising** – Costs expensed for the years ended May 31, 2018 and 2017, were $3,033 and $3,728, respectively.

**Fundraising expenses** – Costs related to fundraising are expensed as incurred and for the years ended May 31, 2018 and 2017, were $4,400 and $4,664, respectively.

**Derivative financial instruments** – 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.

**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, 2018 and 2017, 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.

**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 ongoing day-to-day activity of the University.

**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 accordance 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 2017 consolidated financial statements to conform to the 2018 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 31, 2018, 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.

**(in thousands)**

**Note 3 – Accounts and Interest Receivable, Net**

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

| | 2018 | 2017 |
|---|---|---|
| Government grants and loan funds | $ 6,706 | $ 7,386 |
| Student receivables | 921 | 1,013 |
| Miscellaneous receivables | 1,935 | 1,842 |
| Accrued interest receivable | 280 | 309 |
| | 9,842 | 10,550 |
| Less allowance for doubtful accounts | (100) | (100) |
| | $ 9,742 | $ 10,450 |

**Note 4 – Contributions Receivable, Net**

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

| | 2018 | 2017 |
|---|---|---|
| In one year or less | $ 9,003 | $ 8,340 |
| Between one year and five years | 20,524 | 18,680 |
| More than five years | 14,007 | 15,877 |
| Less present value discounts | (10,494) | (10,801) |
| | 33,040 | 32,096 |
| Less allowance for doubtful accounts | (1,020) | (576) |
| | $ 32,020 | $ 31,520 |

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

| | 2018 | 2017 |
|---|---|---|
| Unrestricted | $ - | $ 12 |
| Temporarily restricted for financial aid and other | 6,619 | 4,889 |
| Temporarily restricted for property, plant, and equipment | 21,028 | 21,810 |
| Endowment for financial aid and endowed chairs | 4,373 | 4,809 |
| | $ 32,020 | $ 31,520 |

(in thousands)

**Note 5 – Student Loans Receivable, Net**

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

Student loans receivable, net, consisted of the following as of May 31:

| | 2018 | 2017 |
|---|---|---|
| Federal government programs | $ 14,305 | $ 13,943 |
| Institutional programs | 1,594 | 1,664 |
| | 15,899 | 15,607 |
| Less allowance for doubtful accounts | (324) | (319) |
| Student loans receivable, net | $ 15,575 | $ 15,288 |

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 and the continuation of the program by the federal 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. Funds advanced by the federal government are ultimately refundable to the government. The liability due to the government was $10,683 and $10,902 at May 31, 2018 and 2017, respectively.

On October 1, 2017, the Federal Perkins Extension Act of 2015 expired and no longer permits disbursements to students of any kind after June 30, 2018. The University has been notified that the federal government will begin collecting the Federal share of the University's Perkins Loan Revolving Funds annually from the University as loans are paid back to the University by students. The University estimates the Federal share will be returned to the government over the next 10 years.

At May 31, 2018 and 2017, 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 |
|---|---|---|---|---|---|---|---|
| 2018 | $ 26 | $ 4 | $ - | $ 4 | $ 264 | $ 531 | $ 829 |
| 2017 | $ 30 | $ 7 | $ 1 | $ 4 | $ 267 | $ 502 | $ 811 |

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.

(in thousands)

**Note 6 – Investments**

Short-term investments, at market, at May 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Fixed income securities | $ 61,492 | $ 116,697 |

Short-term investments consist of operating funds and funds held for fixed asset acquisition, managed as a laddered 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 laddered investment portfolio was 1.00 years as of May 31, 2018.

