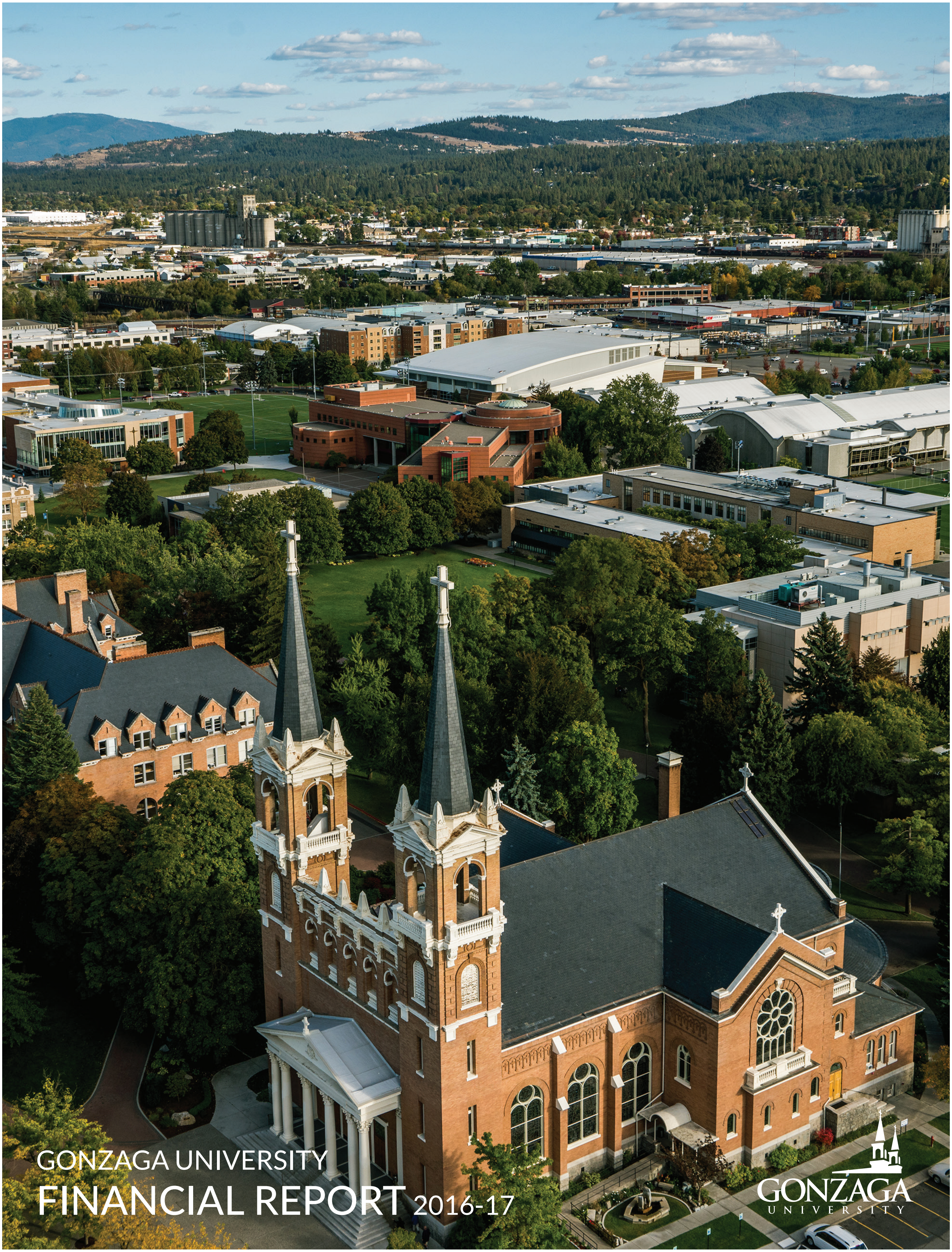

GONZAGA UNIVERSITY
FINANCIAL REPORT 2016-17

GONZAGA UNIVERSITY

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Letter from the Vice President for Finance

Fiscal year 2016-17 started like most years with the welcome of more than twelve-hundred new Zags, the second largest freshman class in Gonzaga's history, and the return of our current students after a summer spent furthering studies, journeying abroad, interning, or enjoying other pursuits. It is how the year finished that most will remember, highlighted by the men's basketball team reaching its first Final Four in program history. Thousands of Gonzaga fans journeyed from Spokane, Washington to Phoenix, Arizona to cheer on the Zags all the way to the national championship game as millions watched from afar. While the season ended with a loss, only the team's second all season, the experience continues to be a source of much excitement and pride for Zag Nation.

In October 2015, we launched the public phase of the University's next major fundraising campaign, "Gonzaga Will: The Campaign for our Future," with a goal of $250 million. Gonzaga Will focuses on five priorities: scholarship, global engagement, academic innovation, community building, and learning environments. Less than two years after its initial launch, the campaign has raised over $240 million. Campaign gifts have allowed us to break ground on three new facilities, including the Myrtle Woldson Performing Arts Center, the Della Strada Jesuit Community, and the Volkar Center for Athletic Achievement.

The Myrtle Woldson Performing Arts Center is a two-story, 57,550 square-foot venue featuring a 750-seat performance theater that sets in motion a new era for Gonzaga's leadership in the creative arts and humanities. The venue and the existing Jundt Art Center and Museum form the keystones for an arts village on the west side of our Spokane campus, anchoring programs in music, theater, dance and the visual arts. Work on the venue began this spring, with completion scheduled for winter 2018.

