Report of Independent Auditors and
Consolidated Financial Statements
With Supplementary Information for

The Corporation of Gonzaga University

May 31, 2013 and 2012

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

President and Board of Trustees
The Corporation of Gonzaga University

Report on Financial Statements

We have audited the accompanying consolidated financial statements of The Corporation of Gonzaga University (a Washington nonprofit corporation), which comprise the consolidated statements of financial position as of May 31, 2013 and 2012, 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.

REPORT OF INDEPENDENT AUDITORS
(continued)

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Corporation of Gonzaga University as of May 31, 2013 and 2012, and the statements of activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The unrestricted operating expenses combined by natural expenditure schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the 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 financial statements as a whole.

Moss Adams LLP

Spokane, Washington
August 30, 2013

THE CORPORATION OF GONZAGA UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	(in thousands) May 31, 2013	(in thousands) May 31, 2012
Cash and cash equivalents	$ 76,289	$ 59,160
Accounts and interest receivable, net	10,023	9,733
Inventories and prepaid expenses	4,049	4,631
Contributions receivable, net	23,061	9,540
Student loans receivable, net	14,913	15,344
Deposits with bond trustees	13,210	13,391
Investments	171,510	144,422
Beneficial interests in trusts	7,818	7,755
Property, plant, and equipment, net	228,894	218,114
Total assets	$ 549,767	$ 482,090

LIABILITIES AND NET ASSETS

	2013	2012
LIABILITIES		
Accounts and other payables	$ 18,661	$ 12,096
Accrued salaries, taxes, and benefits	16,336	14,912
Deferred revenues	11,311	11,123
Split-interest agreement obligations	5,958	4,998
Federal student loan program	11,062	11,074
Obligation under interest rate swaps	6,744	7,820
Notes and bonds payable	135,445	132,101
Total liabilities	205,517	194,124
NET ASSETS		
Unrestricted	149,547	132,479
Temporarily restricted	107,441	73,333
Permanently restricted	87,262	82,154
Total net assets	344,250	287,966
Total liabilities and net assets	$ 549,767	$ 482,090

See accompanying notes.

	(in thousands) Year Ended May 31, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees, net	$ 210,907	$ -	$ -	$ 210,907
Less institutional financial aid	(73,398)	-	-	(73,398)
	137,509	-	-	137,509
Contributions	3,871	7,060	-	10,931
Government grants and contracts	1,881	-	-	1,881
Investment gain (loss) used for operations	(189)	5,780	-	5,591
Investment income used for operations	247	-	-	247
Auxiliary enterprises	25,244	-	-	25,244
Organized activities	3,531	-	-	3,531
Other sources	6,096	27	-	6,123
	178,190	12,867	-	191,057
Net assets released from restrictions	12,678	(12,678)	-	-
Total operating revenues	190,868	189	-	191,057
Operating Expenses				
Instruction	74,680	-	-	74,680
Libraries	5,921	-	-	5,921
Student services	11,425	-	-	11,425
Organized activities	18,612	-	-	18,612
General administrative and institutional	33,921	-	-	33,921
Operation and maintenance of plant	10,445	-	-	10,445
Scholarships and student aid	1,577	-	-	1,577
Auxiliary enterprises	21,707	-	-	21,707
Total operating expenses	178,288	-	-	178,288
Increase in net assets from operations	12,580	189	-	12,769
Nonoperating Activities				
Contributions for acquisition of capital assets	-	18,332	-	18,332
Contributions to endowment funds	-	248	4,736	4,984
Gain on disposal of equipment	52	-	-	52
Investment gain, net of amounts used for operations	2,134	12,798	42	14,974
Investment income, net of amounts used for operations	281	2,767	24	3,072
Change in value of interest rate swaps	1,076	-	-	1,076
Change in value of split interest agreements	-	586	439	1,025
Net assets released from restrictions	995	(995)	-	-
Transfers	(50)	183	(133)	-
Total nonoperating activities	4,488	33,919	5,108	43,515
Increase in net assets	17,068	34,108	5,108	56,284
Net assets at beginning of year	132,479	73,333	82,154	287,966
Net assets at end of year	$ 149,547	$ 107,441	$ 87,262	$ 344,250

