SEATTLE PACIFIC
UNIVERSITY

AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2019

About Seattle Pacific University

Founded in 1891, Seattle Pacific University is a national Christian university. From its global, future-facing location in the heart of Seattle, the University equips resilient leaders. Compelled by Christian faith, the University prepares students to serve a world that needs their talents. Its comprehensive academic program serves 3,700 undergraduate and graduate students at its main Seattle campus, as well as 4,300 students per year online and in continuing education centers across Washington State. Known for both their competence and character, SPU graduates are bringing about positive change in communities around the globe.

Academically, Seattle Pacific University offers 71 undergraduate majors and 59 minors. The University's curriculum is carried out through the College of Arts and Sciences (Division of Sciences and Division of Arts and Humanities) and the schools of Business, Government and Economics; Education; Health Sciences; Theology; and Psychology, Family, and Community. Graduate studies include 31 master's degrees and six doctoral programs: education (both Ed.D and Ph.D), clinical family psychology, organizational psychology, and counselor education.

The University's physical plant includes a 43-acre main campus near the heart of downtown Seattle; a 909-acre wilderness campus on Blakely Island in the San Juan Islands; and the 77-acre Camp Casey campus on Whidbey Island.

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Clark Nuber PS

Independent Auditor's Report

To the Board of Trustees
Seattle Pacific University
Seattle, Washington

We have audited the accompanying consolidated financial statements of Seattle Pacific University and affiliate (the University), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note A, the University adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Clark Nuber P.S.

Certified Public Accountants
November 21, 2019

Consolidated Statements of Financial Position

As of June 30, 2019 and 2018
(in thousands)

	June 30, 2019	June 30, 2018
Assets		
Cash and cash equivalents	$ 17,377	$ 20,872
Investments	17,207	17,063
Student accounts receivable, net	3,505	3,700
Contributions and other receivables	1,684	5,022
Inventories and prepaid expenses	1,379	1,426
Student loans	769	782
Total current assets	41,921	48,865
Student loans, net	5,784	6,819
Contributions and other receivables	1,316	1,091
Investments	163,017	151,639
Investments — split interest agreements held by others	7,096	6,903
Land, buildings and equipment, net	132,664	134,018
Total assets	$ 351,798	$ 349,335
Liabilities and Net Assets		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 13,900	$ 13,432
Bonds payable	4,385	4,335
Trust and annuity obligations	1,038	1,083
Student deposits and prepaid fees	1,750	1,895
Deferred revenue	5,251	5,181
Total current liabilities	26,324	25,926
Bonds payable	57,702	62,062
Trust and annuity obligations	6,149	6,126
Investments managed on behalf of charities	2,476	8,853
Fair value of interest rate swap	4,540	3,473
Governmental student loan programs	6,655	6,500
Other liabilities	2,219	2,195
Total liabilities	106,065	115,135
Net Assets		
Without donor restrictions	148,315	144,148
With donor restrictions		
Time or purpose	49,352	43,911
Perpetuity	48,066	46,141
Total with donor restrictions	97,418	90,052
Total net assets	245,733	234,200
Total liabilities and net assets	$ 351,798	$ 349,335

See accompanying notes to consolidated financial statements

Consolidated Statements of Activities

For the Year Ended June 30, 2019
With Comparative Totals for 2018
(in thousands)

	2019			
Operating Revenues	Without Donor Restrictions	With Donor Restrictions	Total	2018 Total
Student charges:				
Tuition and fees	$ 137,329	$ –	$ 137,329	$ 133,566
Less: grants and scholarships	(62,764)	–	(62,764)	(58,420)
Net tuition and fees	74,565	–	74,565	75,146
Student housing and dining fees	16,630	–	16,630	15,592
Net student charges	91,195	–	91,195	90,738
Private gifts and grants	2,730	2,173	4,903	4,943
Public service activities	2,967	–	2,967	2,975
Government grants, primarily for student aid	1,912	62	1,974	2,141
Distributions from endowment to support operations, programs and scholarships	3,966	186	4,152	3,633
Other revenue and support	3,524	123	3,647	3,762
Net assets released from restrictions	3,143	(3,134)	9	44
Total operating revenues and other support	109,437	(590)	108,847	108,236
Operating Expenses				
Instruction	45,996	–	45,996	45,011
Student housing and dining expenses	15,054	–	15,054	14,999
Student services	18,901	–	18,901	18,402
Institutional support	17,696	–	17,696	19,560
Academic support	7,638	–	7,638	7,049
Public service	3,190	–	3,190	3,047
Total operating expenses	108,475	–	108,475	108,068
Excess of revenues and other support over expenses from operating activities	962	(590)	372	168
Nonoperating Activities				
Contributions for nonoperating purposes	–	1,393	1,393	1,316
Investment income, realized and unrealized gains	5,825	7,906	13,731	13,448
Endowment distributions for operations, grants and scholarships	(1,632)	(2,520)	(4,152)	(3,633)
Change in fair value of interest rate swap	(1,067)	–	(1,067)	1,527
Change in value of split interest agreements	88	1,177	1,265	1,426
Net assets released from restrictions	(9)	–	(9)	(44)
Increase in net assets from nonoperating activities	3,205	7,956	11,161	14,040
Increase in total net assets	4,167	7,366	11,533	14,208
Total net assets, beginning of year	144,148	90,052	234,200	219,992
Total net assets, end of year	$ 148,315	$ 97,418	$ 245,733	$ 234,200

See accompanying notes to consolidated financial statements

Consolidated Statement of Activities

For the Year Ended June 30, 2018
(in thousands)

