

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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Seattle, WA 98101

Independent Auditors' Report

The Board Trustees Seattle University:

We have audited the accompanying financial statements of Seattle University (the University), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Seattle University as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



November 8, 2013

Statements of Financial Position

June 30, 2013 and 2012 (in thousands)

Assets		2012	
Assets:			
Cash and cash equivalents	\$	45,312	44,913
Accounts receivable, net		8,154	6,060
Contributions receivable, net		3,515	5,310
Investments		196,930	176,240
Student loans receivable, net		7,626	7,710
Assets held under split-interest agreements		8,906	7,430
Property, plant and equipment, net		320,546	331,647
Other assets		13,710	12,051
Total assets	\$	604,699	591,361
Liabilities and Net Assets			
Liabilities:			
Accounts payable	\$	6,765	5,022
Accrued liabilities		19,478	19,463
Deferred revenue and student deposits		9,351	10,040
Liabilities under split-interest agreements		5,729	4,968
Bonds payable		136,514	140,468
Other liabilities		4,349	5,643
U.S. government loan funds		6,288	6,288
Total liabilities		188,474	191,892
Commitments and contingencies (notes 12 and 13)			
Net assets:			
Unrestricted		274,078	262,546
Temporarily restricted		44,079	42,083
Permanently restricted		98,068	94,840
Total net assets		416,225	399,469
Total liabilities and net assets	\$	604,699	591,361

Statement of Activities and Changes in Net Assets

Year ended June 30, 2013 (in thousands)

2013

			20.		
			Temporarily	Permanently	
		Unrestricted	restricted	restricted	Total
Davanuas sains and other activities	•				
Revenues, gains and other activities: Tuition and fees	\$	226.761			226.761
Student aid	Ф	226,761	_	_	226,761
Student aid		(61,315)			(61,315)
Net tuition and fees		165,446	_	_	165,446
Contributions		1,684	5,808	2,612	10,104
Contributions to split-interest					
agreements		_	12	643	655
Grants and contracts		5,779		_	5,779
Investment income		1,309	1,281	_	2,590
Net realized and unrealized gains					
on investments		16,340	6,429	69	22,838
Auxiliary enterprises		15,350	_	_	15,350
Other revenue		7,743		_	7,743
Change in value of split-interest					
agreements		96	80	(96)	80
Change in value of interest					
rate swap		1,294			1,294
Total revenues and					
gains		215,041	13,610	3,228	231,879
•			,	2,3	
Net assets released from restrictions		11,614	(11,614)		
Total revenues, gains					
and other activities		226,655	1,996	3,228	231,879
Expenses:	•	_			
Instruction		101,171			101,171
Academic support		15,143	_	_	15,143
Student services		43,375	_	_	43,375
Institutional support		43,296	_	_	43,296
Auxiliary enterprises		12,138	_	_	12,138
• •		-			
Total expenses	•	215,123			215,123
Increase in net assets		11,532	1,996	3,228	16,756
Net assets at beginning of year		262,546	42,083	94,840	399,469
Net assets at end of year	\$	274,078	44,079	98,068	416,225

Statement of Activities and Changes in Net Assets

Year ended June 30, 2012 (in thousands)

