UNIVERSITY OF PUGET SOUND

Financial Report 2016–17

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, 2017

2016–17 Financial Report

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REPORT OF THE PRESIDENT

Isiaah Crawford

At a time when higher education is under scrutiny for its ability to deliver on the promises it makes to students and to the community good, I am pleased to report another strong year at University of Puget Sound.

We work diligently to manage our finances and steward investments made by our students, their families, and our donors in order to provide deep and impactful learning experiences with ever greater abundance. With attentive management and discipline, we ended the fiscal year well within our budgeted resources as we maintained our focus on investing in the success of our students, faculty, and staff. These successes were made manifest in numerous ways through our curriculum; research and scholarship; facilities to support engagement in learning; and outcomes following graduation.

The university was named this year the best college in Washington state for getting a job after graduation, according to a new ranking based on U.S. Department of Education data. Shortly after graduation, 93 percent of the Class of 2016 was gainfully employed at companies such as Amazon, the National Institutes of Health, Boeing, and Microsoft; pursuing postgraduate work at some of the world's finest universities (including our own schools of education, occupational therapy, and physical therapy); or engaging in service through organizations such as AmeriCorps, Peace Corps, and Teach for America.

Students were prepared for these endeavors through a rigorous curriculum that expanded this year to include a focus on experiential learning and summer immersion internship programs at 32 nonprofits throughout the region. A substantial percentage of the Class of 2016 engaged in at least one internship during their college careers; many participated in more, in addition to those who engaged in rigorous self-designed summer research projects in the humanities, social sciences, and natural sciences. Fifty faculty members and students led a series of presentations showcasing innovative pedagogy, experiential learning, and Puget Sound's commitment to civic engagement during an Inaugural Symposia open to the broader community and extending the value of a Puget Sound education beyond our campus borders. Faculty and students also worked together to launch new majors this year in African American studies and environmental policy and decision-making.

Interest in a Puget Sound education remained high across our undergraduate and graduate programs. The 674 academically talented first-year students welcomed into the Class of 2020 in Fall 2016 brought us a variety of experiences and perspectives:

28 percent are students of color, 15 percent are the first in their families to attend college, and 23 students are from Tacoma public high schools—a threefold increase since announcing our Tacoma Public Schools Commitment in 2014. Applications for graduate study at the university have increased 18 percent over the past five years, with particularly strong demand for our programs in the health sciences.

We supported our students with improvements to our facilities designed to enhance the residential learning experience, including renovations to, and an expansion of, the Student Diversity Center, a new home for our Experiential Learning Initiative, and the opening of a spectacular, sparkling new Athletics and Aquatics Center, the final project of our successful One [of a Kind] campaign that concluded in summer 2015.

We ended the year with a $5.0 million surplus in education and general operations and $1.0 million surplus from auxiliary operations, which have been reinvested into the institution. (See additional information on the pages that follow.) At June 30, 2017, the value of the endowment was $344.6 million, up from $310.4 million at June 30, 2016, with a fiscal year return of 13.7 percent against a benchmark of 12.2 percent. Continued growth in the endowment is absolutely critical to our ability to meet the ever-increasing demand for financial aid that our students need in order to benefit from the opportunities inherent in the pursuit of a degree from Puget Sound. Continued growth in our numbers of alumni volunteers and their ongoing support of everything from fundraising to the mentorship and employment of current students is also essential to our ongoing ability to fulfill our mission.

As we look to the future, we are embarking on development of a forward-looking strategic plan to enable the university to embrace new challenges, seize opportunities, and build an ever-stronger foundation to deliver our mission in a rapidly changing environment for higher education. Meanwhile, it is a pleasure to provide to you on the following pages a full account of the financial position that makes possible the contributions of our students, faculty, and staff to the institution, the community, and the broader world impacted by our commitment to academic excellence and service.

REPORT OF THE VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

Sherry B. Mondou

For more than 129 years, Puget Sound has offered students an exceptional educational opportunity and powerful value proposition. A student-centric focus, an unwavering commitment to excellence, and sound fiscal management have contributed to Puget Sound's past success and will be essential for its future success. I am fortunate to be a part of Puget Sound's journey and am pleased to provide the following commentary as a companion to the enclosed financial statements for the year ending June 30, 2017.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

Puget Sound's assets totaled $639.6 million at June 30, 2017, providing a sound financial base to support mission and future success. Together, liquid resources, endowment investments, and campus facilities comprise 94% of total assets. In all, total assets grew 6% in the past year and 30% 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.

- *Liquid resources:* Cash, cash equivalents, and short-term investments totaling $51.1 million, or 8% of total assets, at June 30, 2017, 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 endowment serves Puget Sound's mission by providing a substantial, sustainable flow of annual funding for student financial aid, faculty compensation, faculty and student research and other operating costs. Accumulated over time through generous donor contributions, reinvestment of operating surplus, and prudent investment management, the endowment stood at $344.6 million at June 30, 2017, a rise of 33% over the past decade (Figure 2). Over the past two decades, the portfolio has become much more diversified as the endowment has grown in value (Figure 3). Endowment policies are established by the Finance and Facilities Committee of the board of trustees and executed by its Investment Subcommittee in collaboration with Perella Weinberg Partners, outsourced chief investment officer and co-fiduciary. To the fullest extent possible, individual endowments are pooled for investment purposes to enable broad diversification and economies of scale.
- *Campus facilities:* Puget Sound's 97-acre campus with 1.5 million square feet of built space 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 $202.4 million, as of June 30, 2017, as compared to $132.7 million a decade ago. Through a combination of generous

gifts, strategic use of debt, and unrestricted funds, the university invested $133.7 million in academic, residential and athletics facilities over this time period, consistent with the vision of its campus master plan (Figure 4). Also over this time period, the university correspondingly increased its facilities maintenance budget by 10% annually to protect its investments and minimize the problems that come with deferred maintenance. 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 11.7 years as compared to the 2016 median of 15.8 years for Puget Sound's national peer comparison group and 14.6 years for Moody's small A-rated private colleges.