The Della Strada Jesuit Community is a three-story, 36,100 square-foot residence for the Jesuit Community serving Gonzaga and other regional ministries of the newly formed Jesuits West province. The facility will maintain a thriving and highly visible Jesuit presence on campus and includes apartment-style living facilities, reflective space, a chapel, dining space, and offices. The facility also includes host space for visiting Jesuits. Work began on the facility this past fall, with completion scheduled for late fall 2017.

The Volkar Center for Athletic Achievement is a three-story, 51,200 square-foot facility that ties into the existing McCarthey Athletic Center and Martin Centre. The facility will house student-athlete support services, a weight room, nutrition center, basketball practice court, Gonzaga Hall of Fame, and multiple meeting areas and offices. Work began on the facility last summer, with completion scheduled for late fall 2017.

Fiscal year 2016-17 also marked the first year of the University of Washington School of Medicine — Gonzaga University Regional Health Partnership, with Gonzaga hosting approximately 100 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 as a member of the five-state regional, community-based medical education program referred to as WWAMI.

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

Following is a summary related to the financial performance for the fiscal year ended May 31, 2017.

Consolidated Statement of Financial Position

Assets

Gonzaga assets, totaling $802.6 million as of May 31, 2017, increased $78.1 million or 10.8% 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 $128.7 million as of May 31, 2017, an increase of $53.8 million or 71.9% 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 increase during fiscal year 2016-17 is due largely to additional net borrowings stemming from 2016A and 2016B bond issuances, net cash generated from operations and restricted contributions, net transfers from long-term investments, all of which offset expenditures for construction in progress, other capital improvements, and net purchases of investments. In addition to amounts already expended as of May 31, 2017, we anticipate additional expenditures of approximately $64 million to complete and furnish the Myrtle Woldson Performing Arts Center, the Della Strada Jesuit Community, and the Volkar Center for Academic Achievement.

Contributions receivable totaled $31.5 million as of May 31, 2017, a decrease of $50.1 million from the prior fiscal year. The primary driver of this decrease is a distribution from the Myrtle Woldson estate, resulting in the reduction of an associated receivable of $50.4 million recorded as of May 31, 2016. Ms. Woldson's total contribution was valued at $78.7 million, of which $24.1 million was recognized in fiscal year 2016-17. Ms. Woldson's contribution will first fund the building of the Myrtle Woldson Performing Arts Center at an estimated total cost of $48.0 million with the remainder funding the single largest endowed scholarship program at Gonzaga. Ms. Woldson's contribution represents the largest single gift in Gonzaga's history.

Long-term investments and beneficial interest in split interest agreements held by others totaled $294.7 million or 36.7% of Gonzaga's total assets as of May 31, 2017. Long-term investments are substantially comprised of Gonzaga's endowment assets. Gonzaga's diversified endowment investment pool net return was 14.0% for the fiscal year. Investment return, coupled with the transfer in of real estate of $59.2 million from the Woldson estate and new endowment gifts of $5.8 million (excluding $21.1 million relating to the Woldson real estate transfer), are offset by liquidity transfers to short-term investments totaling $20.0 million, an annual spending distribution of $7.7 million, and other changes.

In total, this resulted in an increase in long-term investments and beneficial interest in split interest agreements held by others of $64.5 million or 28.0% 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%). Gonzaga's pooled endowment achieved annualized returns ranking among the top one-third of higher education institutions nationwide for the three-, five-, and ten-year periods ending June 30, 2016 (the most currently available data)[1]. The ten-year annualized return was 5.4% as of June 30, 2016, or 40 basis points higher than the NCSE average for all participants.

Property, plant, and equipment, net, totaled $318.7 million as of May 31, 2017, an increase of $21.7 million or 7.3% over the prior fiscal year. The University continues to invest in its physical facilities to support key academic initiatives, housing, and overall infrastructure. The majority of the net increase stems from ongoing construction of the Myrtle Woldson Performing Arts Center, Della Strada Jesuit Community, and the Volkar Center for Athletic Achievement. 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), 2016

Liabilities

Gonzaga's liabilities totaled $272.0 million as of May 31, 2017, an increase of $30.7 million or 12.7% 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 bonds and notes payable. Bonds and notes payable are largely used to finance the construction and acquisition of property, plant and equipment. As of May 31, 2017, bonds and notes payable increased $21.8 million or 12.8% stemming from the defeasance and repayment of approximately 68% of the University's prior bond obligations with the issuance of the Series 2016A and 2016B taxable bonds, including $28.0 million of additional net proceeds, all of which are offset by principal repayments of $3.7 million. Of the total outstanding bonds and notes payable as of May 31, 2017, approximately 96% of the principal outstanding represents bonds and notes 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 $12.3 million and $12.6 million per year, subject to variability from the 4% of bonds and notes payable as of May 31, 2017 that have unhedged variable rate exposures. Together, the overall debt portfolio represents a 4.9% 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, with such ratings assigned to the 2016A bonds at time of issuance and maintained for previously rated bonds.

Net Assets

Gonzaga's net assets were $530.6 million as of May 31, 2017, an increase of $47.4 million or 9.8% over the prior fiscal year. The four 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, 3) contributions towards non-operating activities, such as capital and endowment contributions, and 4) a non-recurring net loss on defeasance and refunding of revenue bonds.

Unrestricted net assets increased $8.1 million to $212.5 million, largely stemming from net changes from non-operating activities of $8.7 million, which was partially offset by $0.6 million net decrease in unrestricted net assets from operations.