Long-term investments, at market, at May 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents | $ 473 | $ 828 |
| Equity securities | 107,264 | 102,821 |
| Fixed income securities | 37,560 | 34,554 |
| Alternative investments | 80,468 | 71,851 |
| Direct real property investments | 60,176 | 65,384 |
| Split-interest agreements | 11,169 | 10,889 |
| Other | 752 | 842 |
| | $ 297,862 | $ 287,169 |

Included in long-term investments, measured at net asset value practical expedient, are alternative investments as follows:

| | 2018 | 2017 |
|---|---|---|
| Managed diversified global multi-asset fund | $ 50,073 | $ 43,643 |
| Private credit funds | 8,973 | 6,284 |
| Hedge and other funds | 13,578 | 13,805 |
| Real estate funds | 5,050 | 4,684 |
| Diversified fund of funds | 2,794 | 3,435 |
| | $ 80,468 | $ 71,851 |

**(in thousands)**

**Note 6 – Investments (continued)**

Long-term investments are largely composed of donor-restricted and board-designated 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:

| | 2018 | 2017 |
|---|---|---|
| Net unrealized and realized gain on investments held at market | $ 14,625 | $ 20,815 |
| Interest income and dividends | 7,138 | 5,243 |
| Total return on investments and cash and cash equivalents | $ 21,763 | $ 26,058 |
| Amounts withdrawn under spending policy | $ 8,770 | $ 7,709 |

**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 at May 31 is summarized as follows:

| 2018 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (2,021) | $ 81,913 | $ 151,744 | $ 231,636 |
| Board-designated funds | 56,710 | 1,721 (1) | - | 58,431 |
| | $ 54,689 | $ 83,634 | $ 151,744 | $ 290,067 |

| 2017 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (433) | $ 69,713 | $ 144,580 | $ 213,860 |
| Board-designated funds | 56,185 | 1,608 (1) | - | 57,793 |
| | $ 55,752 | $ 71,321 | $ 144,580 | $ 271,653 |

(1) Amounts shown as temporarily restricted board-designated funds are Foundation assets restricted for use for the Gonzaga Law School Foundation.

**Note 7 – Endowment (continued)**

**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

**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 amounts from its pooled endowment fund 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 pooled 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.

(in thousands)

**Note 7 – Endowment (continued)**

**Funds with deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration. Deficiencies of this nature reported in unrestricted net assets were $2,021 and $433 as of May 31, 2018 and 2017, respectively.

Changes in endowment net assets are summarized as follows for the years ended May 31:

| | 2018 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Net assets, beginning of year | $ 55,752 | $ 71,321 | $ 144,580 | $ 271,653 |
| Investment return | | | | |
| Investment income | 1,945 | 3,219 | 3 | 5,167 |
| Net realized and unrealized (loss) gain | (1,105) | 15,963 | 469 | 15,327 |
| Total investment return | 840 | 19,182 | 472 | 20,494 |
| Contributions | - | - | 3,691 | 3,691 |
| Amount distributed for operating activities | (1,880) | (6,890) | - | (8,770) |
| Transfers | (23) | 21 | 3,001 | 2,999 |
| Net assets, end of year | $ 54,689 | $ 83,634 | $ 151,744 | $ 290,067 |

| | 2017 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Net assets, beginning of year | $ 20,164 | $ 67,383 | $ 116,413 | $ 203,960 |
| Investment return | | | | |
| Investment income | 728 | 2,792 | 17 | 3,537 |
| Net realized and unrealized gain | 3,413 | 17,790 | 467 | 21,670 |
| Total investment return | 4,141 | 20,582 | 484 | 25,207 |
| Contributions | - | - | 26,856 | 26,856 |
| Amount distributed for operating activities | (1,215) | (6,494) | - | (7,709) |
| Transfers | 32,662 (1) | (10,150) | 827 | 23,339 |
| Net assets, end of year | $ 55,752 | $ 71,321 | $ 144,580 | $ 271,653 |

(1) Transfer into unrestricted endowment net assets includes transfers from the board to establish board-designated quasi-endowments of approximately $23,000. The remaining $10,000 represents temporarily restricted board-designated funds that had a donor-restriction as to purpose and have since been expended.

