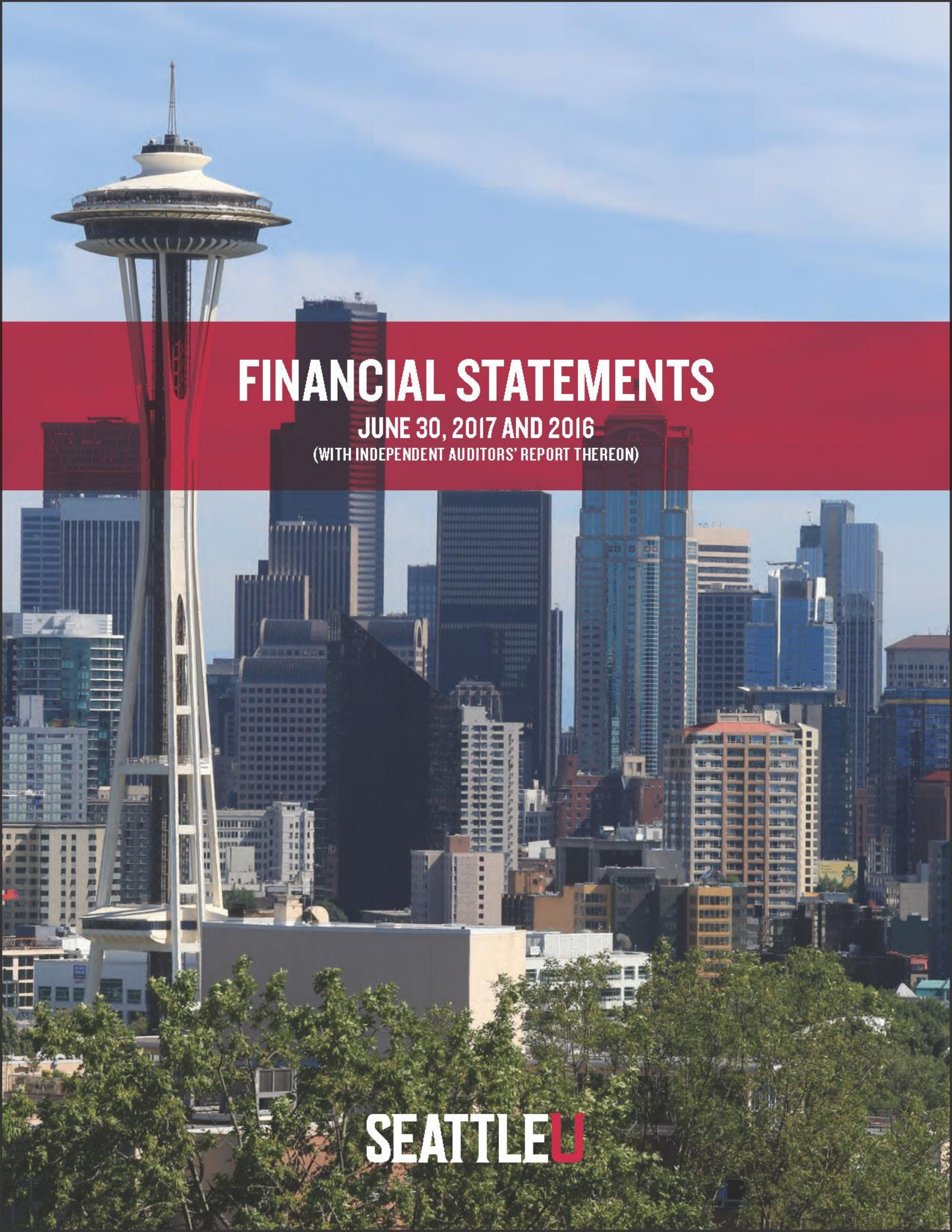

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

SEATTLEU

SEATTLE UNIVERSITY

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Trustees
Seattle University:

We have audited the accompanying financial statements of Seattle University (the University), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 financial statements referred to above present fairly, in all material respects, the financial position of Seattle 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 accordance with U.S. generally accepted accounting principles.

KPMG LLP

November 7, 2017

SEATTLE UNIVERSITY

Statements of Financial Position

June 30, 2017 and 2016

(In thousands)

Assets		**2017**	**2016**
Assets:			
Cash and cash equivalents	$	95,152	92,476
Accounts receivable, net		8,182	5,810
Contributions receivable, net		35,343	39,991
Investments		218,349	194,181
Student loans receivable, net		6,500	6,524
Assets held under split-interest agreements		13,658	14,247
Property, plant, and equipment, net		320,788	322,397
Other assets		6,952	12,205
Total assets	$	704,924	687,831
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	8,169	5,820
Accrued liabilities		18,528	19,637
Deferred revenue		6,729	9,086
Liabilities under split-interest agreements		8,862	9,076
Bonds payable		122,603	127,681
U.S. government loan funds		5,697	5,965
Other liabilities		3,324	4,788
Total liabilities		173,912	182,053
Net assets:			
Unrestricted		293,025	289,700
Temporarily restricted		104,652	95,663
Permanently restricted		133,335	120,415
Total net assets		531,012	505,778
Total liabilities and net assets	$	704,924	687,831

See accompanying notes to financial statements.