Temporarily restricted net assets increased by $11.2 million to $173.6 million in fiscal year 2016-17. The increase was due primarily to net realized and unrealized investment return of $20.6 million and contributions of $18.2 million, both of which are partially offset by the release of restriction and other transfers to unrestricted net assets of $28.1 million.

Permanently restricted net assets increased $28.2 million to $144.6 million during fiscal year 2016-17, driven primarily by $26.9 million in new permanently restricted contributions to the endowment fund.

Consolidated Statement of Activities

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

Operating Activities

For the year ended May 31, 2017, total operating activities resulted in a $1.2 million decrease in net assets, compared with a $5.4 million increase in the year prior. For the years ended May 31, 2017 and 2016, the operating margin was -0.5% and 2.5%, respectively. The primary drivers for the reduced operating margin were an increase in institutional financial aid as a percentage of student tuition and fees (38.4% in fiscal year 2016-17 compared to 37.2% in fiscal year 2015-16) and increased salaries and benefits expense. Other expense categories experienced little variation from year to year. The change in net assets from operating activities includes depreciation, the most significant non-cash expense. Excluding depreciation and other non-cash items, Gonzaga generated cash from operating activities of $3.4 million and $2.0 million for the years ended May 31, 2017 and 2016, respectively.

For the year ended May 31, 2017, total operating revenues increased $3.7 million or 1.7% from the prior year. The most significant component of operating revenues is student tuition and fees, net of institutional financial aid, which increased $3.6 million or 2.4%. The change is driven by an increase in undergraduate tuition of $4.4 million stemming from a 4.0% tuition rate increase, an increase in undergraduate enrollment of 107 students and stable retention rates, partially offset by a slightly higher tuition discount rate for the freshmen class. Together, changes in other operating revenues year over year were minimal, although partially driven by a change in the administration of student dining dollars (see discussion below). 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, 2017, total operating expenses increased $10.2 million or 4.9% from the prior year. Instructional expenses is the largest category and comprises 39% of operating expenses, with an increase of 4.9% from the prior fiscal year due primarily to increases in faculty compensation for annual adjustment, enrollment increases, and associated benefit costs. Both revenue and expense associated with auxiliary enterprises decreased from the prior year, due in large part to a revision in the administration of the flexible portion of student dining dollars. Had such a revision been applied to fiscal year 2015-16, revenue and expense associated with auxiliary enterprises for that year would have each been lower by approximately $3.0 million.

Gonzaga, like all colleges and universities, incurs significant costs in the form of salaries and benefits, representing 60.8% of total operating costs. Overall, salaries and benefits increased $10.1 million over the prior year, largely driven by annual survey increases for faculty and staff, the adoption of a compensation model consistent with proposed nationwide revisions to wage and hour rules under the Fair Labor Standards Act (FLSA), legislation in the State of Washington to increase hourly minimum wage, changes in employee headcount, and increased benefit costs. Employee compensation and benefits is the largest driver of the 9.9% increase in general administrative and institutional expenses.

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 $36.1 million for the year ended May 31, 2017, an increase of $14.0 million compared to the prior fiscal year. It should be noted that fiscal year 2016-17 represents the first full year subsequent to the public announcement of the Gonzaga Will fundraising campaign. Another significant nonoperating activity is investment performance. The net return on investment activity beyond the amount used for the annual spending distribution was $17.2 million, a significant increase from a $10.5 million loss in the prior year. Other notable one-time nonoperating items include a $9.6 million loss on defeasance and refunding of bonds previously outstanding in conjunction with the issuance of the Series 2016A and 2016B taxable bonds, along with a $2.3 million favorable settlement.

Closing Remarks

As we close the 2016-17 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 2017-18 academic year, similar in size and equally as accomplished as the year prior. We look forward to the opening of the Della Strada Jesuit Community and the Volkar Center for Athletic Achievement during the fall of 2017 and the expanded opportunities that each facility will bring for our students, faculty, staff and Jesuit community. Over the course of the coming fiscal year we also expect to continue the Gonzaga Will fundraising campaign.

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.

Charles J. Murphy
Vice President for Finance
August 2017

Selected Data *(Dollars in thousands)*

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

As of May 31	2017	2016	2015*	2014*	2013*
Consolidated Statement of Financial Position Data					
Cash, cash equivalents, and short-term investments	$ 128,749	$ 74,919	$ 77,119	$ 57,818	$ 74,794
Contributions receivable, net	31,520	81,665	78,719	25,381	23,061
Long-term investments [(1)]	294,781	230,321	231,621	217,267	180,823
Property, plant, and equipment, net	318,679	296,957	291,696	249,891	228,894
Total assets	802,600	724,478	717,879	633,433	547,713
Notes and bonds payable	192,061	170,250	176,097	181,829	133,391
Total liabilities	271,961	241,287	251,512	250,588	203,463
Unrestricted net assets	212,454	204,334	167,172	165,982	149,547
Temporarily restricted net assets	173,605	162,444	173,038	121,536	107,441
Permanently restricted net assets	144,580	116,413	126,157	95,327	87,262
Total net assets	$ 530,639	$ 483,191	$ 466,367	$ 382,845	$ 344,250

For the year ended May 31	2017	2016	2015	2014	2013*
Consolidated Statement of Activities and Other Data					
Student tuition and fees, net of institutional financial aid	$ 154,985	$ 151,410	$ 142,770	$ 138,903	$ 135,707
Total operating revenues [(2)]	218,339	214,689	203,956	193,096	189,586
Total operating expenses [(2)]	219,490	209,289	194,883	184,152	176,591
(Decrease) increase in net assets from operations [(2)]	(1,151)	5,400	9,073	8,944	12,995
Increase in net assets from nonoperating activities [(3)]	48,599	11,424	74,449	29,651	43,289
Increase in total net assets	47,448	16,824	83,522	38,595	56,284
Pooled investment fund return	14.0%	-2.0%	6.5%	15.6%	18.1%

