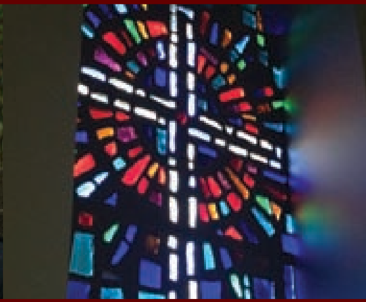
Engaging the culture, changing the world®

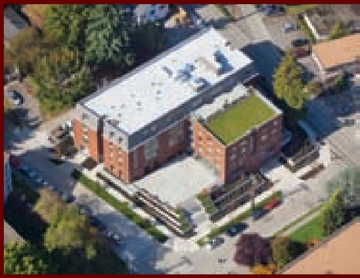
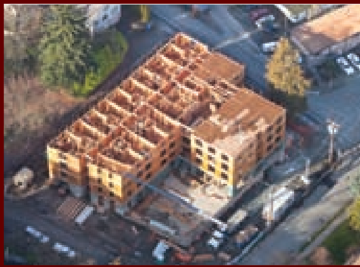
Seattle Pacific
UNIVERSITY

AUDITED FINANCIAL STATEMENTS

Year Ending June 30, 2014



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 4,200 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 62 undergraduate majors and 55 minors. The University's curriculum is carried out through the College of Arts and Sciences and the schools of Business, Government and Economics; Education; Health Sciences; Theology; and Psychology, Family, and Community. Graduate studies include 20 master's degrees and five doctoral programs: education (both Ed.D and Ph.D), clinical family psychology, organizational psychology, and counselor education.

The University's physical plant includes a 42-acre main campus near the heart of downtown Seattle; a 965-acre wilderness campus on Blakely Island in the San Juan Islands; and the 255-acre Camp Casey campus on Whidbey Island.

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Certified Public
Accountants
and Consultants

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 comprises the consolidated statements of financial position as of June 30, 2014 and 2013, 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 audit 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, 2014 and 2013, 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 P S

Certified Public Accountants
November 20, 2014

Consolidated Statements of Financial Position

For the Years Ended June 30, 2014 and 2013
(in thousands)

	June 30,	
Assets	2014	2013
Cash and cash equivalents	$ 19,687	$ 19,640
Investments	17,515	24,251
Bond proceeds restricted for capital projects or debt retirement	3,262	–
Student accounts receivable, net	3,647	3,446
Grants and other receivables	2,036	1,390
Inventories and prepaid expenses	1,295	1,765
Student loans	1,138	1,136
Total current assets	48,580	51,628
Student loans, net	7,684	7,579
Other receivables and prepaid expenses	2,633	1,211
Investments	111,545	89,778
Investments — split interest agreements held by others	5,925	5,491
Bond proceeds restricted for captial projects or debt retirement	2,544	–
Land, buildings and equipment, net	136,437	113,398
Total assets	$ 315,348	$ 269,085
Liabilities and Net Assets		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 14,230	$ 13,028
Bonds payable	4,210	3,510
Trust and annuity obligations	1,499	1,376
Student deposits and prepaid fees	1,350	1,468
Deferred revenue	4,992	4,445
Total current liabilities	26,281	23,827
Bonds payable	79,465	61,045
Trust and annuity obligations	8,592	8,994
Investments managed on behalf of charities	8,035	7,272
Fair value of interest rate swap	5,754	5,955
Governmental student loan programs	7,210	7,075
Other liabilities	2,174	2,142
Total liabilities	137,511	116,310
Net Assets		
Unrestricted		
Available for operational activities	35,339	29,787
Funds held for long-term investment as endowment	25,106	20,412
Net investment in land, buildings and equipment	52,762	48,404
Total unrestricted net assets	113,207	98,603
Temporarily restricted		
Unexpended funds received for program purposes	3,897	1,597
Unappropriated gains on endowments	14,090	9,651
Split interest agreement funds	7,849	8,134
Total temporarily restricted net assets	25,836	19,382
Permanently restricted		
Endowment funds	30,429	28,662
Split interest agreement funds restricted for endowment	8,365	6,128
Total permanently restricted net assets	38,794	34,790
Total net assets	177,837	152,775
Total liabilities and net assets	$ 315,348	$ 269,085

See accompanying notes to consolidated financial statements

Consolidated Statements of Activities

For the Years Ended June 30, 2014 and 2013
(in thousands)