Liabilities

Puget Sound's liabilities totaled $121 million at June 30, 2017, down 4% from the prior year. The university's largest liability is strategically issued tax-exempt debt that financed improvements to campus facilities.

- Long-term debt, as detailed in Note 6 of the financial statements, totaled $73.6 million at June 30, 2017, as compared to $74.9 million one year prior.

FIGURE 2 **Sources of Endowment Growth**

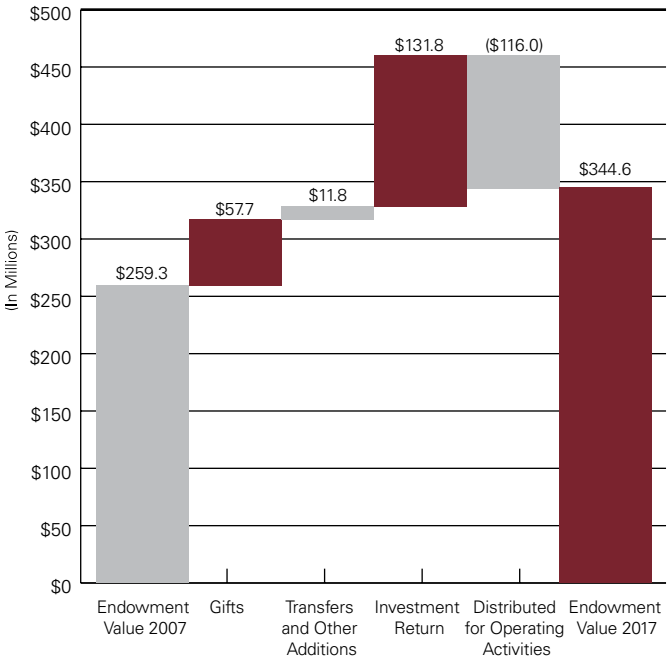


FIGURE 1 **Asset Growth Over Time**

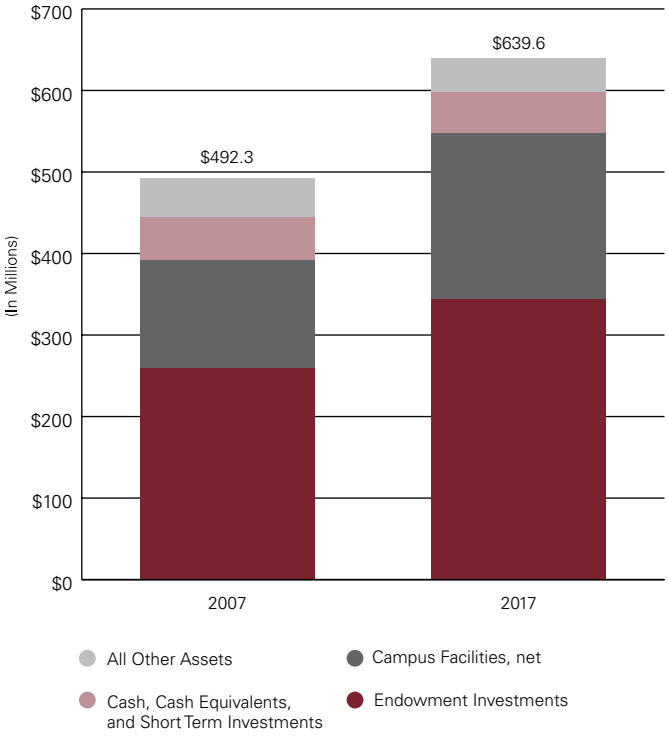
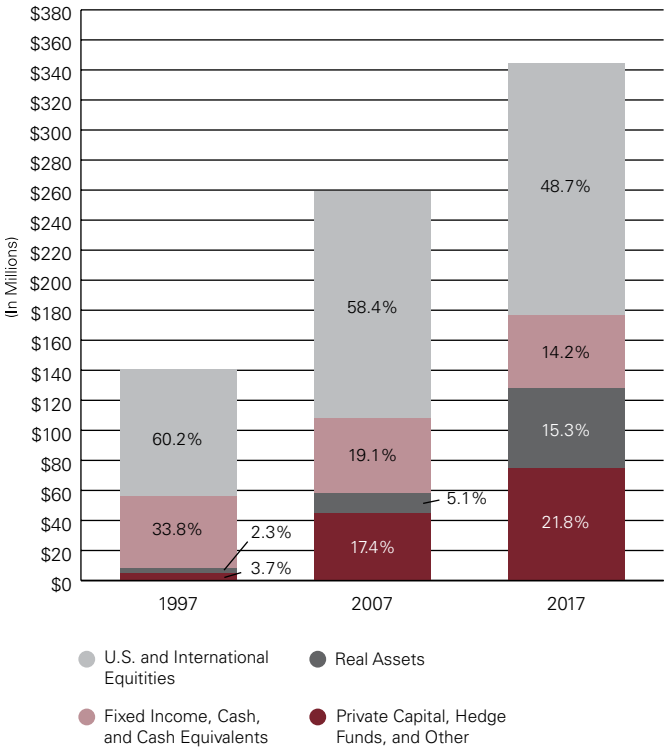