Measured in the fall of the applicable fiscal year	2017	2016	2015	2014	2013
Other Data					
Enrollment by Headcount					
Undergraduate	5,160	5,041	4,837	4,896	4,906
Graduate	2,100	2,111	2,178	2,322	2,417
Law	312	339	339	387	460
Total enrollment	7,572	7,491	7,354	7,605	7,783
Employees [(4)]					
Faculty	447	435	436	434	428
Staff and administration	852	815	811	780	761
Total employees	1,299	1,250	1,247	1,214	1,189

* *Certain reclassifications were made to prior periods to conform with the May 31, 2017 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.*

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

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, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated statements of financial position of Gonzaga University as of May 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary 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 expenditure 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Letter from the Vice President for Finance and the Selected Data are presented for purposes 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 them.

Moss Adams LLP

Spokane, Washington
August 31, 2017

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

Assets

	May 31	
	2017	2016
Cash and cash equivalents	$ 12,052	$ 17,086
Short-term investments	116,697	57,833
Accounts and interest receivable, net	10,450	8,397
Prepaid expenses	3,116	3,485
Contributions receivable, net	31,520	81,665
Student loans receivable, net	15,288	15,923
Deposits with bond trustees	17	12,811
Long-term investments	287,169	222,766
Beneficial interest in split interest agreements held by others	7,612	7,555
Property, plant, and equipment, net	318,679	296,957
Total assets	$ 802,600	$ 724,478

Liabilities and Net Assets

	2017	2016
LIABILITIES		
Accounts and other payables	$ 16,685	$ 8,770
Accrued salaries, taxes, and benefits	19,559	17,192
Interest payable	1,333	1,551
Deferred revenues and refundable advances	20,557	20,075
Split-interest agreement obligations	5,463	5,376
Federal student loan program	10,902	10,864
Obligation under interest rate swaps	5,401	7,209
Notes and bonds payable	192,061	170,250
Total liabilities	271,961	241,287
NET ASSETS		
Unrestricted	212,454	204,334
Temporarily restricted	173,605	162,444
Permanently restricted	144,580	116,413
Total net assets	530,639	483,191
Total liabilities and net assets	$ 802,600	$ 724,478

See accompanying notes.

Consolidated Statements of Activities *(Dollars in thousands)*

	Year Ended May 31, 2017				Year Ended May 31, 2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Operating Revenues					
Student tuition and fees, net	$ 251,736	$ -	$ -	$ 251,736	$ 240,924
Less institutional financial aid	(96,751)	-	-	(96,751)	(89,514)
	154,985	-	-	154,985	151,410
Contributions	825	8,935	-	9,760	11,508
Grants and contracts	1,433	-	-	1,433	2,059
Return on investments designated for operations	2,343	6,468	-	8,811	7,815
Auxiliary enterprises	28,975	-	-	28,975	30,261
Other sources	14,333	42	-	14,375	11,636
	202,894	15,445	-	218,339	214,689
Net assets released from restrictions	16,038	(16,038)	-	-	-
Total operating revenues	218,932	(593)	-	218,339	214,689
Operating Expenses					
Instruction	85,566	-	-	85,566	81,540
Libraries	6,417	-	-	6,417	5,443
Student services	19,931	-	-	19,931	19,729
Organized activities	26,313	-	-	26,313	22,845
General administrative and institutional	43,469	-	-	43,469	39,560
Operation and maintenance of plant	11,438	-	-	11,438	11,743
Auxiliary enterprises	26,356	-	-	26,356	28,429
Total operating expenses	219,490	-	-	219,490	209,289
(Decrease) increase in net assets from operations	(558)	(593)	-	(1,151)	5,400
Nonoperating Activities					
Contributions for acquisition of capital assets, net	-	9,264	-	9,264	16,956
Contributions to endowment funds, net	-	-	26,856	26,856	5,153
Gain (loss) on disposal of equipment	23	-	-	23	(15)
Return on investments, net of amounts designated for operations	2,924	14,091	232	17,247	(10,513)
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	244
Change in value of split interest agreements	-	415	252	667	(401)
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	11,424
Increase in net assets	8,120	11,161	28,167	47,448	16,824
Net assets at beginning of year	204,334	162,444	116,413	483,191	466,367
Net assets at end of year	$ 212,454	$ 173,605	$ 144,580	$ 530,639	$ 483,191

See accompanying notes.