	June 30, 2014	June 30, 2013
Operating Unrestricted Net Assets Activity		
Revenues and other support		
Student charges:		
Tuition and fees	$ 128,558	$ 117,918
Less: grants and scholarships	(50,394)	(45,321)
Net tuition and fees	78,164	72,597
Student housing and dining fees	15,660	14,781
Net student charges	93,824	87,378
Private gifts and grants	2,166	2,797
Public service activities	2,652	2,262
Government grants, primarily for student aid	2,308	2,596
Distributions from endowment to support operations, programs and scholarships	2,354	2,233
Other revenue and support	3,249	2,712
Net assets released from restrictions	556	1,011
Total operating revenues and other support	107,109	100,989
Expenses		
Instruction	42,088	41,151
Student housing and dining expenses	14,455	14,485
Student services	16,580	16,106
Institutional support	18,211	15,298
Academic support	5,181	4,898
Public service	1,964	1,867
Total operating expenses	98,479	93,805
Excess of revenues and other support over expenses from operating activities	8,630	7,184
Nonoperating Unrestricted Net Assets Activity		
Investment income, realized and unrealized gains	4,798	2,349
Endowment distributions for operations, grants and scholarships	(508)	(495)
Change in fair value of interest rate swap	201	3,037
Change in value of split interest agreements	1,380	346
Net proceeds from sale of real estate	–	8,872
Net assets released from restrictions	103	9
Increase in unrestricted net assets from nonoperating activities	5,974	14,118
Net change in unrestricted net assets	14,604	21,302
Temporarily Restricted Net Assets Activity		
Private gifts and grants	3,200	438
Investment income, realized and unrealized gains	6,287	3,310
Endowment distributions appropriated for operations, grants and scholarships	(1,846)	(1,738)
Change in value of split interest agreements	888	642
Net assets released from restrictions and reclassifications	(2,075)	(1,020)
Net change in temporarily restricted net assets	6,454	1,632
Permanently Restricted Net Assets Activity		
Private gifts and grants	1,659	1,043
Change in value of split interest agreements	929	573
Net assets reclassified to endowments	1,416	–
Net change in permanently restricted net assets	4,004	1,616
Increase in total net assets	25,062	24,550
Total net assets, beginning of year	152,775	128,225
Total net assets, end of year	$ 177,837	$ 152,775

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013
(in thousands)

	June 30, 2014	June 30, 2013
Cash Flows From Operating Activities		
Fees from students, net of financial aid	$ 94,071	$ 87,193
Gifts and grants	6,977	5,596
Investment income	863	745
Public service income	2,652	2,262
Other revenue	1,863	3,097
Payments for interest on debt	(1,996)	(2,137)
Payments to employees and suppliers	(87,524)	(80,459)
Net cash provided by operating activities	16,906	16,297
Investing Activities		
Loans issued to students	(1,582)	(1,485)
Collections on loans issued to students	1,585	1,354
Purchase of investments	(56,978)	(67,997)
Purchase of restricted investments	(5,806)	–
Proceeds from sale of investments	49,620	60,979
Proceeds from matured trust	56	–
Proceeds from collections of notes receivable	499	286
Issuance of notes receivable	(162)	(148)
Proceeds from sale of property	–	8,872
Purchase of land, buildings and equipment	(25,106)	(9,165)
Net cash used by investing activities	(37,874)	(7,304)
Financing Activities		
Payments on long-term debt	(66,395)	(3,745)
Issuance of long term debt	85,515	–
Contributions to temporarily restricted and permanently restricted net assets	2,233	1,306
Annuity payments and other	(338)	(336)
Net cash provided (used) by financing activities	21,015	(2,775)
Net increase in cash and cash equivalents	47	6,218
Cash and Cash Equivalents		
Beginning of year	19,640	13,422
End of year	$ 19,687	$ 19,640
Supplemental disclosure of cash flow information —		
Acquisition of property, plant and equipment through accounts payable	$ 2,839	$ 1,686

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 and the schools of Business, Government and Economics; Education; Health Sciences; Theology; and Psychology, Family and Community. The University offers degrees in 62 undergraduate major programs and 55 minor areas of study, 20 master's programs and five 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 and only the income is made available for program operations and scholarships in accordance with donor restrictions. Included in the balances are irrevocable trusts 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 Statement 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 gifts and grants, public service activities, government grants, and other revenues. 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 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 6.0% to 7.5%. Real estate held for investment or sale is reported based on historical value.

