Est. 1888

UNIVERSITY of PUGET SOUND

2015–16 FINANCIAL REPORT

Mission Statement

University of Puget Sound is an independent, predominantly residential, undergraduate liberal arts college with selected graduate programs building effectively on a liberal arts foundation. The university, as a community of learning, maintains a strong commitment to teaching excellence, scholarly engagement, and fruitful student-faculty interaction.

The mission of the university is to develop in its students capacities for critical analysis, aesthetic appreciation, sound judgment, and apt expression that will sustain a lifetime of intellectual curiosity, active inquiry, and reasoned independence. A Puget Sound education, both academic and cocurricular, encourages a rich knowledge of self and others; an appreciation of commonality and difference; the full, open, and civil discussion of ideas; thoughtful moral discourse; and the integration of learning, preparing the university's graduates to meet the highest tests of democratic citizenship. Such an education seeks to liberate each person's fullest intellectual and human potential to assist in the unfolding of creative and useful lives.

Est. 1888
UNIVERSITY of PUGET SOUND

OFFICE OF FINANCE AND ADMINISTRATION

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UNIVERSITY OF PUGET SOUND | JUNE 30, 2016

2015–16 FINANCIAL REPORT

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REPORT OF THE PRESIDENT

ISIAAH CRAWFORD

We live in a time when higher education has never been more important, the business model for higher education is strained, and the cost of a high-quality education can be difficult for families to afford. While University of Puget Sound is not immune to the challenges this brings, the following pages demonstrate that Puget Sound is a financially healthy institution with a strong commitment to access and affordability that attracts increasingly diverse and talented students, faculty, and staff.

The promotion of the success of our students and faculty is at the heart of everything we are called to do. A strong financial foundation is imperative in supporting their success: meeting enrollment and retention objectives, building the endowment, engaging donors, strengthening financial aid—and balancing the budget. Through thoughtful and disciplined deployment of our resources, we are doing all that and more.

We are continuing on a positive trend of increasing interest in a Puget Sound education, with first-year applications rising 43% over the last five years, and graduate applications increasing 19% over the same time period. We have also met many of our most important objectives for our incoming class in fall 2016: A quarter of students in the Class of 2020 are students of color, 15% of them are the first in their families to attend college, 23 are from the local Tacoma Public Schools (nearly three times as many as we had before implementation of the Tacoma Public Schools Commitment), and collectively and across all measures—including high school GPA and standardized test scores—the Class of 2020 has some of the most impressive academic credentials in the college's history.

We are committed to providing our students an exceptional educational experience that prepares them for future success and are confident that the education we offer is making a positive difference in the world. Puget Sound receives high marks as our reputation as a leading national liberal arts college continues to grow. This year we rose to an all-time high in the rankings of U.S. News & World Report, continue to be featured in The Princeton Review's "Best Colleges" guide and Colleges That Change Lives, and were ranked No. 1 in Peace Corps volunteers among small colleges and among the top 20 small colleges with alumni serving in Teach for America. Kiplinger's calls Puget Sound a "best value" liberal arts college; MSN's IT Insider names us among the top 20 colleges for graduates to secure jobs in the technology sector. The success of our graduates is impressive, with high acceptance rates to graduate, law, and medical schools, and high gainful employment rates for those who step into the world of work upon the completion of their baccalaureate degrees.

Since joining the campus community in July 2016, I have worked closely with the board of trustees and senior leaders to develop a deeper understanding of Puget Sound's assets and challenges, our strengths and opportunities, the places where we must focus our attention in the present moment in order to serve the future that calls us forward to deliver on the mission of this great college. As we look back on fiscal year 2016, we look also to the future: the measure of our success today lies in the strength of the foundation we build for generations of students to come.

There is much to celebrate as we seek to build on our accomplishments and set our sights on meeting new challenges in the years ahead.

REPORT OF THE VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

SHERRY B. MONDOU

Sound fiscal management and strong financial health are key ingredients to Puget Sound's past and future success. I am pleased to have been a part of Puget Sound's journey over the past 25 years and to provide this commentary as a companion to the enclosed financial statements for Puget Sound's 128th year, ending June 30, 2016.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

Puget Sound's assets totaled $600.8 million at June 30, 2016, providing a sound financial base to support mission and future success. Liquid resources, endowment investments, and campus facilities combine to comprise 93% of total assets. In all, total assets grew 35% over the past decade (Figure 1), reflecting significant growth in endowment and campus facilities as a result of successful implementation of strategic and campus master plans and the generosity of donors in response to the successful One [of a Kind] campaign.

- Liquid resources: Cash, cash equivalents, and short-term investments totaling $43.3 million, or 7% of total assets, provide ample liquidity to meet operating, capital, and debt service requirements. These assets are invested in a manner that preserves capital as a top priority, aligns liquidity with needs, and maximizes investment return within appropriate risk constraints.

- Endowment investments: The university's endowment serves its mission by providing a substantial, sustainable flow of annual funding for student financial aid and college operations, including faculty compensation, faculty and student research, and academic programs. Developed over time through the generosity of university supporters and prudent investment management, the endowment stood at $310.4 million at June 30, 2016, as compared to $222.7 million in 2006 (Figure 2). Over the past two decades, the portfolio has become more diversified as the endowment has grown in value (Figure 3). Endowment investment and spending policies are set by the finance and facilities committee of the board of trustees and executed by its investment subcommittee in collaboration with Perella Weinberg Partners serving as outsourced chief investment officer and co-fiduciary.

- Campus facilities: Puget Sound's 97-acre campus is a distinctive and impressive asset that provides an integrated and inspiring living and learning environment central to Puget Sound's residential liberal arts mission. It is among the top factors students identify as attracting them to Puget Sound. The book value of campus facilities, net of depreciation, was $203.3 million, as of June 30, 2016, as compared to $115.2 a decade ago. Through a combination of generous gifts, strategic use of debt, and unrestricted funds, the university invested $150.4 million in campus facilities over this time period, consistent with the vision of its campus master plan (Figure 4). This includes Puget Sound's most recently completed project, a $19.5 million Athletics and Aquatics Center (Figure 5) that includes a new aquatics center and significantly expanded fitness center, among other enhancements to athletics facilities in support of an integrated living and learning experience for students and competitive training facilities for student-athletes. Also over this time period, the university correspondingly increased its annual major maintenance budget for campus facilities by 10% annually. These strategic steps transformed the campus and positioned the university well to protect these investments and maintain its assets into the future. The university's average age of plant (accumulated depreciation divided by annual depreciation expense), a measure rating agencies use to gauge deferred maintenance and operating efficiency of campus facilities, is 10.6 years as compared to the median of 14.9 years for Puget Sound's national peer comparison group and 14.2 years for Moody's small A-rated private colleges.