FIGURE 3 **Endowment Value and Diversification**



- 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 trustees' debt policy. Spendable Cash and Investments-to-Total Debt ratio is 3.6:1, as compared to the 2016 median of its national peer comparison group of 2.0:1 and of Moody's small A-rated private colleges of 2.2:1 (Figure 5). Puget Sound's debt service to operating expenses is 4.1% as compared to the 2016 median of 5.4% for its national peer comparison group and 5.1% 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 are lower than they were when the university entered the swap agreements, resulting in unrealized mark-to-market valuations shown as a liability in the Statements of Financial Position in the amount of $10.1 million, down from $14.2 million as of June 30, 2016. One of the university's three swap agreements, with a mark-to-market value of $2.5 million, became an "orphaned swap" when a portion 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 $518.7 million at June 30, 2017, with 53% unrestricted and designated for various purposes, 21% as temporarily restricted, and 26% permanently restricted. Net assets increased $44.2 million or 9% from the prior year as a net result of a $36.2 million increase from endowment returns and other nonoperating activities and an $8 million increase from operating activities as shown on the Statements of Activities.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Operating Revenues

Operating revenues and gains totaled $126.2 million, an increase of 2.7% over the prior year. Figure 6 provides an overview of funding sources that support operations.

- *Net tuition, fees, room, and board:* 79% of fiscal year 2017 operating revenues were derived from net tuition and fees, including room and board. Puget Sound looks to reduce this dependency on tuition and fees over the long term.
  - Tuition sticker price increased 3.51%, while enrollment and tuition discount rate were up modestly. In the aggregate, total net tuition and fees revenue was up 3.8%.

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

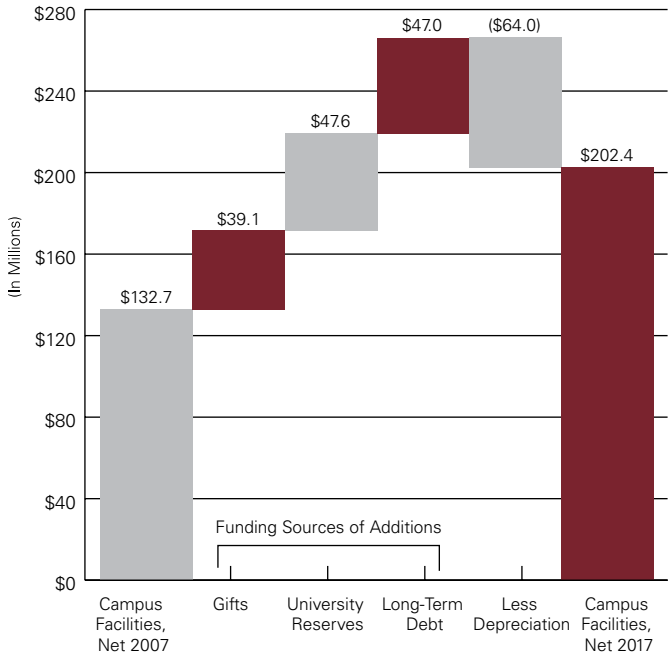
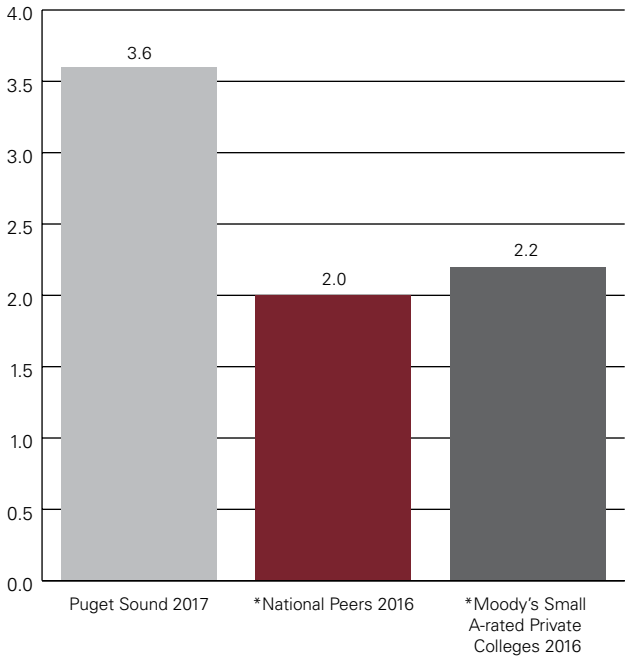


FIGURE 5 **Spendable Cash and Investments-to-Total Debt**



*2016 is most current comparative data available

– Room and board rates combined to increase 2.79%. 69% of undergraduate students lived on campus, a modest increase over the prior year. The remainder generally lived within a few blocks of campus, many of whom voluntarily purchased a meal plan. Overall, student room and board revenue increased 3.6%.

- *Endowment and gift support for operations:* Operating support from endowment distributions and contributions accounts for 14.8% of total operating revenues and has a significant and positive impact on financial accessibility for students and the quality and financial health of the university in general. These funding sources serve to subsidize the cost of education for all students and provide funding for student financial aid awards (Figure 7).

  – Endowment distributions of $14.1million provided 11.1% of all operating revenues in 2016-17, as compared to 10.1% 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, 2017, distribution was based on average market value for the period July 2012 to June 2015. This policy produced an effective spending rate (distribution divided by beginning of the year market value) of 4.53% for 2016-17 and an average of 4.45% over the previous 10 years.