Alternative investments are investments for which there is no readily determinable published value. They include institutional funds, private equity funds, notes receivable, real estate, and limited liability companies. Institutional funds are multi-strategy, commingled equity and bond funds traded on an exchange that is not public. Private equity funds 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. The limited liability companies are primarily invested in real estate. 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 a ready 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. Amortization of issuance costs are calculated using the straight-line method over the seven and ten year terms of the 2013 bonds. Remaining unamortized bond issuance costs related to Series 2008 WHEFA Bonds of $437 were written off during 2014. Amortization expense related to bond issuance costs for the years ended June 30, 2014 and 2013 was $32 and $25, respectively.

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.

(in thousands)

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 financial statements.

Government Student Loans

Student loans receivable consist primarily of loans made to students under U.S. government loan programs. The loans are stated at net realizable value in the accompanying consolidated Statement of Financial Position. The majority of federal loan funds are furnished by agencies of the United States 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 Statement 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 except for unrelated business taxable income as defined in sections 511 through 515 of the Internal Revenue Code (IRC). Accordingly, the financial statements do not include a provision for federal income tax. In addition, the University presently is exempt from Washington State real and personal property taxes pursuant to WAC 458-16-270 on the majority of its educational and other noncommercial properties. The University does file 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.

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.

Subsequent Events

The University has evaluated events through November 20, 2014, 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, 2014 and 2013, student accounts receivable consisted of the following balances:

	June 30, 2014	June 30, 2013
Student accounts receivable	$ 4,849	$ 4,497
Allowance for doubtful accounts	(1,202)	(1,051)
Student accounts receivable	$ 3,647	$ 3,446

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.

(in thousands)

NOTE C – Student and Other Loans:

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, 2014 and 2013, student loans represented 2.8% and 3.2% of total assets, respectively.

At June 30, student loans consisted of the following:

	June 30, 2014	June 30, 2013
Federal government programs	$ 7,925	$ 7,835
Institutional programs	1,412	1,369
Student loans receivable	9,337	9,204
Less allowance for doubtful accounts:		
Beginning of year	(489)	(381)
Increases	(26)	(108)
End of year	(515)	(489)
Student loans receivable, net	$ 8,822	$ 8,715

Funds advanced by the Federal government in the net amount of $7,210 and $7,075 at June 30, 2014 and 2013, 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, 2014 and 2013, the following amounts were past due under student loan programs:

	June 30, 2014	June 30, 2013
< 2 years	$ 160	$ 257
2–5 years	297	324
> 5 years	329	259
Total	$ 786	$ 840

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.

(in thousands)

Faculty and Staff Loans

As part of a program to attract and retain excellent faculty and 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, 2014	June 30, 2013
Forgivable mortgage loans	$ 22	$ 30
Non-forgivable mortgage loans	114	–
Forgivable educational loans	51	23
	$ 187	$ 53

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/staff loans and mortgage notes for June 30, 2014 and 2013 represent 0.06% and 0.02% of total assets, respectively. At June 30, 2014 and 2013, 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 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.

	June 30, 2014	June 30, 2013
Pooled Investments:		
Cash and short-term investments	$ 10,530	$ 12,911
Equity institutional funds	46,114	46,261
Bond institutional funds	1,137	3,144
Marketable alternative institutional funds	8,843	11,026
Private equities	16,614	14,820
Notes receivable	10,188	2,442
Real estate	20,722	14,628
Total pooled investments	114,148	105,232
Equity securities	651	478
Real estate held for investment or sale	14,261	8,319
Total investments	$ 129,060	$ 114,029

(in thousands)

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

	June 30, 2014		
	Unrestricted	Temporarily Restricted	Total
Investment income	$ 683	$ 180	$ 863
Net realized and unrealized gain on investments	4,115	6,107	10,222
Investment income, realized and unrealized gains	$ 4,798	$ 6,287	$ 11,085

	June 30, 2013		
	Unrestricted	Temporarily Restricted	Total
Investment income	$ 587	$ 158	$ 745
Net realized and unrealized losses on investments	1,762	3,152	4,914
Investment income, realized and unrealized gains	$ 2,349	$ 3,310	$ 5,659

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, 2014 and 2013.