(in thousands)

### Note 8 – Property, Plant, and Equipment, Net

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

| | 2018 | 2017 |
|---|---|---|
| Land | $ 8,461 | $ 8,111 |
| Buildings and improvements | 411,981 | 360,192 |
| Equipment and furniture | 40,212 | 34,372 |
| Artwork | 4,347 | 4,176 |
| Library books | 5,491 | 5,387 |
| Construction in progress | 34,489 | 30,896 |
| | 504,981 | 443,134 |
| Less accumulated depreciation | (133,031) | (124,455) |
| | $ 371,950 | $ 318,679 |

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

| Project | Cost to Date May 31, 2017 | Current Year Additions | Placed into Service | Cost to Date May 31, 2018 |
|---|---|---|---|---|
| Volkar Center for Athletic Achievement | $ 11,333 | $ 16,198 | $ (27,531) | $ - |
| Foley Center Renovations | 1,959 | 1,372 | (3,331) | - |
| Myrtle Woldson Performing Arts Center | 4,980 | 20,781 | - | 25,761 |
| Della Strada Jesuit Community | 8,098 | 5,508 | (13,606) | - |
| Interdisciplinary Science and Engineering Project | - | 2,704 | - | 2,704 |
| Humanities Building Renovations | - | 5,615 | - | 5,615 |
| All other projects | 4,526 | 10,315 | (14,432) | 409 |
| Total | $ 30,896 | $ 62,493 | $ (58,900) | $ 34,489 |

| Project | Cost to Date May 31, 2016 | Current Year Additions | Placed into Service | Cost to Date May 31, 2017 |
|---|---|---|---|---|
| Volkar Center for Athletic Achievement | $ - | $ 11,333 | $ - | $ 11,333 |
| Foley Center Renovations | 1,727 | 232 | - | 1,959 |
| Myrtle Woldson Performing Arts Center | 1,174 | 3,806 | - | 4,980 |
| Della Strada Jesuit Community | 1,159 | 6,939 | - | 8,098 |
| All other projects | 2,615 | 7,821 | (5,910) | 4,526 |
| Total | $ 6,675 | $ 30,131 | $ (5,910) | $ 30,896 |

(in thousands)

### Note 9 – Deferred Revenues and Refundable Advances

Deferred revenues and refundable advances consisted of the following as of May 31:

| | 2018 | 2017 |
|---|---|---|
| Deferred revenues | $ 11,200 | $ 11,965 |
| Refundable advances | 9,153 | 8,592 |
| | $ 20,353 | $ 20,557 |

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

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

### Note 10 – Notes and Bonds Payable

Notes and bonds payable consisted of the following as of May 31:

| | 2018 | 2017 |
|---|---|---|
| Taxable bonds | | |
| Series 2016 A | $ 108,275 | $ 108,275 |
| Series 2016 B | 28,900 | 32,075 |
| Series 2013 B | 20,000 | 20,000 |
| Tax exempt bonds | | |
| Series 2013 A | 33,000 | 33,000 |
| Other notes | 634 | 827 |
| | 190,809 | 194,177 |
| Unamortized net discount | (552) | (575) |
| Unamortized debt issuance costs | (1,485) | (1,541) |
| | $ 188,772 | $ 192,061 |

The Series 2016 A taxable bonds have an original issuance of $108,275 and were issued in conjunction with the Series 2016 B bonds in October 2016. The interest rate is fixed at 4.158%. Principal payments begin in 2044 with final maturity in 2046 and the bonds have an optional make-whole call. The Series 2016 A bonds refunded the Series 2009 A, a portion of Series 2009 B, and Series 2010 A bonds, all of which were legally defeased. The Series 2016 A bonds also paid off the Series 2012 A and Series 2012 B bonds and provided additional financing for various capital projects.

**Note 10 – Notes and Bonds Payable (continued)**

The Series 2016 B taxable bonds have an original issuance of $35,575 and were issued in conjunction with the Series 2016 A bonds in October 2016 to refund prior outstanding debt. Interest is variable and calculated monthly based on 75 basis points over one-month LIBOR. Principal matures each year with the final maturity in 2034. The bonds were issued as private placement to two national banks. The bonds are prepayable without penalty and each of the banks commitments mature in 2021 with bank options to extend.

As part of the issuance of the 2016 A and 2016 B bonds, a net loss of $9,572 was recorded within the consolidated statement of activities for the year ended May 31, 2017, as a result of the defeasance and refunding of Series 2009 A, Series 2009 B, and Series 2010 A bonds, and the prepayment of the Series 2012 A and Series 2012 B bonds.