THE CORPORATION OF GONZAGA UNIVERSITY
CONSOLIDATED STATEMENTS OF ACTIVITIES

	(in thousands) Year Ended May 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees, net	$ 205,490	$ -	$ -	$ 205,490
Less institutional financial aid	(69,833)	-	-	(69,833)
	135,657	-	-	135,657
Contributions	3,411	3,846	-	7,257
Grants and contracts	2,466	-	-	2,466
Investment gain used for operations	95	4,119	-	4,214
Investment income used for operations	232	245	-	477
Auxiliary enterprises	27,420	-	-	27,420
Organized activities	3,417	-	-	3,417
Other sources	6,073	92	-	6,165
	178,771	8,302	-	187,073
Net assets released from restrictions	8,210	(8,210)	-	-
Total operating revenues	186,981	92	-	187,073
Operating Expenses				
Instruction	73,340	-	-	73,340
Libraries	5,848	-	-	5,848
Student services	10,102	-	-	10,102
Organized activities	18,584	-	-	18,584
General administrative and institutional	31,958	-	-	31,958
Operation and maintenance of plant	10,305	-	-	10,305
Scholarships and student aid	1,306	-	-	1,306
Auxiliary enterprises	25,731	-	-	25,731
Total operating expenses	177,174	-	-	177,174
Increase in net assets from operations	9,807	92	-	9,899
Nonoperating Activities				
Contributions for acquisition of capital assets	-	660	-	660
Contributions to endowment funds	-	50	6,425	6,475
Loss on disposal of equipment	(13)	-	-	(13)
Investment gain (loss), net of amounts used for operations	(1,768)	(9,499)	137	(11,130)
Investment income, net of amounts used for operations	292	2,065	39	2,396
Change in value of interest rate swaps	(4,503)	-	-	(4,503)
Change in value of split interest agreements	-	269	(220)	49
Net assets released from restrictions	1,092	(1,092)	-	-
Transfers	(925)	383	542	-
Total nonoperating activities	(5,825)	(7,164)	6,923	(6,066)
Increase (decrease) in net assets	3,982	(7,072)	6,923	3,833
Net assets at beginning of year	128,497	80,405	75,231	284,133
Net assets at end of year	$ 132,479	$ 73,333	$ 82,154	$ 287,966

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	(in thousands) Years Ended May 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 56,284	$ 3,833
Adjustments to reconcile increase in net assets to net cash from operating activities		
Depreciation and amortization	9,104	8,945
Provision for uncollectible receivables	144	92
Loss (gain) on disposal of fixed assets	(52)	13
Contributions restricted for long-term purposes	(23,316)	(7,135)
Interest and dividends restricted for long-term investment	(3,319)	(2,873)
Net realized and unrealized loss (gain) on long-term investments	(20,565)	6,916
Change in value of interest rate swaps	(1,076)	4,503
Change in value of split interest agreements	(1,025)	(49)
Change in assets and liabilities		
Receivables	(1,814)	1,370
Inventories and prepaid expenses	637	1,227
Accounts payable and other obligations	3,430	922
Accrued salaries, taxes, and benefits	1,424	3,245
Deferred revenues	188	(2,604)
Net cash from operating activities	20,044	18,405
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	(16,351)	(5,851)
Proceeds from sale of property and equipment	52	12
Proceeds from sale of investments	12,677	21,344
Purchase of investments	(17,576)	(22,625)
Issuance of student loans receivable	(1,829)	(1,807)
Repayment of student loans receivable	2,074	1,862
Reduction in deposits with bond trustees	181	677
Net cash used by investing activities	(20,772)	(6,388)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term purposes	10,272	5,525
Proceeds from contributions for split interest agreements	1,481	624
Proceeds from issuance of bonds	9,294	-
Payment of bond issuance costs	(244)	-
Payments on notes and bonds	(5,950)	(4,663)
Payments on split-interest agreements	(303)	(287)
Interest and dividends restricted for long-term investment	3,319	2,873
Net change in student loan liability	(12)	(25)
Net cash from financing activities	17,857	4,047
NET CHANGE IN CASH AND CASH EQUIVALENTS	17,129	16,064
CASH AND CASH EQUIVALENTS, beginning of year	59,160	43,096
CASH AND CASH EQUIVALENTS, end of year	$ 76,289	$ 59,160
SUPPLEMENTAL DISCLOSURES		
Interest paid (net of $12 and $-0- for 2013 and 2012, respectively, of capitalized interest)	$ 6,700	$ 6,674
Noncash acquisition of property, plant, and equipment	3,135	135
Noncash gifts of investments and property, plant, and equipment	329	1,997

See accompanying notes.

Note 1 – Organization

Gonzaga University (University) is an independent, coeducational higher education institution founded in 1887 by the Society of Jesus. The University was incorporated in the state of Washington in 1894 as a tax-exempt charitable organization located in Spokane, Washington. The primary source of revenue is generated from tuition from the undergraduate, graduate (including online programs), and law programs through the schools of Arts & Sciences, Business, Engineering & Applied Science, Education, Nursing & Human Physiology, Professional Studies, and Law. Other sources of revenue include room and board, gifts, investment earnings, fees, and bookstore commissions and sales.

In June 2012, the University outsourced the operation of the bookstore. The University receives commission revenue from the outsourced provider and no longer maintains inventory, generates sales, or incurs costs of sales and other operating expenses for the bookstore. For the year ended May 31, 2013, auxiliary enterprises revenue includes the sale of the bookstore inventory to the outsource provider as well as commission revenue; auxiliary enterprise expense includes the book value of inventory sold to the outsource provider.

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). The more significant policies are summarized below.

Basis of presentation – The accompanying consolidated financial statements have been prepared in accordance with GAAP with net assets, revenues, expenses, gains, and losses classified into three categories based on the existence or absence of externally (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.