FIGURE 1 **Asset Growth Over Time**

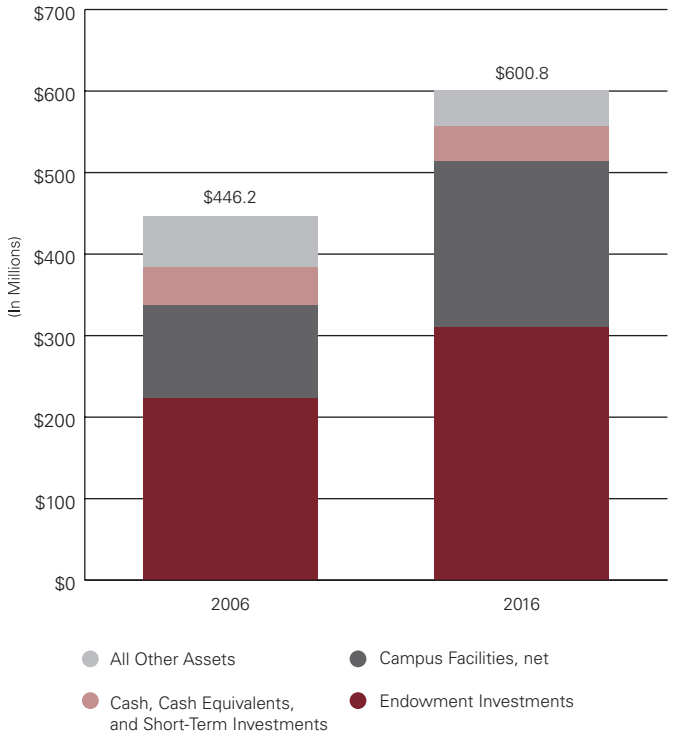


FIGURE 2 **Sources of Endowment Growth**

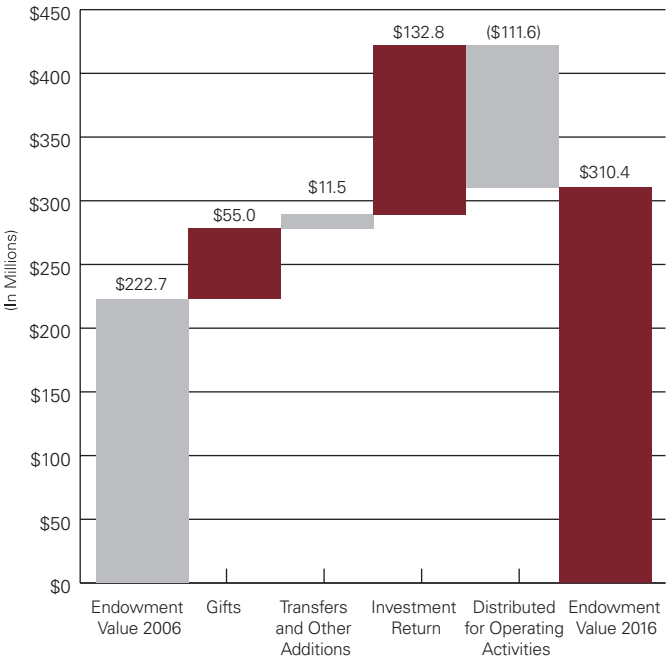


FIGURE 3 **Endowment Value and Diversification**

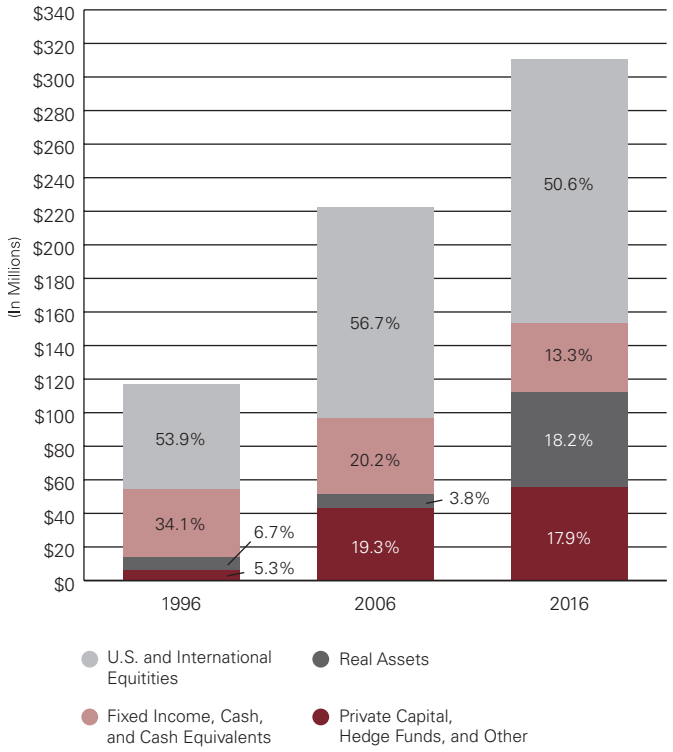


FIGURE 4 **Funding Sources of Campus Facilities Additions**

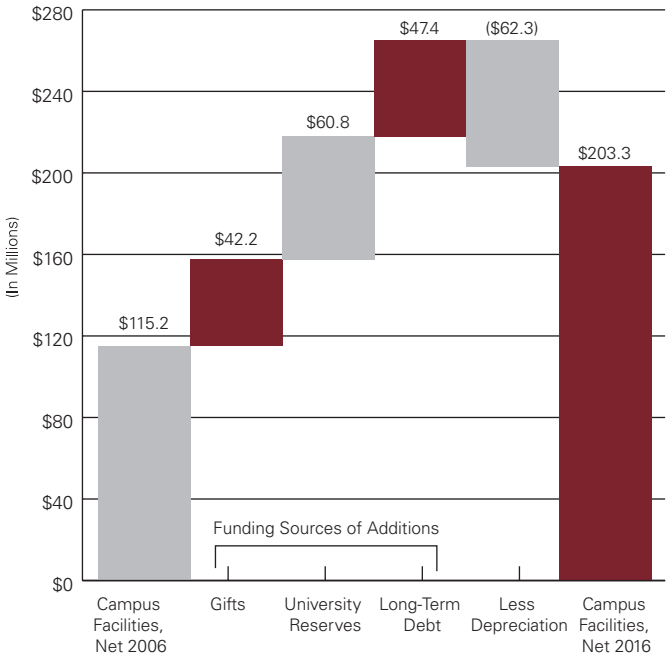


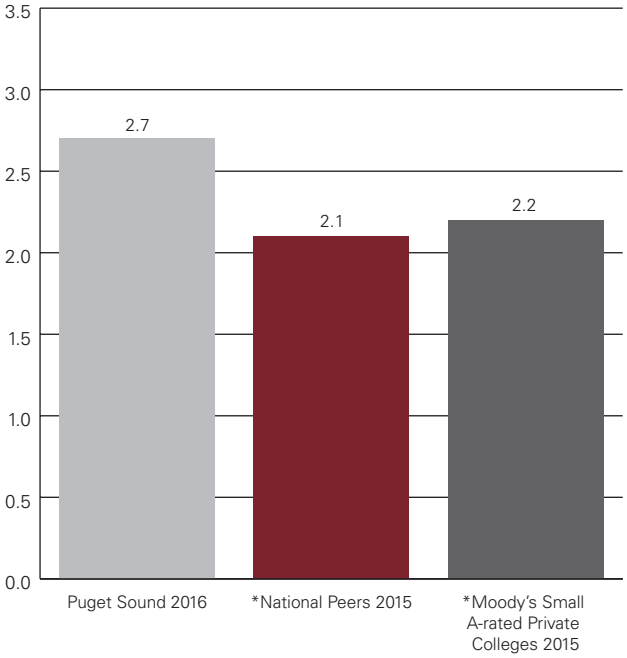
FIGURE 5 **Athletics and Aquatics Center**

Liabilities

Puget Sound's liabilities totaled $126.4 million at June 30, 2016, down 1% from the prior year. The university's largest liability is strategically issued long-term tax-exempt debt to finance improvements to campus facilities.

- Long-term debt, as detailed in Note 6 of the financial statements, totaled $74.9 million at June 30, 2016, as compared to $75.8 million one year prior.
- Moody's and S&P have assigned the university long-term ratings of A1 and A+, respectively, with stable outlooks. Both rating agencies also issued the highest short-term ratings associated with Puget Sound's variable-rate demand obligations, which is a reflection of liquidity strength. These ratings enable affordable cost of capital and the avoidance of overly restrictive debt covenants.
- Puget Sound has been prudent in its use of debt as guided by the board of trustee's debt policy. Its 2016 expendable resources-to-debt ratio is 2.7:1, as compared to the 2015 (most current available) median of its national peer comparison group of 2.1:1 and of Moody's small A-rated private colleges of 2.2:1 (Figure 6). Puget Sound's debt service to operating expenses is 4.3% as compared to the median of 5.5% for its national peer comparison group and 5.0% for Moody's small A-rated private colleges.
- Roughly half of the tax-exempt debt portfolio is traditional fixed-rate debt, with the balance synthetically fixed using interest rate swap agreements. Interest rates have declined since the execution of the swap agreements, which results in unrealized mark-to-market valuations shown as a liability in the Statement of Financial position in the amount of $14.2 million as of June 30, 2016. One of the university's three swap agreements, with a mark-to-market value of $3.6 million, became an "orphaned swap" when a portion

FIGURE 6 **Expendable Resources-to-Debt Ratio**



*2015 is most current comparative data available

FIGURE 7 **Operating Revenues**

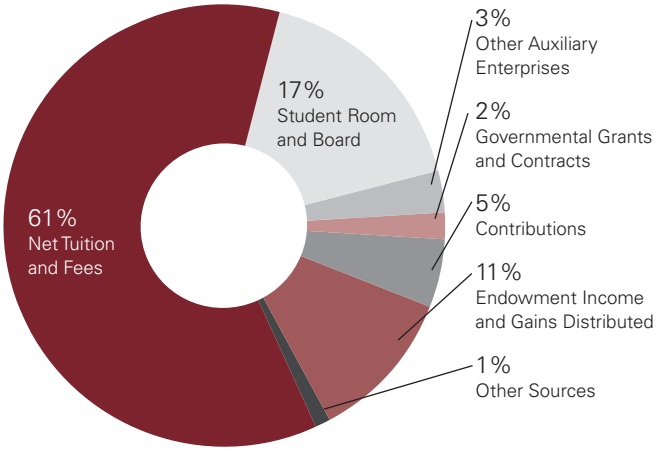
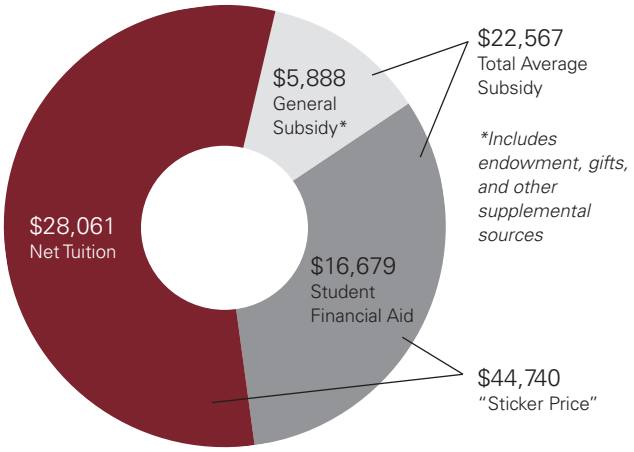


FIGURE 8 **Keeping Tuition Affordable**



of variable-rate debt was converted to traditional fixed-rate debt as part of a restructuring in 2012. The university intends to exit the orphaned swap as interest rates rise and the exit price declines. The university's swap counterparties, The Bank of New York Mellon and Societe Generale, are rated Aa2/AA- and A2/A, respectively.