	2018		
Operating Revenues	Without Donor Restrictions	With Donor Restrictions	Total
Student charges:			
Tuition and fees	$ 133,566	$ –	$ 133,566
Less: grants and scholarships	(58,420)	–	(58,420)
Net tuition and fees	75,146	–	75,146
Student housing and dining fees	15,592	–	15,592
Net student charges	90,738	–	90,738
Private gifts and grants	3,766	1,177	4,943
Public service activities	2,975	–	2,975
Government grants, primarily for student aid	2,091	50	2,141
Distributions from endowment to support operations, programs and scholarships	3,450	183	3,633
Other revenue and support	3,700	62	3,762
Net assets released from restrictions	1,486	(1,442)	44
Total operating revenues and other support	108,206	30	108,236
Operating Expenses			
Instruction	45,011	–	45,011
Student housing and dining expenses	14,999	–	14,999
Student services	18,402	–	18,402
Institutional support	19,560	–	19,560
Academic support	7,049	–	7,049
Public service	3,047	–	3,047
Total operating expenses	108,068	–	108,068
Excess of revenues and other support over expenses from operating activities	138	30	168
Nonoperating Activities			
Contributions for nonoperating purposes	–	1,316	1,316
Investment income, realized and unrealized gains	5,853	7,595	13,448
Endowment distributions for operations, grants and scholarships	(1,319)	(2,314)	(3,633)
Change in fair value of interest rate swap	1,527	–	1,527
Change in value of split interest agreements	99	1,327	1,426
Net assets released from restrictions	–	(44)	(44)
Increase in net assets from nonoperating activities	6,160	7,880	14,040
Increase in total net assets	6,298	7,910	14,208
Total net assets, beginning of year	137,850	82,142	219,992
Total net assets, end of year	$ 144,148	$ 90,052	$ 234,200

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018
(in thousands)

	June 30, 2019	June 30, 2018
Cash Flows From Operating Activities		
Fees from students, net of financial aid	$ 91,332	$ 90,109
Gifts and grants	8,202	5,580
Investment income	999	987
Public service income	2,967	2,975
Other revenue	4,617	3,169
Payments for interest on debt	(2,911)	(2,758)
Payments to employees and suppliers	(95,284)	(95,295)
Net cash provided by operating activities	9,922	4,767
Investing Activities		
Loans issued to students	(459)	(1,224)
Collections on loans issued to students	1,472	1,625
Purchase of investments	(63,931)	(22,344)
Proceeds from sale of investments	65,269	21,475
Proceeds from matured trust	–	3
Proceeds from collections of notes receivable	–	167
Issuance of notes receivable	(10)	(16)
Proceeds from sale of property	–	175
Purchase of land, buildings and equipment	(7,215)	(6,796)
Transfer of investments managed on behalf of charities	(6,377)	–
Net cash used by investing activities	(11,251)	(6,935)
Financing Activities		
Payments on long-term debt	(4,335)	(4,305)
Bond issuance costs	–	(32)
Contributions restricted for long-term purposes	2,071	3,013
Annuity payments and other	(57)	(56)
Net change in student loan liability	155	–
Net cash used by financing activities	(2,166)	(1,380)
Net decrease in cash and cash equivalents	(3,495)	(3,548)
Cash and Cash Equivalents		
Beginning of year	20,872	24,420
End of year	$ 17,377	$ 20,872
Supplemental disclosure of cash flow information —		
Acquisition of property, plant and equipment through accounts payable	$ 320	$ 1,176

See accompanying notes to consolidated financial statements

NOTE A – Summary of Significant Accounting Policies:

General

Seattle Pacific University is a national Christian private nonprofit institution of higher education based in Seattle, Washington. From its global, future-facing location in the heart of Seattle, the University equips resilient leaders. Compelled by Christian faith, the University prepares students to serve a world that needs their talents. Seattle Pacific University is positioned uniquely as an institution because of its commitment to and the intertwining of three key themes: Academic Rigor, the Seattle Advantage, and Christian Faith. The University offers degree programs for undergraduate and graduate students through the College of Arts and Sciences (Division of Sciences and Division of Arts and Humanities) and the schools of Business, Government and Economics; Education; Health Sciences; Theology; and Psychology, Family and Community. The University offers degrees in 71 undergraduate major programs and 59 minor areas of study, 31 master's programs and six doctoral programs.

Basis of Presentation

The accompanying financial statements are the consolidated statements of Seattle Pacific University (the University) and Seattle Pacific Foundation (the Foundation). The University has a controlling financial interest in the Foundation through direct control of the majority voting interest in the Foundation. The University's Board of Trustees appoints Foundation directors.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and the Foundation. All significant inter-entity transactions and balances have been eliminated.

Resources received by the University are classified into two net asset categories according to the presence or absence of donor-imposed restrictions. The net assets of the University are classified and defined as follows:

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions; donor-restricted contributions received during the year whose restrictions are satisfied during the same year; and quasi endowment net assets designated by the Board of Trustees or management for specific purposes (known as quasi endowment net assets).

Net assets with donor restrictions

Time or purpose — Net assets that are subject to donor-imposed time or use restrictions that have not been met as of the end of the fiscal year. Net assets related to time-based restrictions are primarily net assets held in irrevocable trusts and net assets related to use-based restrictions are primarily unappropriated endowment earnings.

In perpetuity — Net assets that are subject to donor-imposed restrictions where the original gift amount is invested in perpetuity. Generally, the donors of these assets permit the University to use all or part of the income for general or specific purposes. The irrevocable trust balance is restricted for endowment use at maturity, with only the original gift value of an endowment that has donor restrictions considered restricted in perpetuity, unless otherwise expressly stipulated in the agreement with the donor.

Revenue and Expense Recognition

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received and reported as increases in the appropriate category of net assets based on the presence or absence of donor-imposed restrictions. Contributions other than cash are recorded at their fair value at the date of gift or at net realizable value if the assets are intended for sale. Donor-restricted contributions that have the restrictions met in the same fiscal year as the contribution received are recorded as increases in net assets without donor restrictions. Income earned on donor restricted funds are initially classified as net assets with donor restrictions. Expirations of donor restrictions on net assets are reported as reclassifications between the two classes of net assets. All expenses are reported as decreases in net assets without donor restrictions. Except as restricted by donors or law, gains and losses on investments are reported as increases or decreases in net assets without donor restrictions. Donor restrictions on gifts to acquire long-lived assets are considered met in the period the assets are acquired and placed into service.