Consolidated Statements of Activities *(Dollars in thousands)*

	Year Ended May 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees, net	$ 240,924	$ -	$ -	$ 240,924
Less institutional financial aid	(89,514)	-	-	(89,514)
	151,410	-	-	151,410
Contributions	1,859	9,649	-	11,508
Grants and contracts	2,059	-	-	2,059
Return on investments designated for operations	660	7,155	-	7,815
Auxiliary enterprises	30,261	-	-	30,261
Other sources	11,585	51	-	11,636
	197,834	16,855	-	214,689
Net assets released from restrictions	18,237	(18,237)	-	-
Total operating revenues	216,071	(1,382)	-	214,689
Operating Expenses				
Instruction	81,540	-	-	81,540
Libraries	5,443	-	-	5,443
Student services	19,729	-	-	19,729
Organized activities	22,845	-	-	22,845
General administrative and institutional	39,560	-	-	39,560
Operation and maintenance of plant	11,743	-	-	11,743
Auxiliary enterprises	28,429	-	-	28,429
Total operating expenses	209,289	-	-	209,289
Increase (decrease) in net assets from operations	6,782	(1,382)	-	5,400
Nonoperating Activities				
Contributions for acquisition of capital assets, net	-	16,956	-	16,956
Contributions to endowment funds, net	-	-	5,153	5,153
Loss on disposal of equipment	(15)	-	-	(15)
Return on investments, net of amounts designated for operations	(894)	(9,934)	315	(10,513)
Change in value of interest rate swaps	244	-	-	244
Change in value of split interest agreements	-	(149)	(252)	(401)
Net assets released from restrictions for acquisition of capital assets	24,098	(24,098)	-	-
Transfers	6,947	8,013	(14,960)	-
Total nonoperating activities	30,380	(9,212)	(9,744)	11,424
Increase (decrease) in net assets	37,162	(10,594)	(9,744)	16,824
Net assets at beginning of year	167,172	173,038	126,157	466,367
Net assets at end of year	$ 204,334	$ 162,444	$ 116,413	$ 483,191

See accompanying notes.

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

	Years Ended May 31, 2017	Years Ended May 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 47,448	$ 16,824
Adjustments to reconcile increase in net assets to net cash from operating activities		
Depreciation and amortization	12,199	10,966
(Recovery) provision for uncollectible receivables	(19)	959
(Gain) loss on disposal of equipment	(23)	15
Contributions restricted for long-term purposes	(36,120)	(22,109)
Interest and dividends restricted for long-term investment	(3,537)	(3,457)
Net realized and unrealized (gain) loss on investments	(20,815)	7,685
Loss on defeasance and refunding of bonds, net	9,572	-
Gain on settlement	(2,306)	-
Change in value of interest rate swaps	(1,808)	(244)
Change in value of split interest agreements	(667)	401
Other change in assets and liabilities, net	(516)	(9,022)
Net cash from operating activities	3,408	2,018
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	(25,599)	(12,864)
Proceeds from sale of property and equipment	27	83
Proceeds from sale of investments	63,063	47,747
Purchase of investments	(105,195)	(66,057)
Issuance of student loans receivable	(1,926)	(3,035)
Repayment of student loans receivable	2,424	2,304
Reimbursements from deposits held with bond trustees	256	-
Net cash from investing activities	(66,950)	(31,822)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term purposes	28,403	12,098
Proceeds from contributions for split interest agreements	160	275
Proceeds from issuance of notes and bonds	28,002	-
Proceeds from settlement	2,306	-
Payments on notes and bonds	(3,716)	(6,155)
Payments on split-interest agreements	(222)	(234)
Interest and dividends restricted for long-term investment	3,537	3,457
Net change in student loan liability	38	(89)
Net cash from financing activities	58,508	9,352
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,034)	(20,452)
CASH AND CASH EQUIVALENTS, beginning of year	17,086	37,538
CASH AND CASH EQUIVALENTS, end of year	$ 12,052	$ 17,086
SUPPLEMENTAL DISCLOSURES		
Interest paid (includes capitalized interest of $595 and $553 for 2017 and 2016, respectively)	$ 9,396	$ 9,763
Noncash acquisition of property, plant, and equipment	8,139	3,087
Noncash gifts of investments and property, plant, and equipment	59,592	6,779
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.

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 1 – Organization

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

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, Professional Studies, and Law. Other sources of revenue include room and board, contributions, grants and contracts, return on investments, fees, athletic tickets, and sponsorships.

Note 2 – Summary of Significant Accounting Policies

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

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

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

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

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

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

	For the Year ended May 31, 2017				
	Corporation	Foundation	Immobiliare Gonzaga Srl.	Inter-entity Elimination	Consolidated Total
Assets	$ 801,743	$ 21,308	$ 5,014	$ (25,465)	$ 802,600
Liabilities	$ 292,917	$ 5	$ 4,504	$ (25,465)	$ 271,961
Net Assets					
Unrestricted	211,944	1,943	510	(1,943)	212,454
Temporarily restricted	161,668	9,994	-	1,943	173,605
Permanently restricted	135,214	9,366	-	-	144,580
Total net assets	508,826	21,303	510	-	530,639
Total liabilities and net assets	$ 801,743	$ 21,308	$ 5,014	$ (25,465)	$ 802,600

Note 2 – Summary of Significant Accounting Policies (continued)

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

Included in cash and cash equivalents and short-term investments are assets that are donor restricted for investment in property, plant, and equipment of $45,418 and $11,765 as of May 31, 2017 and 2016, respectively.

Deposits with Bond Trustees – Amounts consist of bond funds held in investments as permitted under the Washington Higher Education Facilities Authority documents. The funds are restricted to the purpose designated in the bond documents.

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.

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.

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 2 – Summary of Significant Accounting Policies (continued)

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 $3,456 and $3,220 as of May 31, 2017 and 2016, respectively. The corresponding amount included in split-interest agreement obligations to meet future payments under gift annuity contracts was $1,587 and $1,570 as of May 31, 2017 and 2016, respectively.

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 that the promises are received. Based upon historical pledge payments and current information, an allowance for doubtful accounts is determined. Account balances are charged off against the allowance when collection is considered remote. Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted revenue.

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

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

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

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. Grant revenue is recognized when the services are provided for performance grants or when the funds are expended for cost-reimbursement grants. Interest income on student loans is recognized when charged.

Advertising – Costs expensed for the years ended May 31, 2017 and 2016, were $3,728 and $4,353 respectively.