Net Assets

Net assets totaled $474.4 million at June 30, 2016, with 50% categorized as unrestricted and designated for various purposes, 22% as temporarily restricted and 28% permanently restricted. Net assets declined $13.6 million or 3% from the prior year as a net result of a $4.8 million increase from operating activities and an $18.4 million decline from nonoperating activities as shown on the statement of activities.

CONSOLIDATED STATEMENT OF ACTIVITIES

Operating Revenues

Operating revenues and gains totaled $122.9 million, an increase of 3.1% over the prior year. Figure 7 provides an overview of funding sources in support of operations.

- Net tuition, fees, room, and board: 78% of operating revenues are derived from net tuition, fees, room, and board. While this suggests a certain strength in the market, this dependence on tuition and fees also reveals a certain vulnerability in a market that is competitive and price-sensitive.
- Tuition sticker price increased 3.56% in 2015–16, while average fall and spring enrollment declined 2.5% and tuition discount declined from 38.1% to 37.3%. The net result was growth in total net tuition and fee revenue of 2.7% in 2015–16. The compound annual growth rate of total net tuition and fee revenues over the past decade was 3.23%.
- 67% of undergraduate students lived on campus in 2015–16, with the remainder typically living within a few blocks of campus, many of whom buy a meal plan. Room and board rates combined to increase 2.7%, while the numbers of students living on campus declined slightly in relation to the overall enrollment decline, resulting in a net increase in total student room and board revenues of 0.7%.
- Endowment and gift support for operations: Operating support from endowment distributions and contributions accounts for 16% of total operating revenues and is critically important to the quality and health of an institution and to financial accessibility for students. These funding sources subsidize the cost of education for all students and provide funding for student financial aid awards (Figure 8).
- Endowment distributions of $12.8 million provided 10.4% of all operating revenues in 2015–16, as compared to 9.6% a decade ago. The annual endowment distribution is based on a board-approved spending formula that applies a 5% spending rate to a 36-month average endowment market value that lags two years. For example, the June 30, 2016, distribution was based on average market value for the period July 2011 to June 2014. This policy produced an effective spending rate (distribution divided by beginning of the year market value) of 3.98% for 2015–16 and an average of 4.4% over the past 10 years.
- Contributions of $6.1 million provided 5.0% of operating support in 2015–16 as compared to 3.8% a decade ago, reflecting the success of constituent engagement initiatives.

Operating Expenses

2015–16 operating expenses totaled $118.1 million. Figure 9 shows how Puget Sound allocated resources among major functional categories in 2015–16, how this compares to two

decades ago, and how it currently compares to the median of its national peer comparison group. Over time, Puget Sound has increased the proportion of resources allocated to instruction and academic support, while reducing the allocation percentage to general institutional support. Puget Sound's allocations to major functions are within plus or minus four percentage points of the most recently available peer medians.

- Total expenses: Total operating expenses increased 3.6% over the prior year, largely due to increases in faculty and staff compensation, Puget Sound's single largest expenditure.
- Compensation: Competitive compensation is a critical factor in the recruitment and retention of excellent faculty and staff members committed to Puget Sound's mission and focused on student success. Total salaries and wages increased 3.3% in 2015–16, while benefits expense increased 5.4%, including a 12.7% increase in the cost of health benefits.
- Instruction and academic support: Instructional and academic support expenses totaled $50.2 million and $9.4 million, respectively, and together accounted for just over 50% of total operating expenses. Instructional expenses increased $1.8 million or 3.7%, largely due to compensation increases discussed above. Academic support expenses increased a lesser amount at 0.7% in part due to staff vacancies.
- Student services: Expenditures supporting student services increased 2.5% in 2015–16 to $19.6 million and accounted for approximately 17% of total operating expenses.
- Institutional support: Institutional support expenses totaled $16.8 million or 14.3% of total operating expenses, an increase over the prior year of 10.2% as a result of several factors, including costs associated with the conclusion of the successful One [of a Kind] campaign and launch of the next chapter of fundraising, an increase in recruitment expenses associated with a rise in staff turnover as the regional economy improved, and expenses associated with the presidential search and transition.
- Auxiliary enterprises: Auxiliary expenses include those related to housing, dining, conference services, and bookstore. Total auxiliary expenses increased 1.1% in alignment with the 1.0% increase in total auxiliary revenues.

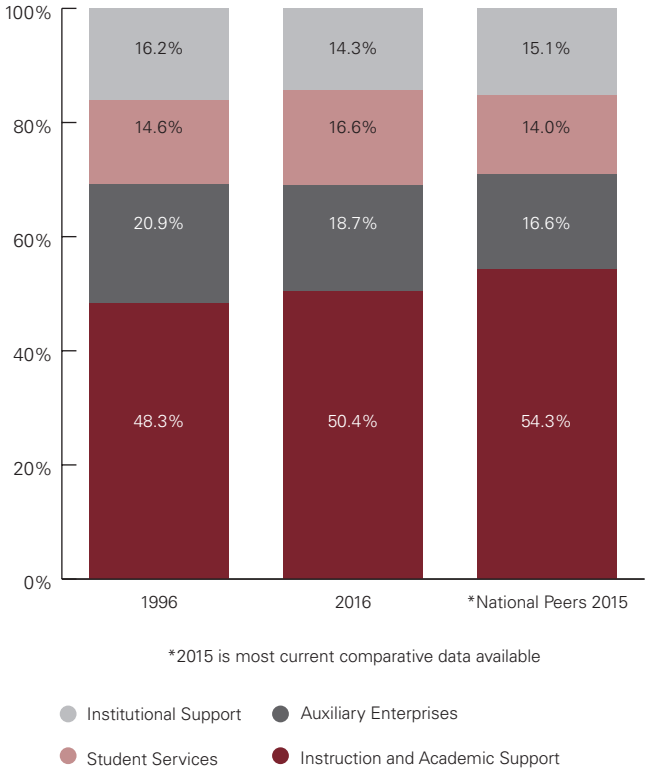
Nonoperating Activities

Nonoperating activities reduced net assets by $18.4 million in 2015–16, due to market valuation declines in endowment investments and interest rate swap agreements, offset by donor contributions restricted to facility capital projects, endowment, and other nonoperating categories. Over longer investment cycles, endowment returns have exceeded and are expected to continue to exceed the endowment spending rate plus inflation to maintain purchasing power over the long term.

Closing Remarks

Though the past decade was among the most challenging economic periods in our country's history, Puget Sound became stronger over this time period through focus on mission and student success, prudent fiscal management, and the development and successful implementation of its Defining Moments strategic plan and various supporting plans, including the most ambitious capital campaign in the university's history. Puget Sound is poised under President Crawford's leadership to embark on the next cycle of strategic planning that will guide the university to even greater heights over the next decade.

FIGURE 9 **Allocating Resources**



MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

Report of Independent Auditors

The Board of Trustees
University of Puget Sound

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Puget Sound and subsidiaries (the University), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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 consolidated financial position of the University as of June 30, 2016, and the consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements and Summarized Comparative Information
The financial statements of the University of Puget Sound as of June 30, 2015 were audited by other auditors whose report dated November 17, 2015, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the university's consolidated financial statements. The Mission Statement, Report of the President, and Report of the Vice President for Finance and Administration listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated supplemental schedule of changes in endowment investments is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Yakima, Washington
November 21, 2016

UNIVERSITY OF PUGET SOUND Consolidated Statement of Financial Position

As of June 30, 2016 (With Comparative Financial Information as of June 30, 2015) (Dollars in Thousands)

	2016	2015
ASSETS:		
Cash and cash equivalents (Note 1)	$ 25,308	$ 20,932
Short-term investments	18,026	23,022
Receivables, net	1,541	2,109
Contributions receivable, net (Notes 1 and 2)	6,851	11,138
Inventories (Note 1)	556	629
Prepaid expenses and other assets	3,956	2,860
Student loans receivable, net (Note 1)	13,559	14,120
Beneficial interest in outside trusts (Note 1)	1,330	1,745
Assets held under split-interest agreements (Note 1)	5,176	5,771
Endowment investments (Notes 3 and 4)	310,361	321,676
Intangibles, net (Notes 1 and 5)	9,400	9,700
Assets restricted for investment in campus facilities	1,412	11,129
Campus facilities, net (Notes 1 and 5)	203,333	190,535
Total assets	$ 600,809	$ 615,366
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	$ 2,403	$ 6,205
Accrued payroll and other liabilities (Note 8)	16,325	16,237
Advance deposits from students (Note 1)	2,267	2,081
Liabilities under split-interest agreements (Note 1)	2,609	2,313
Government advances for student loans (Note 1)	11,845	12,027
Asset retirement obligation (Notes 1 and 5)	1,895	1,648
Interest rate swap agreements (Note 6)	14,168	11,002
Long-term debt (Note 6)	74,856	75,771
Total liabilities	$ 126,368	$ 127,284
Net Assets:		
Unrestricted:		
Available for operations	$ 998	$ 994
Invested in or designated for campus facilities	117,206	115,417
Endowment (Note 4)	103,430	108,411
Designated for other specific purposes	14,593	17,151
Total unrestricted	236,227	241,973
Temporarily restricted (Note 7)	103,812	115,689
Permanently restricted (Note 7)	134,402	130,420
Total net assets	474,441	488,082
Total liabilities and net assets	$ 600,809	$ 615,366