Operating Revenue and Expenses

The University reports operating revenues and expenses in the appropriate category of net assets section of the consolidated Statements of Activities, with the exception of investment expenses required to be netted against investment return. Operations are those activities which support the educational mission of the University.

Operating revenues include charges for tuition, room, and board (net of financial aid), as well as private gifts and grants, public service activities, government grants, and other revenue and support. Student tuition and fees are recognized as revenue in the year during which the related academic services are rendered. Operating expenses (for which the operating revenues are used) include salaries and benefits, departmental expenses, depreciation, amortization and interest.

Nonoperating Activity

Nonoperating activity consists of contributions for long-term purposes, investment returns net of amounts available for current operations, and other non-operating expenses. Nonoperating activities tend to vary from year to year, such as changes in market values of investments. Accordingly, they are excluded from operating activities in order to preserve the comparability of the University's net operating results from year to year.

Cash and Cash Equivalents

Cash and cash equivalents consist of all cash balances and short-term, highly liquid investments with original maturities at the date of purchase of three months or less.

Investments

Most investments are stated at fair value. The fair values of all debt and equity securities with active publicly traded markets are based on quotations obtained from national securities exchanges. Real estate contracts are reported at balances representing outstanding principal plus accrued interest at rates of 3.88% to 7.00%. Real estate contracts include two promissory notes from limited liability companies in which the University is a member. Real estate held for investment or sale is reported based on fair value.

Alternative investments are investments for which there is no readily determinable published value. They include institutional funds, private equities, real estate contracts, and real estate. Institutional funds are commingled equity, bond and marketable alternative funds not traded on a public exchange. Private equity investments are primarily comprised of investments in limited partnerships and limited liability companies. The partnerships generally represent restricted investment securities whose values have been estimated by the managing partner of the partnership in the absence of readily ascertainable fair value. The limited liability companies generally hold real estate, which is appraised by a third party. Real estate owned directly by the Foundation, including real estate held for sale, is reported at its appraised value as determined by a third party.

Investments in certain nonmarketable alternative investments, as a practical expedient, are stated at fair value based on net asset value ("NAV") estimates reported to the Foundation by investment managers. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Because of the inherent uncertainty of the valuation of nonmarketable and restricted investments, the estimated fair values of these investments may differ significantly from the values that would have been used had an active publicly traded market for the securities existed.

Credit Risk and Fair Value of Financial Instruments

The University grants credit primarily to student borrowers in the Pacific Northwest in the normal course of operations. The credit risk with respect to these receivables is generally considered minimal due to the wide dispersion of receivables. The carrying amount of cash and cash equivalents, student loans and accounts receivable, contributions and other receivables, and accounts payable approximates fair value due to the short-term maturities of these instruments. The carrying amount of the University's notes receivable and notes payable approximates fair value as they bear interest at variable interest rates or fixed rates which approximate current market rates for notes with similar maturities and credit quality. The University's cash balances exceed FDIC and SIPC insured amounts.

Bond Issuance Costs

Bond issuance costs include amounts paid by the University in connection with the issuance and reissuance of the Series 2013 A-E Washington Higher Education Facilities Authority (WHEFA) Bonds. The "amortization of issuance costs" is calculated using the straight-line method over the ten year and modified ten year terms of the 2013 bonds. Amortization expense related to bond issuance costs for the years ended June 30, 2019 and 2018 was $25 and $42, respectively.

Split Interest Agreements

The University and the Foundation have entered into a variety of charitable remainder trusts (CRT) for which the Foundation is the trustee. These CRTs have annual payment obligations to donors or others for the life of the trust based on either a fixed percentage of the trust asset value updated annually or the lower of a fixed percentage or actual annual income received by the trust. The net present value of the payments to beneficiaries is determined using IRS actuarial tables and discount rates representing rates commensurate with the rates involved at the date of the trust. The discount rates used for the net present value calculations range from 4.6% to 11.4%. In the year assets are transferred into the CRT the difference between the fair value of the assets received and the net present value of the payments to beneficiaries is recorded as contribution income to the University or Foundation. Annual adjustments to the net present value of the payment liability based on actuarial and income factors are recorded as changes in split interest agreements on the consolidated Statements of Activities. Investments related to these agreements are reflected as investments in the accompanying consolidated Statements of Financial Position as $28,032 and $30,469 at June 30, 2019 and 2018, respectively. Gifts related to these trusts were $3 and $53 for the years ended June 30, 2019 and 2018, respectively.

The University is the irrevocable beneficiary of the income or the residual interest of assets in charitable trusts held by outside trustees. At the date of donation, the University recognizes its beneficial interest in the outside trust as a contribution at fair value, which is measured as the present value of the estimated expected future benefits to be received. The contribution revenue recognized is classified as an increase in net assets with donor restrictions 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 a change in value of split interest agreements. The University has trusts managed by others valued at $3,000 and $2,869 as of June 30, 2019 and 2018, respectively and include them as investments – split interest agreements held by others. Circumstances affecting these assumptions can change the estimate of this asset in future periods.

Perpetual trusts in which the University is named as irrevocable remainder beneficiary, but not as trustee, are recorded in the consolidated Statements of Activities as contribution income when the trustee notifies the University and the ownership percentage and valuation are determined. These perpetual trusts are restricted for endowment use and are classified as net assets with donor restrictions. The University has perpetual trusts valued at $4,096 and $4,034 as of June 30, 2019, and 2018, respectively and includes them in investments – split interest agreements held by others.