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 investment is traded on a private market that is 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 Agreements — 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, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significiant Other Observable Inputs (Level 2)	Significant Assumptions or Unobservable Inputs (Level 3)	Total
Cash and short-term investments	$ 10,530	$ –	$ –	$ 10,530
Bond institutional funds	–	1,137	–	1,137
Equity institutional funds:				
US equity securities	590	34,167	–	34,757
Natural resources	–	2,570	–	2,570
Non-US equity securities	1,693	7,259	–	8,952
Marketable alternative institutional funds	–	8,843	–	8,843
Private equities:				
Private equity partnership interests	–	–	12,942	12,942
Natural resource partnership interests	–	–	2,622	2,622
Distressed debt partnership interests	–	–	1,050	1,050
Real estate	–	–	21,217	21,217
Investments – split interest agreements held by others	–	–	5,925	5,925
Interest rate swap agreement	–	–	(5,754)	(5,754)
Total	$ 12,813	$ 53,976	$ 38,002	$ 104,791

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, 2014			
	Investments at Fair Value	Investments–Split Interest Agreements Held by Others	Interest Rate Swap Agreements	Total Level 3
Beginning balance	$ 29,867	$ 5,491	$ (5,955)	$ 29,403
Total realized/unrealized gains	3,822	488	201	4,511
Purchases	7,814	–	–	7,814
Sales	(3,672)	(54)	–	(3,726)
Ending balance	$ 37,831	$ 5,925	$ (5,754)	$ 38,002

Total gains are included in the consolidated Statements of Activities for the year ended June 30, 2014.

(in thousands)

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

	Fair Value Measurements at June 30, 2013			
	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	$ 12,911	$ –	$ –	$ 12,911
Bond institutional funds:	–	3,144	–	3,144
Equity institutional funds:				
US equity securities	307	29,372	–	29,679
Commodities	–	1,667	–	1,667
Natural resources	–	1,532	–	1,532
Non-US equity securities	5,900	7,552	–	13,452
Marketable alternative institutional funds	–	11,026	–	11,026
Private equities:				
Private equity partnership interests	–	–	11,172	11,172
Natural resource partnership interests	–	–	2,117	2,117
Distressed debt partnership interests	–	–	1,531	1,531
Real estate	–	–	15,047	15,047
Investments – split interest agreements held by others	–	–	5,491	5,491
Interest rate swap agreement	–	–	(5,955)	(5,955)
Total	$ 19,118	$ 54,293	$ 29,403	$ 102,814

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, 2013			
	Investments at Fair Value	Investments–Split Interest Agreements Held by Others	Interest Rate Swap Agreements	Total Level 3
Beginning balance	$ 28,606	$ 5,122	$ (8,992)	$ 24,736
Total realized/unrealized gains	2,323	358	3,037	5,718
Purchases	1,738	11	–	1,749
Sales	(2,800)	–	–	(2,800)
Ending balance	$ 29,867	$ 5,491	$ (5,955)	$ 29,403

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.

	2014				
	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity	$17.1 million	1 to 12 years	$12.1 million	Closed end funds not eligible for redemption except in limited circumstances	Not redeemable
Real estate	$20.7 million	No limit	None	Individual properties must be sold on the open market	Not redeemable

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 the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment 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:

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ –	$ –	$ 30,429	$ 30,429
Unappropriated net investment income and appreciation on endowment funds	–	14,090	–	14,090
Board designated quasi-endowment	25,106	–	–	25,106
Endowment Net Assets, June 30, 2014	$ 25,106	$ 14,090	$ 30,429	$ 69,625

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ –	$ –	$ 28,662	$ 28,662
Unappropriated net investment income and appreciation on endowment funds	–	9,651	–	9,651
Board designated quasi-endowment	20,412	–	–	20,412
Endowment Net Assets, June 30, 2013	$ 20,412	$ 9,651	$ 28,662	$ 58,725