The accompanying notes are an integral part of the consolidated financial statements

UNIVERSITY OF PUGET SOUND Consolidated Statement of Activities

For the Year Ended June 30, 2016 (With Summarized Financial Information for the Year Ended June 30, 2015) (Dollars in Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2016	Totals 2015
Operating:					
Revenues and gains:					
Student tuition and fees	$ 118,732			$ 118,732	$ 117,234
Less student financial aid	(43,776)			(43,776)	(44,230)
Net tuition and fees	74,956			74,956	73,004
Student room and board	20,649			20,649	20,511
Other auxiliary enterprises	4,211			4,211	4,105
Governmental grants and contracts	305	$ 2,167		2,472	2,077
Contributions	2,751	3,367		6,118	5,581
Endowment income and gains distributed (Note 4)	4,219	8,607		12,826	12,002
Interest income	83	98		181	174
Other sources	1,491	10		1,501	1,718
Total operating revenues and gains	108,665	14,249		122,914	119,172
Expenses:					
Educational and general:					
Instruction	50,204			50,204	48,432
Academic support	9,358			9,358	9,292
Student services	19,633			19,633	19,157
Institutional support	16,839			16,839	15,275
Total educational and general expenses	96,034			96,034	92,156
Auxiliary enterprises	22,095			22,095	21,864
Total operating expenses	118,129			118,129	114,020
Net assets released from restrictions	11,629	(11,629)		-	-
Increase (decrease) in net assets from operating activities	2,165	2,620		4,785	5,152
Nonoperating:					
Contributions		1,181	$ 123	1,304	8,538
Change in allowance for uncollectible promises (Note 2)		51	2,073	2,124	(121)
Net gains (losses) and income on endowment investments, net of distributions (Note 4)	(6,472)	(13,288)	2,480	(17,280)	(4,497)
Other adjustments and changes	(2,826)	(1,054)	(694)	(4,574)	(615)
Net assets released from restrictions	1,387	(1,387)		-	-
Increase (decrease) in net assets from nonoperating activities	(7,911)	(14,497)	3,982	(18,426)	3,305
Increase (decrease) in net assets	(5,746)	(11,877)	3,982	(13,641)	8,457
Net assets at beginning of the year	241,973	115,689	130,420	488,082	479,625
Net assets at end of the year	$ 236,227	$ 103,812	$ 134,402	$ 474,441	$ 488,082

The accompanying notes are an integral part of the consolidated financial statements

UNIVERSITY OF PUGET SOUND Consolidated Statement of Cash Flows

For the Year Ended June 30, 2016 (With Summarized Financial Information for the Year Ended June 30, 2015) (Dollars in Thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (13,641)	$ 8,457
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,438	10,278
Contributions restricted for long-term investment	(7,421)	(7,318)
Gifts of investments, property, and outside trusts	(91)	(6)
(Gains) losses on endowment investments and split-interest agreements	6,182	(5,600)
Actuarial adjustments of liabilities under split-interest agreements	875	(105)
Amortization of tax-exempt bond premium, discount, and issuance costs	(145)	(144)
Accretion, settlement, and adjustments to asset retirement obligations	247	9
Unrealized (gain) loss on interest rate swap agreements	3,166	306
Changes in:		
Receivables, net	568	(626)
Contributions receivable, net	4,287	(1,406)
Inventories, prepaid expenses, and other assets	(1,023)	(203)
Accounts payable	(655)	427
Accrued payroll and other liabilities	(266)	205
Advance deposits from students	186	31
Net cash provided by operating activities	2,707	4,305
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	101,359	132,938
Purchases of investments	(95,580)	(130,252)
Net (purchases) sales of short-term investments	5,073	691
Receipt (purchases) of assets restricted for investment in campus facilities	9,717	(4,426)
Purchases of campus facilities and intangibles	(25,411)	(10,360)
Disbursements of loans to students	(1,881)	(2,235)
Repayments of loans from students	2,172	2,158
Net cash used for investing activities	(4,551)	(11,486)
Cash flows from financing activities:		
Contributions restricted for long-term investment	7,421	7,318
Investment income subject to split-interest agreements	96	132
New liabilities under split-interest agreements	47	150
Payments to split-interest agreement beneficiaries	(358)	(397)
Repayments of long-term debt	(1,074)	(993)
Changes in government advances for student loans	88	67
Net cash provided by financing activities	6,220	6,277
Net increase (decrease) in cash and cash equivalents	4,376	(904)
Cash and cash equivalents at beginning of the year	20,932	21,836
Cash and cash equivalents at end of the year	$ 25,308	$ 20,932
Supplemental cash flow information:		
Interest paid (net of capitalized interest of $40 and $84 in 2016 and 2015, respectively)	$ 3,992	$ 3,953
Noncash investing and financing activities:		
Purchases of equipment and building construction on account	$ 1,463	$ 4,610
Student loan cancellations	$ 270	$ 301

The accompanying notes are an integral part of the consolidated financial statements

UNIVERSITY OF PUGET SOUND Consolidated Supplemental Schedule of Changes in Endowment Investments

For the Year Ended June 30, 2016 (With Comparative Financial Information for the Year Ended June 30, 2015) (Dollars in Thousands)

	2016	2015
Endowment investments, beginning of the year	$ 321,676	$ 318,501
Contributions	3,774	3,723
Transfers and other additions	2,192	3,949
Return on endowment investments	(4,455)	7,505
Amount distributed for operating activities	(12,826)	(12,002)
Net change in endowment investments	(11,315)	3,175
Endowment investments, end of the year	$ 310,361	$ 321,676
Total return on pooled endowment	(2.47%)	4.18%

Pooled investments and the allocation of income and gains are accounted for under the unit method.

Pooled endowment investment unit values are summarized as follows:

	2016	2015
Market value, end of year	$ 73.4301	$ 75.1892
Market value, beginning of year	75.1892	73.4450
Gain (loss)	$ (1.7591)	$ 1.7442
Ordinary income	$ 0.3500	$ 0.3807
Distributed for operations	$ 3.0428	$ 2.8053

See accompanying Report of Independent Auditors

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The University of Puget Sound (the university, Puget Sound), established in 1888, is a nonprofit corporation organized under the laws of the state of Washington. The university is an independent predominantly residential undergraduate liberal arts college with selected graduate programs building effectively on a liberal arts foundation. The university, as a community of learning, maintains a strong commitment to teaching excellence, scholarly engagement, and fruitful student-faculty interaction.

The mission of the university is to develop in its students capacities for critical analysis, aesthetic appreciation, sound judgment, and apt expression that will sustain a lifetime of intellectual curiosity, active inquiry, and reasoned independence. A Puget Sound education, both academic and co-curricular, encourages a rich knowledge of self and others; an appreciation of commonality and difference; the full, open, and civil discussion of ideas; thoughtful moral discourse; and the integration of learning, preparing the university's graduates to meet the highest tests of democratic citizenship. Such an education seeks to liberate each person's fullest intellectual and human potential to assist in the unfolding of creative and useful lives.

Basis of Accounting and Presentation

The accompanying financial statements are the consolidated statements of the university and its wholly owned subsidiaries CVI GVF Holdings 13 Ltd. and Rainier Heights Holdings, LLC. All material transactions between the university and its consolidated subsidiaries have been eliminated.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). While the underlying accounts of the university are maintained in accordance with the principles of fund accounting to facilitate observance of specific restrictions placed on the resources available to the university, the consolidated financial statements focus on the university as a whole.

The university's activities and net assets are classified in the consolidated financial statements as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. These classifications are described below:

Unrestricted net assets - resources not subject to donor-imposed restrictions.

Temporarily restricted net assets - resources that can be expended subject to donor-imposed restrictions as to use or passage of time.

Permanently restricted net assets - resources that a donor requires the university to retain in perpetuity. Generally, the donor permits the university to use all or a part of the income and appreciation earned on the contributed assets.

The Consolidated Statement of Activities presents expenses by functional classification in accordance with the overall educational mission of the university. Depreciation and amortization expense is allocated directly to functional classifications based on the nature of the underlying assets. Interest expense on long-term debt is allocated to the functional areas that have benefited from the proceeds. The cost of operating and maintaining campus facilities is allocated to the functional areas based on occupancy square footage. The cost of supporting information technology systems is allocated to the functional areas based on estimated utilization of system resources and support.

The university has defined nonoperating activities to include contributions added to endowment, contributions supporting major capital purchases, contributions and other activity related to split-interest agreements, and changes in the allowance for uncollectible promises. Also included are retirement plan actuarial adjustments, interest rate swap agreement changes in fair value, endowment income, gains, or losses, net of amounts distributed to support operations in accordance with the applicable spending policies. Certain other gains and losses that do not occur in the normal course of operations are also included in nonoperating activity.

The Consolidated Statement of Activities includes comparative summarized information for the year ended June 30, 2015. Such information does not include sufficient detail by net asset class to constitute a presentation in conformity with U.S. GAAP. Accordingly such information should be read in conjunction with the university's consolidated financial statements for the year ended June 30, 2015, from which the summarized information was derived. In addition, the notes to the consolidated financial statements exclude comparative information for certain disclosures. Certain reclassifications of prior year amounts have been made to conform to the 2016 classification. Such reclassifications had no effect on previously reported net assets, change in net assets, or net cash flows.

