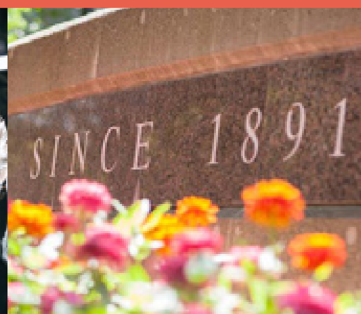
Engaging the culture, changing the world®

Seattle Pacific
UNIVERSITY

AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2017



About Seattle Pacific University

Founded in 1891, Seattle Pacific University is a premier Christian university that equips people to engage the culture and change the world. Its comprehensive academic program serves 3,800 undergraduate and graduate students at its main Seattle campus, as well as 1,900 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 66 undergraduate majors and 52 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 29 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.

Contents

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, 2017 and 2016, 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.

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, 2017 and 2016, 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.

Clark Nuber PS
Certified Public Accountants
November 16, 2017

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Consolidated Statements of Financial Position

As of June 30, 2017 and 2016
(in thousands)

	June 30,	
Assets	2017	2016
Cash and cash equivalents	$ 24,420	$ 19,737
Investments	16,498	17,391
Student accounts receivable, net	3,256	3,939
Grants and other receivables	4,510	3,755
Inventories and prepaid expenses	1,387	1,421
Student loans	891	979
Total current assets	50,962	47,222
Student loans, net	7,098	7,585
Other receivables and prepaid expenses	1,049	1,585
Investments	138,342	123,798
Investments — split interest agreements held by others	6,475	6,047
Land, buildings and equipment, net	135,392	138,372
Total assets	$ 339,318	$ 324,609
Liabilities and Net Assets		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 11,841	$ 12,660
Bonds payable	4,305	4,280
Trust and annuity obligations	1,037	1,258
Student deposits and prepaid fees	1,661	1,650
Deferred revenue	5,016	5,149
Total current liabilities	23,860	24,997
Bonds payable	66,387	70,632
Trust and annuity obligations	6,152	6,767
Investments managed on behalf of charities	8,249	7,675
Fair value of interest rate swap	5,000	7,316
Governmental student loan programs	7,536	7,428
Other liabilities	2,142	2,088
Total liabilities	119,326	126,903
Net Assets		
Unrestricted		
Available for operational activities	34,172	30,480
Funds held for long-term investment as endowment	39,226	27,506
Net investment in land, buildings and equipment	64,452	63,153
Total unrestricted net assets	137,850	121,139
Temporarily restricted		
Unexpended funds received for educational purposes	6,134	3,997
Unappropriated gains on endowments	23,158	17,775
Split interest agreement funds	8,567	12,605
Total temporarily restricted net assets	37,859	34,377
Permanently restricted		
Endowment funds	37,348	35,761
Split interest agreement funds restricted for endowment	6,935	6,429
Total permanently restricted net assets	44,283	42,190
Total net assets	219,992	197,706
Total liabilities and net assets	$ 339,318	$ 324,609

See accompanying notes to consolidated financial statements

Consolidated Statements of Activities

For the Years Ended June 30, 2017 and 2016
(in thousands)