Fund-raising expenses – Costs related to fund-raising are expensed as incurred and for the years ended May 31, 2017 and 2016, were $5,410 and $4,551, 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, 2017 and 2016, 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.

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 2 – Summary of Significant Accounting Policies (continued)

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

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

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

Reclassifications – Certain reclassifications were made to the 2016 consolidated financial statements to conform to the 2017 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, 2017, which is the date the consolidated financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

Note 3 – Accounts and Interest Receivable, Net

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

	2017	2016
Government grants and loan funds	$ 7,386	$ 5,648
Student receivables	1,013	1,436
Miscellaneous receivables	1,842	1,150
Accrued interest receivable	309	263
	10,550	8,497
Less allowance for doubtful accounts	(100)	(100)
	$ 10,450	$ 8,397

Note 4 – Contributions Receivable, Net

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

	2017	2016
In one year or less	$ 8,340	$ 58,285
Between one year and five years	18,680	18,240
More than five years	15,877	17,722
Less present value discounts	(10,801)	(11,265)
	32,096	82,982
Less allowance for doubtful accounts	(576)	(1,317)
	$ 31,520	$ 81,665

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

	2017	2016
Unrestricted	$ 12	$ 3
Temporarily restricted for financial aid and other	4,889	3,717
Temporarily restricted for property, plant, and equipment	21,810	64,093
Endowment for financial aid and endowed chairs	4,809	13,852
	$ 31,520	$ 81,665

Notes to Consolidated Financial Statements (Dollars 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:

	2017	2016
Federal government programs	$ 13,943	$ 14,626
Institutional programs	1,664	1,616
	15,607	16,242
Less allowance for doubtful accounts	(319)	(319)
Student loans receivable, net	$ 15,288	$ 15,923

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. Funds advanced by the federal government are ultimately refundable to the government. Outstanding loans cancelled under the programs result in a reduction of the funds available for new loans and a decrease in the liability to the government. The net liability due to the government was $10,902 and $10,864 at May 31, 2017 and 2016, respectively.

At May 31, 2017 and 2016, 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
2017	$ 30	$ 7	$ 1	$ 4	$ 267	$ 502	$ 811
2016	$ 128	$ 9	$ 1	$ 18	$ 444	$ 689	$ 1,289

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

Note 6 – Investments

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

	2017	2016
Fixed income securities	$ 116,697	$ 57,833

Short-term investments are comprised 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 1.11 years as of May 31, 2017.

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

	2017	2016
Cash and cash equivalents	$ 828	$ 3,051
Equity securities	102,821	95,785
Fixed income securities	34,554	33,474
Alternative investments	71,851	73,237
Direct real property investments	65,384	6,216
Split-interest agreements	10,889	10,307
Other	842	696
	$ 287,169	$ 222,766

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 6 – Investments (continued)

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

	2017	2016
Managed diversified global multi-asset fund	$ 43,643	$ 38,585
Private credit funds	6,284	10,941
Hedge and other funds	13,805	10,504
Real estate funds	4,684	8,433
Diversified fund of funds	3,435	4,774
	$ 71,851	$ 73,237

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

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

	2017	2016
Net unrealized and realized gain (loss) on investments held at market	$ 20,815	$ (7,685)
Interest income and dividends	5,243	4,987
Total return on investments and cash and cash equivalents	$ 26,058	$ (2,698)
Amounts withdrawn under spending policy	$ 7,709	$ 7,347

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:

	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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (290)	$ 55,256	$ 116,413	$ 171,379
Board-designated funds	20,454	12,127 [2]	-	32,581
	$ 20,164	$ 67,383	$ 116,413	$ 203,960

[1]*Amounts shown as temporarily restricted Board-designated funds are Foundation assets restricted for use for the Gonzaga Law School Foundation.*

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

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 that investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University maintains a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term return objectives within prudent risk constraints.

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

a) 70% based upon the HEPI for the Pacific Region applied to the prior year endowment spending amount.

b) 30% based upon a rate of 4% to 5% of a three-year rolling average of the fund's total market value, measured quarterly.

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

Notes to Consolidated Financial Statements (Dollars 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 $433 and $290 as of May 31, 2017 and 2016, respectively.

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

	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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 14,348	$ 83,809	$ 126,157	$ 224,314
Investment return				
Investment income	251	3,187	19	3,457
Net realized and unrealized (loss) gain	(581)	(6,338)	44	(6,875)
Total investment return	(330)	(3,151)	63	(3,418)
Contributions	-	-	5,153	5,153
Amount distributed for operating activities	(567)	(6,780)	-	(7,347)
Transfers	6,713	(6,495)	(14,960) [2]	(14,742)
Net assets, end of year	$ 20,164	$ 67,383	$ 116,413	$ 203,960

[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.

[2]Transfer from the permanently restricted endowment net assets of $15,000 represents a change in estimate of the cost to design, construct, and furnish a performing arts center based on the donor's designation. The balance of the original gift is to remain in endowment.