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost or, if donated, at the fair value on the date of donation. The University uses the straight-line method of depreciation to allocate the cost of assets over the estimated useful lives. Estimated useful lives range from three years for computers to 50 years for buildings.

Deferred Revenues

Deferred revenues consist of payments of tuition and fees related to future academic terms.

Investments Managed on Behalf of Charities

The Foundation managed the assets of an unrelated foundation through February 2019 and is trustee for several special needs trusts. Those assets and a corresponding liability are included in the accompanying consolidated Statements of Financial Position.

(in thousands)

Government Student Loans

Student loans receivable consist primarily of loans made to students under United States government (U.S. government) loan programs. The loans are stated at net realizable value in the accompanying consolidated Statements of Financial Position. The majority of federal loan funds are furnished by agencies of the U.S. government and the remaining balance of the loan funds is furnished by the University. The portion of these loans that is refundable to the U.S. government is reflected as government student loan programs liability on the consolidated Statements of Financial Position.

Taxes

The University and the Foundation are exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC) except for unrelated business taxable income as defined in sections 511 through 515 of the Internal Revenue Code. Accordingly, the financial statements do not include a provision for federal income tax. In addition, the University is presently 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. The University files income tax returns with the U.S. government and is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

Adoption of New Accounting Pronouncement

During 2019, the University adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The standard is intended to improve net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Under the new guidance, the University is required to reclassify its net assets from three categories into two categories and recognition of underwater endowment funds as a reduction of net assets with donor restrictions. It also requires enhanced disclosures for board designations, composition of net assets without donor restrictions, liquidity, and expenses by both natural and functional classification. This standard has been retrospectively applied to the prior period presented with certain transition provisions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the University to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the consolidated financial statement date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications have no effect on the change in net assets or net asset balances as previously reported.

Subsequent Events

The University has evaluated events through November 21, 2019, the date on which the financial statements were issued.

NOTE B – Student Accounts Receivable:

Student accounts receivable consisted of amounts due from students for tuition, room, board and other enrollment-related charges. At June 30, student accounts receivable consisted of the following balances:

	June 30,	
	2019	2018
Student accounts receivable	$ 5,499	$ 5,546
Allowance for doubtful accounts	(1,994)	(1,846)
Student accounts receivable, net	$ 3,505	$ 3,700

(in thousands)

The University determines the adequacy of the allowance based on length of time past due, historical experience and consideration of the economic conditions. Balances are written off once a year after all means of collection have been exhausted and collection is considered unlikely.

NOTE C – Loans Receivable:

Student Loans

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2019 and 2018, student loans represented 1.9% and 2.2% of total assets, respectively.

At June 30, student loans consisted of the following:

	June 30, 2019	June 30, 2018
Federal government programs	$ 5,575	$ 6,714
Institutional programs	1,760	1,634
Student loans receivable	7,335	8,348
Less allowance for doubtful accounts:		
Beginning of year	(747)	(680)
Increases	(35)	(67)
End of year	(782)	(747)
Student loans receivable, net	$ 6,553	$ 7,601

Funds advanced by the Federal government in the net amount of $6,655 and $6,500 at June 30, 2019 and 2018, respectively, are ultimately refundable to the government and are classified as liabilities in the consolidated Statements of Financial Position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. At June 30, the following amounts were past due under student loan programs:

	June 30, 2019	June 30, 2018
< 2 years	$ 294	$ 335
2–5 years	358	373
> 5 years	563	510
Total	$ 1,215	$ 1,218

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. The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program. Congress did not renew the Federal Perkins Loan Program after September 2017, and the transition period permitting disbursements under this program ended on June 30, 2018. Institutions had the option to either continue to service the outstanding loans and remit excess cash periodically to the Department of Education or liquidate the portfolio, which would include assigning remaining loans to the federal government and forfeiting the institution's remaining net assets (institutional capital contribution). The University continues to service the outstanding Perkins loans.

(in thousands)

Faculty and staff loans

As part of a program to attract and retain excellent faculty and senior staff, the University has provided forgivable and non-forgivable home mortgage financing assistance and forgivable educational financial assistance. At June 30, the following balances were outstanding:

	June 30, 2019	June 30, 2018
Non-forgivable mortgage loans	$ 159	$ 159
Forgivable educational loans	18	32
Total faculty and staff loans	$ 177	$ 191

Forgivable and non-forgivable home mortgage notes are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Educational assistance notes are not collateralized, but are attached to a length of service requirement as a part of the forgivable condition. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history.

The Faculty and Staff loans and mortgage notes represent 0.05% and 0.05% of total assets at June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, there were no amounts past due under the faculty and staff loan program.

NOTE D – Investments:

Investments are composed of pooled investment funds, marketable securities and real estate. The University's pooled investments are comprised of a liquidity pool and annuity pool, and two other investment pools maintained by the Foundation for various trusts, pooled income and endowment funds. Investment pools are managed by the Foundation through an investment committee of its directors. The Foundation Investment Committee and Board meet quarterly to review investment performance and reports are also presented to the University administration and Board of Trustees.

Investments consist of the following at June 30, stated at fair value:

	June 30, 2019	June 30, 2018
Pooled Investments:		
Cash and short-term investments	$ 10,037	$ 12,183
Equity institutional funds	55,458	60,058
Bond institutional funds	–	14
Private equities	27,102	23,200
Notes receivable	13,242	13,257
Real estate	46,302	39,795
Total pooled investments	152,141	148,507
Equity securities	1,728	1,603
Real estate held for investment or sale	25,841	17,962
Other investments	514	630
Total investments	$ 180,224	$ 168,702

NOTE E – Fair Value Measurements:

Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

Cash and Short-term Investments — Valued at cost plus accrued interest, which approximates fair value.

Equity, Bond and Marketable Alternative Institutional Funds — Valued by the fund's manager based on quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the fund at the valuation date. All holdings of the funds are publicly traded securities. For the year ended June 30, 2018, the fund was traded on a private market that is not active; however, the unit price was based on observable market data of the fund's underlying assets.