	June 30, 2017	June 30, 2016
Operating Unrestricted Net Assets Activity		
Revenues and other support		
Student charges:		
Tuition and fees	$ 137,442	$ 134,409
Less: grants and scholarships	(59,226)	(55,153)
Net tuition and fees	78,216	79,256
Student housing and dining fees	16,204	16,067
Net student charges	94,420	95,323
Private gifts and grants	3,544	3,401
Public service activities	3,087	2,713
Government grants, primarily for student aid	2,363	2,246
Distributions from endowment to support operations, programs and scholarships	3,183	3,012
Other revenue and support	3,458	3,353
Net assets released from restrictions	6,220	718
Total operating revenues and other support	116,275	110,766
Expenses		
Instruction	46,459	45,575
Student housing and dining expenses	15,511	15,067
Student services	17,834	17,926
Institutional support	17,543	18,835
Academic support	6,944	7,082
Public service	3,003	2,644
Total operating expenses	107,294	107,129
Excess of revenues and other support over expenses from operating activities	8,981	3,637
Nonoperating Unrestricted Net Assets Activity		
Investment income, realized and unrealized gains	5,190	1,452
Endowment distributions for operations, grants and scholarships	(1,001)	(950)
Change in fair value of interest rate swap	2,316	(1,521)
Change in value of split interest agreements	1,122	(228)
Net assets released from restrictions	103	12
Increase (decrease) in unrestricted net assets from nonoperating activities	7,730	(1,235)
Net change in unrestricted net assets	16,711	2,402
Temporarily Restricted Net Assets Activity		
Private gifts and grants	3,414	4,831
Investment income, realized and unrealized gains	7,564	1,985
Endowment distributions appropriated for operations, grants and scholarships	(2,182)	(2,062)
Change in value of split interest agreements	1,051	(4,382)
Net assets released from restrictions and reclassifications	(6,365)	(1,168)
Net change in temporarily restricted net assets	3,482	(796)
Permanently Restricted Net Assets Activity		
Private gifts and grants	1,550	1,025
Change in value of split interest agreements	501	(237)
Net assets reclassified to endowments	42	438
Net change in permanently restricted net assets	2,093	1,226
Increase in total net assets	22,286	2,832
Total net assets, beginning of year	197,706	194,874
Total net assets, end of year	$ 219,992	$ 197,706

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016
(in thousands)

	June 30,	
Cash Flows From Operating Activities	2017	2016
Fees from students, net of financial aid	$ 94,628	$ 94,908
Gifts and grants	7,602	6,011
Investment income	924	848
Public service income	3,087	2,713
Other revenue	3,819	4,073
Payments for interest on debt	(2,785)	(2,955)
Payments to employees and suppliers	(96,413)	(97,531)
Net cash provided by operating activities	10,862	8,067
Investing Activities		
Loans issued to students	(1,142)	(1,480)
Collections on loans issued to students	1,848	1,632
Purchase of investments	(44,259)	(13,102)
Proceeds from sale of investments	39,297	14,930
Proceeds from matured trust	4,460	615
Proceeds from collections of notes receivable	4	47
Issuance of notes receivable	(159)	(28)
Proceeds from sale of property	–	26
Purchase of land, buildings and equipment	(4,693)	(5,441)
Net cash used by investing activities	(4,644)	(2,801)
Financing Activities		
Payments on long-term debt	(4,280)	(4,245)
Contributions to temporarily restricted and permanently restricted net assets	2,993	1,912
Annuity payments and other	(248)	(329)
Net cash used by financing activities	(1,535)	(2,662)
Net increase in cash and cash equivalents	4,683	2,604
Cash and Cash Equivalents		
Beginning of year	19,737	17,133
End of year	$ 24,420	$ 19,737
Supplemental disclosure of cash flow information —		
Acquisition of property, plant and equipment through accounts payable	$ 451	$ 1,182
Receipt of charitable remainder interest in trust	–	4,073

See accompanying notes to consolidated financial statements

NOTE A – Summary of Significant Accounting Policies:

General

Seattle Pacific University is a Christian private nonprofit institution of higher education based in Seattle, Washington, that has a vision to "engage the culture and change the world". 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 66 undergraduate major programs and 52 minor areas of study, 29 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 three net asset categories according to the presence or absence of donor-imposed restrictions. A description of the three net asset categories follows.

Unrestricted net assets

Unrestricted net assets include amounts not subject to donor-imposed restrictions and amounts received during the year that were subject to temporary donor-imposed restrictions satisfied during the same year.

Temporarily restricted net assets

Temporarily restricted net assets include amounts that are subject to donor-imposed time or use restrictions that have not been met. Temporarily restricted 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.

Permanently restricted net assets

Permanently restricted net assets include amounts subject to donor-imposed restrictions where the corpus is invested in perpetuity. Only the income is made available for program operations and scholarships in accordance with donor restrictions. The irrevocable trust balance is restricted for endowment use at maturity. Generally, only the original gift value of an endowment that has donor restrictions is considered permanently restricted, unless otherwise expressly stipulated in the agreement with the donor.