  – Contributions of $4.6 million provided 3.7% of operating support in 2016-17 and over the last ten years provided 4.8% as compared to 3.3% the decade prior, reflecting the success of constituent engagement initiatives over time.

Operating Expenses

Operating expenses totaled $118.2 million in 2016-17, of which $96.3 million or 81.5% are expenses of educational and general activities and $21.9 million of auxiliary operations. Figure 8 shows the allocation of educational and general expenses by major functional category in comparison to the median allocations of the university's national peer comparison group. Puget Sound's allocations to major functional areas are within three to four percentage points of the most recently available peer data.

Total operating expenses were virtually flat in comparison to the prior year, with educational and general expenses up modestly and auxiliary expenses down modestly. Within educational and general expenses, instruction and academic support increased a modest 0.4%; student services increased 3.7%, including higher depreciation expense associated with the opening of the Athletics and Aquatics Center; and institutional support decreased 4.2% with a decline in campaign fundraising costs.

A high quality liberal arts education is a labor-intensive undertaking and, as such, compensation is the university's single

FIGURE 6 **Operating Revenues**

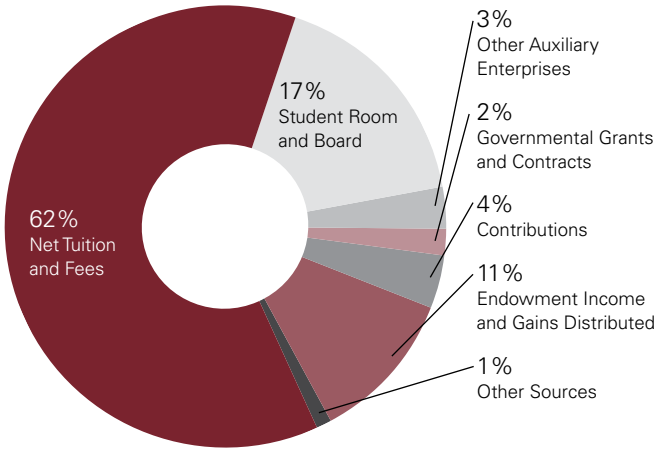
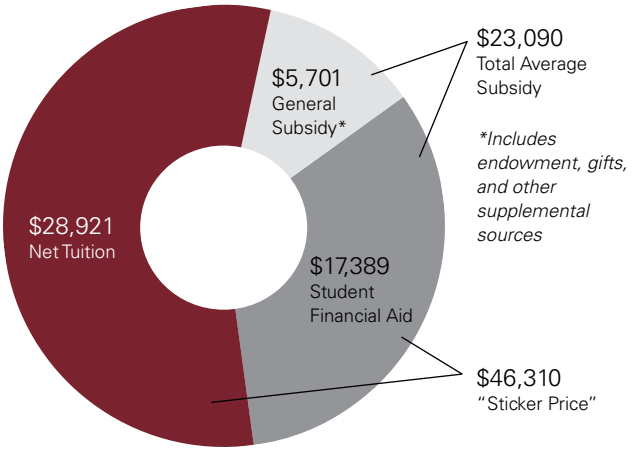


FIGURE 7 **Keeping Tuition Affordable**



largest expenditure. It is critical that Puget Sound offer competitive compensation to successfully recruit and retain excellent faculty and staff committed to Puget Sound's mission and the success of its students.

Total salaries and wages increased 0.6% in 2016-17, reflecting a faculty salary budget increase of 3.0%, offset by fewer sabbaticals and temporary replacements than in the prior year, which vary annually; and a staff salary budget increase of 2.5%, offset by savings from staff turnover and temporary vacancies. Benefits expense increased 2.5% and was moderated by no increase in health premiums for the calendar 2017 plan year.

Nonoperating Activities

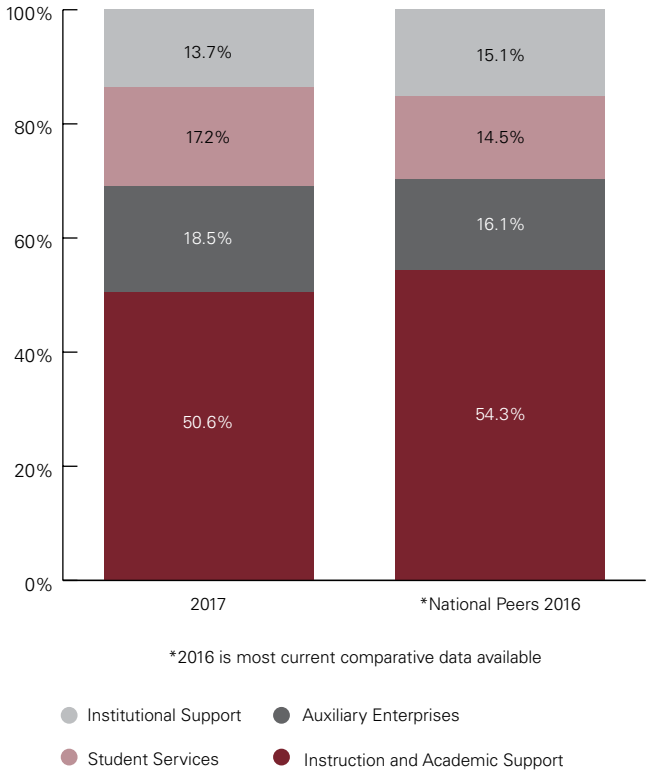
Nonoperating activities totaled $36.2 million in 2016-17. Key components included:

- $27.1 million from endowment returns in excess of the $14.1 million distributed for operations. The pooled endowment returned 13.7% in 2016-17 vs. a benchmark of 12.2%, after a loss of 2.47% in the prior year.
- $4.5 million in donor contributions restricted to facilities and endowment.
- $4.1 million in unrealized gain on interest rate swap agreements.