The Series 2013 A tax exempt bonds, issued through the Washington Higher Education Facilities Authority (WHEFA), 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 2013 B taxable bonds, issued through WHEFA, 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.

Other notes are due in various installments through 2093. Interest rates range from 5.00% to 10.00%.

The Taxable Bonds and Tax Exempt Bonds are secured on a parity basis by a pledge of, and lien on, all unrestricted gross revenues, as defined in the loan agreement.

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. Covenants associated with maintaining certain financial ratios and other covenants will cease upon the termination of the interest rate swap agreements (see Note 11).

(in thousands)

**Note 10 – Notes and Bonds Payable (continued)**

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

| Years ending May 31, | Principal |
|---|---|
| 2019 | $ 3,449 |
| 2020 | 3,972 |
| 2021 | 4,149 |
| 2022 | 4,325 |
| 2023 | 779 |
| Thereafter | 174,135 |
| | 190,809 |
| Unamortized net discount | (552) |
| Unamortized debt issuance costs | (1,485) |
| | $ 188,772 |

The University has committed lines of credit, each with separate banks. There were no outstanding advances against the lines of credit as of May 31, 2018 and 2017. The lines of credit consist of the following:

| Line of Credit | Rate | Term | Security | Available Credit |
|---|---|---|---|---|
| Revolving operating | One-month LIBOR plus 1.00%; 3% as of May 31, 2018 | 3/1/2019 | Parity lien on unrestricted gross revenue | $ 10,000 |
| Revolving capital | One-month LIBOR plus 2.00%; 4% as of May 31, 2018 | 12/20/2018 | Unsecured | 5,000 |

**Note 11 – Derivative Instruments and Hedging Activities**

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

| Notional Amount as of May 31, 2018 | Effective Date | Maturity Date | University Pays | University Receives |
|---|---|---|---|---|
| $ 25,450 | 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% |
| 3,450 | 10/1/2012 | 4/1/2022 | 4.1680% | 70% of one-month LIBOR |

**Note 11 – Derivative Instruments and Hedging Activities (continued)**

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 taxable and tax-exempt 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. The obligation under interest rate swaps was $3,592 and $5,401 as of May 31, 2018 and 2017, respectively.

Net realized losses associated with the swaps were $953 and $1,265 for the years ended May 31, 2018 and 2017, respectively, and characterized as interest expense (natural classification) and allocated among operating expenses on the accompanying consolidated statements of activities. The unrealized gains associated with the swaps were $1,809 and $1,808 for the years ended May 31, 2018 and 2017, respectively.

**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. The Plan is administered by TIAA and offers a variety of investment options from TIAA and other funds. The University's expense for the Plan was $7,268 and $6,858 for the years ended May 31, 2018 and 2017, respectively.

Voluntary employee contributions and accumulated earnings to the 457(b) plan of $3,206 and $2,825 as of May 31, 2018 and 2017, 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.

(in thousands)

### Note 13 – Net Assets

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

| | 2018 | 2017 |
|---|---|---|
| Unrestricted | | |
| Available for operations | $ 14,155 | $ 36,820 |
| Invested in property, plant, and equipment | 166,472 | 109,585 |
| Board-designated quasi-endowment funds | 56,710 | 56,185 |
| Board-designated for investment in property, plant, and equipment | 8,234 | 9,864 |
| Total unrestricted | $ 245,571 | $ 212,454 |
| Temporarily restricted | | |
| Unappropriated donor-restricted endowment earnings | $ 81,913 | $ 69,713 |
| Board-designated quasi-endowment funds | 1,721 | 1,608 |
| Property, plant, and equipment | 51,361 | 70,000 |
| Financial aid | 3,489 | 3,596 |
| Program support | 20,558 | 21,375 |
| Academic chairs | 1,751 | 1,831 |
| Split-interest agreements | 2,591 | 5,260 |
| Student loan program | 241 | 222 |
| Total temporarily restricted | $ 163,625 | $ 173,605 |
| Permanently restricted | | |
| Financial aid | $ 111,294 | $ 107,977 |
| Program support | 17,979 | 17,656 |
| Academic chairs | 15,064 | 14,618 |
| Split-interest agreements | 6,453 | 3,376 |
| Student loan program | 954 | 953 |
| Total permanently restricted | $ 151,744 | $ 144,580 |

### Note 14 – Commitments and Contingencies

**Commitments** – The University has obtained or has plans to obtain the necessary funding for the acquisition, construction, renovation, and furnishing of certain facilities that will be capitalized in the applicable capital asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects, which are expected to be completed in varying phases over the next two or three years at an estimated unexpended cost of $26,337. Of the unexpended balance, the University has remaining commitment balances of $24,243 with certain engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these capitalized projects as of May 31, 2018, were $2,094.