(IN THOUSANDS)

Note 2 – Summary of Significant Accounting Policies (continued)

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 income earned 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 – The consolidated financial statements include the accounts of Gonzaga University, the Law School Foundation (Foundation), and Immobiliare Gonzaga Srl. The purpose of the Foundation is to provide additional revenue, endowment, and related income to the University's Law School. Immobiliare Gonzaga Srl. is an Italian corporation formed to purchase and remodel a classroom/administration building used in the University's Florence, Italy, program. All significant inter-entity transactions and balances have been eliminated. The summarized statements of financial position for these entities are as follows:

	For the Year ended May 31, 2013				
	Gonzaga University	Law School Foundation	Immobiliare Gonzaga Srl.	Inter-entity Elimination	Consolidated Total
Assets	$ 530,981	$ 17,569	$ 5,835	$ (4,618)	$ 549,767
Liabilities	$ 205,045	$ 3	$ 5,087	$ (4,618)	$ 205,517
NET ASSETS					
Unrestricted	145,552	3,247	748	-	149,547
Temporarily restricted	99,878	7,563	-	-	107,441
Permanently restricted	80,506	6,756	-	-	87,262
Total net assets	325,936	17,566	748	-	344,250
Total liabilities and net assets	$ 530,981	$ 17,569	$ 5,835	$ (4,618)	$ 549,767

(IN THOUSANDS)

Note 2 – Summary of Significant Accounting Policies (continued)

	For the Year ended May 31, 2012				
	Gonzaga University	Law School Foundation	Immobiliare Gonzaga Srl.	Inter-entity Elimination	Consolidated Total
Assets	$ 465,457	$ 15,237	$ 5,908	$ (4,512)	$ 482,090
Liabilities	$ 193,622	$ 4	$ 5,010	$ (4,512)	$ 194,124
NET ASSETS					
Unrestricted	128,741	2,840	898	-	132,479
Temporarily restricted	67,562	5,771	-	-	73,333
Permanently restricted	75,532	6,622	-	-	82,154
Total net assets	271,835	15,233	898	-	287,966
Total liabilities and net assets	$ 465,457	$ 15,237	$ 5,908	$ (4,512)	$ 482,090

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

Included in cash and cash equivalents are assets restricted for investment in property, plant, and equipment of $5,539 and $451 as of May 31, 2013 and 2012, respectively.

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

Investments – The University manages its investments by using external investment managers. These investment managers invest the University's funds in various financial instruments in accordance with Board approved investment policies.

Note 2 – Summary of Significant Accounting Policies (continued)

Investments (continued) – The University's investments are recorded in the consolidated financial statements at fair value. Total 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. Investment income is reported as an increase in unrestricted, temporarily restricted, or permanently restricted net assets, depending on donor-imposed restrictions on the use of the income. Investments gifted to the University are recorded at the fair value at the date of gift.

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

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

The University has legal title, as trustee, to irrevocable charitable remainder trusts and also receives contributions in connection with charitable gift annuity contracts. Actuarial methods are used to record these annuities and trusts using discount rates ranging from 4% to 6%. When a gift is received, the present value of future expected payments to the beneficiaries is recorded as a liability based upon life expectancy tables and discount rate assumptions and the remainder is recorded as a contribution. Annuity and trust assets are reported at fair value and included within 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 reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by state laws. The total investments held in separate reserve funds were $3,339 and $2,035 as of May 31, 2013 and 2012, respectively. The amount included in split-interest agreement obligations to meet future payments under gift annuity contracts was $1,740 and $1,250 as of May 31, 2013 and 2012, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

Inventories – Student bookstore (see Note 1) and supply inventories are stated at the lower of cost, using the first-in first-out method, or market.

Accounts and contributions receivable – Accounts receivable from students included in accounts and interest receivable, net, in the consolidated statement 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 computed 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, history, and current information, an allowance for doubtful accounts is included. Account balances are charged off against the allowance after all means of collection have been exhausted and potential recovery 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.

Notes receivable – Notes 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 – Property, plant, and equipment are stated at cost at the date of acquisition or fair value at the date of donation. The cost of major improvements in excess of $100 and purchases of depreciable items in excess of $5 are 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 - 7 years
Library books	10 years

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

(IN THOUSANDS)

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue recognition (continued) – Student tuition and fees are reflected net of student marketing and recruiting costs of $5,529 and $5,444 for the years ended May 31, 2013 and 2012, respectively, which represent the amount paid to an unrelated third party for certain of the University's graduate distance learning programs where, from a revenue recognition standpoint, the University is considered an agent in the transaction.

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

Foreign operations – The University has a number of graduate and undergraduate programs in foreign countries, primarily Canada and Italy. Gross revenues and expenses of these programs are as follows:

	2013	2012
Canadian program		
Gross revenue	$ 2,992	$ 2,607
Gross expenses	532	680
Florence and other European programs		
Gross revenue	8,946	9,121
Gross expenses	6,017	7,093

Advertising – Costs expensed for the years ended May 31, 2013 and 2012, were $1,385 and $803, respectively.

Fund-raising expenses – Costs related to development and fund-raising are expensed as incurred for years ended May 31, 2013 and 2012, and were $4,041 and $4,195, respectively.