Private Equity Partnerships — Valued using the NAV provided by the investment's manager. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding at the valuation date. The investments are traded on private markets that are not active.

Real Estate Limited Liability Companies (LLC) — Valued using the NAV which is based on the fair value of the underlying assets owned by the entity, minus its liabilities, and then divided by the number of units outstanding at the valuation date. The LLCs primarily hold real estate which is appraised annually by a third party. When a property is under development, the appraisal is performed after the property's occupancy has stabilized.

Real Estate — Based on appraised values using observable inputs for similar assets.

Investments – Split Interest Agreements Held by Others — Valued at the University's share of the present value of estimated future cash flows based on the fair value of trust assets.

Interest Rate Swap Agreements — Valued using inputs observed from proprietary pricing models.

In accordance with ASU 2015-07 – *"Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent),"* certain investments that were measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the following tables are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

(in thousands)

Fair values of assets and liabilities measured on a recurring basis were as follows:

	Fair Value Measurements at June 30, 2019				
	Investments Measured at NAV	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Assumptions or Observable Inputs (Level 3)	Total
Cash and short-term investments	$ –	$ 10,037	$ –	$ –	$ 10,037
Bond institutional funds	–	–	677	–	677
Equity institutional funds:					
US equity securities	–	41,424	1,052	–	42,476
Non-US equity securities	–	14,033	–	–	14,033
Private equities:					
Private equity partnership interests	23,304	–	–	–	23,304
Natural resource partnership interests	3,579	–	–	–	3,579
Distressed debt partnership interests	219	–	–	–	219
Limited liability company	514	–	–	–	514
Real estate	38,636	–	–	7,677	46,313
Investments – split interest agreements held by others	–	–	–	7,096	7,096
Interest rate swap agreement	–	–	–	(4,540)	(4,540)
Total	$ 66,252	$ 65,494	$ 1,729	$ 10,233	$ 143,708

	Fair Value Measurements at June 30, 2018				
	Investments Measured at NAV	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Assumptions or Observable Inputs (Level 3)	Total
Cash and short-term investments	$ –	$ 12,183	$ –	$ –	$ 12,183
Bond institutional funds	–	–	650	–	650
Equity institutional funds:					
US equity securities	–	10,822	34,636	–	45,458
Natural resources	–	–	2,794	–	2,794
Non-US equity securities	–	2,389	10,383	–	12,772
Private equities:					
Private equity partnership interests	18,770	–	–	–	18,770
Natural resource partnership interests	4,110	–	–	–	4,110
Distressed debt partnership interests	320	–	–	–	320
Limited liability company	630	–	–	–	630
Real estate	33,096	–	–	6,710	39,806
Investments – split interest agreements held by others	–	–	–	6,903	6,903
Interest rate swap agreement	–	–	–	(3,473)	(3,473)
Total	$ 56,926	$ 25,394	$ 48,463	$ 10,140	$ 140,923

(in thousands)

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) follows:

	Level 3			
	Real Estate	Split Interest Agreements Held by Others	Swap	Total
Balance at June 30, 2017	$ 6,410	$ 6,475	$ (5,000)	$ 7,885
Total realized and unrealized gains	475	490	1,527	2,492
Purchases, issuances, and settlements (net)	(175)	(62)	–	(237)
Balance at June 30, 2018	6,710	6,903	(3,473)	10,140
Total realized and unrealized gains/(losses)	967	193	(1,067)	93
Balance at June 30, 2019	$ 7,677	$ 7,096	$ (4,540)	$ 10,233

Total gains and losses are included in the consolidated Statements of Activities for the years ended June 30, 2019 and 2018.

The table below summarizes significant terms of the agreements with certain investment companies. There are no significant redemption restrictions or unfunded commitments on other types of investments.

	2019				
	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity	$27,600	1 to 12 Years	$15,000	Closed end funds not eligible for redemption except in limited circumstances	Illiquid
Real estate	$38,600	No Limit	$900	Individual properties must be sold on the open market or upon redemption of ownership interest	Illiquid

(in thousands)

NOTE F – Endowment:

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

Interpretation of Relevant Law

In accordance with U.S. GAAP, the Board of Trustees of the University has adopted a policy requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to an endowment fund, (b) the original value of subsequent gifts to an endowment fund, and (c) accumulations to an endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions for time or purpose until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the Washington State Prudent Management of Institutional Funds Act (PMIFA). In accordance with PMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund;
2. The purposes of the University and the endowment fund;
3. General economic conditions;
4. The possible effect of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the University;
7. The investment policy of the University; and
8. Endowment spending policy.

Endowment net assets consisted of the following at June 30:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds	$ –	$ 40,588	$ 40,588
Unappropriated net investment income and appreciation on endowment funds	–	33,823	33,823
Board designated quasi-endowment	46,334	–	46,334
Endowment Net Assets, June 30, 2019	$ 46,334	$ 74,411	$ 120,745

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds	$ –	$ 38,768	$ 38,768
Unappropriated net investment income and appreciation on endowment funds	–	28,438	28,438
Board designated quasi-endowment	42,878	–	42,878
Endowment Net Assets, June 30, 2018	$ 42,878	$ 67,206	$ 110,084

(in thousands)

Changes to endowment net assets are as follows for the years ended June 30, 2018 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, June 30, 2017	$ 39,226	$ 60,506	$ 99,732
Endowment investment return			
Realized and unrealized gains	4,752	7,407	12,159
Total endowment investment return	4,752	7,407	12,159
Contributions	1	1,264	1,265
Distributions for operating programs	(1,319)	(2,127)	(3,446)
Transfer to quasi-endowments	140	–	140
Transfer from trusts	88	137	225
Net assets reclassified to/from endowments	(10)	19	9
Endowment Net Assets, June 30, 2018	42,878	67,206	110,084
Endowment investment return			
Realized and unrealized gains	4,856	7,716	12,572
Total endowment investment return	4,856	7,716	12,572
Contributions	1	1,391	1,392
Endowment related expenses	–	(1)	(1)
Distributions for operating programs	(1,632)	(2,330)	(3,962)
Transfer to quasi-endowments	95	–	95
Transfer from trusts	136	429	565
Endowment Net Assets, June 30, 2019	$ 46,334	$ 74,411	$ 120,745

Funds with Deficiencies

From time to time declines in the market value of the investment pool create a situation where the fair values of certain endowments are less than the historical cost basis of the original gift(s). There were no deficiencies of this nature at June 30, 2019 and 2018.