Use of Estimates

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

Cash Equivalents

Cash equivalents consist of highly liquid investments with maturities of three months or less when purchased, except for those held for long-term investment. Cash equivalents totaled $10,770 and $7,110, respectively, at June 30, 2016 and 2015.

Contributions Receivable

Unconditional promises (contributions receivable) are recognized at the estimated present value of expected future cash flows, discounted using a risk adjusted rate. An allowance for uncollectible promises is provided based on management's judgment including but not limited to factors such as prior giving history, type of contribution, collection risk, and nature of fundraising activity. Conditional promises are recorded when donor stipulations are substantially met. Contributions received, including unconditional promises to give, are recognized as revenues in the period received.

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *CONTINUED*

Inventories
Inventories are carried at cost using average cost, first-in first-out, and retail valuation methods. The cost of inventories is not in excess of net realizable value.

Student Loans Receivable
The university participates in the Federal Perkins revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. The outstanding loan balance was $13,559 and $14,120 at June 30, 2016 and 2015, respectively. Funds contributed to the program by the Federal government must ultimately be returned to the government so they are classified as liabilities under "Government advances for student loans" in the Consolidated Statement 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. Congress allowed the Federal Perkins revolving loan program to expire on September 30, 2015, but granted a two-year extension to September 17, 2017, that included some limitations on the authority to make loans. The university will follow guidance from the U.S. Department of Education until the extended lapse date, at which time it will conclude its assessment of the impact on the sunsetting provisions on the university's consolidated financial statements and notes.

A reasonable estimate of the fair value of student loans receivable, which are federally-sponsored student loans with U.S. government-mandated interest rates and repayment terms, could not be made because the notes are not saleable and can only be assigned to the U.S. government or its designees.

Investments
Investments include short-term investments, endowment investments, investments included in prepaid expenses and other assets, and assets held in split-interest agreements trusteed by the university. Investments are stated at fair value (see Note 3) reported in the context of market conditions as of the valuation date. The university employs procedures to ensure appropriate oversight of its investments. Procedures include ongoing monitoring and reviews of valuations and assumptions provided by investment managers and the university believes that the carrying amounts of these financial instruments are reasonable estimates of the fair value. Perpetual trusts and some charitable remainder trusts are managed by outside trustees and are not subject to the university's investment policies.

For real estate or hard-to-value assets held for investment directly or in trust by the university or its subsidiaries, reported fair value is based on a representative appraisal performed at intervals appropriate to establish current market values, with consideration given to the cost/benefit of the appraisal. Investment transactions are recorded on a trade-date basis and the cost of securities sold is based on their weighted average cost. Interest is accrued as earned, and dividends are recorded on the ex-dividend date.

Risk and Investment Performance
Cash, cash equivalents, and investments are exposed to various risks, which can include interest rate, market, and credit risks. To minimize these risks, the university has a diversified portfolio with a number of investment managers in a variety of asset classes. The university regularly evaluates its investments including their performance. Due to inherent risks and potential volatility in investment valuations, the amounts reported in the Consolidated Statement of Financial Position and Consolidated Statement of Activities can vary substantially from year to year.

Beneficial Interest in Outside Trusts
Funds held in trust by others represent resources neither in the possession nor under the control of the university. These trusts are administered by outside trustees, with the university deriving income and/or a residual interest from the assets. When an irrevocable trust is established and the university is notified of its existence and can establish the fair value of the assets of the trust, the university recognizes its beneficial interest in the outside trust as a contribution at fair value. The fair value is measured as the present value of the estimated expected future benefits to be received when the trust assets are distributed. The contribution revenue recognized is classified as an increase in either temporarily or permanently restricted net assets based on the time or use restrictions placed by the donor upon the university's beneficial interest in the assets. Periodic adjustments to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate are recognized as actuarial gains or losses. The discount rates used at June 30, 2016 and June 30, 2015, were 1.80% and 2.00%, respectively.

Amounts held as Trustee or Agent Under Split-Interest Agreements
The university has legal title, either in the university's name or as trustee, to charitable remainder and lead trusts. No significant financial benefit can be realized until the contractual obligations are released. The university also receives contributions for charitable gift annuity contracts. Actuarial methods are used to record these annuities and trusts using discount rates ranging from 1.20% to 9.40%. For charitable gift annuities and charitable remainder trusts, when a gift is received, the present value of future expected payments to the beneficiaries is recorded as a liability based upon life expectancy tables and current discount rate assumptions and the remainder is recorded as a contribution. For charitable lead trusts, when a gift is received, the present value of future expected payments to the university, as lead beneficiary, is recorded as a contribution and the remainder is recorded as a liability to the remainder beneficiaries. Contribution revenue recognized from charitable gift annuities and charitable remainder and lead trusts is classified as an increase in unrestricted, temporarily restricted, or permanently restricted net assets based on the existence or absence of time or use restrictions placed by the donor upon the university's interest in the assets. Annuity and trust assets are reported at fair value. Investment income and gains are credited, and beneficiary payments, direct costs of funds management, and investment losses are charged to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses resulting from changes in fair value and life expectancy.

The university maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws. The total amount held in separate reserve funds was $853 as of June 30, 2016, and $1,146 as of June 30, 2015. The

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *CONTINUED*

amount included to meet future payments under gift annuity contracts in liabilities under split-interest agreements was $529 as of June 30, 2016, and $523 as of June 30, 2015.

Intangible Assets and Campus Facilities

Intangible assets, including software and software related contracts, electronic library resources, and website development costs, are recorded at cost. Purchased intangible assets with a cost of $5 (five thousand) or more and developed intangible assets with a cost of $100 (one hundred thousand) or more are capitalized. Intangible library resources do not have a capitalization threshold. These assets have finite useful lives and are amortized on a straight-line basis over their estimated useful lives, ranging from four to 20 years.

Campus facilities, including land and improvements, buildings and improvements, equipment, and library resources, are recorded at cost or, if received as a gift, at fair value on the date of donation. Land improvements, buildings, and building improvements, with a cost of $25 (twenty five thousand) or more, equipment with a cost of $5 (five thousand) or more, are capitalized. Library resources and collections do not have capitalization thresholds. The university's natural history and other collections are capitalized but not depreciated. Maintenance and repairs are charged to operations when they occur. Expenditures that significantly increase the value, performance, capacity, or service potential or extend the useful lives of campus facilities are capitalized and depreciated. Depreciation is computed on a straight-line basis over estimated useful lives of 15 to 50 years for land improvements, 25 to 75 years for buildings, 20 to 40 years for building improvements, four to ten years for equipment, and 15 years for library resources.

The costs and accumulated depreciation and amortization of assets sold or retired are removed from the accounts, and the related gains and losses are included in the Consolidated Statement of Activities. In the absence of donor-imposed restrictions on the use of assets, gifts of ong-lived assets are reported as unrestricted contributions.

Asset Retirement Obligations

Asset retirement obligations include legal obligations associated with the retirement of long-lived assets. These liabilities are recorded at fair value when incurred and are capitalized by increasing the carrying amount of the associated long-lived asset. The fair value of each obligation is measured based on the present value of estimated future retirement costs. Asset retirement costs are depreciated on a straight-line basis over the useful life of the associated asset. Subsequent to the initial recognition, period-to-period changes in the carrying amount of the liability are recorded due to the passage of time and revisions to either the timing or amount of the original estimated cash flows. The liability is removed when the related obligation is settled.

Change in Accounting Principles

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-03, Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. The amendments in this update simplify the presentation of debt issuance costs by requiring that the costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts or premiums. The new standard is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. The university chose to early adopt this update as of June 30, 2016, and for all periods presented, as allowed under the update. As a result of this adoption, the June 30, 2015 balance in Prepaid expenses and other assets and Long-term debt on the Statement of Financial Position were restated to reflect the change in presentation.

In January 2016, FASB issued Accounting Standards Update No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This amendment, among other changes not required for the university under the update, eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The update will be effective for the university for annual periods beginning after December 15, 2018, with early adoption permitted. The university chose to early adopt this update as of June 30, 2016, and as a result, will no longer disclose the amount or measurement of these financial instruments at fair value.

Advance Deposits from Students

Payments from students received by the end of the current fiscal year that are for a term in the subsequent fiscal year have been deferred for inclusion in unrestricted operating revenues in that subsequent year.

Fundraising Expenses

Fundraising expenses of $4,514 and $4,162 are included in Institutional support in the Consolidated Statement of Activities for the years ended June 30, 2016 and 2015, respectively, and include direct expenses associated with fundraising activities and allocations for depreciation expense, interest on long-term debt, operation and maintenance of campus facilities, and information technology support.

Federal Income Taxes

The university has been recognized by the Internal Revenue Service as exempt from federal income taxes under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3) of the Internal Revenue Code except to the extent of unrelated business taxable income. Donations to the university are generally tax deductible. The university's wholly-owned subsidiaries CVI GVF Holdings 13 Ltd. and Rainier Heights Holdings, LLC are subject to federal income tax as applicable. The university had no unrecognized tax benefits that would have required an adjustment to its net assets, and no unrecognized tax benefits at June 30, 2016.