**Note 14 – Commitments and Contingencies (continued)**

Gonzaga University has an agreement with the University of Washington, an institution of higher education and an agency of the state of Washington, School of Medicine to provide faculty, student support services, and facilities for the University of Washington School of Medicine – Gonzaga University. The program expands the University of Washington's Washington, Wyoming, Alaska, Montana, and Idaho medical education program in Spokane, with an emphasis in meeting the needs of rural and medically underserved communities in eastern Washington. The agreement is effective until June 30, 2020, with automatic renewals for two-year terms thereafter, unless the parties terminate the agreement via written mutual agreement or written notice of termination, by either party, 24 months in advance.

**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.

**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 publicly 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, 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 international commingled equity funds valued using the fund managers' net asset value, 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.

- Certain investment in real property assets valued using appraised or tax assessed values that 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:**

- Privately held stock valued based on the net asset value of the investment that approximates market value.

**Note 15 – Fair Value of Financial Instruments (continued)**

- Direct investments in three real property assets received through an estate gift in downtown Seattle, Washington, that are each held in separate single member LLCs consisting of two parking garages and one surface parking lot. The University plans to redevelop, through the use of a development partner, the surface parking lot into multi-family housing in exchange for an unsubordinated land lease. Independent appraisals were prepared to value each property. The primary unobservable input for each of the parking garages, valued using an income approach, is the income capitalization rate, which was 4.6% for one garage and 3.2% for the other garage. A 0.25% decrease in the underlying income capitalization rates would increase the fair value of the two parking garages by approximately $1,595. A 0.25% increase in the underlying income capitalization rates would decrease the fair value of the two parking garages by approximately $1,397. The primary unobservable inputs for the surface parking lot, valued using a market approach, are the parameters associated with its future development, including the number of apartment units to be constructed, total developed square footage, and estimations of the revenue per square foot derived from market comparisons. The sensitivity associated with changes in these inputs is not quantified.

- Beneficial interests in the future cash flows of eight different split-interest agreements, 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 and the risk of nonperformance. The primary unobservable inputs for beneficial interests in split-interest agreements are the applicable discount rates that range from 2.8% to 6.0%, and applicable life expectancies that range from 5 to 26 years. A 1.0% increase in each of the underlying discount rates would decrease the fair value by approximately $843. A 1.0% decrease in each of the underlying discount rates would increase the fair value by approximately $1,139. The sensitivity associated with changes in life expectancies is not quantified.

Alternative investments that are not readily marketable or redeemable are valued utilizing the most current information provided by the fund managers using the net asset value (NAV) per share of the respective fund as a practical expedient to estimate the fair value of the University's interest in the respective fund.

(in thousands)

### Note 15 – Fair Value of Financial Instruments (continued)

The following tables present assets and liabilities that are measured and carried at fair value on a recurring basis:

| | May 31, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Short-term investments | | | | |
| Domestic fixed income mutual fund | $ 13,352 | $ - | $ - | $ 13,352 |
| U.S. government and agency obligations | - | 15,141 | - | 15,141 |
| Corporate bonds | - | 32,947 | - | 32,947 |
| Asset-backed obligations | - | 52 | - | 52 |
| Total short-term investments | 13,352 | 48,140 | - | 61,492 |
| Long-term investments | | | | |
| Cash and cash equivalents | 473 | - | - | 473 |
| Equity securities | | | | |
| Mutual funds, index funds, and commingled funds | | | | |
| Domestic | 43,238 | - | - | 43,238 |
| International | 25,714 | 22,919 | - | 48,633 |
| Direct ownership - public and privately held stock | 14,683 | 25 | 685 | 15,393 |
| Fixed income securities | | | | |
| Mutual funds and index funds | | | | |
| Domestic | 32,853 | - | - | 32,853 |
| International | 4,707 | - | - | 4,707 |
| Direct real property investments | - | 5,376 | 54,800 | 60,176 |
| Assets held under split-interest agreements | | | | |
| Cash and cash equivalents | 602 | - | - | 602 |
| Equity mutual funds | 7,013 | - | - | 7,013 |
| Equity-direct ownership | 848 | - | - | 848 |
| Fixed income mutual funds | 2,706 | - | - | 2,706 |
| Other | 315 | 437 | - | 752 |
| Total long-term investments in fair value hierarchy | 133,152 | 28,757 | 55,485 | 217,394 |
| Beneficial interest in split-interest agreements held by others | - | - | 7,686 | 7,686 |
| Total assets in fair value hierarchy | $ 146,504 | $ 76,897 | $ 63,171 | $ 286,572 |
| Obligation under interest rate swaps | $ - | $ (3,592) | $ - | $ (3,592) |
| Total liabilities in fair value hierarchy | $ - | $ (3,592) | $ - | $ (3,592) |
| Long-term investments measured at NAV practical expedient[(1)] | | | | $ 80,468 |

(1) In accordance with Subtopic 820-10, certain investments that are measured at net asset value per share, using the practical expedient to estimate fair value, have not been classified in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

(in thousands)

## Note 15 – Fair Value of Financial Instruments (continued)

| | May 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Short-term investments | | | | |
| Domestic fixed income mutual fund | $ 53,425 | $ - | $ - | $ 53,425 |
| U.S. government and agency obligations | - | 22,860 | - | 22,860 |
| Corporate bonds | - | 37,895 | - | 37,895 |
| Asset-backed obligations | - | 2,517 | - | 2,517 |
| Total short-term investments | 53,425 | 63,272 | - | 116,697 |
| Deposits with bond trustees | | | | |
| Money market funds | 17 | - | - | 17 |
| Total deposits with bond trustees | 17 | - | - | 17 |
| Long-term investments | | | | |
| Cash and cash equivalents | 828 | - | - | 828 |
| Equity securities | | | | |
| Mutual funds, index funds, and commingled funds | | | | |
| Domestic | 33,385 | - | - | 33,385 |
| International | 37,526 | 12,932 | - | 50,458 |
| Direct ownership - public and privately held stock | 18,186 | 54 | 738 | 18,978 |
| Fixed income securities | | | | |
| Mutual funds and index funds | | | | |
| Domestic | 29,827 | - | - | 29,827 |
| International | 4,727 | - | - | 4,727 |
| Direct real property investments | - | 6,214 | 59,170 | 65,384 |
| Assets held under split-interest agreements | | | | |
| Cash and cash equivalents | 278 | - | - | 278 |
| Equity mutual funds | 7,128 | - | - | 7,128 |
| Equity-direct ownership | 737 | - | - | 737 |
| Fixed income mutual funds | 2,746 | - | - | 2,746 |
| Other | 393 | 449 | - | 842 |
| Total long-term investments in fair value hierarchy | 135,761 | 19,649 | 59,908 | 215,318 |
| Beneficial interest in split-interest agreements held by others | - | - | 7,612 | 7,612 |
| Total assets in fair value hierarchy | $ 189,203 | $ 82,921 | $ 67,520 | $ 339,644 |
| Obligation under interest rate swaps | $ - | $ (5,401) | $ - | $ (5,401) |
| Total liabilities in fair value hierarchy | $ - | $ (5,401) | $ - | $ (5,401) |
| Long-term investments measured at NAV practical expedient(1) | | | | $ 71,851 |

(1) In accordance with Subtopic 820-10, certain investments that are measured at net asset value per share, using the practical expedient to estimate fair value, have not been classified in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

(in thousands)