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

Note 2 – Summary of Significant Accounting Policies (continued)

Taxes – The Internal Revenue Service has recognized the University 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 and, therefore, the consolidated financial statements do not include a provision for federal income tax. The University adheres to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosure requirements. As of May 31, 2013 and 2012, the University had no uncertain tax positions requiring accrual. In addition, the University presently is exempt from Washington State real and personal property taxes pursuant to WAC 458-16-270 on the majority of its educational and other noncommercial properties of the University.

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

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

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, 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 2012 consolidated financial statements to conform to the 2013 presentation. The reclassifications have no effect on the statement in activities or net asset balances as previously reported.

Subsequent events – The University has evaluated subsequent events through August 30, 2013, 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

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

	2013	2012
Student receivables	$ 968	$ 1,207
Government grants and loan funds	7,730	6,351
Accrued interest receivable	57	76
Short-term receivables	672	1,046
Other receivables	696	1,153
	10,123	9,833
Less allowance for doubtful accounts	(100)	(100)
	$ 10,023	$ 9,733

Note 4 – Contributions Receivable

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

	2013	2012
In one year or less	$ 5,216	$ 10,121
Between one year and five years	10,319	5,538
More than five years	18,540	226
Less present value discounts	(10,825)	(614)
	23,250	15,271
Less allowance for doubtful accounts	(189)	(5,731)
	$ 23,061	$ 9,540

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

	2013	2012
Unrestricted	$ 26	$ 41
Temporarily restricted for financial aid and other	5,033	3,117
Endowment for financial aid and endowed chairs	2,996	2,614
Temporarily restricted for property, plant, and equipment	15,006	3,768
	$ 23,061	$ 9,540

(IN THOUSANDS)

Note 5 – Student Loans Receivable

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

At May 31, student loans consisted of the following:

	2013	2012
Federal government programs	$ 14,131	$ 14,618
Institutional programs	1,088	1,032
	15,219	15,650
Less allowance for doubtful accounts	(306)	(306)
Student loans receivable, net	$ 14,913	$ 15,344

The University participates in the Perkins and Nursing federal revolving loan programs. The availability of funds for loans under the programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government are ultimately refundable to the government. Outstanding loans cancelled under the programs result in a reduction of the funds available for loans and a decrease in the liability to the government. The net liability due to the government was $11,062 and $11,074 at May 31, 2013 and 2012, respectively.

At May 31, 2013 and 2012, the following amounts were past due under all student loan programs:

May 31,	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
2013	$ 103	$ 65	$ 69	$ 421	$ 505	$ 1,163
2012	228	42	90	327	459	1,146

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

Investments at May 31 are as follows:

	2013	2012
At market		
Cash and cash equivalents	$ 879	$ 11,990
Equity securities	88,720	61,299
Fixed income securities	29,532	22,005
Alternatives	40,676	39,568
Split-interest agreements	10,645	8,344
Other	1,058	1,216
	$ 171,510	$ 144,422

Within cash and cash equivalents reported as investments as of May 31, 2012, approximately $10,700 represents Foundation endowment amounts held temporarily as cash until long term investment opportunities were identified. Shortly after May 31, 2012, this amount was invested in equity and fixed income securities.

See Note 14 for unfunded cash commitments and other information associated with alternative investments.

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

	2013	2012
Net unrealized and realized gain (loss) on investments held at market	$ 20,565	$ (6,916)
Interest income and dividends	3,319	2,873
Total return on investments and cash and cash equivalents	$ 23,884	$ (4,043)
Amounts withdrawn under spending policy	$ 5,467	$ 4,398

(IN THOUSANDS)

Note 7 – Endowment

The University's endowment consists of approximately 700 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

	As of May 31, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (419)	$ 66,756	$ 87,262	$ 153,599
Board-designated funds	13,735	-	-	13,735
	$ 13,316	$ 66,756	$ 87,262	$ 167,334

	As of May 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,159)	$ 50,080	$ 82,154	$ 131,075
Board-designated funds	12,060	-	-	12,060
	$ 10,901	$ 50,080	$ 82,154	$ 143,135

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.

Note 7 – Endowment (continued)

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 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 an endowment fund if such expenditure will result in the fair value of the fund falling below the permanently restricted value of the fund, measured as of May 31 of the fiscal year of appropriation.

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration. Deficiencies of this nature reported in unrestricted net assets were $419 and $1,159 as of May 31, 2013 and 2012, respectively.