Closing Remarks

As the university develops its next strategic plan over the coming months, strong and sustainable financial health will be an important tenet. Puget Sound has a long and successful track record of developing and implementing strategic plans that strengthen the university and is poised to do so again under President Crawford's leadership.

FIGURE 8 **Allocating Resources**



MOSSADAMS

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, 2017, 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 and standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2017, 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

Other Information
Our audit was conducted for the purpose of forming an opinion on the consolidated 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.

Report on Summarized Comparative Information
We have previously audited the University's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 20, 2017

UNIVERSITY OF PUGET SOUND Consolidated Statements of Financial Position

As of June 30, 2017 (With Comparative Financial Information as of June 30, 2016) (Dollars in Thousands)

	2017	2016
ASSETS:		
Cash and cash equivalents (Note 1)	$ 19,114	$ 25,308
Short-term investments	32,018	18,026
Receivables, net	2,121	1,541
Contributions receivable, net (Notes 1 and 2)	2,620	6,851
Inventories (Note 1)	576	556
Prepaid expenses and other assets	4,200	3,956
Student loans receivable, net (Note 1)	12,819	13,559
Beneficial interest in outside trusts (Note 1)	1,607	1,330
Assets held under split-interest agreements (Note 1)	5,275	5,176
Endowment investments (Notes 3 and 4)	344,560	310,361
Intangibles, net (Notes 1 and 5)	9,391	9,400
Assets restricted for investment in campus facilities	2,915	1,412
Campus facilities, net (Notes 1 and 5)	202,409	203,333
Total assets	$ 639,625	$ 600,809
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	$ 3,063	$ 2,403
Accrued payroll and other liabilities (Note 8)	15,886	16,325
Advance deposits from students (Note 1)	2,328	2,267
Liabilities under split-interest agreements (Note 1)	2,749	2,609
Government advances for student loans (Note 1)	11,672	11,845
Asset retirement obligation (Notes 1 and 5)	1,615	1,895
Interest rate swap agreements (Note 6)	10,066	14,168
Long-term debt, net (Note 6)	73,595	74,856
Total liabilities	$ 120,974	$ 126,368
Net Assets:		
Unrestricted:		
Available for operations	$ 3,006	$ 998
Invested in or designated for campus facilities	132,737	117,206
Endowment (Note 4)	115,604	103,430
Designated for other specific purposes	22,301	14,593
Total unrestricted	273,648	236,227
Temporarily restricted (Note 7)	108,754	103,812
Permanently restricted (Note 7)	136,249	134,402
Total net assets	518,651	474,441
Total liabilities and net assets	$ 639,625	$ 600,809

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

UNIVERSITY OF PUGET SOUND Consolidated Statements of Activities

For the Year Ended June 30, 2017 (With Summarized Financial Information for the Year Ended June 30, 2016) (Dollars in Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2017	Totals 2016
Operating:					
Revenues and gains:					
Student tuition and fees	$ 123,599			$ 123,599	$ 118,732
Less student financial aid	(45,788)			(45,788)	(43,776)
Net tuition and fees	77,811			77,811	74,956
Student room and board	21,385			21,385	20,649
Other auxiliary enterprises	4,081			4,081	4,211
Governmental grants and contracts	322	$ 1,879		2,201	2,472
Contributions	2,696	1,953		4,649	6,118
Endowment income and gains distributed (Note 4)	4,412	9,640		14,052	12,826
Interest income	388	341		729	181
Other sources	1,306	11		1,317	1,501
Total operating revenues and gains	112,401	13,824		126,225	122,914
Expenses:					
Educational and general:					
Instruction	50,387			50,387	50,204
Academic support	9,433			9,433	9,358
Student services	20,359			20,359	19,633
Institutional support	16,129			16,129	16,839
Total educational and general expenses	96,308			96,308	96,034
Auxiliary enterprises	21,919			21,919	22,095
Total operating expenses	118,227			118,227	118,129
Net assets released from restrictions	14,111	(14,111)		-	-
Increase (decrease) in net assets from operating activities	8,285	(287)		7,998	4,785
Nonoperating:					
Contributions	-	1,937	$ 2,599	4,536	1,304
Change in allowance for uncollectible promises (Note 2)	-	107	92	199	2,124
Net gains (losses) and income on endowment investments, net of distributions (Note 4)	8,952	18,926	(805)	27,073	(17,280)
Other adjustments and changes	4,157	286	(39)	4,404	(4,574)
Net assets released from restrictions	16,027	(16,027)	-	-	-
Increase (decrease) in net assets from nonoperating activities	29,136	5,229	1,847	36,212	(18,426)
Increase (decrease) in net assets	37,421	4,942	1,847	44,210	(13,641)
Net assets at beginning of the year	236,227	103,812	134,402	474,441	488,082
Net assets at end of the year	$ 273,648	$ 108,754	$ 136,249	$ 518,651	$ 474,441