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 8 – Property, Plant, and Equipment, Net

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

	2017	2016
Land	$ 8,111	$ 8,072
Buildings and improvements	360,192	353,858
Equipment and furniture	34,372	33,448
Artwork	4,176	3,911
Library books	5,387	5,273
Construction in progress	30,896	6,675
	443,134	411,237
Less accumulated depreciation	(124,455)	(114,280)
	$ 318,679	$ 296,957

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

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
Jesuit Residence	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

Project	Cost to Date May 31, 2015	Current Year Additions	Placed into Service	Cost to Date May 31, 2016
The John J. Hemmingson University Center	$ 60,744	$ 3,241	$ (63,985)	$ -
Network Replacement	3,667	690	(4,357)	-
Foley Center Renovations	289	1,438	-	1,727
Myrtle Woldson Performing Arts Center	15	1,159	-	1,174
Jesuit Residence	-	1,159	-	1,159
All other projects	1,386	6,411	(5,182)	2,615
Total	$ 66,101	$ 14,098	$ (73,524)	$ 6,675

Note 9 – Deferred Revenues and Refundable Advances

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

	2017	2016
Deferred revenues	$ 11,965	$ 10,614
Refundable advances	8,592	9,461
	$ 20,557	$ 20,075

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.

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 10 – Bonds and Notes Payable

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

	2017	2016
Taxable Bonds		
Series 2016 A	$ 108,275	$ -
Series 2016 B	32,075	-
Series 2013 B	20,000	20,000
Tax Exempt Bonds		
Series 2013 A	33,000	33,000
Bonds paid or defeased	-	116,680
Other notes	827	985
	194,177	170,665
Unamortized net (discount) premium	(575)	1,572
Unamortized debt issuance costs	(1,541)	(1,987)
	$ 192,061	$ 170,250

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 as well as providing additional financing for various capital projects.

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.

A net loss of $9,572 was recorded within the consolidated statement of activities 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 for the period ending May 31, 2017.

The Series 2013 B taxable bonds, issued through the Washington Higher Education Facilities Authority (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.

The Series 2013 A bonds, issued through 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.

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

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).

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 10 – Bonds and Notes Payable (continued)

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

	2017	2016
Debt service reserve funds	$ -	$ 12,761
Cost of issuance and debt service funds	17	50
	$ 17	$ 12,811

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

Years ending May 31,	Principal
2018	$ 3,413
2019	3,440
2020	3,962
2021	4,138
2022	4,314
Thereafter	174,910
	194,177
Unamortized net premium	(575)
Unamortized debt issuance costs	(1,541)
	$ 192,061

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, 2017 and 2016. The lines of credit consist of the following:

Line of Credit	Rate	Term	Security	Available Credit
Revolving operating	One-month LIBOR plus 1.00%	3/1/2018	Parity lien on unrestricted gross revenue	$ 10,000
Revolving capital	One-month LIBOR plus 1.50%	12/18/2017	Parity lien on unrestricted gross revenue and certain deposit and security accounts	5,000
Revolving capital	One-month LIBOR plus 2.00%	12/20/2017	Unsecured	5,000

Notes to Consolidated Financial Statements (Dollars in thousands)

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, 2017	Effective Date	Maturity Date	University Pays	University Receives
$ 28,150	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%
3,925	10/1/2012	4/1/2022	4.1680%	70% of one-month LIBOR

In prior years, the University used variable-rate debt to finance the construction and acquisition of property, plant, and equipment. The University entered into swaps in order to obtain a synthetic fixed rate and to hedge the risk of changes in interest payments on the bonds caused by changes in the market rates. The swaps are secured on a parity basis with 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 $5,401 and $7,209 as of May 31, 2017 and 2016, respectively.

Net realized losses associated with the swaps were $1,265 and $1,491 for the years ended May 31, 2017 and 2016, respectively, and characterized as interest expense (natural classification) and allocated among operating expenses on the accompanying consolidated statement of activities. The unrealized changes in value associated with the swaps were $1,808 and $244 for the years ended May 31, 2017 and 2016, 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. Investment choices are offered through two providers: TIAA-CREF and Fidelity Investments. The University's expense for the Plan was $6,858 and $6,566 for the years ended May 31, 2017 and 2016, respectively.

Voluntary employee contributions and accumulated earnings to the 457(b) plan of $2,825 and $2,376 as of May 31, 2017 and 2016, 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.

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 13 – Net Assets

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

	2017	2016
Unrestricted		
Available for operations	$ 36,699	$ 49,640
Invested in property, plant, and equipment	109,585	125,936
Board-designated quasi-endowment funds	56,185	20,454
Board-designated for investment in property, plant, and equipment	9,985	8,304
Total unrestricted	$ 212,454	$ 204,334
Temporarily Restricted		
Unappropriated donor-restricted endowment earnings	$ 69,713	$ 55,256
Board-designated quasi-endowment funds	1,608	12,127
Property, plant, and equipment	70,000	62,141
Financial aid	3,596	3,221
Program support	21,375	23,916
Academic chairs	1,831	1,486
Split-interest agreements	5,260	4,076
Student loan program	222	221
Total temporarily restricted	$ 173,605	$ 162,444
Permanently Restricted		
Financial aid	$ 107,977	$ 80,772
Program support	17,656	16,103
Academic chairs	14,618	14,577
Split-interest agreements	3,376	4,015
Student loan program	953	946
Total permanently restricted	$ 144,580	$ 116,413

Note 14 – Commitments and Contingencies

Commitments – As of May 31, 2017, the University had outstanding, but not yet payable, purchase commitments in the amount of $48,523 related to the construction of campus facilities.

On March 31, 2016, Gonzaga University entered into 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, beginning in July 2016. The program will expand 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, twenty-four 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.

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

Level 1 assets include:

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

Level 2 assets and liabilities include:

- Investments in U.S. government and agency obligations, corporate bonds, 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 an international commingled equity fund 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.
- Direct investments in three real property assets received through an estate gift in downtown Seattle, Washington, comprised of two parking garages and one surface parking lot. The University plans to re-develop the surface parking lot into multi-family housing with a third-party developer 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. A 0.25% decrease in the underlying income capitalization rate of 5.0% would increase the fair value of the two parking garages by approximately $1,231. A 0.25% increase in the underlying income capitalization rate of 5.0% would decrease the fair value of the two parking garages by approximately $1,164. 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

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 15 – Fair Value of Financial Instruments (continued)

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 2.1% 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 $832. A 1.0% decrease in each of the underlying discount rates would increase the fair value by approximately $1,124. 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.