Revenue and Expense Recognition

Revenues from sources other than contributions are reported as increases in unrestricted net assets. 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 year as the contribution received are recorded as increases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. All expenses are reported as decreases in unrestricted net assets. Except as restricted by donors or law, gains and losses on investments are reported as increases or decreases in unrestricted net assets. Temporary 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 unrestricted net assets section of the consolidated Statements of Activities. 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.

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 4.35%. 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 equities are primarily comprised of investments in limited partnerships. 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. Real estate consists primarily of limited liability companies. 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, governmental grants 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 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 seven and ten year terms of the 2013 bonds. Amortization expense related to bond issuance costs for the years ended June 30, 2017 and 2016 was $60 and $61, 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 1.2% 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 \$28,215 and \$30,671 at June 30, 2017 and 2016, respectively. Gifts related to these trusts were \$6 and \$7 for the years ended June 30, 2017 and 2016, 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 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 a change in value of split interest agreements. The University has trusts managed by others valued at \$2,666 and \$2,507 as of June 30, 2017 and 2016, respectively and include them as investments – split interest agreements held by others. Circumstances affecting these assumptions can change the estimate of this liability 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 permanently restricted net assets. The University has perpetual trusts valued at \$3,809 and \$3,540 as of June 30, 2017, and 2016, 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 manages the assets of an unrelated foundation and is trustee for several special needs trusts. Those assets and a corresponding liability are included in the accompanying consolidated Statements of Financial Position.

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.

Change in Accounting Principle

During 2017, the University implemented the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2015 - 03 *- Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 changes the accounting for debt issuance costs (bond issuance costs) by requiring that such costs be reported on the consolidated Statements of Financial Position as a direct deduction from the related liability. Previously, bond issuance costs were reported as a deferred charge asset on the consolidated Statements of Financial Position. The University has restated the 2016 financial statements to conform to the 2017 presentation and as a result $308 of unamortized bond issuance costs were reclassified from a deferred charge asset to long-term bonds payable on the consolidated Statements of Financial Position as of June 30, 2016.

(in thousands)

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 16, 2017, 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, 2017	June 30, 2016
Student accounts receivable	$ 4,833	$ 5,297
Allowance for doubtful accounts	(1,577)	(1,358)
Student accounts receivable, net	$ 3,256	$ 3,939

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, 2017 and 2016, student loans represented 2.4% and 2.6% of total assets, respectively.

At June 30, student loans consisted of the following:

	June 30, 2017	June 30, 2016
Federal government programs	$ 7,130	$ 7,730
Institutional programs	1,539	1,438
Student loans receivable	8,669	9,168
Less allowance for doubtful accounts:		
Beginning of year	(604)	(503)
Increases	(76)	(101)
End of year	(680)	(604)
Student loans receivable, net	$ 7,989	$ 8,564

(in thousands)

Funds advanced by the Federal government in the net amount of $7,536 and $7,428 at June 30, 2017 and 2016, 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,	
	2017	2016
< 2 years	$ 319	$ 244
2–5 years	292	299
> 5 years	486	418
Total	$ 1,097	$ 961

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.

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,	
	2017	2016
Non-forgivable mortagage loans	$ 300	$ 141
Forgivable mortgage loans	3	5
Forgivable educational loans	75	104
Total faculty and staff loans	$ 378	$ 250

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 0.11% and 0.08% of total assets at June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, there were no amounts past due under the faculty and staff loan program.

(in thousands)

NOTE D – Investments:

Investments are composed of pooled investment funds, marketable securities and real estate. The University's pooled investments are composed of five investment pools maintained by the Foundation for various trusts, annuities, pooled income and endowment funds. The 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.

	June 30, 2017	June 30, 2016
Pooled Investments:		
Cash and short-term investments	$ 11,838	$ 13,155
Equity institutional funds	57,219	43,257
Bond institutional funds	674	970
Marketable alternative institutional funds	308	2,827
Private equities	19,883	17,916
Notes receivable	12,946	11,829
Real estate	33,477	30,115
Total pooled investments	136,345	120,069
Equity securities	2,040	4,872
Real estate held for investment or sale	16,455	16,248
Total investments	$ 154,840	$ 141,189

The following schedule summarizes investment return and its classification on the consolidated Statements of Activities at June 30:

	June 30, 2017		
	Unrestricted	Temporarily Restricted	Total
Investment income	$ 750	$ 174	$ 924
Net realized and unrealized gains on investments	4,440	7,390	11,830
Investment income, realized and unrealized gains	$ 5,190	$ 7,564	$ 12,754

	June 30, 2016		
	Unrestricted	Temporarily Restricted	Total
Investment income	$ 677	$ 170	$ 847
Net realized and unrealized gains on investments	775	1,815	2,590
Investment income, realized and unrealized gains	$ 1,452	$ 1,985	$ 3,437

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, 2017 and 2016.