Changes to endowment net assets are as follows for the years ended June 30, 2013 and 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 20, 2012	$ 10,590	$ 8,079	$ 27,113	$ 45,782
Endowment investment return				
Investment return	4	(1)	–	3
Realized and unrealized losses	960	3,153	–	4,113
Total endowment investment return	964	3,152	–	4,116
Contributions	–	–	933	933
Distributions for operating programs	(495)	(1,580)	–	(2,075)
Transfer to quasi-endowments	9,353	–	–	9,353
Transfer from trusts	–	–	616	616
Endowment Net Assets, June 30, 2013	$ 20,412	$ 9,651	$ 28,662	$ 58,725
Endowment investment return				
Investment return	10	–	–	10
Realized and unrealized gains	3,429	6,106	–	9,535
Total endowment investment return	3,439	6,106	–	9,545
Contributions	–	–	1,642	1,642
Endowment related expenses	–	(1)	–	(1)
Distributions for operating programs	(508)	(1,666)	–	(2,174)
Transfer to quasi-endowments	1,763	–	–	1,763
Transfer from trusts	–	–	53	53
Net assests reclassified to/from endowments	–	–	72	72
Endowment Net Assets, June 30, 2014	$ 25,106	$ 14,090	$ 30,429	$ 69,625

(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, 2014 and 2013.

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, publically 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. In addition to maintaining the real value of the endowment over time, investment returns are compared against similar sized endowments reported in the annual NACUBO Endowment Study with the target goal of exceeding the median return for this grouping and measured against an external benchmark comprised of 70% of the return earned by the S&P 500 Index plus 30% of the return earned by the Barclays Aggregate Index. 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.

NOTE G – Contributions Receivable:

Contributions receivable in current and non-current other receivables, include pledges that have been discounted at a rate of 0.2-2.0%, based on the risk-adjusted rate of return at the time of the gift, and are due to be collected as follows:

	June 30,	
	2014	2013
Contributions expected to be collected:		
Within one year	$ 581	$ 118
One to five years	1,939	78
	2,520	196
Less discount to present value	(34)	(1)
Less allowance for uncollectible contributions receivable	(50)	(4)
Total contributions receivable, net	$ 2,436	$ 191

NOTE H – Land, Buildings and Equipment:

Land, buildings and equipment consist of the following:

	June 30,	
	2014	2013
Land	$ 20,234	$ 17,875
Buildings	139,779	132,565
Equipment	9,987	11,462
Library books	10,829	10,208
Construction in progress and capitalized development costs	23,998	10,081
	204,827	182,191
Less accumulated depreciation	(68,390)	(68,793)
Land, buildings and equipment, net	$ 136,437	$ 113,398

(in thousands)

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 pre-1980 campus facilities. 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 $1,022 and $1,019 at June 30, 2014 and 2013, respectively, for conditional asset retirement obligations.

NOTE I – Notes and Bonds Payable:

As of June 30, 2014 and 2013, 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, 2014	June 30, 2013
Series 2008 Bonds	Variable Rate	0.18%	n/a	10/1/2030	$ –	$ 64,555
Series 2013 A Bonds	Variable Rate*	1.16%	12/1/2020	10/1/2030	16,135	–
Series 2013 B Bonds	Variable Rate*	1.16%	12/1/2020	10/1/2030	19,810	–
Series 2013 C Bonds	Fixed Rate	2.77%	12/1/2020	10/1/2030	25,435	–
Series 2013 D Bonds	Fixed Rate	3.42%	12/1/2023	10/1/2032	7,905	–
Series 2013 E Bonds	Fixed Rate	3.48%	12/1/2023	10/1/2038	14,390	–
					$ 83,675	$ 64,555

*LIBOR x Tax Exempt Factor + credit spread, rates listed are the effective interest rate as of June 30, 2014

In December 2013, the University issued five separate Series of WHEFA bonds (2013 A, 2013 B, 2013 C, 2013 D, & 2013 E) for the purposes of refunding the Series 2008 WHEFA bonds, funding the acquisition of the Wesley Apartments (located on land owned by the University) and funding the construction and furnishing of Arnett Hall. The structure of the bonds moved from variable rate demand bonds to a combination of variable and fixed rate direct placement bonds. The Series 2008 bonds were supported by a letter of credit from US Bank. The Series 2013 bonds are owned by US Bank and Washington Federal Bank through a direct purchase agreement. The underlying supporting documents for the Series 2013 WHEFA bonds contain restrictive financial ratios and measures as defined in the related agreements. As of June 30, 2014 and 2013, 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
2014-2015	$ 4,210
2015-2016	4,245
2016-2017	4,280
2017-2018	4,305
2018-2019	4,335
Thereafter	62,300
	$ 83,675

For the fiscal years ended June 30, 2014 and 2013, the University incurred $2,680 and $2,138, respectively, in total interest costs related to long-term debt.