SEATTLE UNIVERSITY

Statement of Activities and Changes in Net Assets

Year ended June 30, 2017

(In thousands)

	2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating:				
Revenues and other activities:				
Tuition and fees	$ 262,022	—	—	262,022
Student aid	(86,282)	—	—	(86,282)
Net tuition and fees	175,740	—	—	175,740
Contributions	1,641	6,385	—	8,026
Grants and contracts	7,620	—	—	7,620
Auxiliary enterprises	14,997	—	—	14,997
Investment returns designated for operations	2,719	5,738	—	8,457
Other revenue	7,564	—	—	7,564
Net assets released from restrictions	14,819	(14,819)	—	—
Total revenues and other activities	225,100	(2,696)	—	222,404
Expenses:				
Instruction	105,036	—	—	105,036
Academic support	14,308	—	—	14,308
Student services	40,440	—	—	40,440
Institutional support	48,870	—	—	48,870
Auxiliary enterprises	12,800	—	—	12,800
Total expenses	221,454	—	—	221,454
Increase in operating net assets	3,646	(2,696)	—	950
Nonoperating:				
Contributions to endowment funds	582	—	11,896	12,478
Contributions for capital assets	—	2,357	—	2,357
Contributions to split-interest agreements	29	56	938	1,023
Investment returns, net of amounts designated for operations	6,809	9,258	—	16,067
Goodwill impairment loss	(4,941)	—	—	(4,941)
Change in fair value of split-interest agreements	(31)	14	86	69
Change in fair value of interest rate swap	1,034	—	—	1,034
Other	(3,803)	—	—	(3,803)
Total nonoperating activities	(321)	11,685	12,920	24,284
Increase in net assets	3,325	8,989	12,920	25,234
Net assets at beginning of year	289,700	95,663	120,415	505,778
Net assets at end of year	$ 293,025	104,652	133,335	531,012

See accompanying notes to financial statements.

SEATTLE UNIVERSITY

Statement of Activities and Changes in Net Assets

Year ended June 30, 2016

(In thousands)

	2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating:				
Revenues and other activities:				
Tuition and fees	$ 251,579	—	—	251,579
Student aid	(78,485)	—	—	(78,485)
Net tuition and fees	173,094	—	—	173,094
Contributions	1,708	12,605	—	14,313
Grants and contracts	6,628	—	—	6,628
Auxiliary enterprises	14,661	—	—	14,661
Investment returns designated for operations	2,749	5,626	—	8,375
Other revenue	7,020	—	—	7,020
Net assets released from restrictions	12,890	(12,890)	—	—
Total revenues and other activities	218,750	5,341	—	224,091
Expenses:				
Instruction	101,798	—	—	101,798
Academic support	16,730	—	—	16,730
Student services	39,467	—	—	39,467
Institutional support	44,927	—	—	44,927
Auxiliary enterprises	12,804	—	—	12,804
Total expenses	215,726	—	—	215,726
Increase in operating net assets	3,024	5,341	—	8,365
Nonoperating:				
Contributions to endowment funds	247	—	7,448	7,695
Contributions for capital assets	—	12,301	—	12,301
Contributions to split-interest agreements	12	—	1,446	1,458
Investment returns, net of amounts designated for operations	2,373	(10,840)	193	(8,274)
Loss on debt refunding	(2,608)	—	—	(2,608)
Change in fair value of split-interest agreements	61	(61)	(516)	(516)
Change in fair value of interest rate swap	(594)	—	—	(594)
Total nonoperating activities	(509)	1,400	8,571	9,462
Increase in net assets	2,515	6,741	8,571	17,827
Net assets at beginning of year	287,185	88,922	111,844	487,951
Net assets at end of year	$ 289,700	95,663	120,415	505,778

See accompanying notes to financial statements.

SEATTLE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

		2017	2016
Cash flows from operating activities:			
Increase in net assets	$	25,234	17,827
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		16,140	13,772
Change in fair value on interest rate swaps related to bonds		(1,034)	594
Change in fair value of split-interest agreements		(69)	516
Contributions restricted for long-term investments		(17,406)	(8,831)
Goodwill impairment loss		4,941	—
Net (appreciation) depreciation in fair value of investments		(23,575)	929
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable, net		(2,372)	(135)
Contributions receivable, net		4,606	(16,929)
Accounts payable		2,349	(852)
Accrued liabilities		(1,109)	632
Other assets and liabilities, net		(3,512)	6,060
Net cash provided by operating activities		4,193	13,583
Cash flows from investing activities:			
Proceeds from sales of investments		16,223	15,571
Purchases of investments		(19,174)	(9,020)
Loans issued to students		(1,483)	(688)
Collections on loans to students		1,508	1,403
Acquisition of property, plant, and equipment		(12,132)	(16,062)
Net cash used in investing activities		(15,058)	(8,796)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt, net of premium		—	54,815
Payments for long-term debt refunding		—	(50,555)
Principal payments on long-term debt		(3,864)	(3,960)
Contributions restricted for long-term investment		17,405	8,831
Net cash provided by financing activities		13,541	9,131
Net increase in cash and cash equivalents		2,676	13,918
Cash and cash equivalents at beginning of year		92,476	78,558
Cash and cash equivalents at end of year	$	95,152	92,476
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	5,184	5,366

See accompanying notes to financial statements.

(1) Organization

Seattle University (the University) is an independent, coeducational institution of higher learning. Approximately 7,500 students are enrolled in undergraduate and graduate programs within the nine schools and colleges. The University, founded in 1891, is a Jesuit Catholic University located on 50 acres in Seattle’s Capitol Hill neighborhood. The University is dedicated to educating the whole person, to professional formation, and to empowering leaders for a just and humane world.