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

UNIVERSITY OF PUGET SOUND Consolidated Statements of Cash Flows

For the Year Ended June 30, 2017 (With Summarized Financial Information for the Year Ended June 30, 2016) (Dollars in Thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 44,210	$ (13,641)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,437	10,438
Contributions restricted for long-term investment	(8,388)	(7,421)
Gifts of investments, property, and outside trusts	(11)	(91)
(Gains) losses on endowment investments and split-interest agreements	(40,993)	6,182
Actuarial adjustments of liabilities under split-interest agreements	(166)	875
Amortization of tax-exempt bond premium, discount, and issuance costs	(145)	(145)
Accretion, settlement, and adjustments to asset retirement obligations	(280)	247
Unrealized (gain) loss on interest rate swap agreements	(4,102)	3,166
Changes in:		
Receivables, net	(580)	568
Contributions receivable, net	4,231	4,287
Inventories, prepaid expenses, and other assets	(264)	(1,023)
Accounts payable	580	(655)
Accrued payroll and other liabilities	(732)	(266)
Advance deposits from students	61	186
Net cash provided by operating activities	3,858	2,707
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	95,425	101,359
Purchases of investments	(88,671)	(95,580)
Net (purchases) sales of short-term investments	(13,975)	5,073
Receipt (purchases) of assets restricted for investment in campus facilities	(1,503)	9,717
Purchases of campus facilities and intangibles	(9,168)	(25,411)
Disbursements of loans to students	(1,600)	(1,881)
Repayments of Perkins loans from students	2,087	2,172
Net cash used for investing activities	(17,405)	(4,551)
Cash flows from financing activities:		
Contributions restricted for long-term investment	8,388	7,421
Investment income subject to split-interest agreements	271	96
New liabilities under split-interest agreements	46	47
Payments to split-interest agreement beneficiaries	(346)	(358)
Repayments of long-term debt	(1,085)	(1,074)
Changes in government advances for student loans	79	88
Net cash provided by financing activities	7,353	6,220
Net increase (decrease) in cash and cash equivalents	(6,194)	4,376
Cash and cash equivalents at beginning of the year	25,308	20,932
Cash and cash equivalents at end of the year	$ 19,114	$ 25,308
Supplemental cash flow information:		
Interest paid (net of capitalized interest of $21 and $40 in 2017 and 2016, respectively)	$ 3,871	$ 3,992
Noncash investing and financing activities:		
Purchases of equipment and building construction on account	$ 1,543	$ 1,463
Student loan cancellations	$ 252	$ 270

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, 2017 (With Comparative Financial Information for the Year Ended June 30, 2016) (Dollars in Thousands)

	2017	2016
Endowment investments, beginning of the year	$ 310,361	$ 321,676
Contributions	4,796	3,774
Transfers and other additions	2,330	2,192
Return on endowment investments	41,125	(4,455)
Amount distributed for operating activities	(14,052)	(12,826)
Net change in endowment investments	34,199	(11,315)
Endowment investments, end of the year	$ 344,560	$ 310,361
Total return on pooled endowment	13.71%	(2.47%)

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:

	2017		2016
	General Endowment	Fossil Fuel Free Endowment	General Endowment
Market value, ending	$ 83.5230	$ 1.1143	$ 73.4301
Market value, beginning	73.4301	1.0000	75.1892
Gain (loss)	$ 10.0929	$ 0.1143	$ (1.7591)
Ordinary income	$ 0.4713	$ 0.0064	$ 0.3500
Distributed for operations	$ 3.3645	$ 0.0367	$ 3.0428

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 Statements 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 Statements of Activities includes comparative summarized information for the year ended June 30, 2016. 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, 2016, from which the summarized information was derived. In addition, the notes to the consolidated financial statements exclude comparative information for certain disclosures.

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 and 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 $14,787 and $10,770, respectively, at June 30, 2017 and 2016. The university's cash balances exceed federally insured limits at times. The university has not experienced any significant losses on its cash investments.

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.

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.

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

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 $12,819 and $13,559 at June 30, 2017 and 2016, 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 Statements of Financial Position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. Congress allowed the Federal Perkins revolving loan program to expire on September 30, 2017. The university awaits clear guidance from the U.S. Department of Education, 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 review of valuations and assumptions provided by investment managers. Based on the results of these procedures, 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 Statements of Financial Position and Consolidated Statements 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, 2017 and June 30, 2016, were 2.40% and 1.80%, 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 $904 as of June 30, 2017, and $853 as of June 30, 2016. The amount included to meet future payments under gift annuity contracts in liabilities under split-interest agreements was $577 as of June 30, 2017, and $529 as of June 30, 2016.

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

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

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 and 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 Statements of Activities. In the absence of donor-imposed restrictions on the use of assets, gifts of long-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.

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 $3,378 and $4,514 are included in Institutional support in the Consolidated Statements of Activities for the years ended June 30, 2017 and 2016, 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) 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, 2017.

NOTE 2 – PROMISES TO GIVE

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

	June 30, 2017	June 30, 2016
Endowment	$ 1,480	$ 3,632
Construction and improvement of campus facilities	1,168	3,175
Student financial aid	174	289
Other programs and activities, including unrestricted promises for future periods	70	411
	2,892	7,507
Discount to present value	(161)	(346)
Allowance for uncollectable promises	(111)	(310)
	$ 2,620	$ 6,851
Unconditional promises expected to be collected in:		
Less than one year	$ 1,053	
One to five years	1,750	
More than five years	89	
	$ 2,892	

Discount rates ranged from 1.14 percent to 2.63 percent and from 1.14 percent to 2.46 percent for June 30, 2017 and June 30, 2016, respectively.

Conditional promises to give totaled $1,097 at June 30, 2017. Conditions include meeting a fundraising goal and submissions of research grants. These promises will be recognized when conditions are substantially met.