The University maintains a $20,000 revolving line of credit at a floating interest rate. There were no draws outstanding against this line as of June 30, 2014 and 2013.

Short-term and other interest costs for the years ended June 30, 2014 and 2013, were $8 and $18, respectively.

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 $35,945 and $38,515 at June 30, 2014 and 2013. There was no cash exchanged at the time of acquisition of these swaps 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 is 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 – Split Interest Agreements:

The University and 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 Internal Revenue Service actuarial tables and discount rates representing rates commensurate with the risks 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 financial statements as $33,142 and $24,579 at June 30, 2014 and 2013, respectively. Gifts related to these trusts were $17 and $216 for the years ended June 30, 2014 and 2013, respectively.

Trusts in which either the University or the Foundation is named as irrevocable remainder beneficiary, but not as trustee, are recorded in the consolidated financial statements as contribution income when the trustee notifies the University and the ownership percentage and valuation are determined. The portions of these trusts that are restricted for endowment use at the time of trust maturity are classified as permanently restricted net assets. The University has trusts managed by others valued at $2,109 and $2,000 as of June 30, 2014 and 2013, respectively and include them as investments – split interest agreements held by others.

Perpetual trusts in which the University is named as irrevocable remainder beneficiary, but not as trustee, are recorded in the consolidated financial statements 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 $3,816 and $3,491 as of June 30, 2014, and 2013, respectively and included them in investments — split interest agreements held by others.

(in thousands)

NOTE L – Annuity Obligations:

The University and Foundation have 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,	
	2014	2013
Present value of gift annuity obligations	$ 1,711	$ 2,737
Washington State reserve requirements	171	274
Investments related to gift annuity obligations	$ 1,882	$ 3,011

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:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unconsolidated net assets June 30, 2013	$ 97,983	$ 13,523	$ 32,152	$ 143,658
Total revenue and support	112,543	5,942	2,894	121,379
Total expenses	(98,040)	–	–	(98,040)
Unconsolidated net assets June 30, 2014	$ 112,486	$ 19,465	$ 35,046	$ 166,997

NOTE M – Retirement Plan:

The University participates in an Internal Revenue Code – (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 concurrent with salary payment. The University's contributions to the plan were $3,462 and $3,216 for the years ended June 30, 2014 and 2013, respectively. The University also provides a 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, 2014 and 2013 was $454 and $400, respectively.

(in thousands)

NOTE N – 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:

	2014	2013
Increase in net assets	$ 25,062	$ 24,550
Adjustments to total change in net assets to net cash provided by operating activities:		
Depreciation	7,265	6,985
Amoritization of bond issuance costs and loss on debt extinguishment	4	26
Provision for doubtful student accounts and pledges	(79)	(27)
Net realized and unrealized gains on investments	(10,222)	(4,914)
Contributions to temporarily restricted and permanently restricted net assets	(2,233)	(1,306)
Gain on disposal of plant assets	–	(8,604)
Change in value of split interest agreements	(3,197)	(1,561)
Change in fair value of interest rate swap	(201)	(3,037)
Changes in operating assets and liabilities:		
Student accounts receivable	(51)	(294)
Grants and other receivables	(646)	270
Inventories and prepaid expenses	470	(245)
Other receivables	(1,809)	115
Accounts payable, accrued liabilities and other liabilites	1,351	4,116
Student deposits and prepaid fees	(118)	(288)
Deferred revenue	547	208
Investments managed on behalf of charities	763	303
Net cash provided by operating activities	$ 16,906	$ 16,297

NOTE O – Fundraising Expense:

Institutional support expense reflected on the consolidated Statements of Activities includes approximately $3,083 and $2,820 of fundraising expenses for the years ended June 30, 2014 and 2013, respectively.

NOTE P – Contingencies:

Contingencies

The University is an equity owner of the College Liability Insurance Company (CLIC). For the fiscal year beginning July 1, 2014, the University had a $182 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 the credit union provided in support of the University's Housing Assistance Program (HAP) for faculty and staff. The HAP provides downpayment 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 8 such loans outstanding that are due between 2015 and 2022. Since the inception of the HAP in 1991, no guarantees have been exercised by the credit union. As of June 30, 2014, the loan portfolio balance held by the credit union was $341. 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, 2014.

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 U.S. GAAP.

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

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