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. The fund is traded on a private market that is not active; however, the unit price is based on observable market data of the fund's underlying assets.

Private Equities — 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 — 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 Agreement — Valued using inputs observed from proprietary pricing models.

(in thousands)

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

	Fair Value Measurements at June 30, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Assumptions or Unobservable Inputs (Level 3)	Total
Cash and short-term investments	$ 11,838	$ –	$ –	$ 11,838
Bond institutional funds	–	674	–	674
Equity institutional funds:				
US equity securities	5,520	43,124	–	48,644
Natural resources	–	1,544	–	1,544
Non-US equity securities	–	8,533	–	8,533
Marketable alternative institutional funds	–	308	–	308
Private equities:				
Private equity partnership interests	–	–	16,130	16,130
Natural resource partnership interests	–	–	3,340	3,340
Distressed debt partnership interests	–	–	413	413
Limited liability company	–	–	536	536
Real estate	–	–	33,662	33,662
Investments – split interest agreements held by others	–	–	6,475	6,475
Interest rate swap agreement	–	–	(5,000)	(5,000)
Total	$ 17,358	$ 54,183	$ 55,556	$ 127,097

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 follows:

	Fair Value Measurements at June 30, 2017			
	Private Equities and Real Estate	Investments–Split Interest Agreements Held by Others	Interest Rate Swap Agreements	Total Level 3
Beginning balance	$ 48,568	$ 6,047	$ (7,316)	$ 47,299
Total realized/unrealized gains	6,413	428	2,316	9,157
Purchases	2,991	–	–	2,991
Sales	(3,891)	–	–	(3,891)
Ending balance	$ 54,081	$ 6,475	$ (5,000)	$ 55,556

Total gains and losses are included in the consolidated Statements of Activities for the year ended June 30, 2017.

(in thousands)

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

	Fair Value Measurements at June 30, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Assumptions or Unobservable Inputs (Level 3)	Total
Cash and short-term investments	$ 13,155	$ –	$ –	$ 13,155
Bond institutional funds	–	970	–	970
Equity institutional funds:				
US equity securities	4,729	33,976	–	38,705
Natural resources	–	1,419	–	1,419
Non-US equity securities	2,538	4,927	–	7,465
Marketable alternative institutional funds	–	2,827	–	2,827
Private equities:				
Private equity partnership interests	–	–	14,756	14,756
Natural resource partnership interests	–	–	2,646	2,646
Distressed debt partnership interests	–	–	514	514
Limited liability company	–	–	527	527
Real estate	–	–	30,125	30,125
Investments – split interest agreements held by others	–	–	6,047	6,047
Interest rate swap agreement	–	–	(7,316)	(7,316)
Total	$ 20,422	$ 44,119	$ 47,299	$ 111,840

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 follows:

	Fair Value Measurements at June 30, 2016			
	Private Equities and Real Estate	Investments–Split Interest Agreements Held by Others	Interest Rate Swap Agreements	Total Level 3
Beginning balance	$ 44,512	$ 11,813	$ (5,795)	$ 50,530
Total realized/unrealized gains (losses)	4,518	(5,766)	(1,521)	(2,769)
Purchases	2,155	–	–	2,155
Sales	(2,617)	–	–	(2,617)
Ending balance	$ 48,568	$ 6,047	$ (7,316)	$ 47,299

Total gains and losses are included in the consolidated Statements of Activities for the year ended June 30, 2016.

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.