NOTE 2 – PROMISES TO GIVE

Included in "Contributions receivable" are the following unconditional promises to give:

	June 30, 2016	June 30, 2015
Endowment	$ 3,632	$ 7,489
Construction and improvement of campus facilities	3,175	5,786
Student financial aid	289	425
Other programs and activities, including unrestricted promises for future periods	411	581
	7,507	14,281
Discount to present value	(346)	(709)
Allowance for uncollectable promises	(310)	(2,434)
	$ 6,851	$ 11,138
Unconditional promises expected to be collected in:		
Less than one year	$ 3,983	
One to five years	3,435	
More than five years	89	
	$ 7,507	

Discount rates ranged from 1.14 percent to 2.46 percent and from .86 percent to 3.34 percent for June 30, 2016 and June 30, 2015, respectively.

NOTE 3 – FAIR VALUE MEASUREMENTS

The university discloses the fair value of assets and liabilities providing it is practicable to do so. Fair value measurements are determined based on the assumptions that market participants, in the context of an orderly market, would use in pricing an asset or liability. U.S. GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in an active market for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – inputs that are unobservable supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Unobservable inputs reflect an entity's own determination about the assumptions that market participants would use in pricing the asset or liability.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or the equivalent) practical expedient have not been classified in the fair value hierarchy leveling. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

NOTE 3 – FAIR VALUE MEASUREMENTS, *CONTINUED*

For assets and liabilities reported at fair value, the following table presents the fair value measurements used as of June 30, 2016:

	Totals	Level 1	Level 2	Level 3
Endowment investments:				
Global equity:				
US	$ 28,865	$ 28,865	$ -	$ -
International	34,434	34,434	-	-
Global equity measured at net asset value	93,696	-	-	-
Global fixed income/credit:				
Mutual funds	25,484	25,484	-	-
Balanced fund	807	807	-	-
Global fixed income/credit measured at net asset value	5,705	-	-	-
Absolute return hedge funds:				
Absolute return hedge funds measured at net asset value	39,837	-	-	-
Real assets:				
Other real assets measured at net asset value	56,473	-	-	-
Private capital:				
Note receivable	2,043	-	-	2,043
Other private capital measured at net asset value	13,332	-	-	-
Cash and other assets:				
Cash and short-term investments	7,321	7,321	-	-
Perpetual trusts	2,051	-	-	2,051
Restricted cash measured at net asset value	313	-	-	-
Total endowment investments	310,361	96,911	-	4,094
Other investments:				
Marketable securities	6,705	6,705	-	-
Municipal/government agency obligations	13,582	-	13,582	-
Real estate	2,044	-	-	2,044
Beneficial interest in outside trusts	1,330	-	-	1,330
Split interest agreements	5,176	3,459	1,717	-
Total assets	$ 339,198	$ 107,075	$ 15,299	$ 7,468
Liabilities:				
Interest rate swap agreements	$ 14,168	-	$ 14,168	-
Total liabilities	$ 14,168	$ -	$ 14,168	$ -

	Fair Value	Redemption Restrictions	Redemption Notice	Unfunded Commitments
Investments measured at net asset value:				
Global equity:				
Commingled global equity	$ 56,813	25% quarterly or 100% annually	90 days	$ -
Commingled global equity	10,865	Illiquid		-
Private global equity	26,018	Illiquid		11,770
	$ 93,696			$ 11,770
Global fixed income/credit:				
Private debt	$ 5,574	Illiquid		$ 946
Commingled global fixed income	110	25% quarterly or 100% annually	90 days	-
Commingled global fixed income	21	Illiquid		-
	$ 5,705			$ 946
Absolute return hedge funds:				
Absolute return hedge funds in liquidation	$ 233	In Liquidation		$ -
Other absolute return hedge funds		Semi-annually	90 days	-
Commingled absolute return hedge funds	33,246	25% quarterly or 100% annually	90 days	-
Commingled absolute return hedge funds	6,358	Illiquid		-
	$ 39,837			$ -
Real assets:				
Private energy	$ 32,596	Illiquid		$ 6,008
Timber	8,740	Illiquid		10
Real estate	15,137	Illiquid		1,592
	$ 56,473			$ 7,610
Private capital:				
Venture capital	$ 3	Illiquid		$ -
Commingled private capital	13,329	Illiquid		-
	$ 13,332			$ -
Cash:				
Restricted cash redemptive	$ 263	25% quarterly or 100% annually	90 days	$ -
Restricted cash non-redemptive	50	Illiquid		-
	$ 313			$ -

NOTE 3 – FAIR VALUE MEASUREMENTS, *CONTINUED*

For assets and liabilities reported at fair value, the following table presents the fair value measurements used as of June 30, 2015:

	Totals	Level 1	Level 2	Level 3
Endowment investments:				
Global equity:				
US	$ 25,890	$ 25,890	$ -	$ -
International	37,742	37,742	-	-
Global equity measured at net asset value	101,699	-	-	-
Global fixed income/credit:				
Mutual funds	21,602	21,602	-	-
Balanced fund	812	812	-	-
Global fixed income/credit measured at net asset value	10,366	-	-	-
Absolute return hedge funds:				
Absolute return hedge funds measured at net asset value	43,758	-	-	-
Real assets:				
Real estate	69	-	-	69
Other real assets measured at net asset value	57,958	-	-	-
Private capital:				
Other private capital measured at net asset value	7,500	-	-	-
Cash and other assets:				
Cash and short-term investments	11,369	11,369	-	-
Perpetual trusts	2,558	-	-	2,558
Restricted cash measured at net asset value	353	-	-	-
Total endowment investments	321,676	97,415	-	2,627
Other investments:				
Marketable securities	6,626	6,626	-	-
Municipal/government agency obligations	27,525	-	27,525	-
Real estate	515	-	-	515
Beneficial interest in outside trusts	1,745	-	-	1,745
Split interest agreements	5,771	3,927	1,844	-
Total assets	$ 363,858	$ 107,968	$ 29,369	$ 4,887
Liabilities				
Interest rate swap agreements	$ 11,002	-	$ 11,002	-
Total liabilities	$ 11,002	$ -	$ 11,002	$ -

	Fair Value	Redemption Restrictions	Redemption Notice	Unfunded Commitments
Investments measured at net asset value:				
Global equity:				
Commingled global equity	$ 65,336	25% quarterly or 100% annually	90 days	$ -
Commingled global equity	12,743	Illiquid		-
Private global equity	23,620	Illiquid		16,149
	$ 101,699			$ 16,149
Global fixed income/credit:				
Private debt	$ 6,241	Illiquid		$ 1,338
Commingled global fixed income	1,053	25% quarterly or 100% annually	90 days	-
Commingled global fixed income	3,072	Illiquid		-
	$ 10,366			$ 1,338
Absolute return hedge funds:				
Absolute return hedge funds in liquidation	$ 384	In Liquidation		$ -
Other absolute return hedge funds	483	Semi-annually	90 days	-
Commingled absolute return hedge funds	35,891	25% quarterly or 100% annually	90 days	-
Commingled absolute return hedge funds	7,000	Illiquid		-
	$ 43,758			$ -
Real assets:				
Private energy	$ 32,841	Illiquid		$ 9,936
Timber	8,851	Illiquid		10
Real estate	16,266	Illiquid		2,112
	$ 57,958			$ 12,058
Private capital:				
Venture capital	$ 3	Illiquid		$ -
Commingled private capital	7,497	Illiquid		-
	$ 7,500			$ -
Cash:				
Restricted cash redemptive	$ 280	25% quarterly or 100% annually	90 days	$ -
Restricted cash non-redemptive	73	Illiquid		-
	$ 353			$ -

NOTE 3 – FAIR VALUE MEASUREMENTS, *CONTINUED*

Although the university uses its best judgment in determining the fair value of assets and liabilities, there are inherent limitations in any methodology. Therefore, the values presented herein are not necessarily indicative of the amount the university could realize in a current transaction. Future confirming events could affect the estimates of fair value and could be material to the consolidated financial statements. These events could also affect the amount realized upon liquidation of the investments. Carrying amounts for cash and cash equivalents approximate fair value because of the short maturity of these instruments.

Redemption terms and restrictions and unfunded commitments are presented for investments when manager-reported net asset value (NAV) is used as a practical expedient to estimate fair value. Valuations of underlying assets which comprise the NAV are provided by fund managers and consider observable market-based inputs, observable market data, valuation models, comparable sales, recent known financing transactions, and income streams discounted for risk levels, among other valuation methodologies.

Global equities include marketable US and international securities held in exchange traded funds and one commingled multi-manager pool. The investments consist of primarily equity-oriented securities from developed and emerging markets globally. The exchange traded funds are passive strategies designed to closely track specified equity benchmarks. The commingled pool includes exposure to passive strategies to closely track specified equity benchmarks and active strategies that attempt to deliver above-market performance. Directional hedged equities generally utilize both long and short positions in corporate securities and derivatives to provide favorable risk-adjusted returns.

Fixed income investments provide diversification to reduce the overall volatility and generate predictable cash flows that can be used in support of annual spending requirements. Fixed income is diversified across various sub-classes by investment style and strategy.

Real assets include private investments in real estate, timber, oil, natural gas, and agriculture. The primary purpose of these investments is to provide a potential hedge against inflationary pressures and to achieve overall portfolio diversification. Real asset investments may have low correlations to the traditional equity and fixed income markets and offer attractive long-term risk-adjusted returns.