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

	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.

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 15 – Fair Value of Financial Instruments (continued)

	May 31, 2016			
	Level 1	Level 2	Level 3	Total
Short-term investments				
Domestic fixed income mutual fund	$ 5,033	$ -	$ -	$ 5,033
U.S. government and agency obligations	-	27,008	-	27,008
Corporate bonds	-	21,425	-	21,425
Municipal bonds	-	-	-	-
Asset-backed obligations	-	4,367	-	4,367
Total short-term investments	5,033	52,800	-	57,833
Deposits with bond trustees				
Money market funds	3,067	-	-	3,067
U.S. government and agency obligations	-	2,402	-	2,402
Corporate bonds	-	7,342	-	7,342
Total deposits with bond trustees	3,067	9,744	-	12,811
Long-term investments				
Cash and cash equivalents	3,051	-	-	3,051
Equity securities				
Mutual funds, index funds, and commingled funds				
Domestic	34,459	-	-	34,459
International	29,858	11,521	-	41,379
Direct ownership - public and privately held stock	17,667	1,445	835	19,947
Fixed income securities				
Mutual funds and index funds				
Domestic	27,996	-	-	27,996
International	5,240	-	-	5,240
Corporate bonds	-	238	-	238
Direct real property investments	-	6,216	-	6,216
Assets held under split interest agreements				
Cash and cash equivalents	314	-	-	314
Equity mutual funds	6,364	-	-	6,364
Equity-direct ownership	657	-	-	657
Fixed income mutual funds	2,972	-	-	2,972
Other	410	286	-	696
Total long-term investments in fair value hierarchy	128,988	19,706	835	149,529
Beneficial interest in split interest agreements held by others	-	-	7,555	7,555
Total assets in fair value hierarchy	$ 137,088	$ 82,250	$ 8,390	$ 227,728
Obligation under interest rate swaps	$ -	$ (7,209)	$ -	$ (7,209)
Total liabilities in fair value hierarchy	$ -	$ (7,209)	$ -	$ (7,209)
Long-term investments measured at NAV practical expedient[1]				$ 73,237

[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.*

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 15 – Fair Value of Financial Instruments (continued)

Following is a reconciliation of activity for the years ended May 31, 2017 and 2016, 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, 2015	$ 801	$ -	$ 7,524	$ 8,325
Net unrealized gains	34	-	338	372
Return of capital/transfers to income	-	-	(307)	(307)
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

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

	Fair Value at May 31, 2017	Unfunded Cash Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period	Investment Strategies and Other Restrictions
Commingled fund (Level 2)	$ 12,932	$ -	(a)	(a)	(a)
Limited partnership investments					
Managed diversified global multi-asset fund	43,643	-	(b)	(b)	(b)
Private credit funds	6,284	8,692	(c)	n/a	(c)
Diversified fund of funds	3,435	93	(d)	n/a	(d)
Real estate fund	4,684	-	(e)	(e)	(e)
Hedge and other funds	13,805	3,364	(f)	(f)	(f)
Total long-term investments measured at NAV practical expedient	71,851	12,149			
	$ 84,783	$ 12,149			

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

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

For distributions in excess of the automatic annual distribution, the University may request the withdrawal of all or a portion of its capital account, with a minimum withdrawal of at least $1,000, on the last day of any calendar year by providing a withdrawal request at any time during the fourth quarter of the preceding calendar year. The amount requested to be withdrawn will be apportioned between the liquid portion and limited liquidity portion of the University's capital account, as determined based on the liquidity attributes of the underlying fund investments. As of May 31, 2017, the value of the liquid portion is $3,842. The fund will make a distribution

Notes to Consolidated Financial Statements (Dollars in thousands)

Note 15 – Fair Value of Financial Instruments (continued)

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 publically traded equity securities. The funds can only be redeemed through the liquidation of underlying assets, and as underlying assets are liquidated, distributions are received. It is estimated that the underlying assets of the illiquid funds will be liquidated between 2019 and 2024.

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 days 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 days notice. The three private equity funds invest in privately-held entities with potential for significant growth in revenue and earnings. Each fund is nonredeemable and can be sold only on the secondary market as long as the respective fund general partner receives an opinion from counsel that such a transfer is not in violation of certain sanctions of the Securities Act, Investment Company Act, and/or federal tax laws. It is estimated that the underlying assets of the funds will be liquidated between 2017 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:

	2017	2016
Contributions receivable, net	$ 23,346	$ 22,980
Contributions revenue	5,240	555

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

Unrestricted Operating Expenses Combined by Natural Expenditures
(Dollars in thousands)

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

	2017	2016
Salaries and benefits	$ 133,349	$ 123,227
Employee early termination expense	450	2,149
Meetings, travel, and memberships	13,010	12,645
Depreciation	12,126	10,904
Materials, supplies, printing, and postage	10,436	9,393
Occupancy, telephone, utilities, and insurance	9,553	9,718
Interest	9,054	9,868
Professional fees and contracted services	8,020	6,451
Room and board	7,785	9,142
Maintenance and rentals	5,465	5,087
Advertising, promotion, and recruitment	3,728	4,353
Other expenses	6,514	6,352
	$ 219,490	$ 209,289

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

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