Return Objectives, Risk Parameters and Spending Policies

The goal of the University's investment and spending policies for endowment assets is to provide a predictable stream of funding to programs supported by its endowments while maintaining the purchasing power of the endowment assets over long periods of time.

The investment objective of the endowment funds emphasizes long-term growth of capital within acceptable levels of risk. Investments are managed within a total return concept using a diversified portfolio of asset classes including, but not limited to, publicly traded and private equities, fixed income securities, real estate, and cash equivalents. Long-term investment return objectives for this pool of financial assets is to generate an average annual return sufficient to provide a real return after adjustments for payouts and inflation.

The University has a 5% distribution policy which is applied against a ten-year rolling average of fair value of endowment investments at December 31 each year. The goal of the Foundation Investment Policy is to maintain the real value of the endowment over extended periods of time. This requires an annualized return sufficient to cover annual endowment spending, investment costs and the University's internal rate of inflation (currently the Higher Education Price Index (HEPI)). In addition, the performance of individual investments and asset classes are measured against appropriate industry accepted benchmarks.

(in thousands)

NOTE G – Contributions Receivable:

Contributions receivable in current and non-current other receivables, include pledges that have been discounted at rates of 0.4-0.5%, based on the risk-adjusted rate of return at the time of the gift. The current and non-current contribution receivable balances are included in contributions and other receivables, and are due to be collected as follows:

	June 30, 2019	June 30, 2018
Contributions expected to be collected:		
Within one year	$ 464	$ 1,174
One to five years	1,223	975
	1,687	2,149
Less discount to present value	(40)	(11)
Less allowance for uncollectible contributions receivable	(50)	(64)
Total contributions receivable, net	$ 1,597	$ 2,074

NOTE H – Land, Buildings and Equipment:

Land, buildings and equipment consist of the following:

	June 30, 2019	June 30, 2018
Land	$ 22,877	$ 22,877
Buildings	171,473	165,490
Equipment	9,828	9,308
Library books	12,484	12,238
Construction in progress and capitalized development costs	1,547	3,681
	218,209	213,594
Less accumulated depreciation	(85,545)	(79,576)
Land, buildings and equipment, net	$ 132,664	$ 134,018

Development and construction in progress costs are included in land, buildings and equipment. These costs are reviewed for impairment and are reported at the lower of cost or impaired value.

U.S. GAAP requires an organization to recognize a liability for the fair value of a conditional asset retirement obligation if the liability can be reasonably estimated. For the University, these obligations are primarily for the disposal of asbestos, mercury, and certain other regulated materials found in the campus facilities constructed prior to 1980. Though these materials do not currently pose a health hazard in any of these facilities, appropriate remediation procedures are required to remove these materials upon renovation or demolition. The University has recorded a liability of $1,106 and $1,050 at June 30, 2019 and 2018, respectively, for conditional asset retirement obligations. This obligation is included in other liabilities.

(in thousands)

NOTE I – Bonds Payable:

As of June 30, bonds payable issued through the Washington Higher Education Facilities Authority (WHEFA) consist of:

	Interest Rate Mode	Interest Rate	Bank Purchase End Date	Maturity Date	June 30, 2019	June 30, 2018
Series 2013 A Bonds	Variable Rate*	3.44%	12/1/2027	10/1/2030	$ 10,630	$ 11,690
Series 2013 B Bonds	Variable Rate*	3.44%	12/1/2027	10/1/2030	12,965	14,275
Series 2013 C Bonds	Fixed Rate	3.37%	12/1/2027	10/1/2030	20,125	21,300
Series 2013 D Bonds	Fixed Rate	4.16%	12/1/2027	10/1/2032	6,230	6,585
Series 2013 E Bonds	Fixed Rate	4.34%	12/1/2027	10/1/2038	12,350	12,785
				Total Bonds Payable	62,300	66,635
				Less portion due within one year	(4,385)	(4,335)
					57,915	62,300
				Less unamortized bond fees	(213)	(238)
				Total Bonds Payable, Net	$ 57,702	$ 62,062

*LIBOR x Tax Exempt Factor + credit spread x margin rate factor, rates listed are the effective interest rate as of June 30, 2019.

In December 2013, the University issued through the WHEFA, bonds in five separate Series (2013 A, 2013 B, 2013 C, 2013 D and 2013 E). The Series 2013 bonds were owned by US Bank and Washington Federal Bank through a direct purchase agreement containing both variable and fixed rate issues. The underlying supporting documents for the Series 2013 bonds contain restrictive financial ratios and measures as defined in the related agreements. In December 2017, the University reissued its bonds, which are now owned exclusively by US Bank, to extend the maturity date for all five series to December 2027. As of June 30, 2019 and 2018, the University was in compliance with the ratios and measures required under the agreements. WHEFA is a financing conduit through the State of Washington for private higher education institutions in the State. The tax-exempt bonds are obligations of the University and are not guaranteed by the State.

Principal payment obligations are due as follows during the next five fiscal years and thereafter:

	Principal
2019-2020	$ 4,385
2020-2021	4,225
2021-2022	4,455
2022-2023	4,500
2023-2024	4,530
Thereafter	40,205
	$ 62,300

For the fiscal years ended June 30, 2019 and 2018, the University incurred $2,868 and $2,854, respectively, in total interest costs related to long-term debt.