Private capital funds are not generally available for liquidation by the university and depend on fund managers' decisions about exit timing to provide distributions. In addition, the university has minimal ability to influence the operating decisions affecting these investments. The fair values of private capital funds have been estimated using the most current information available and as applicable, adjusting for cash flows since the valuation date.

Absolute return hedge funds utilize strategies designed to generate long-term capital appreciation with low volatility and little correlation with equity and bond markets. Some absolute return funds may invest a small portion of assets in private capital funds or other illiquid vehicles.

Unfunded commitments may be called at any time during the fund investment periods, which currently range from one to 12 years.

The following table presents changes for assets measured at fair value using significant unobservable inputs (Level 3):

	June 30, 2016	June 30, 2015
Balance, beginning of the year	$ 4,887	$ 4,857
Total realized and unrealized gains (losses)	2,774	(153)
Purchases	4,201	271
Issues	-	-
Sales	(4,394)	(88)
Balance, end of the year	$ 7,468	$ 4,887
Unrealized gains (losses) related to Level 3 assets held at the end of the year included in "Net gains (losses) and income on endowment investments, net of distributions" in the Consolidated Statement of Activities	$ (60)	$ (153)

NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS

At June 30, 2016, the university's endowment consisted of approximately 596 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowments and funds designated by the board of trustees to function as endowments (quasi-endowments). Quasi-endowment funds may be expended at the discretion of the university's board of trustees. As required by U.S. GAAP, net assets associated with endowment funds, including quasi-endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment Investment and Spending Policies

To enable broad diversification and economies of scale, the university's policy is to pool endowment assets for investment purposes to the fullest extent possible as permitted by gift agreements and applicable government regulations. In the rare cases when a donor has prohibited a gift from being pooled for investment purposes, such endowments (referred to as non-pooled endowments) are separately invested and managed.

NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS, *CONTINUED*

The university's pooled endowment provides ongoing financial support for operations that will remain stable (or grow) in real or inflation-adjusted terms, as adjusted for new additions to the pooled endowment. The primary investment objective of the pooled endowment is to provide a sustainable maximum level of return consistent with prudent risk levels. The overall, long-term investment goal of the pooled endowment is to achieve an annualized total return of at least 5% over the long term, that balances short-term spending needs with the preservation of the real (inflation-adjusted) value of assets. Investments are diversified across a wide range of asset classes, including those providing return premiums for illiquidity, so as to provide a balance that will enhance total return under a range of economic scenarios, while avoiding undue risk concentrations in any single asset class or investment category. Sufficient liquidity in the endowment portfolio to meet the spending policy and operational needs, preserve the university's desired credit ratings, and maintain compliance with any debt agreements, is also considered when making investment decisions regarding asset allocation.

In accordance with the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA), the university considers the following factors, among others, in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the university and the donor-restricted 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; and (7) the investment policies of the university.

Pooled endowment spending is determined using the total return concept. The board of trustees approved a spending rate of 5% of a trailing 36-month average market value for the years ended June 30, 2016 and 2015. For a few donor-restricted endowment funds, the university honors and adheres to donor-stipulated spending limitations.

At June 30, 2016, nearly 99% of the university's endowment investments were pooled.

Interpretation of Relevant Law

Consistent with its understanding of donor intent, the board of trustees of the university has interpreted UPMIFA as 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. The university classifies as permanently restricted net assets: (a) the original value of gifts to donor-restricted endowments and (b) any other amounts added to 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. Temporarily restricted board-designated quasi-endowment funds were established with expendable restricted bequests and gifts.

Net asset balances and changes to the net asset balances for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	$ 108,411	$ 91,151	$ 126,959	$ 326,521
Contributions, net	-	64	2,157	2,221
Transfers and other additions	2,010	(8)	190	2,192
Net assets released from restrictions	(519)	519	-	-
Return on investments:				
Investment income (loss)	559	1,107	(40)	1,626
Net appreciation (depreciation) of investments	(2,812)	(5,789)	2,520	(6,081)
Total return on investments	(2,253)	(4,682)	2,480	(4,455)
Amount distributed for operating activities	(4,219)	(8,607)	-	(12,826)
Endowment net assets, June 30, 2016	103,430	78,437	131,786	313,653
Endowment net assets consisted of the following at June 30, 2016:				
Donor-restricted endowments	(66)	76,932	128,494	205,360
Board-designated quasi-endowments	103,496	1,505	-	105,001
	103,430	78,437	128,494	310,361
Unconditional promises to endowment	-	-	3,292	3,292
Total endowment net assets	$ 103,430	$ 78,437	$ 131,786	$ 313,653

NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS, *CONTINUED*

Net asset balances and changes to the net asset balances for the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	$ 106,371	$ 93,805	$ 122,724	$ 322,900
Contributions, net	1	-	4,168	4,169
Transfers and other additions	3,396	388	165	3,949
Net assets released from restrictions	76	(76)	-	-
Return on investments:				
Investment income (loss)	575	1,223	(20)	1,778
Net appreciation (depreciation) of investments	1,826	3,979	(78)	5,727
Total return on investments	2,401	5,202	(98)	7,505
Amount distributed for operating activities	(3,834)	(8,168)	-	(12,002)
Endowment net assets, June 30, 2015	108,411	91,151	126,959	326,521
Endowment net assets consisted of the following at June 30, 2015:				
Donor-restricted endowments	(13)	89,613	122,114	211,714
Board-designated quasi-endowments	108,424	1,538	-	109,962
	108,411	91,151	122,114	321,676
Unconditional promises to endowment	-	-	4,845	4,845
Total endowment net assets	$ 108,411	$ 91,151	$ 126,959	$ 326,521

NOTE 5 – INTANGIBLE ASSETS AND CAMPUS FACILITIES

Intangible Assets

Intangible assets include software and software related contracts, electronic library resources, and website development costs. The weighted average amortization period for assets acquired in the current period is 15 years.

	June 30, 2016	June 30, 2015
Intangible assets:		
Gross carrying amount	$ 12,978	$ 12,536
Accumulated amortization	(3,578)	(2,836)
Net carrying amount	$ 9,400	$ 9,700

Aggregate amortization expense:

2016	$ 993

Estimated amortization expense for each of the next five years and thereafter, excluding $173 of software purchased but not placed in service, is as follows:

2017	937
2018	899
2019	872
2020	573
2021	547
Thereafter	5,399
Total	$ 9,227

NOTE 5 – INTANGIBLE ASSETS AND CAMPUS FACILITIES, *CONTINUED*

Campus Facilities

Campus facilities consisted of the following:

	June 30, 2016	June 30, 2015
Land and improvements	$ 35,116	$ 32,580
Building and improvements	252,294	242,778
Equipment	14,677	16,174
Library resources	1,953	1,702
Collections	907	893
Construction in progress	13,232	5,463
	318,179	299,590
Accumulated depreciation	(114,846)	(109,055)
Campus facilities, net	$ 203,333	$ 190,535

Asset Retirement Obligations

Under U.S. GAAP, an entity is required 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 and certain other regulated materials generally found in 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 following schedule summarizes the university's asset retirement obligation activity:

	June 30, 2016	June 30, 2015
Asset retirement obligation, beginning of the year	$ 1,648	$ 1,639
Obligations settled	(41)	(71)
Obligations Incurred	22	8
Accretion expense	80	70
Revisions in estimated cash flows	186	2
Asset retirement obligation, end of the year	$ 1,895	$ 1,648

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

	Final Maturity	June 30, 2016	June 30, 2015
WHEFA Revenue Bonds, 2012A	2042	$ 37,406	$ 37,566
WHEFA Revenue Bonds, 2012B	2036	26,937	27,929
WHEFA Revenue Bonds, 2001	2031	10,211	10,244
Capital lease obligations	2023	302	32
Total		$ 74,856	$ 75,771

Principal due within the next five fiscal years and thereafter is as follows:

2017	$ 1,122
2018	1,164
2019	1,621
2020	1,687
2021	1,759
Thereafter	65,169
	72,522
Unamortized premium	2,968
Unamortized issuance costs	(634)
Total	$ 74,856

NOTE 6 – LONG-TERM DEBT, *CONTINUED*

The Washington Higher Education Facilities Authority (WHEFA) is a financing conduit provided by the State of Washington for private higher education facility acquisition and construction in the state. The tax-exempt bonds are obligations solely of the university and are not guaranteed by the state. The WHEFA bond agreements contain covenants relating to maintenance of facilities, insurance, and other general items. In addition, the WHEFA 2001 and WHEFA 2012B bond agreements contain covenants that the university will comply with certain liquidity requirements. The university's unrestricted revenues are pledged as collateral on the WHEFA tax-exempt bond obligations. The university's underlying long-term rating is "A1" by Moody's Investors Service, Inc., and "A+" by Standard & Poor's Rating Services.

In October 2012 the university entered into loan agreements whereby WHEFA issued tax-exempt Revenue and Refunding Revenue Bonds in the amount of $34,805 at a net premium of $3,577 (Series 2012A) and Refunding Revenue Bonds in the amount of $29,195 (Series 2012B). The bonds are general obligations of the university. The proceeds from the Series 2012A bonds were used to finance the construction of a 135-bed residence hall, and to refund outstanding WHEFA 2006A bonds. The proceeds from Series 2012B were used to refund outstanding WHEFA 2006B bonds. The 2012A bonds bear interest at fixed rates ranging from 3.0% to 5.0%. The 2012B bonds were sold through a direct purchase transaction with a bank, who will hold the bonds for an initial seven year term, after which the university will remarket the bonds. The bonds bear interest at 70% of the one-month London Interbank Offer Rate (LIBOR) plus a credit spread. The university is subject to certain financial covenants.