(2) Summary of Significant Accounting Policies

(a) Financial Statement Presentation

The University’s financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

(b) Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

The University has a cash management program that provides for the investment of temporary excess cash balances in short-term money market and U.S. Treasury instruments. The University considers certain highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents, except for certain cash equivalents included in the investment portfolio that are intended to be invested on a long-term basis. Fair value approximates book value due to the short maturity of these instruments. At times, the University may have cash balances in excess of federally insured limits.

(d) Accounts Receivable

Accounts receivable from students are reported net of an allowance for doubtful accounts. The carrying amounts reported in the statements of financial position for accounts receivable approximate fair value. The allowance is an estimate by management based upon an analysis of delinquent amounts and the respective student’s ability and intent to repay. Accounts are considered delinquent when they are greater than 90 days outstanding. These estimated uncollectible amounts can be affected by changes in the student’s economic circumstances. As a result, it is reasonably possible that the allowance for doubtful accounts could change in the near term.

(Continued)

Accounts receivable, net at June 30, 2017 and 2016 is as follows:

		2017	2016
		(In thousands)	
Student receivables	$	6,585	4,543
Private gifts and grants		214	261
Federal, state, and local grants and contracts		454	240
Other		1,404	1,195
		8,657	6,239
Less allowance for doubtful accounts		(475)	(429)
Accounts receivable, net	$	8,182	5,810

(e) Investments

The University consults with an investment advisory firm in connection with the management of the University's investment fund managers. Fund managers are selected by the University's Investment Committee (appointed by the University's Board of Trustees) to invest certain of the University's funds in various investment asset classes, in accordance with the Board of Trustees' approved Investment Policy Statement.

Investments are stated at fair value in the financial statements. Investments are exposed to various risks, such as interest rate, market, and credit risks. Investments in marketable equity and mutual fund securities are stated at fair value based on quoted market prices. The University's interests in certain nonreadily marketable alternative investments, such as hedge funds and private equity limited partnerships, as a practical expedient, are stated at fair value based on net asset value (NAV) estimates reported to the University by investment fund managers.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the University's financial statements. The University's alternative investments are less liquid than the rest of its portfolio and, as a result, are exposed to an increased risk of loss.

Investment income, including dividends and interest, is recorded net of investment management fees. Investment income is recognized as income when earned and is classified in the statements of activities and changes in net assets based upon donor-imposed restrictions. Net realized and unrealized gains and losses are recognized in the statements of activities and changes in net assets.

(f) Endowment

The endowment consists of contributions, split-interest agreements, and assets that are invested to provide income to support education and related activities, either as a result of donor-imposed restrictions or as a result of designations by the Board of Trustees. Endowment contributions are generally invested on a pooled basis and managed so as to achieve maximum long-term total return. The University's spending policy allocates the amount of the total return that can be spent versus

(Continued)

reinvested for future earnings. The University calculates endowment income to use for institutional purposes as 4.50% of the last 12 quarters' average fair value of the endowment investment pool. This approach emphasizes total investment return, which includes dividends, interest, and capital gains and losses.

(g) Student Loans Receivable

Student loans receivable consists mainly of loans made to students under the Federal Perkins Loan and Nursing Student Loan programs. The loans are stated at net realizable value in the accompanying statements of financial position. The majority of these loan funds are furnished by agencies of the U.S. government and the remaining balance of the loan funds are furnished by the University. The portion of these loans that are refundable to the U.S. government are reflected as U.S. government loan funds in the statements of financial position. The availability of funds for loans under the Federal Perkins Loan and Nursing Student Loan programs is dependent on reimbursements to the pool from repayments on outstanding loans.

Student loans receivable are stated net of an allowance for doubtful loans. The allowance is an estimate by management based upon an analysis of delinquent amounts and the respective student's ability and intent to repay. Loans are considered delinquent when they are greater than 90 days outstanding. These estimated uncollectible amounts can be affected by changes in the borrower's economic circumstances. As a result, it is reasonably possible that the allowance for doubtful loans could change in the near term. The allowance for doubtful loans was $316,000 and $319,000 as of June 30, 2017 and 2016, respectively.

(h) Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds, and irrevocable charitable remainder trusts for which the University may or may not serve as the trustee. Assets are invested and payments are made to beneficiaries in accordance with the respective agreements.

For those agreements in which the University is the trustee, contribution revenue from charitable gift annuities and charitable remainder trusts is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the respective donors and/or other beneficiaries. Contribution revenue from pooled income funds is recognized upon establishment of the agreement at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.

For those irrevocable agreements in which the University does not serve as the trustee, contributions receivable and revenue are recognized for the present value of the estimated future benefits to be received when the trust is distributed.

Assets are recorded at fair value on the date received. The present value of payments to beneficiaries of charitable gift annuities and charitable remainder trusts and the estimated future receipts from pooled income funds are calculated using the rates commensurate with the risks involved. The University uses the actuarial method of recording charitable gift annuities and charitable remainder trusts. Under this method, when a gift is received, the present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as a contribution in the appropriate net asset category. The liability account is credited with investment income and gains and is charged with investment losses and payments to beneficiaries. Periodic adjustments are made between the liability account and the net asset account for actuarial gains and losses. The actuarial liability is based on the present value of future payments discounted at rates ranging from 1.40% to 11.00% established at the date of agreement and overestimated lives. This liability is recorded at fair value and is measured at year-end using Level 2 inputs.

Legally mandated Washington state annuity reserves totaled $1,822,000 and $2,807,000 at June 30, 2017 and 2016, respectively, and are included within the assets held under split-interest agreements on the statements of financial position.