(IN THOUSANDS)

Note 7 – Endowment (continued)

Changes in endowment net assets are summarized as follows:

	For the Year Ended May 31, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 10,901	$ 50,080	$ 82,154	$ 143,135
Investment return				
Investment income	281	2,767	24	3,072
Net gain (realized and unrealized)	2,618	18,368	481	21,467
Total investment return	2,899	21,135	505	24,539
Contributions	-	248	4,736	4,984
Amount distributed for operating activities	(5,467)	-	-	(5,467)
Transfers	-	276	(133)	143
Released from restriction	4,983	(4,983)	-	-
Net assets, end of year	$ 13,316	$ 66,756	$ 87,262	$ 167,334

	For the Year Ended May 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 12,163	$ 57,384	$ 75,231	$ 144,778
Investment return				
Investment income	292	2,065	39	2,396
Net loss (realized and unrealized)	(1,388)	(5,213)	(83)	(6,684)
Total investment return	(1,096)	(3,148)	(44)	(4,288)
Contributions	-	50	6,425	6,475
Amount distributed for operating activities	(4,398)	-	-	(4,398)
Transfers	214	(188)	542	568
Released from restriction	4,018	(4,018)	-	-
Net assets, end of year	$ 10,901	$ 50,080	$ 82,154	$ 143,135

(IN THOUSANDS)

Note 8 – Property, Plant, and Equipment, Net

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

	2013	2012
Land	$ 6,827	$ 6,827
Buildings and improvements	266,814	265,661
Equipment and furniture	23,935	24,471
Artwork	3,166	2,986
Library books	4,982	4,807
Construction in progress	18,940	2,009
	324,664	306,761
Less accumulated depreciation	(95,770)	(88,647)
	$ 228,894	$ 218,114

Note 9 – Bonds and Notes Payable

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

	2013	2012
Tax Exempt Bonds issued through the Authority		
Series 2012 A	$ 7,305	$ -
Series 2010 A	33,785	36,590
Series 2009 B	52,660	53,210
Series 2009 A	36,645	37,845
Convertible Rate Bonds issued through the Authority		
Series 2012 B	1,989	-
Other unsecured notes	386	1,613
	132,770	129,258
Unamortized premium	2,675	2,843
	$ 135,445	$ 132,101

Note 9 – Bonds and Notes Payable (continued)

The Series 2012 A bonds have an original issuance of $7,305 and were issued in conjunction with the Series 2012 B bonds as a private placement with a national bank. Interest is variable and calculated monthly based on 70% of one month LIBOR plus 92 basis points, with an effective interest rate of 1.059% as of May 31, 2013. Repayment is based on a 30 year amortization, and the private placement matures in 2022 with a bank option to extend. The bonds are pre-payable without penalty beginning in August 2014.

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

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

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

The Series 2012 B bonds have an original issuance of $3,320, of which $1,331 was undrawn as of May 31, 2013, and were issued in conjunction with the Series 2012 A bonds as a private placement with a national bank. The Series 2012 B bonds were tax exempt at issuance and as of May 31, 2013, and may be converted to taxable at the discretion of the University. Tax exempt interest is variable and calculated monthly based on 70% of one month LIBOR plus 92 basis points, with an effective interest rate of 1.059% as of May 31, 2013. Upon rate conversion, taxable interest is variable and calculated monthly based on one month LIBOR plus 120 basis points. Repayment is based on a 16-year amortization, and the private placement matures in 2022 with a bank option to extend. The bonds are pre-payable without penalty beginning in August 2014.

Other unsecured notes are due in various installments through 2093. The interest rate is 7.75%.

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

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

(IN THOUSANDS)

Note 9 – Bonds and Notes Payable (continued)

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

	2013	2012
Debt service reserve funds	$ 13,114	$ 13,303
Debt service funds	96	88
	$ 13,210	$ 13,391

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

Years Ending May 31,	Principal
2014	$ 5,430
2015	5,670
2016	5,935
2017	6,210
2018	6,480
Thereafter	103,045
	132,770
Premium	2,675
	$ 135,445

The University also has a $10,000 revolving line of credit agreement with Bank of America that bears interest equal to a prime rate established by Bank of America, which was 3.25% as of May 31, 2013. The revolving line of credit is secured by a parity lien on unrestricted gross revenues and certain deposit and security accounts with Bank of America and U.S. Bank. There were no outstanding advances against the line of credit as of May 31, 2013 and 2012. The line of credit agreement matures on January 31, 2014, and may be extended if agreed to by both parties.

(IN THOUSANDS)

Note 10 – Derivative Instruments and Hedging Activities

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

Notional Amount on Effective Date		Effective Date	Maturity Date	University Pays	University Receives
$	35,550	10/1/2014	4/1/2034	4.1195%	67% of one month LIBOR if LIBOR is 3.5% or greater or 77% of one month LIBOR if LIBOR is less than 3.5%
	7,325	10/1/2012	4/1/2022	4.1680%	70% of one month LIBOR

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

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. The 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 University's current credit rating, as provided by Moody's, is A3 with a stable outlook.

The swaps were issued at market terms so they had no fair value at inception. The carrying amount of the swaps has been adjusted to the fair value at the end of the fiscal year. A derivative liability of $6,744 and $7,820 as of May 31, 2013 and 2012, respectively, are shown as an obligation under interest rate swaps on the consolidated statements of financial position.

The effect of derivative instruments on the consolidated statements of activities, shown as change in value of interest rate swaps, was $1,076 and $(4,503) for the years ended May 31, 2013 and 2012, respectively.