	2017				
	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity	$20,400	1 to 12 Years	$14,400	Closed end funds not eligible for redemption except in limited circumstances	Illiquid
Real estate	$33,700	No Limit	None	Individual properties must be sold on the open market	Illiquid

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 permanently restricted net assets (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 permanently restricted net assets is classified as temporarily restricted net assets 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:

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.

(in thousands)

Endowment net assets consisted of the following at June 30:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ –	$ –	$ 37,348	$ 37,348
Unappropriated net investment income and appreciation on endowment funds	–	23,158	–	23,158
Board designated quasi-endowment	39,226	–	–	39,226
Endowment Net Assets, June 30, 2017	$ 39,226	$ 23,158	$ 37,348	$ 99,732

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ –	$ –	$ 35,761	$ 35,761
Unappropriated net investment income and appreciation on endowment funds	–	17,775	–	17,775
Board designated quasi-endowment	27,506	–	–	27,506
Endowment Net Assets, June 30, 2016	$ 27,506	$ 17,775	$ 35,761	$ 81,042

Changes to endowment net assets are as follows for the years ended June 30, 2016 and 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 30, 2015	$ 27,280	$ 17,853	$ 33,416	$ 78,549
Endowment investment return				
Investment return	–	–	–	–
Realized and unrealized gains	937	1,813	–	2,750
Total endowment investment return	937	1,813	–	2,750
Contributions	–	–	1,017	1,017
Endowment related expenses	–	(1)	–	(1)
Distributions for operating programs	(950)	(1,890)	–	(2,840)
Transfer to quasi-endowments	50	–	–	50
Transfer from trusts	189	–	890	1,079
Net assets reclassified to/from endowments	–	–	438	438
Endowment Net Assets, June 30, 2016	$ 27,506	$ 17,775	$ 35,761	$ 81,042
Endowment investment return				
Investment return	–	–	–	–
Realized and unrealized gains	4,257	7,389	–	11,646
Total endowment investment return	4,257	7,389	–	11,646
Contributions	520	–	1,544	2,064
Endowment related expenses	–	(1)	–	(1)
Distributions for operating programs	(1,001)	(2,005)	–	(3,006)
Transfer to quasi-endowments	2,907	–	–	2,907
Transfer from trusts	5,037	–	1	5,038
Net assets reclassified to/from endowments	–	–	42	42
Endowment Net Assets, June 30, 2017	$ 39,226	$ 23,158	$ 37,348	$ 99,732

(in thousands)

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 recorded as decreases in unrestricted net assets at June 30, 2017 and 2016.

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.

NOTE G – Contributions Receivable:

Contributions receivable in current and non-current other receivables, include pledges that have been discounted at rates of 0.5-0.8%, based on the risk-adjusted rate of return at the time of the gift, and are due to be collected as follows:

	June 30, 2017	June 30, 2016
Contributions expected to be collected:		
Within one year	$ 1,098	$ 923
One to five years	738	1,394
	1,836	2,317
Less discount to present value	(12)	(17)
Less allowance for uncollectible contributions receivable	(55)	(69)
Total contributions receivable, net	$ 1,769	$ 2,231

NOTE H – Land, Buildings and Equipment:

Land, buildings and equipment consist of the following:

	June 30, 2017	June 30, 2016
Land	$ 22,685	$ 22,685
Buildings	166,996	169,461
Equipment	9,517	9,826
Library books	11,945	11,597
Construction in progress and capitalized development costs	1,847	2,242
	212,990	215,811
Less accumulated depreciation	(77,598)	(77,439)
Land, buildings and equipment, net	$ 135,392	$ 138,372

(in thousands)

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 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 $1,037 and $1,029 at June 30, 2017 and 2016, respectively, for conditional asset retirement obligations. This obligation is included in other liabilities.

NOTE I – Notes and 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, 2017	June 30, 2016
Series 2013 A Bonds	Variable Rate*	1.80%	12/1/2020	10/1/2030	$ 12,755	$ 13,865
Series 2013 B Bonds	Variable Rate*	1.80%	12/1/2020	10/1/2030	15,680	17,040
Series 2013 C Bonds	Fixed Rate	2.77%	12/1/2020	10/1/2030	22,365	23,435
Series 2013 D Bonds	Fixed Rate	3.42%	12/1/2023	10/1/2032	6,930	7,265
Series 2013 E Bonds	Fixed Rate	3.48%	12/1/2023	10/1/2038	13,210	13,615
				Total Long-term Notes and Bonds Payable	70,940	75,220
				Less portion due within one year	(4,305)	(4,280)
					66,635	70,940
				Less unamortized bond fees	(248)	(308)
				Total Long-term Notes and Bonds Payable, Net	$ 66,387	$ 70,632

*LIBOR x Tax Exempt Factor + credit spread, rates listed are the effective interest rate as of June 30, 2017.