**Note 15 – Fair Value of Financial Instruments (continued)**

Following is a reconciliation of activity for the years ended May 31, 2018 and 2017, of assets classified as Level 3:

| | Privately Held Stock | Direct Real Property Investments | Beneficial Interest in Split-Interest Agreements Held by Others | Total |
|---|---|---|---|---|
| Balance, May 31, 2016 | $ 835 | $ - | $ 7,555 | $ 8,390 |
| Non-cash gift of investments | - | 59,170 | - | 59,170 |
| Net unrealized (loss) gain | (97) | - | 371 | 274 |
| Return of capital/transfers to income | - | - | (314) | (314) |
| Balance, May 31, 2017 | 738 | 59,170 | 7,612 | 67,520 |
| Net realized income and other gains | - | 1,610 | - | 1,610 |
| Net unrealized (loss) gain | (53) | (4,370) | 395 | (4,028) |
| Return of capital/transfers to income | - | (1,610) | (321) | (1,931) |
| Balance, May 31, 2018 | $ 685 | $ 54,800 | $ 7,686 | $ 63,171 |

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

| | Fair Value at May 31, 2018 | Unfunded Cash Commitments | Redemption Frequency (if Eligible) | Redemption Notice Period | Investment Strategies and Other Restrictions |
|---|---|---|---|---|---|
| Commingled funds (Level 2) | $ 22,919 | $ - | (a) | (a) | (a) |
| Limited partnership investments | | | | | |
| Managed diversified global multi-asset fund | 50,073 | - | (b) | (b) | (b) |
| Private credit funds | 8,973 | 5,076 | (c) | n/a | (c) |
| Diversified fund of funds | 2,794 | 39 | (d) | n/a | (d) |
| Real estate fund | 5,050 | - | (e) | (e) | (e) |
| Hedge and other funds | 13,578 | 3,752 | (f) | (f) | (f) |
| Total long-term investments measured at NAV practical expedient | 80,468 | 8,867 | | | |
| | $ 103,387 | $ 8,867 | | | |

(a) The commingled equity funds in this category can be redeemed monthly with notice (ranging from 15 days to 31 days), unless any withdrawal would have a materially adverse effect on the funds. The funds' investment objective is to achieve long-term capital appreciation by investing in a portfolio of primarily international market companies.

**Note 15 – Fair Value of Financial Instruments (continued)**

(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, 2018, the value of the liquid portion is $6,033. 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 has the objective to invest in debt and debt-like preferred securities of companies, primarily to generate interest income, within the mandate of the respective 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 these funds will be liquidated between 2018 and 2024.

(d) This category includes three 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 publicly 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 2019 and 2024.

(in thousands)

**Note 15 – Fair Value of Financial Instruments (continued)**

(e) This category includes a real estate fund primarily invested in U.S. commercial and residential real estate with the objective to invest in real estate assets to generate capital appreciation and operating income. Investments in the fund can be redeemed with at least 90-day notice, as liquid assets in the fund permits.

(f) This category includes a hedge fund (51%) and three private equity funds (49%). 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-day 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 2018 and 2024.

**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 from members of the board as listed below:

| | 2018 | 2017 |
|---|---|---|
| Contributions receivable, net | $ 25,045 | $ 23,346 |
| Contributions revenue | 2,336 | 5,240 |

The University has bank deposits and a line of credit with a bank whose chairman and CEO is a member of the board.

# Supplementary Information

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

| | 2018 | 2017 |
|---|---|---|
| Salaries, wages, and benefits | $ 138,933 | $ 133,349 |
| Employee early termination expense | - | 450 |
| Meetings, travel, and memberships | 13,435 | 13,010 |
| Depreciation | 14,122 | 12,126 |
| Materials, supplies, printing, and postage | 9,817 | 10,436 |
| Occupancy, telephone, utilities, and insurance | 7,858 | 8,170 |
| Interest | 8,196 | 9,054 |
| Professional fees and contracted services | 9,551 | 8,020 |
| Room and board | 9,496 | 9,238 |
| Maintenance and rentals | 6,910 | 6,848 |
| Advertising | 3,033 | 3,728 |
| Other expenses | 4,174 | 5,061 |
| | $ 225,525 | $ 219,490 |

## 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, culturally, 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.

GONZAGA UNIVERSITY

502 E Boone Ave, Spokane, WA 99258