(IN THOUSANDS)

Note 11 – Retirement Plans

Retirement benefits are provided to all employees 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. Investment choices are offered through two providers: TIAA-CREF and Fidelity Investments. The University's expense for the Plan was $5,690 and $5,509 for the years ended May 31, 2013 and 2012, respectively.

Voluntary employee contributions and accumulated earnings to the 457(b) plan of $1,626 and $1,289 as of May 31, 2013 and 2012, respectively, are included in investments and accrued benefits payable. By IRS regulations, these funds are considered to be assets of the University until distributed to participants.

Note 12 – Net Assets

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

	2013	2012
Unrestricted		
Available for operations	$ 48,168	$ 36,380
Invested in property, plant, and equipment	75,516	72,470
Board-designated for investment in property, plant, and equipment	12,128	11,569
Board-designated quasi-endowment funds	13,735	12,060
Total unrestricted	$ 149,547	$ 132,479
Temporarily Restricted		
Unappropriated net endowment earnings	$ 66,756	$ 50,080
Property, plant, and equipment	20,857	2,961
Program support	14,057	15,276
Financial aid	3,887	3,454
Academic chairs	1,460	1,186
Student loan program	413	365
Split-interest agreements	11	11
Total temporarily restricted	$ 107,441	$ 73,333

(IN THOUSANDS)

Note 12 – Net Assets (continued)

	2013	2012
Permanently Restricted		
Financial aid	$ 56,494	$ 54,417
Academic chairs	12,762	12,740
Program support	12,900	10,630
Split-interest agreements	4,061	3,326
Student loan program	1,045	1,041
Total permanently restricted	$ 87,262	$ 82,154

Note 13 – Commitments and Contingencies

Commitments – As of May 31, 2013, the University had an outstanding, but not yet payable, purchase commitment in the amount of $5,298 related to the construction of campus facilities.

Operating leases – The University leases certain educational facilities under noncancellable operating leases. Future minimum lease payments are as follows:

Years Ending May 31,	
2014	$ 64
2015	63
2016	63
2017	63
2018	63
Thereafter	851
	$ 1,167

Rental expense for the facilities operating leases amounted to $210 and $196 for the years ended May 31, 2013 and 2012, respectively.

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.

Note 13 – Commitments and Contingencies (continued)

Contingencies (continued) – 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 14 – Fair Value of Financial Instruments

The University is subject to accounting principles that define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. 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 measured and reported at fair value are classified and disclosed in one of three categories in the fair value hierarchy. Assets and liabilities carried under some other method, such as amortized cost, are also disclosed in one of three categories in the fair value hierarchy. Categories are defined 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.

(IN THOUSANDS)

Note 14 – Fair Value of Financial Instruments (continued)

The following tables present assets and liabilities that are measured at fair value on a recurring basis at May 31, 2013 and 2012.

	May 31, 2013			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 76,289	$ 76,289	$ -	$ -
Deposits with bond trustees				
Money market funds	233	233	-	-
U.S. government and agency obligations	12,977	12,977	-	-
Investments				
Cash and cash equivalents	879	879	-	-
Equity securities				
Mutual funds, index funds, and other managed funds				
Domestic	43,883	40,310	3,573	-
International	35,622	26,424	9,198	-
Direct ownership - public and privately held stock	9,215	7,518	820	877
Fixed income securities				
Mutual funds and index funds				
Domestic	21,576	21,576	-	-
International	2,484	2,484	-	-
Corporate bonds	2,576	2,576	-	-
U.S. government and agency obligations	2,896	2,896	-	-
Alternatives				
Managed diversified global multi-asset partnership	16,583	-	-	16,583
Private equity limited partnership investments				
Private credit	2,068	-	-	2,068
Diversified funds of funds	10,125	-	-	10,125
Real estate funds	11,244	-	-	11,244
Other funds	656	-	-	656
Assets held under split interest agreements				
Cash and cash equivalents	490	490	-	-
Equity mutual funds	6,197	6,197	-	-
Equity- direct ownership	579	579	-	-
Fixed income mutual funds	3,379	3,379	-	-
Other	1,058	425	633	
Beneficial interests in trusts	7,818	-	-	7,818
Total assets	$ 268,827	$ 205,232	$ 14,224	$ 49,371
Obligation under interest rate swaps	$ (6,744)	$ -	$ (6,744)	$ -
Total liabilities	$ (6,744)	$ -	$ (6,744)	$ -

(IN THOUSANDS)

Note 14 – Fair Value of Financial Instruments (continued)