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 Statements 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, 2017:

	Totals	Level 1	Level 2	Level 3
Endowment investments:				
Global equity:				
US	$ 27,409	$ 27,409	$ -	$ -
International	35,350	35,350	-	-
Global equity measured at net asset value	105,139	-	-	-
Global fixed income/credit:				
Mutual funds	30,521	30,521	-	-
Balanced fund	836	836	-	-
Global fixed income/credit measured at net asset value	11,106	-	-	-
Absolute return hedge funds:				
Absolute return hedge funds measured at net asset value	53,576	-	-	-
Real assets:				
Other real assets measured at net asset value	52,768	-	-	-
Private capital:				
Other private capital measured at net asset value	19,175	-	-	-
Cash and other assets:				
Cash and short-term investments	6,354	6,354	-	-
Perpetual trusts	2,162	-	-	2,162
Restricted cash measured at net asset value	164	-	-	-
Total endowment investments	344,560	100,470	-	2,162
Other investments:				
Marketable securities	6,795	6,795	-	-
Municipal/government agency obligations	28,139	-	28,139	-
Real estate	2,289	-	-	2,289
Beneficial interest in outside trusts	1,607	-	-	1,607
Split interest agreements	5,275	3,633	1,642	-
Total assets	$ 388,665	$ 110,898	$ 29,781	$ 6,058
Liabilities:				
Interest rate swap agreements	$ 10,066	-	$ 10,066	-
Total liabilities	$ 10,066	$ -	$ 10,066	$ -

	Fair Value	Redemption Restrictions	Redemption Notice	Unfunded Commitments
Investments measured at net asset value:				
Global equity:				
Commingled global equity	$ 63,851	25% quarterly or 100% annually	90 days	$ -
Commingled global equity	15,728	Illiquid		-
Commingled global equity impact	795	25% quarterly or 100% annually		-
Private global equity	24,765	Illiquid		9,311
	$ 105,139			$ 9,311
Global fixed income/credit:				
Private debt	$ 4,721	Illiquid		$ 842
Commingled global fixed income	5,123	25% quarterly or 100% annually	90 days	-
Commingled global fixed income	1,262	Illiquid		-
	$ 11,106			$ 842
Absolute return hedge funds:				
Absolute return hedge funds in liquidation	$ 141	In Liquidation		$ -
Commingled absolute return hedge funds	42,874	25% quarterly or 100% annually	90 days	-
Commingled absolute return hedge funds	10,561	Illiquid		-
	$ 53,576			$ -
Real assets:				
Private energy	$ 36,248	Illiquid		$ 3,256
Timber	7,001	Illiquid		10
Real Estate	8,829	Illiquid		1,367
Commingled private real assets	690	Illiquid		-
	$ 52,768			$ 4,633
Private capital:				
Commingled private capital	$ 19,175	Illiquid		-
	$ 19,175			$ -
Cash:				
Restricted cash redemptive	$ 132	25% quarterly or 100% annually	90 days	$ -
Restricted cash non-redemptive	32	Illiquid		-
	$ 164			$ -

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*

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, 2017	June 30, 2016
Balance, beginning of the year	$ 7,468	$ 4,887
Total realized and unrealized gains (losses)	(1,267)	2,774
Purchases	334	4,201
Issues	-	-
Sales	(477)	(4,394)
Balance, end of the year	$ 6,058	$ 7,468
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 Statements of Activities	$ 448	$ (60)

NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS

At June 30, 2017, the university's endowment consisted of approximately 607 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. On January 1, 2017, the university implemented its Board of Trustees' Statement on Divestment, a portion of which creates a new fossil fuel free portfolio within the pooled endowment. This option provides donors a way to make gifts to a pool that avoids investment in companies deemed to contribute to climate change. 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 specific investment objectives of the general and fossil fuel free pooled endowments are to attain annual total real return of at least 5% and 3.5%, respectively, over the long-term. Policy dictates that adherence to a sound long-term investment program, which balances short-term spending needs with the preservation of the real (inflation-adjusted) value of assets, is crucial to the endowment's long-term success. 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, 2017 and 2016. For a few donor-restricted endowment funds, the university honors and adheres to donor-stipulated spending limitations.

At June 30, 2017, 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, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ 103,430	$ 78,437	$ 131,786	$ 313,653
Contributions, net	-	219	2,609	2,828
Transfers and other additions	2,259	(2)	73	2,330
Net assets released from restrictions	963	(963)	-	-
Return on investments:				
Investment income (loss)	673	1,448	(1,731)	390
Net appreciation (depreciation) of investments	12,691	27,118	926	40,735
Total return on investments	13,364	28,566	(805)	41,125
Amount distributed for operating activities	(4,412)	(9,640)	-	(14,052)
Endowment net assets, June 30, 2017	115,604	96,617	133,663	345,884
Endowment net assets consisted of the following at June 30, 2017:				
Donor-restricted endowments	-	95,015	132,392	227,407
Board-designated quasi-endowments	115,604	1,549	-	117,153
	115,604	96,564	132,392	344,560
Unconditional promises to endowment	-	53	1,271	1,324
Total endowment net assets	$ 115,604	$ 96,617	$ 133,663	$ 345,884

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

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 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 14 years.