(i) Property, Plant, and Equipment

Land and library books are stated at cost, or in the case of those received by gift, at fair value at the date of gift. Buildings and improvements, land improvements, and equipment are stated at cost or fair value at the date of gift, less accumulated depreciation, computed on a straight-line basis over the following estimated useful lives:

- 50 years for buildings and improvements
- 15–50 years for land improvements
- 10 years for equipment and library books
- 4 years for computer hardware

The cost of repairs and maintenance and depreciation are charged to expense. Upon the sale or retirement of property, plant, and equipment, the related cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in the statements of activities and changes in net assets.

Property, plant, and equipment is reviewed for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized if the carrying value is not recoverable and exceeds the assets' fair value. There were no impairments to property, plant, and equipment in the years ended June 30, 2017 and 2016.

(j) Other Assets

Other assets comprise the following as of June 30, 2017 and 2016:

		2017	2016
		(In thousands)	
Goodwill, net	$	—	4,941
Prepaid expenses		4,800	3,868
Funds held in trust by others		2,113	2,113
Inventories		39	26
Other assets		—	1,257
Total other assets	$	6,952	12,205

The University recorded goodwill on the statement of financial position in relation to the purchase of the School of Law in 1994. Goodwill is tested for impairment on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. In the year ended June 30, 2017, the University determined that due to changes in the national legal education market the carrying amount of the goodwill exceeded the implied fair value of the goodwill, which resulted in a goodwill impairment loss of $4,941,000. The implied fair value was determined based on a discounted cash flow method.

Prepaid expenses are accrued upon payment for goods or services and the related expense is recognized over the service period or when the goods are received.

The fair value of funds held in trust by others is based on quoted prices provided by its investment managers and custodian banks as a practical expedient. Both the investment managers and the custodian banks use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise.

(k) Net Asset Categories

Resources are classified into three net asset categories according to the existence or absence of donor-imposed restrictions. Descriptions of the three net asset categories and types of transactions affecting each category follow:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed restrictions, including the carrying value of all property, plant, and equipment. Items that affect this net asset category include revenues, principally tuition, and related expenses associated with the core activities of the University. In addition to these exchange transactions, changes in this category of net assets include certain types of philanthropic support, namely unrestricted gifts, and endowment fund income currently spendable in the current fiscal year based on the donor's restrictions and the University's spending policy.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the University or the passage of time. Items that affect this net asset category are gifts for which restrictions have not been met, multiyear pledges, and gifts for capital projects that have not yet been placed into service.
- *Permanently restricted net assets* – Net assets subject to donor-imposed restrictions to be maintained in perpetuity by the University. Items that affect this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment and providing loans to students) and only the income on the corpus be made available for specific activities.

(l) Revenue Recognition

The primary source of revenue comes from tuition and fees; however, other sources of revenue include room and board, contributions, investment earnings, and auxiliary revenue. Tuition, student fees, and room and board revenues are recognized in the period in which the services are provided. Grant revenue is recognized either when the services are provided or when the funds are expended.

(m) Operating and Nonoperating Changes in Net Assets

The University's measure of operating activities, presented in the statements of activities, includes all transactions that are incurred in the course of the normal business operations of the University. Nonoperating activities presented in the statements of activities include transactions that result from something other than the ongoing day-to-day activity of the University.

(n) Contributions

Contributions are recognized as revenues when funds from the donors are received. Conditional promises to give become unconditional and are recognized as revenues when the conditions are substantially met. Unconditional promises to give are recognized as revenues when donors' commitments are received. Unconditional promises to give are recognized at the estimated net present value, net of an allowance for uncollectible amounts, and are classified in the net asset category in accordance with donor-imposed restrictions. The carrying amounts reported in the statements of financial position for contributions receivable approximate fair value. Contributions that have no donor-imposed restrictions, including those contributions for which the restrictions are met in the same year as received, are recognized in unrestricted net assets. Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted net assets.

Unconditional promises to give with payments due in future periods are reported as temporarily restricted net assets unless donor circumstances make it clear that the donor intended it to be used to support activities of the current period. Contributions of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted net assets. Absent explicit donor stipulations, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions for endowment funds, capital assets, and split-interest agreements are not considered support of the ongoing operations of the University, and are therefore, included in the statements of activities as a nonoperating activity.

The University holds various collections that are made up of artifacts of historical significance and art objects that are held for educational, research, scientific, and curatorial purposes. Each item is cataloged, preserved, and maintained to ensure their original condition is maintained. Collections, which have been acquired through purchases and contributions to the University, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset class. No collection items were deaccessioned in the years ended June 30, 2017 or 2016.

Fundraising expenses of $4,835,000 and $4,895,000 are included in institutional support in the statements of activities and changes in net assets for the years ended June 30, 2017 and 2016, respectively.

(Continued)

(o) Functional Expense Classification

The financial statements present expenses by functional classification in accordance with the overall mission of the University and industry standards. Each functional classification includes direct expenses related to the provision of a part of the University's operations as well as allocated costs such as depreciation, interest expense, and plant operating costs. Depreciation expense is allocated based on square footage occupancy of University facilities. Interest expense on external debt is allocated to the functional categories, which have benefited from the proceeds of the debt. Plant operations and maintenance represent building occupancy costs, which are allocated to functional categories based on direct salaries and benefits.