	May 31, 2012			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 59,160	$ 59,160	$ -	$ -
Deposits with bond trustees				
Money market funds	227	227	-	-
U.S. government and agency obligations	13,164	13,164	-	-
Investments				
Cash and cash equivalents	11,990	11,990	-	-
Equity securities				
Mutual funds, index funds, and other managed funds				
Domestic	31,468	28,670	2,798	-
International	25,077	25,077	-	-
Direct ownership - public and privately held stock	4,754	2,950	876	928
Fixed income securities				
Managed mutual funds				
Domestic	12,555	12,555	-	-
High yield	4,297	4,297	-	-
International	4,813	4,813	-	-
Corporate bonds	340	340	-	-
Alternatives				
Managed diversified global multi-asset partnership	14,811	-	-	14,811
Private equity limited partnership investments				
Private credit	2,574	-	-	2,574
Diversified funds of funds	10,765	-	-	10,765
Real estate funds	10,563	-	-	10,563
Other funds	855	-	-	855
Assets held under split interest agreements				
Cash and cash equivalents	417	417	-	-
Equity mutual funds	4,351	4,351	-	-
Equity- direct ownership	529	529	-	-
Fixed income mutual funds	3,047	3,047	-	-
Other	1,216	410	806	-
Beneficial interests in trusts	7,755	-	-	7,755
Total assets	$ 224,728	$ 171,997	$ 4,480	$ 48,251
Obligation under interest rate swaps	$ (7,820)	$ -	$ (7,820)	$ -
Total liabilities	$ (7,820)	$ -	$ (7,820)	$ -

For the year ended May 31, 2013, $8,500 of aggregate Level 1 equity mutual fund and index fund securities were sold and used to purchase a Level 2 managed international equity fund. There were no significant transfers between Level 1 and Level 2 for the year ended May 31, 2012.

Note 14 – Fair Value of Financial Instruments (continued)

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

- Assets characterized as Level 1 are valued using active market exchange values at the last reported sales price.

- Domestic and international managed equity funds characterized as Level 2 are valued using the fund managers respective net asset values, derived from active market exchange values of the underlying fund investments at the last reported sales price.

- Privately held stock characterized as Level 2 is valued using the market approach based on recent sales transactions. Privately held stock characterized as Level 3 is valued based on the net asset value of the investment, which approximates market value.

- Alternative investments consist primarily of investments that are not readily marketable or redeemable, and are characterized as Level 3. Investments in this category, which are managed externally, are valued utilizing the most current information provided by the fund managers using the net asset value per share of the respective fund as a practical expedient to estimate the fair value of the University's interest in the respective fund. The University reviews and evaluates the net asset values provided by our fund managers and agrees with the valuation methods and assumptions used in determining the fair value of alternative investments.

- Beneficial interests in trusts characterized as Level 3 represent a beneficial interest in the future cash flows of nine different trusts, measured under the income approach, involving a discounted cash flow analysis based on the expected annuity payments to be made over the remaining life of each respective beneficial interest, utilizing a risk-free rate adjusted for the inherent risk of the assets held in trust and the risk of nonperformance. The primary unobservable inputs for beneficial interests in trusts are the applicable discount rates, which range from 3.1% to 4.0%, and applicable life expectancies, which range from 6 to 26 years. A 1% increase in each of the underlying discount rates would decrease the fair value by approximately $750. A 1% decrease in each of the underlying discount rates would increase the fair value by approximately $1,090. The sensitivity associated with changes in life expectancies is not quantified.

- Other investments characterized as Level 2 are primarily real property assets valued using tax assessed values, which approximate market values.

- Interest rate swaps characterized as Level 2 are valued using estimates of the related LIBOR rates and the BMA municipal swap index rates during the term of the swap agreements.

(IN THOUSANDS)

Note 14 – Fair Value of Financial Instruments (continued)

Following is a reconciliation of activity for the years ended May 31, 2013 and 2012, of assets characterized as Level 3.

	Privately Held Stock	Managed Diversified Global Multi-Asset Partnership	Private Credit	Diversified Funds of Funds
Balance, May 31, 2011	$ 950	$ 15,180	$ 710	$ 10,264
Realized gains (losses)	-	(289)	51	327
Unrealized gains (losses)	(22)	(80)	28	617
Return of capital/transfers to income	-	-	(264)	(693)
Purchases/capital calls	-	-	2,049	250
Balance, May 31, 2012	928	14,811	2,574	10,765
Realized gains	-	139	108	931
Unrealized gains (losses)	(51)	1,633	304	(454)
Return of capital/transfers to income	-	-	(1,282)	(1,117)
Purchases/capital calls	-	-	364	-
Balance, May 31, 2013	$ 877	$ 16,583	$ 2,068	$ 10,125

	Real Estate Funds	Other Funds	Beneficial Interests in Trusts	Total
Balance, May 31, 2011	$ 8,366	$ 1,002	$ 5,639	$ 42,111
Realized gains	533	480	576	1,678
Unrealized gains (losses)	1,664	(110)	(204)	1,893
Return of capital/transfers to income	-	(553)	1,744	234
Purchases/capital calls	-	36	-	2,335
Balance, May 31, 2012	10,563	855	7,755	48,251
Realized gains	678	274	-	2,130
Unrealized gains (losses)	1,131	(230)	80	2,413
Return of capital/transfers to income	(1,128)	(247)	(17)	(3,791)
Purchases/capital calls	-	4	-	368
Balance, May 31, 2013	$ 11,244	$ 656	$ 7,818	$ 49,371

(IN THOUSANDS)

Note 14 – Fair Value of Financial Instruments (continued)

Realized and unrealized net gains on Level 3 assets of $4,621 and $4,001 for the years ended May 31, 2013 and 2012, respectively, are reported in the consolidated statements of activities as a component of nonoperating investment gain (loss), net of amounts used for operations. Net unrealized gains included in the consolidated statements of activities for Level 3 assets still held at May 31, 2013, are $2,043.