In December 2013, the University issued through the WHEFA, bonds in five separate Series (2013 A, 2013 B, 2013 C, 2013 D & 2013 E). The Series 2013 bonds are 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. As of June 30, 2017 and 2016, 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
2017-2018	$ 4,305
2018-2019	4,335
2019-2020	4,385
2020-2021	4,225
2021-2022	4,455
Thereafter	49,235
	70,940
Less unamortized bond fees	(248)
	$ 70,692

For the fiscal years ended June 30, 2017 and 2016, the University incurred $2,823 and $2,995, respectively, in total interest costs related to long-term debt.

(in thousands)

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, 2017 and 2016.

There were no short-term and other interest costs for the years ended June 30, 2017 and 2016.

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 $28,435 and $30,905 at June 30, 2017 and 2016. 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, 2017	June 30, 2016
Present value of gift annuity obligations	$ 466	$ 1,507
Washington State reserve requirements	47	151
Investments related to gift annuity obligations	$ 513	$ 1,658

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:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unconsolidated net assets June 30, 2016	$ 120,182	$ 30,612	$ 42,189	$ 192,983
Total revenue and support	123,295	3,482	2,093	128,870
Total expenses	(106,726)	–	–	(106,726)
Unconsolidated net assets June 30, 2017	$ 136,751	$ 34,094	$ 44,282	$ 215,127

(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 $3,429 and $3,651 for the years ended June 30, 2017 and 2016, 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 currently 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, 2017 and 2016 was $453 and $455, respectively.

NOTE M – 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:

	2017	2016
Increase in net assets	$ 22,286	$ 2,832
Noncash operating adjustments:		
Depreciation	7,797	8,012
Amoritization of bond issuance costs	60	61
Provision for doubtful student accounts and pledges	281	213
Net realized and unrealized gain on investments	(11,830)	(2,590)
Change in value of split interest agreements	(2,674)	4,847
Unrealized (gain) loss on interest rate swaps	(2,316)	1,521
Financing activities and noncash non-operating adjustments:		
Contributions to temporarily restricted and permanently restricted net assets	(2,993)	(1,912)
Contributions of remainder interest in trusts	–	(4,073)
Loss on disposal of plant assets	228	13
Changes in operating assets and liabilities:		
Student accounts receivable	464	(542)
Grants and other receivables	(755)	660
Inventories and prepaid expenses	34	(39)
Other receivables	(321)	462
Accounts payable, accrued liabilities and other liabilities	148	(1,561)
Student deposits and prepaid fees	11	144
Deferred revenue	(132)	74
Investments managed on behalf of charities	574	(55)
Net cash provided by operating activities	$ 10,862	$ 8,067

NOTE N – Fundraising Expense:

Institutional support expense reflected on the consolidated Statements of Activities includes approximately $2,985 and $2,975 of fundraising expenses for the years ended June 30, 2017 and 2016, respectively.

NOTE O – Contingencies:

The University is an equity owner of the College Liability Insurance Company (CLIC). For the fiscal year beginning July 1, 2017, the University had a $189 contingent liability for its portion of a $2,000 letter of credit issued to CLIC by a bank. The University is a guarantor of this letter of credit and would be liable for its share of the contingency if CLIC were to fail to repay amounts borrowed under the letter of credit. The accumulated loss reserves and net assets of CLIC are substantially above historical claim losses and the University believes a call on the CLIC letter of credit is unlikely in the foreseeable future.

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 two such loans outstanding that are due between 2018 and 2021. Since the inception of the HAP in 1991, no guarantees have been exercised by the credit union. As of June 30, 2017, the loan portfolio balance held by the credit union was $60. 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, 2017.

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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