(p) Recently Issued and Adopted Accounting Standards

In March 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This update changes the presentation of debt issuance costs in the financial statements to present such costs in the balance sheet as a direct deduction from the recognized liability rather than as an asset. Amortization of the costs is reported as interest expense. The Company adopted the standard in fiscal year 2017.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement from U.S. GAAP to categorize within the fair value hierarchy all investments for which fair value is measured using the net assets value per share practical expedient. ASU 2015-07 is effective for the University for annual periods in fiscal years beginning after December 15, 2016 and requires retrospective adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right-of-offset asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the University for annual periods in fiscal years beginning after December 15, 2019, permits early adoption, and mandates a modified retrospective transition method. The University is evaluating other effects that the new standard will have on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). ASU 2016-14 was issued to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The University is required to adopt ASU 2016-14 for fiscal years beginning after December 15, 2017 and is evaluating the effects that the new standard will have on the financial statements.

(q) Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation.

(3) Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Fair value of contributions receivable is based on the discounted value of estimated future cash flows. The discount rate is estimated based upon rates that take into consideration the associated risk. The discount rates used as of both June 30, 2017 and 2016 range from 0.70% to 5.70% and are expected to be realized in the following periods:

		2017	2016
		(In thousands)	
In one year or less	$	8,562	8,311
Between one year and five years		18,255	23,521
More than five years		10,166	10,188
Total contributions receivable		36,983	42,020
Less discount		(1,640)	(1,954)
Less allowance for uncollectible contributions		—	(75)
Total contributions receivable, net	$	35,343	39,991

Contributions receivable at June 30, 2017 and 2016 are intended for the following uses:

		2017	2016
		(In thousands)	
Educational activities	$	9,607	12,529
Endowment		13,287	13,121
Facilities and equipment		14,043	16,328
General support		46	42
Total contributions receivable	$	36,983	42,020

The University has received conditional promises to give that are not recognized as assets in the statements of financial position. As of June 30, 2017 and 2016, these conditional promises to give were approximately $17,500,000 and $15,000,000, respectively. As of June 30, 2017, $14,500,000 of these promises to give were considered conditional due to the University being named a beneficiary in a revocable living trust.

(4) Investments and Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices in active markets that the University has the ability to access at the measurement date.

Level 2: Inputs, other than quoted prices in active markets, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs where there is little or no market data for the asset or liability, requiring the University to develop its own assumptions.

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used.

Investments include cash and cash equivalents used for investing purposes, domestic equity securities, registered mutual funds, and various alternative investments. The carrying value of the University's investments is based on valuations provided by the University's external investment fund managers or their custodians. These valuations include observable market quotation prices, observable inputs other than quoted prices such as price services or indexes, estimates, appraisals, assumptions, and other methods that are reviewed by management. Changes in market conditions and the economic environment may impact the net asset value of the funds and consequently the fair value of the University's interests in the funds.

There were no significant transfers into or out of Level 1, Level 2, or Level 3 financial instruments during the years ended June 30, 2017 and 2016.

The following tables present the University's fair value hierarchy for those assets measured at fair value as of June 30, 2017 and 2016. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments. Investments are held and valued using the NAV per share (or its equivalent) as a practical expedient for fair value.

	June 30, 2017				Redemption	
	Level 1	Level 2	Level 3	Total	frequency	Days' notice
	(In thousands)					
Investments:						
Internally pooled:						
Cash for investment purposes	$ 15,221	—	—	15,221	Daily	1
Fixed income securities – U.S. government obligations	19,002	—	—	19,002	Various	NA
Mutual funds:						
U.S. equity	21,874	—	—	21,874	Daily	1
Non-U.S. equity	12,632	—	—	12,632	Daily	1
Emerging markets equity	5,954	—	—	5,954	Daily	1
Real assets	10,492	—	—	10,492	Daily	1
Commingled investment funds:						
U.S. equity	—	21,393	—	21,393	Quarterly	60
Non-U.S. equity	—	21,723	—	21,723	Monthly	60
Emerging markets equity	—	13,280	—	13,280	Monthly	30
Real assets	—	5,129	—	5,129	Monthly – illiquid	90–NA
Hedge funds:						
Long/short	—	3,989	13,728	17,717	Monthly – illiquid	45–NA
Absolute return	—	4,752	8,828	13,580	Quarterly – illiquid	45–NA
Private equity partnerships:						
Venture capital	—	—	9,362	9,362	Illiquid	NA
Distressed	—	—	8,303	8,303	Illiquid	NA
Real assets	—	—	646	646	Illiquid	NA
Buyout	—	—	2,333	2,333	Illiquid	NA
Other	—	—	500	500	Illiquid	NA
Total internally pooled	85,175	70,266	43,700	199,141		
Separately invested:						
Real property	—	—	18,653	18,653		
Other	555	—	—	555		
Total separately invested	555	—	18,653	19,208		
Total investments	85,730	70,266	62,353	218,349		
Funds held in trust by others	—	—	2,113	2,113		
Assets held under split-interest agreements	—	13,658	—	13,658		
Total assets	$ 85,730	83,924	64,466	234,120		