Redemption, funding commitments, restrictions, and other information associated with the nature and valuation of applicable Level 2 and Level 3 investments are as follows. As of May 31, 2013, it is not probable that any of the investments listed below will be sold or transferred for amounts that differ from the recorded fair value.

	Fair Value at May 31, 2013	Unfunded Cash Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period	Investment Strategies and Other Restrictions
Managed mutual funds (Level 2)					
Domestic	$ 3,573	$ -	Monthly	10 days prior to month end	(a)
International	9,198	-	Monthly	15th day of the prior	(b)
Managed diversified global multi-asset partnership (Level 3)	16,583	-	(c)	(c)	(c)
Private equity limited partnership investments (Level 3)					
Private credit	2,068	1,978	(d)	n/a	(d)
Diversified fund of funds	10,125	1,612	(e)	n/a	(e)
Real estate funds	11,244	-	(f)	(f)	(f)
Other funds	656	56	(g)	n/a	(g)
	$ 53,447	$ 3,646			

a) The investment in the fund can be redeemed given proper 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 small and medium capitalization companies defined as companies whose market capitalizations fall within the range of the Russell 2500 Index at the time of purchase.

b) The investment in the fund can be redeemed given proper 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 and, to a lesser extent, emerging market companies.

Note 14 – Fair Value of Financial Instruments (continued)

c) The University may receive up to 5% of its 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. 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.

d) This category includes two private credit funds, including a mezzanine debt fund and a special opportunities fund. Each fund is nonredeemable and can be sold only on the secondary market as long as the respective fund general partner receives an opinion from counsel that such a transfer is not in violation of certain sanctions of the Securities Act, Investment Company Act, and/or federal tax laws. Distributions are received through the liquidation of the underlying assets of the funds. It is estimated the underlying assets of the funds will be liquidated between 2014 and 2024.

e) This category includes four private equity funds, with underlying investments in domestic equity, buyout, venture capital, and private equity funds. Each fund has the objective to generate capital appreciation at a rate in excess of that historically generated by investments in publically traded equity securities. The funds can only be redeemed through the liquidation of underlying assets, and as underlying assets are liquidated, distributions are received. It is estimated that the underlying assets of the illiquid funds will be liquidated between 2014 and 2024.

Note 14 – Fair Value of Financial Instruments (continued)

f) This category includes two real estate funds that are primarily invested in U.S. commercial and residential real estate. Investments representing approximately 50% of the investments in this category can be redeemed with at least 90 days notice, as liquid assets in the fund permits. The remaining portion of real estate funds can only be redeemed through liquidation of the underlying assets. It is estimated that the underlying assets of the illiquid funds will be liquidated in 2015.

g) This category includes two private equity funds, with underlying investments in healthcare companies and other 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 2014 and 2024.

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

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

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

WHEFA bonds and notes payable (Level 2) – Fair values are determined using future cash flows discounted at a rate of interest currently offered for debt with similar remaining maturities. The fair value and carrying value of the WHEFA bonds payable at May 31, 2013, were approximately $144,415 and $135,059, respectively. The fair value and the carrying value of the WHEFA bonds payable at May 31, 2012, were approximately $144,065 and $130,488, respectively. The fair value of bonds and notes payable to banks (including the line of credit agreement, Series 2012 A Bonds, and Series 2012 B Bonds) approximates the carrying value.

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.

(IN THOUSANDS)

Note 15 – Related Parties

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

	2013	2012
Contributions receivable, net	$ 12,618	$ 2,087
Contributions revenue	14,693	311

The University has numerous banking relationships with a bank of which the chairman and CEO is a member of the Board.

Note 16 – Subsequent Events

In June 2013, the University entered into a purchase commitment in the amount of $53,677 related to the design and construction of campus facilities.

SUPPLEMENTARY INFORMATION

THE CORPORATION OF GONZAGA UNIVERSITY
UNRESTRICTED OPERATING EXPENSES COMBINED BY NATURAL EXPENDITURE
(IN THOUSANDS)

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

	2013	2012
Salaries	$ 84,700	$ 81,442
Benefits	25,974	25,276
Meetings, travel, and memberships	10,307	10,076
Scholarships and student aid	1,577	1,190
Depreciation	8,915	8,770
Dining expenses	7,958	8,192
Occupancy, telephone, utilities, and insurance	8,218	8,189
Interest and fees on debt	7,070	7,081
Materials, supplies, printing, and postage	6,191	6,271
Professional fees and contracted services	5,026	4,884
Bookstore cost of goods sold (see Note 1)	626	3,613
Maintenance and rentals	3,465	3,558
Library materials	2,107	2,184
Advertising, promotion, and recruitment	1,444	845
Other expenses	4,710	5,603
	$ 178,288	$ 177,174