	June 30, 2017	June 30, 2016
Intangible assets:		
Gross carrying amount	$ 13,811	$ 12,978
Accumulated amortization	(4,420)	(3,578)
Net carrying amount	$ 9,391	$ 9,400

Aggregate amortization expense:

2017	$ 973

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:

2018	$ 971
2019	944
2020	645
2021	620
2022	616
Thereafter	5,422
Total	$ 9,218

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

Campus Facilities

Campus facilities consisted of the following:

	June 30, 2017	June 30, 2016
Land and improvements	$ 35,808	$ 35,116
Building and improvements	268,856	252,294
Equipment	14,124	14,677
Library resources	2,193	1,953
Collections	935	907
Construction in progress	2,719	13,232
	324,635	318,179
Accumulated depreciation	(122,226)	(114,846)
Campus facilities, net	$ 202,409	$ 203,333

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, 2017	June 30, 2016
Asset retirement obligation, beginning of the year	$ 1,895	$ 1,648
Obligations settled	(14)	(41)
Obligations Incurred	-	22
Accretion expense	67	80
Revisions in estimated cash flows	(333)	186
Asset retirement obligation, end of the year	$ 1,615	$ 1,895

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

	Final Maturity	June 30, 2017	June 30, 2016
WHEFA Revenue Bonds, 2012A	2042	$ 37,246	$ 37,406
WHEFA Revenue Bonds, 2012B	2036	26,266	26,937
WHEFA Revenue Bonds, 2001	2031	9,812	10,211
Capital lease obligations	2023	271	302
Total		$ 73,595	$ 74,856

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

2018	$ 1,165
2019	1,622
2020	1,688
2021	1,760
2022	1,842
Thereafter	63,329
	71,406
Unamortized premium	2,794
Unamortized issuance costs	(605)
Total	$ 73,595

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, which equated to an average interest rate of 1.4% for fiscal year 2017. 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%. The average interest rate for fiscal year 2017 was 0.84%, which included 10 basis points for remarketing.

For the year ended June 30, 2017, the university incurred total interest costs related to long-term debt of $3,724 of which $21 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, 2017, the bank's prime rate was 4.25%. This line of credit, which may be renewed annually, has not been drawn on but is available for operating expenses or to provide liquidity for the Series 2001 bonds should the need arise. The current agreement matures February 28, 2018.

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	$ 15,840	5/25/06	4/1/08	3.875%	10/1/2030
The Bank of New York Mellon	$ 26,240	5/25/06	6/30/06	3.855%	10/1/2036
Societe Generale, New York Branch	$ 9,905	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 Statements of Financial Position as of June 30, 2017 and 2016, for "Interest rate swap agreements" of $10,066 and $14,168, 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, 2017 and 2016, were net unrealized gains (losses) of $4,102 and ($3,166), respectively, recognized within "Other adjustments and changes" in the Consolidated Statements 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, 2017	June 30, 2016
Temporarily restricted:		
Time restrictions:		
Unappropriated earnings from donor-restricted endowments	$ 94,510	$ 76,468
Term endowment	505	464
Total donor-restricted endowments	95,015	76,932
Unconditional promises to give	1,349	3,559
Split-interest agreements	1,531	1,263
Cash surrender value of life insurance policies	21	21
Total time restrictions	97,916	81,775
Purpose restrictions:		
Construction of campus facilities	4,554	16,871
Educational programs and activities	6,284	5,166
Total purpose restrictions	10,838	22,037
Total temporarily restricted	$ 108,754	$ 103,812
Permanently restricted:		
Endowment funds	$ 133,663	$ 131,786
Split-interest agreements	2,581	2,611
Loan funds	5	5
Total permanently restricted	$ 136,249	$ 134,402

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 $5,169 and $5,041 for the years ended June 30, 2017 and 2016, 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 Statements of Financial Position as of June 30, 2017 and 2016, and in "Other adjustments and changes" in the Consolidated Statements of Activities for the years then ended are as follows:

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2017	**2016**	**2017**	**2016**
Projected and accumulated post-retirement benefit obligations:				
Beginning of the year	$ 6,892	$ 6,655	$ 3,405	$ 3,073
Benefits paid	-	(939)	(154)	(143)
Amounts recognized in the Consolidated Statements of Activities:				
Components of net benefit expense recognized as operating expense:				
Service cost	467	383	171	145
Interest cost	229	272	115	126
Amortization of actuarial loss	219	197	85	78
Total net benefit expense	915	852	371	349
(Gain) loss recognized within other adjustments and changes	189	324	(179)	126
End of the year	$ 7,996	$ 6,892	$ 3,443	$ 3,405
Post-retirement benefit liability recognized within accrued payroll and other liabilities in the Consolidated Statements of Financial Position:				
Current portion	$ 429	$ 432	$ 206	$ 194
Noncurrent portion	7,567	6,460	3,237	3,211
Total	$ 7,996	$ 6,892	$ 3,443	$ 3,405
Plan funded status	$ (7,996)	$ (6,892)	$ (3,443)	$ (3,405)

The weighted-average assumptions used to determine plan benefit obligations as of June 30, 2017 and 2016, and the net benefit expense for the years then ended, included:

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2017	**2016**	**2017**	**2016**
Benefit obligation (post-retirement benefit liability):				
Discount rate	3.68%	3.42%	3.70%	3.46%
Rate of compensation increase	5.00%	5.00%	N/A	N/A
Net benefit expense:				
Discount rate	3.42%	4.20%	3.46%	4.21%
Rate of compensation increase	5.00 %	5.00%	N/A	N/A

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
2018	$ 429	$ 206
2019	$ 477	$ 211
2020	$ 436	$ 219
2021	$ 416	$ 219
2022	$ 356	$ 220
2023-2027	$ 2,534	$ 1,141

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 $225 for the faculty early retirement and career change plan and a net loss of $72 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, 2017, an outstanding commitment of $14,786 remains to be invested in these asset classes.

As of June 30, 2017, the university had outstanding commitments in the amount of $4,377 related to the construction, renovation and improvement of campus facilities.

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, 2017, 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 20, 2017, 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 2017

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