	June 30, 2016					
	Level 1	Level 2	Level 3	Total	Redemption frequency	Days' notice
	(In thousands)					
Investments:						
Internally pooled:						
Cash for investment purposes	$ 5,510	—	—	5,510	Daily	1
Mutual funds:						
Fixed income	19,508	—	—	19,508	Daily	1
U.S. equity	18,460	—	—	18,460	Daily	1
Non-U.S. equity	10,297	—	—	10,297	Daily	1
Emerging markets equity	4,676	—	—	4,676	Daily	1
Real assets	10,241	—	—	10,241	Daily	1
Commingled investment funds:						
U.S. equity	—	18,859	—	18,859	Quarterly	60
Non-U.S. equity	—	17,534	—	17,534	Monthly	60
Emerging markets equity	—	10,555	—	10,555	Monthly	30
Real assets	—	5,185	—	5,185	Monthly – illiquid	90–NA
Hedge funds:						
Long/short	—	4,013	12,152	16,165	Monthly – illiquid	45–NA
Absolute return	—	4,385	7,809	12,194	Quarterly – illiquid	45–NA
Private equity partnerships:						
Venture capital	—	—	11,009	11,009	Illiquid	NA
Distressed	—	—	9,689	9,689	Illiquid	NA
Real assets	—	—	676	676	Illiquid	NA
Buyout	—	—	3,194	3,194	Illiquid	NA
Other	—	—	728	728	Illiquid	NA
Total internally pooled	68,692	60,531	45,257	174,480		
Separately invested:						
Real property	—	—	19,238	19,238		
Other	463	—	—	463		
Total separately invested	463	—	19,238	19,701		
Total investments	69,155	60,531	64,495	194,181		
Funds held in trust by others	—	—	2,113	2,113		
Assets held under split-interest agreements	—	14,247	—	14,247		
Total assets	$ 69,155	74,778	66,608	210,541		

The following tables present additional information for all Level 3 assets measured at fair value on a recurring basis for the fiscal years ended June 30, 2017 and 2016:

	Level 3				
	Beginning balance at June 30, 2016	**Purchases**	**Redemptions**	**Net realized and unrealized gains and (losses)**	**Ending balance at June 30, 2017**
			(In thousands)		
Investments:					
Internally pooled:					
Real assets	$ 676	—	(206)	176	646
Hedge funds:					
Long/short	12,152	—	—	1,576	13,728
Absolute return	7,809	—	—	1,019	8,828
Private equity partnerships:					
Venture capital	11,009	145	(1,426)	(366)	9,362
Distressed	9,689	—	(2,058)	672	8,303
Buyout	3,194	40	(1,150)	249	2,333
Other	728	—	(245)	17	500
Separately invested:					
Real property	19,238	—	—	(585)	18,653
Funds held in trust by others	2,113	—	—	—	2,113
	$ 66,608	185	(5,085)	2,758	64,466

Unrealized gains (losses) included in the statement of activities and changes in net assets for Level 3 investments held at the reporting date	$ 2,544

	Level 3				
	Beginning balance at June 30, 2015	**Purchases**	**Redemptions**	**Net realized and unrealized gains and (losses)**	**Ending balance at June 30, 2016**
			(In thousands)		
Investments:					
Internally pooled:					
Real assets	$ 907	—	(98)	(133)	676
Hedge funds:					
Long/short	17,666	—	(3,259)	(2,255)	12,152
Absolute return	9,223	2,600	(3,156)	(858)	7,809
Private equity partnerships:					
Venture capital	12,673	7	(2,249)	578	11,009
Distressed	12,343	82	(2,233)	(503)	9,689
Buyout	4,073	55	(1,241)	307	3,194
Other	1,000	—	(306)	34	728
Separately invested:					
Real property	17,461	—	—	1,777	19,238
Funds held in trust by others	1,920	—	—	193	2,113
	$ 77,266	2,744	(12,542)	(860)	66,608

Unrealized gains (losses) included in the statement of activities and changes in net assets for Level 3 investments held at the reporting date	$ (3,510)

The following describes investee strategies and other restrictions in connection with alternative investments:

- *Fixed income* – This category invests primarily in high-yield, senior secured domestic bank loans with a current income objective, as well as bonds issued primarily from governments in emerging markets countries and U.S. Treasury Bills with a total return objective.
- *Equities* – This category invests primarily in publicly traded equities providing unique geographic exposure: United States, non-U.S. developed markets, and emerging markets.
- *Real assets* – This category invests primarily in publicly traded equity securities of companies in the energy, metals, and mining sectors, as well as commodity-related derivatives contracts, treasury inflation protection securities (TIPS), and money-market instruments. Additionally, this category invests in private equity transactions within the oil, gas, and energy sectors.
- *Long/short hedge fund* – This category invests primarily in long and short marketable equity-oriented positions, and generally includes domestic, global, and opportunistic themes. These funds have the flexibility to invest in a wide array of other types of securities as deemed appropriate by the fund managers to carry out the funds' objectives.
- *Absolute return hedge fund* – This category invests in long and short credit and equity-oriented positions, generally including event-driven strategies such as merger arbitrage, distressed debt, and special situations investing. Funds within this category generally have the flexibility to invest in a wide array of security types as deemed appropriate by the fund managers to carry out the funds' objectives.

- *Private equity partnerships* – This category includes direct-investment funds and fund-of-funds structured as commitment-based limited partnerships, where the limited partner commits to invest a maximum dollar amount, which is drawn-down over the term of the partnership, as individual investment opportunities are identified by the fund manager. Limited partnership interests in such funds generally cannot be redeemed, and distributions are received from fund managers typically upon liquidation of underlying assets within the funds' portfolios. The venture capital subcategory includes direct-investment funds and fund-of-funds that invest primarily in earlier stage financing of domestic private companies, typically in the information technology and healthcare sectors. The distressed subcategory consists of fund-of-funds that invest in various types of distressed securities across a wide range of industries, both domestic and foreign, often with the goal of achieving turnarounds by influence or control positions over investee companies. The buyout subcategory includes fund-of-funds, which primarily invest in small/middle market and large leveraged buyout funds, both domestic and internationally, with a mixture of other strategies including venture capital and growth equity. The unfunded commitments as of June 30, 2017 and 2016 were $8,309,748 and $4,713,905, respectively.
- *Real Property* – This category includes investments in real estate property. The following table represents the University's Level 3 financial instruments (other than those valued at NAV), the valuation techniques used to measure the fair value of those financial instruments as of June 30, 2017, and the significant unobservable inputs of the ranges of values for those inputs:

Instrument	Fair value	Principal valuation technique	Significant unobservable inputs	Range of significant input values	Weighted average
Real property	$ 18,653,000	Market comparables	Price/square foot	177–325	270

Investment returns, net of amounts designated for operations, comprise the following for the years ended June 30, 2017 and 2016:

	2017	2016
	(In thousands)	
Investment income	$ 1,719	1,714
Realized gains, net	3,230	3,420
Unrealized gains (losses), net	19,575	(5,033)
Investment returns designated for operations	(8,457)	(8,375)
Total investment returns, net of amounts designated for operations	$ 16,067	(8,274)

(5) Endowment

The University has a policy that interprets the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date to the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. The University classifies as permanently restricted net assets, the original value of gifts to donor-restricted endowments, the original value of subsequent gifts made to donor-restricted endowments, and income or appreciation of donor-restricted endowments that donors have stipulated are not expendable. The remaining portion of the donor-restricted endowment fund that is not classified as 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 UPMIFA.

The following table represents endowment net assets composition by type of fund as of June 30, 2017:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
			(In thousands)		
Donor-restricted endowment funds	$	(895)	31,906	133,335	164,346
Board-designated endowment funds		59,695	—	—	59,695
Total funds	$	58,800	31,906	133,335	224,041

The following table represents changes in endowment net assets for the year ended June 30, 2017:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
			(In thousands)		
Endowment net assets at July 1, 2016	$	51,913	22,670	120,415	194,998
Investment return:					
Investment income		698	1,510	—	2,208
Net realized and unrealized gains, net of fees		5,782	13,408	86	19,276
Total investment return		6,480	14,918	86	21,484
Appropriation of endowment assets for expenditure		(2,719)	(5,738)	—	(8,457)
Contributions		611	56	12,834	13,501
Other changes:					
Transfers to add board designation		2,515	—	—	2,515
Endowment net assets at June 30, 2017	$	58,800	31,906	133,335	224,041

(Continued)

The following table represents endowment net assets composition by type of fund as of June 30, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
			(In thousands)		
Donor-restricted endowment funds	$	(2,474)	22,622	120,415	140,563
Board-designated endowment funds		54,387	48	—	54,435
Total funds	$	51,913	22,670	120,415	194,998

The following table represents changes in endowment net assets for the year ended June 30, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
			(In thousands)		
Endowment net assets at July 1, 2015	$	56,335	33,404	111,844	201,583
Investment return:					
Investment income		922	1,362	—	2,284
Net realized and unrealized losses, net of fees		(2,619)	(6,470)	(323)	(9,412)
Total investment return		(1,697)	(5,108)	(323)	(7,128)
Appropriation of endowment assets for expenditure		(2,749)	(5,626)	—	(8,375)
Contributions		247	—	8,888	9,135
Other changes:					
Transfers to add donor-imposed restriction		(223)	—	6	(217)
Endowment net assets at June 30, 2016	$	51,913	22,670	120,415	194,998

As of June 30, 2017, 33 individual donor-restricted endowment funds, out of a total of 346, had fair values that were $895,000 less than their permanently restricted value. As of June 30, 2016, 78 individual donor-restricted endowment funds, out of a total of 316, had fair values that were $2,474,000 less than their permanently restricted value.

(Continued)

(6) Property, Plant, and Equipment

Property, plant, and equipment comprises the following at June 30, 2017 and 2016:

		2017	2016
		(In thousands)	
Land and improvements	$	61,868	61,803
Buildings and improvements		363,910	360,686
Equipment		29,880	26,611
Library books		44,092	41,565
Construction in progress		7,966	3,950
		507,716	494,615
Less accumulated depreciation and amortization		(186,928)	(172,218)
Property, plant, and equipment, net	$	320,788	322,397

Depreciation expense for the years ended June 30, 2017 and 2016 totaled $16,098,000 and $15,615,000, respectively. There were no interest costs capitalized for the years ended June 30, 2017 and 2016.

(7) Bonds Payable

Bonds payable comprise the following at June 30, 2017 and 2016:

	2017	2016
	(In thousands)	
Bonds payable to the Washington Higher Education Facilities Authority (WHEFA) (interest due semiannually on November 1 and May 1):		
Series 2007, interest at fixed rates ranging from 4.50% to 5.25% per annum, final principal amount of $935 due in November 2017	$ 935	1,820
Series 2008A, weekly variable interest rate. Weekly variable rate (set by the remarketing agent) in effect on June 30, 2017 was 0.91%, principal due annually in increasing amounts from $1,275 in May 2018 to $1,825 in May 2028	16,890	18,120
Series 2009, interest at a fixed rate of 5.25% per annum, principal due annually in increasing amounts from $1,975 in May 2029 to $6,410 in May 2039	41,775	41,775
Series 2011, interest at fixed rates ranging from 3.00% to 5.00% per annum, principal due annually in increasing amounts from $560 in May 2018 to $1,125 in May 2032	12,135	12,665
Series 2015, interest at a fixed rate of 2.93% per annum, principal due annually in increasing amounts from $1,249 in November 2017 to $2,330 in November 2037	52,936	54,155
	124,671	128,535
Unamortized debt issuance costs and discounts, net of premiums	(2,068)	(854)
	$ 122,603	127,681

Annual maturities of bonds payable are as follows (In thousands):

Year ending June 30:	
2018	$ 4,019
2019	4,192
2020	4,329
2021	4,478
2022	4,644
Thereafter	103,009
	$ 124,671

As a condition of issuance of the WHEFA bonds, the University has agreed to certain covenants for the protection of bond owners.