The University maintains a $20,000 revolving line of credit within US Bank. There were no draws outstanding against this line as of June 30, 2019 and 2018.

There were no short-term and other interest costs for the years ended June 30, 2019 and 2018.

(in thousands)

NOTE J – Interest Rate Swap:

The University uses variable-rate debt to finance the acquisition of land, buildings, and equipment as indicated in Note I. These debt obligations expose the University to variability in interest payments due to changes in interest rates. The University believes it is prudent to limit the variability of a portion of its interest payments and has entered into an interest rate swap to manage fluctuations in cash flows resulting from interest rate risk.

Under the interest rate swap, the University receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. In January 2006, the University acquired a 25-year accreting and amortizing swap from Bank of America at a fixed rate of 3.71%. The notional amount of this swap fluctuates over time per the underlying amortization schedule as principal payments are made on the bonds. The accreting and amortizing swap had a notional amount of $23,595 and $25,965 at June 30, 2019 and 2018. There was no cash exchanged at the time of acquisition of this swap due to the relationship between the variable rates and the swap rate at that time.

Changes in the fair value of the interest rate swap are reported as unrealized gains or losses on interest rate swap related to bonds on the consolidated Statements of Activities. Providing that the University holds the swap to maturity, the value of the derivative will be zero. This swapping transaction can be terminated 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 interest payment hedging purposes and does not speculate for investment purposes using derivative instruments.

NOTE K – Annuity Obligations:

The University has entered into a variety of charitable gift annuities where the University agrees to pay a donor and named beneficiaries a fixed amount per year for the life of the annuitant(s), or a stated term. In exchange, the University receives assets valued in excess of the present value of the annuity. The charitable gift annuity payments are general obligations of the University, and the present value of these gift annuity obligations and Washington state reserve requirements were as follows:

	June 30, 2019	June 30, 2018
Present value of gift annuity obligations	$ 486	$ 438
Washington State reserve requirements	49	44
Investments related to gift annuity obligations	$ 535	$ 482

Washington State statutory requirements related to charitable gift annuities require the following disclosure of unconsolidated financial information for the University (excluding the Foundation) as of June 30:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Unconsolidated net assets June 30, 2018	$ 143,020	$ 86,001	$ 229,021
Total revenue and support	111,995	7,069	119,064
Total expenses	(107,967)	–	(107,967)
Unconsolidated net assets June 30, 2019	$ 147,048	$ 93,070	$ 240,118

(in thousands)

NOTE L – Retirement Plan:

The University participates in an IRC 401(a) defined contribution retirement plan. The University engages Transamerica Retirement Solutions to be the primary investment agent and third party administrator for the University's 401(a) retirement plan. The plan provides for employer contributions that are directed by participants to a menu of approved investment funds as determined by the plan's investment committee. All faculty and staff at least 21 years of age with one year of full-time employment participate in the plan. Contributions to the plan are made by the University and are funded monthly or semi-monthly concurrent with salary payment. The University's contributions to the plan were $3,673 and $3,628 for the years ended June 30, 2019 and 2018, respectively. The University also provides an IRC 403(b)(7) supplemental retirement plan funded by individual employee contributions. These contributions are voluntary and the plan is open to all employees, excluding students who are employees of the University.

The University is a participant in Emeriti Retirement Health Solutions (EMERITI), a consortium of colleges and universities organized to provide retiree health care benefits through a Voluntary Employees Benefit Association (VEBA) recognized under IRC 501(c)(9). The EMERITI program is a defined contribution plan whose assets are restricted for use toward qualified medical expenses upon retirement. All faculty and staff over the age of 35 with one year of employment participate in the plan. The University funds its obligations on this plan concurrently and contributes a monthly fixed amount to a VEBA investment account with TIAA-CREF (Teachers Insurance Annuity Association – College Retirement Equities Fund) for all plan participants. The total annual contribution to EMERITI on June 30, 2019 and 2018 was $456 and $541, respectively.

NOTE M – Net Assets:

At June 30, net assets consisted of the following:

	June 30, 2019	June 30, 2018
Without donor restrictions		
Available for operational activities	$ 31,617	$ 33,887
Funds held for long-term investment as endowment	46,334	42,878
Net investment in land, buildings and equipment	70,364	67,383
Total without donor restrictions	$ 148,315	$ 144,148
With donor restrictions for time and purpose		
Unexpended funds received for educational purposes	$ 5,722	$ 6,189
Unappropriated gains on endowments	33,823	28,438
Split interest agreement funds	9,807	9,284
Total with donor restrictions for time and purpose	$ 49,352	$ 43,911
With donor restrictions in perpetuity		
Endowment funds	$ 40,588	$ 38,768
Split interest agreement funds restricted for endowment	7,478	7,373
Total with donor restrictions in perpetuity	$ 48,066	$ 46,141

(in thousands)

NOTE N – Financial Assets and Liquidity Resources:

The following table reflects the University's financial assets as of June 30, 2019, reduced by amounts not available for general expenditures within one year. Financial assets are unavailable when illiquid or not convertible to cash within one year. Other considerations of non-liquid assets are perpetual endowments and accumulated earnings net of appropriations within one year, amounts restricted by donors for nonoperating activities, amounts limited by the University's Board of Trustees, student loans receivable, and assets held by others. The University considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated endowments, contributions without donor restrictions and contributions with donor restrictions for current operating activities to be available to meet cash needs for general expenditures. The University considers all expenditures related to its operating activities that are incurred in the course of the normal business operations of the University to be general expenditures.