During 2001 the university entered into a loan agreement with WHEFA whereby WHEFA issued $10,620 of tax-exempt Variable Rate Demand Revenue Bonds, Series 2001. The proceeds were used to finance the construction of a new student residence hall. Pursuant to the loan agreement, the bonds bear interest at a rate that is determined weekly through the remarketing process, with the maximum annual rate capped at 12%.

For the year ended June 30, 2016, the university incurred total interest costs related to long-term debt of $3,799 of which $40 was capitalized. Interest costs include debt interest payments, swap agreement interest, remarketing, amortization of bond premium, discount and costs of issuance.

The university has a $5,000 unsecured line of credit in the form of a demand note with a bank. The agreement provides for interest at the bank's prime rate with no additional fees. As of June 30, 2016, the bank's prime rate was 3.50%. This line of credit has not been drawn on but is available for operating expenses or to provide liquidity for the Series 2001 bonds should the need arise.

Interest Rate Swap Agreements

During 2005 and 2006, in an effort to manage the fluctuations in cash flows resulting from variable interest rates and to lower its overall borrowing costs, the university entered into three separate interest rate swap agreements to convert its variable rate bonds to a substantially fixed rate through maturity. Under the terms of the swap agreements, the university pays the swap counterparties fixed amounts of interest over the term of the contracts and receives variable interest payments based on 67% of the one-month LIBOR. Additional key terms of the agreements are as follows:

Swap Counterparty	Outstanding Notional	Trade Date	Effective Date	Swap Fixed Rate	Final Maturity Date
The Bank of New York Mellon	$ 16,665	5/25/06	4/1/08	3.875%	10/1/2030
The Bank of New York Mellon	$ 26,915	5/25/06	6/30/06	3.855%	10/1/2036
Societe Generale, New York Branch	$ 10,310	8/9/05	9/1/05	3.426%	10/1/2031

The university accounts for its interest rate swap agreements in accordance with U.S. GAAP. The fair value of the interest rate swap agreements is the estimated amount that the university would receive or pay to transfer the agreements as of the reporting date, net of credit valuation adjustments, and is recognized as either an unrealized gain or loss, as appropriate. Amounts reported in the Consolidated Statement of Financial Position as of June 30, 2016 and 2015, for "Interest rate swap agreements" of $14,168 and $11,002, respectively, is also known as the mark-to-market value. The net changes in the fair value of the interest rate swap agreements for the years ended June 30, 2016 and 2015, were net unrealized losses of $3,166 and $306, respectively, recognized within "Other adjustments and changes" in the Consolidated Statement of Activities. Providing the university holds the swaps to maturity, the fair value of the derivatives will be zero. The university retains the option to terminate, cancel, and cash settle the interest rate swap agreements at any time.

The university utilizes its interest rate swap agreements solely as a cash flow hedge and does not use derivative instruments for trading or speculative purposes. The university seeks to diversify counterparty risk and executes credit-sensitive derivative transactions only with counterparties with strong credit ratings. The university is not required to post collateral for its swaps unless its credit rating drops below Baa2 by Moody's Investors Service, Inc or BBB by Standard & Poor's Rating Services on the Societe Generale Swap and Baa3 by Moody's Investors Service, Inc or BBB- by Standard & Poor's Rating Services on the Bank of New York Mellon swaps. The amount of the collateral would be the mark-to-market loss exposure at the time the credit rating dropped below the required level.

NOTE 7 – RESTRICTIONS ON NET ASSETS

Restrictions on net assets consisted of the following:

	June 30, 2016	June 30, 2015
Temporarily restricted:		
Time restrictions:		
Unappropriated earnings from donor-restricted endowments	$ 76,468	$ 89,108
Term endowment	464	504
Total donor-restricted endowments	76,932	89,612
Unconditional promises to give	3,559	6,293
Split-interest agreements	1,263	1,710
Cash surrender value of life insurance policies	21	550
Total time restrictions	81,775	98,165
Purpose restrictions:		
Construction of campus facilities	16,871	14,000
Educational programs and activities	5,166	3,524
Total purpose restrictions	22,037	17,524
Total temporarily restricted	$ 103,812	$ 115,689
Permanently restricted:		
Endowment funds	$ 131,786	$ 126,959
Split-interest agreements	2,611	3,456
Loan funds	5	5
Total permanently restricted	$ 134,402	$ 130,420

NOTE 8 – RETIREMENT PLANS

Defined Contribution Plan

The university contributes to a defined contribution retirement plan for the benefit of eligible faculty and staff (participants), with funding vehicles available through Teachers Insurance Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), (together TIAA-CREF). University contributions for participants begin after one year of service to the university or one year of service at an eligible employer during the twelve months immediately prior to their employment at the university. Contributions are 10% or 12% of salaries, depending upon position classifications and are fully vested. The university's contributions totaled $5,041 and $4,977 for the years ended June 30, 2016 and 2015, respectively.

Defined Benefit Plans

The university has in place an unfunded early retirement and career change plan for eligible members of the faculty. The university also accrues post-retirement medical benefits available to certain active faculty under the faculty early retirement and career change policy (pre-65 benefits) and certain retired faculty and staff under a discontinued medical benefits plan for retirees (post-65 benefits). Plan expenses and liabilities are valued based on actuarial methods and are reflected in the consolidated financial statements. U.S. GAAP requires employers to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in their statement of financial position and to recognize changes in that funded status in the year in which the changes occur. As a not-for-profit organization, the university recognizes such changes through changes in unrestricted net assets.

NOTE 8 – RETIREMENT PLANS, *CONTINUED*

Amounts recognized in "Accrued payroll and other liabilities" in the Consolidated Statement of Financial Position as of June 30, 2016 and 2015, and in "Other adjustments and changes" in the Consolidated Statement of Activities for the years then ended are as follows:

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2016	2015	2016	2015
Projected and accumulated post-retirement benefit obligations:				
Beginning of the year	$ 6,655	$ 6,392	$ 3,073	$ 2,884
Benefits paid	(939)	(765)	(143)	(127)
Amounts recognized in the Consolidated Statement of Activities:				
Components of net benefit expense recognized as operating expense:				
Service cost	383	319	145	123
Interest cost	272	241	126	107
Amortization of actuarial loss	197	200	78	87
Total net benefit expense	852	760	349	317
(Gain) loss recognized within other adjustments and changes	324	268	126	(1)
End of the year	$ 6,892	$ 6,655	$ 3,405	$ 3,073
Post-retirement benefit liability recognized within accrued payroll and other liabilities in the Consolidated Statement of Financial Position:				
Current portion	$ 432	$ 403	$ 194	$ 194
Noncurrent portion	6,460	6,252	3,211	2,879
Total	$ 6,892	$ 6,655	$ 3,405	$ 3,073
Plan funded status	$ (6,892)	$ (6,655)	$ (3,405)	$ (3,073)

The weighted-average assumptions used to determine plan benefit obligations as of June 30, 2016 and 2015, and the net benefit expense for the years then ended, included:

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2016	2015	2016	2015
Benefit obligation (post-retirement benefit liability):				
Discount rate	3.42%	4.20%	3.46%	4.21%
Rate of compensation increase	5.00%	5.00%	N/A	N/A
Net benefit expense:				
Discount rate	4.20%	3.88%	4.21%	3.85%
Rate of compensation increase	5.00%	5.00%	N/A	N/A

Defined Benefit Plans

Benefits were estimated based upon the same assumptions used to measure the benefit obligation. Benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter, are as follows:

	Faculty Early Retirement and Career Change Plan	Post-Retirement Medical Plan
2017	$ 432	$ 194
2018	$ 430	$ 206
2019	$ 477	$ 211
2020	$ 436	$ 218
2021	$ 417	$ 215
2022-2026	$ 2,168	$ 1,029

Amounts recognized as changes in unrestricted net assets that are expected to be recognized as amortization components of net benefit expense in the next fiscal year include a net loss of $219 for the faculty early retirement and career change plan and a net loss of $85 for the post-retirement medical plan.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The university has allocated a portion of its pooled endowment to investments in natural resources, private real estate and equity and fixed income asset classes. At June 30, 2016, an outstanding commitment of $20,326 remains to be invested in these asset classes.

In the normal course of activities, the university from time to time is the subject of various claims and also has claims against others. In the opinion of management, the results of these matters will not have a significant impact on the consolidated financial statements.

Federally funded programs, including financial aid, research and development, and other programs, are routinely subject to special audit. The reports on examinations, which are conducted pursuant to specific regulatory requirements by the auditors for the university, are required to be submitted to both the university and the Federal Audit Clearinghouse. Federal oversight agencies have the authority to determine liabilities as well as to limit, suspend, or terminate federally funded programs. In the university's opinion, no material instances of noncompliance have occurred during the year ended June 30, 2016, related to the university's federally funded student financial aid, research and development, and other programs.

NOTE 10 – SUBSEQUENT EVENTS

The university evaluated subsequent events through November 21, 2016, the date these consolidated financial statements were issued, and concluded there were no events requiring recording or disclosure.

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As of November 2016

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