The University is required to maintain an irrevocable letter of credit equal to the principal amount of the Series 2008A Washington Higher Education Facilities Authority Variable Rate Demand Refunding Revenue Bonds (the Bonds). The letter of credit is issued by U.S. Bank National Association (the Bank), pursuant to an irrevocable Letter of Credit Agreement (the Agreement), dated March 20, 2008, between the Bank and the University. The direct pay letter of credit is an irrevocable obligation that is scheduled to expire on March 20, 2020.

The Series 2008A bonds remarket every seven days. To the extent the Bonds do not remarket, a liquidity draw against the letter of credit may occur. Any draws under the letter of credit are subject to an accelerated repayment of the Bonds. Additionally, pursuant to the terms of the Reimbursement Agreement, if certain material adverse changes were to occur, such changes could result in the 2008A bonds becoming immediately due. There were no amounts outstanding on this letter of credit as of June 30, 2017.

In September 2015, the University issued WHEFA Refunding Revenue Bonds, Series 2015, amounting to $54,815,000. Such bonds are payable in varying annual installments through 2037 with interest paid semiannually at the fixed interest rate of 2.93%. Net proceeds of $54,305,000 were used to refund the Series 2005 and a majority of the Series 2007 bonds.

Total interest expense was $4,959,000 and $4,980,540 for the years ended June 30, 2017 and 2016, respectively.

(8) Accounting for Interest Rate Swap

Variable rate debt obligations inherently expose the University to variability in interest payments due to changes in interest rates. As such, the University believes it is prudent to limit the variability of debt service to the extent possible. To meet this intent, the University entered into an interest rate swap with the Bank of New York Mellon associated with the issuance of the Series 2008A variable rate demand notes. The notional amount of the swap at the time of issuance was $26,595,000 and there was no cash exchanged at the time of the acquisition due to the relationship between the variable rates and the swap rate at that time.

The interest rate swap does not meet the criteria for hedge accounting, and therefore, all changes in the fair value of the interest rate swap are reported on the statements of activities and changes in net assets. For the years ended June 30, 2017 and 2016, the valuation of the swap resulted in a net unrealized gain of $1,034,000 and loss of $594,000, respectively. The related liability of $1,529,000 and $2,563,000, respectively, related to a cumulative loss is reported on the statements of financial position within other liabilities. This liability is recorded at fair value and is measured at year-end using Level 2 inputs. Cash flows related to the swap are reported in the operating section of the statements of cash flows. Provided that the University holds the swap to maturity, the value of the derivative will be zero. The swap 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 cash flow hedging purposes and does not speculate for investment purposes using derivative instruments.

(9) Income Taxes

The University is generally exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) of the IRC and corresponding Washington State provisions. Certain University activities are unrelated business activities from which any net income derived is taxable under federal income tax law.

(10) Retirement Plan

University employees who meet certain eligibility requirements can participate in a defined contribution plan in which the University contributes 10% of an employee's salary. Amounts contributed by the University and charged to retirement plan expense for the years ended June 30, 2017 and 2016 were $8,885,000 and $8,890,000, respectively.

(11) Net Assets

The University's net assets consist of the following:

	2017	2016
	(In thousands)	
Unrestricted:		
For current operations	$ 216	219
Designated for investment in property, plant, and equipment	50,843	49,277
Invested in property, plant, and equipment	183,166	188,291
Board-designated endowment funds	58,800	51,913
Total unrestricted	293,025	289,700
Temporarily restricted:		
For educational activity purposes	25,086	30,891
For purchase of property, plant, and equipment	47,660	42,102
Endowment funds	31,906	22,670
Total temporarily restricted	104,652	95,663
Permanently restricted:		
Endowment funds	133,335	120,415
Total net assets	$ 531,012	505,778

(Continued)

(12) Commitments

The University leases certain facilities, vehicles, and computer equipment under operating lease agreements. Future minimum lease payments under operating leases are as follows (In thousands):

Year ending June 30:		
2018	$	3,763
2019		2,934
2020		2,634
2021		2,326
2022		2,300
Thereafter		15,547
	$	29,504

Total rent expense under these and other month-to-month lease agreements was $3,872,000 and $3,856,000 for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease payments to be received under leasing agreements in which the University acts as the lessor are as follows (In thousands):

Year ending June 30:		
2018	$	288
2019		477
2020		499
2021		508
2022		516
Thereafter		12,630
	$	14,918

(13) Contingencies

The University is a defendant in various legal actions. While the outcome of these actions is not currently determinable, management is of the opinion that any uninsured liability from such actions will not have a material effect on the University’s financial position.

The University participates in the Guaranteed Access to Education (GATE) student loan program and is subject to certain limited repayment obligations if students fail to repay their notes. The University has recorded as a liability its best estimate of that ultimate obligation.

Certain federal grants, including financial aid that the University administers and for which it receives reimbursements, are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although the University expects such amounts, if any, would not have a significant impact on the financial position of the University.

(Continued)

Approximately 8.30% of the University's nonfaculty employees are covered under collective bargaining agreements. These employees provide maintenance, mechanical, custodial, and other technical services to the University. Bargaining disputes could adversely affect the University.

(14) Subsequent Events

The University has performed an evaluation of subsequent events from the statement of financial position date through November 7, 2017, which is the date these financial statements were issued, and determined there are no other items to disclose.

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