	2019
Financial Assets:	
Cash and cash equivalents	$ 17,377
Short-term investments	17,207
Student accounts receivable, net	3,505
Contributions and other receivables	3,000
Student loans	6,553
Long-term investments	163,017
Investments—split interest agreements held by others	7,096
Total financial assets	217,755
Less: amounts unavailable for general expenditure within one year:	
Contributions receivable collectible beyond one year	1,316
Investments and other financial assets held by others	7,096
Student loan funds	6,553
Endowment assets, net of appropriation for next fiscal year	71,654
Funds held in trust and various state required annuity reserves	20,994
Board designations:	
Board policy for additional annuity reserves	49
Quasi-endowment fund, primarily for long-term investing	43,858
Financial assets unavailable for general expenditure within one year	151,520
Financial assets available at year end for current use	$ 66,235

The University's practice is to structure its financial assets to be available as its general expenses, liabilities, and obligations come due. In addition to financial assets available to meet general expenditures over the next year, the University's goal is to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statements of cash flows, which identified the sources and uses of the University's cash generated by operating activities for the year ending June 30, 2019.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The University also has $20,000 in committed lines of credit. There were no outstanding advances against the lines of credit as of June 30, 2019. Additionally, the University has $43,858 in board-designated endowment. These funds remain available and may be spent at the discretion of the board; however, no liquidation is anticipated. The University maintains sufficient liquidity within the endowment to cover board-designated amounts, funding commitments, and appropriations for spending distributions.

(in thousands)

NOTE O – Expenses by Natural and Functional Classification:

The University's primary program activity is academic instruction and support. Facilities operation and maintenance, interest, and depreciation are allocated among functional classifications based on usage of space, square footage, building costs, and debt proceeds usage. Information technology costs are allocated based on software usage and the overall number of deployed technology devices in the various functional categories. All other costs are charged directly to the appropriate functional category.

Expenses by natural and functional classification for the year ended June 30, 2019, were as follows:

Expenses	Instruction	Student Housing and Dining	Student Services	Institutional Support	Academic Support	Public Service	Total Expense
Salaries, wages and benefits	$ 35,228	$ 2,714	$ 12,237	$ 10,922	$ 5,269	$ 1,182	$ 67,552
Professional and contract services	1,591	4,270	1,260	1,499	330	969	9,919
Occupancy, utilities and maintenance	2,189	3,980	404	731	318	412	8,034
Materials and supplies	953	672	1,155	618	889	77	4,364
Depreciation	2,528	2,619	1,081	1,055	263	156	7,702
Interest	1,315	743	171	280	195	164	2,868
Other expenses	2,192	56	2,593	2,591	374	230	8,036
Total	$ 45,996	$ 15,054	$ 18,901	$ 17,696	$ 7,638	$ 3,190	$ 108,475

Expenses by natural and functional classification for the year ended June 30, 2018, were as follows:

Expenses	Instruction	Student Housing and Dining	Student Services	Institutional Support	Academic Support	Public Service	Total Expense
Salaries, wages and benefits	$ 35,050	$ 2,696	$ 12,262	$ 12,787	$ 5,104	$ 1,228	$ 69,127
Professional and contract services	1,561	4,045	1,118	1,354	108	943	9,129
Occupancy, utilities and maintenance	2,006	4,125	375	693	282	390	7,871
Materials and supplies	908	659	890	605	796	72	3,930
Depreciation	2,288	2,706	970	1,096	243	164	7,467
Interest	1,266	768	163	299	188	170	2,854
Other expenses	1,932	–	2,624	2,726	328	80	7,690
Total	$ 45,011	$ 14,999	$ 18,402	$ 19,560	$ 7,049	$ 3,047	$ 108,068

Institutional support expense reflected on the Consolidated Statements of Activities includes approximately $3,005 and $3,190 of fundraising expenses for the years ended June 30, 2019 and 2018, respectively.

(in thousands)

NOTE P – Cash Flow Reconciliation:

The change in the University's net assets is reconciled to net cash provided by operations for the years ended June 30 as follows:

	2019	2018
Increase in net assets	$ 11,533	$ 14,208
Noncash operating adjustments:		
Depreciation	7,702	7,467
Amortization of bond issuance costs	25	42
Provision for doubtful student accounts and pledges	170	345
Net realized and unrealized gain on investments	(12,732)	(12,460)
Change in value of split interest agreements	(1,265)	(1,426)
Unrealized loss/(gain) on interest rate swaps	1,067	(1,527)
Financing activities and noncash non-operating adjustments:		
Contributions to donor restricted net assets	(2,071)	(3,013)
Loss on disposal of plant assets	11	312
Changes in operating assets and liabilities:		
Student accounts receivable	47	(713)
Contributions and other receivables	3,338	(512)
Inventories and prepaid expenses	47	(39)
Other receivables	(202)	(202)
Accounts payable, accrued liabilities and other liabilities	2,327	1,887
Student deposits and prepaid fees	(145)	234
Deferred revenue	70	164
Net cash provided by operating activities	$ 9,922	$ 4,767

NOTE Q – Contingencies:

The University receives and expends monies under Federal grant programs and is subject to audits by cognizant 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.

The University provides a guarantee to Seattle Metropolitan Credit Union on loans they provided in support of the University's Housing Assistance Program (HAP) for faculty and staff prior to 2013. The HAP provides down-payment assistance loans on a need basis to faculty and staff moving into the Seattle area or purchasing a first home. These loans are supported with a secured deed of trust against the underlying property. There are currently no loans outstanding under this program. Since the inception of the HAP in 1991, no guarantees have been exercised by the credit union. As of June 30, 2019, the loan portfolio balance held by the credit union was $0. The University's exposure under the loan guarantees is limited to the difference between the value of the secured deed of trust held by the credit union and the remaining principal balance of the related loan. The University believes the total value of the secured deeds of trust held by the credit union exceeds the loan balances as of June 30, 2019.

The University is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the University, the changes in its net assets, and its cash flows in conformity with GAAP.

The University has not accrued any amounts for these commitments and contingencies.

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UNIVERSITY

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