2012

Revenues, gains and other activities: Temporarily restricted Permanently restricted Total Revenues, gains and other activities: \$ 220,498 — — 220,498 Student aid (59,046) — — (59,046) Net tuition and fees 161,452 — — 161,452 Contributions 337 10,221 2,506 13,064 Contributions to split-interest agreements 933 — 134 1,067 Grants and contracts 4,335 — — 4,335 Investment income 782 952 2 1,736 Net realized and unrealized losses on investments (1,391) — (38) (1,429) Auxiliary enterprises 15,363 — — 5,275 Change in value of split-interest agreements (98) (17) (158) (273) Change in value of split-interest agreements 18,416 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — <t< th=""><th></th><th></th><th></th><th>20</th><th>12</th><th></th></t<>				20	12	
Revenues, gains and other activities: Tuition and fees \$ 220,498 —				Temporarily	Permanently	
Tuition and fees \$ 220,498 — — 220,498 Student aid (59,046) — — (59,046) Net tuition and fees 161,452 — — 161,452 Contributions 337 10,221 2,506 13,064 Contributions to split-interest 337 10,221 2,506 13,064 Contributions to split-interest agreements 933 — 134 1,067 Grants and contracts 4,335 — — 4,335 Investment income 782 952 2 1,736 Net realized and unrealized losses on investments (1,391) — (38) (1,29) Net realized and unrealized losses on investments (1,391) — (38) (1,29) Net interprises 15,363 — — 15,363 Other revenue 5,275 — — 5,275 Change in value of interest rate swap (1,849) — — (1,849) Total revenues and gains 18,115			Unrestricted	restricted	restricted	Total
Tuition and fees \$ 220,498 — — 220,498 Student aid (59,046) — — (59,046) Net tuition and fees 161,452 — — 161,452 Contributions 337 10,221 2,506 13,064 Contributions to split-interest 337 10,221 2,506 13,064 Contributions to split-interest agreements 933 — 134 1,067 Grants and contracts 4,335 — — 4,335 Investment income 782 952 2 1,736 Net realized and unrealized losses on investments (1,391) — (38) (1,29) Net realized and unrealized losses on investments (1,391) — (38) (1,29) Net interprises 15,363 — — 15,363 Other revenue 5,275 — — 5,275 Change in value of interest rate swap (1,849) — — (1,849) Total revenues and gains 18,115	Revenues gains and other activities:	-	_			
Student aid (59,046) — — (59,046) Net tuition and fees 161,452 — — 161,452 Contributions 337 10,221 2,506 13,064 Contributions to split-interest agreements agreements 933 — 134 1,067 Grants and contracts 4,335 — — 4,335 Investment income 782 952 2 1,736 Net realized and unrealized losses on investments (1,391) — (38) (1,429) Auxiliary enterprises 15,363 — — 5,275 Change in value of split-interest agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — — (1,849) Total revenues and gains and other setrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 —		\$	220.498	_	_	220.498
Net tuition and fees		Ψ				
Contributions 337 10,221 2,506 13,064 Contributions to split-interest agreements 933 — 134 1,067 Grants and contracts 4,335 — — 4,335 Investment income 782 952 2 1,736 Net realized and unrealized losses on investments (1,391) — (38) (1,429) Auxiliary enterprises 15,363 — — 5,275 Change in value of split-interest agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 97,388						
Contributions to split-interest agreements 933 — 134 1,067 Grants and contracts 4,335 — — 4,335 Investment income 782 952 2 1,736 Net realized and unrealized losses on investments (1,391) — (38) (1,429) Auxiliary enterprises 15,363 — — 15,363 Other revenue 5,275 — — 5,275 Change in value of split-interest agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — </td <td>Net tuition and fees</td> <td></td> <td>161,452</td> <td>_</td> <td>_</td> <td>161,452</td>	Net tuition and fees		161,452	_	_	161,452
agreements 933 — 134 1,067 Grants and contracts 4,335 — — 4,335 Investment income 782 952 2 1,736 Net realized and unrealized losses on investments (1,391) — (38) (1,429) Auxiliary enterprises 15,363 — — 15,363 Other revenue 5,275 — — 5,275 Change in value of split-interest agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — <td>Contributions</td> <td></td> <td>337</td> <td>10,221</td> <td>2,506</td> <td>13,064</td>	Contributions		337	10,221	2,506	13,064
Grants and contracts 4,335 — — 4,335 Investment income 782 952 2 1,736 Net realized and unrealized losses on investments (1,391) — (38) (1,429) Auxiliary enterprises 15,363 — — 15,363 Other revenue 5,275 — — 5,275 Change in value of split-interest agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 </td <td>Contributions to split-interest</td> <td></td> <td></td> <td></td> <td></td> <td></td>	Contributions to split-interest					
Investment income 782 952 2 1,736 Net realized and unrealized losses on investments (1,391) — (38) (1,429) Auxiliary enterprises 15,363 — (37) Change in value of split-interest agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — (3,446) Expenses:				_	134	1,067
Net realized and unrealized losses on investments (1,391) — (38) (1,429) Auxiliary enterprises 15,363 — — 15,363 Other revenue 5,275 — — 5,275 Change in value of split-interest agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 12,612 Total expenses 195,704 —				_	_	4,335
on investments (1,391) — (38) (1,429) Auxiliary enterprises 15,363 — — 15,363 Other revenue 5,275 — — 5,275 Change in value of split-interest agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 12,612 Total expenses 195,704 — — 195,704 Increase			782	952	2	1,736
Auxiliary enterprises 15,363 — — 15,363 Other revenue 5,275 — — 5,275 Change in value of split-interest agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432 <td>Net realized and unrealized losses</td> <td></td> <td></td> <td></td> <td></td> <td></td>	Net realized and unrealized losses					
Other revenue 5,275 — — 5,275 Change in value of split-interest agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343	on investments		(1,391)	_	(38)	(1,429)
Change in value of split-interest agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 <t< td=""><td>Auxiliary enterprises</td><td></td><td>15,363</td><td>_</td><td>_</td><td>15,363</td></t<>	Auxiliary enterprises		15,363	_	_	15,363
agreements (98) (17) (158) (273) Change in value of interest rate swap (1,849) — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	Other revenue		5,275	_	_	5,275
Change in value of interest rate swap (1,849) — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 97,388 Academic support 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	Change in value of split-interest					
rate swap (1,849) — — — (1,849) Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	agreements		(98)	(17)	(158)	(273)
Total revenues and gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses:	Change in value of interest					
gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	rate swap		(1,849)			(1,849)
gains 185,139 11,156 2,446 198,741 Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	Total revenues and					
Net assets released from restrictions 18,416 (18,416) — — Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432			185,139	11,156	2,446	198,741
Total revenues, gains and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	· ·					
and other activities 203,555 (7,260) 2,446 198,741 Expenses: Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432			18,416	(18,416)		
Expenses: Instruction 97,388 — 97,388 Academic support 13,908 — 13,908 Student services 34,755 — 34,755 Institutional support 37,041 — 37,041 Auxiliary enterprises 12,612 — 12,612 Total expenses 195,704 — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432						
Instruction 97,388 — — 97,388 Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	and other activities		203,555	(7,260)	2,446	198,741
Academic support 13,908 — — 13,908 Student services 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	Expenses:					
Student services 34,755 — — 34,755 Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	Instruction		97,388	_	_	97,388
Institutional support 37,041 — — 37,041 Auxiliary enterprises 12,612 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	Academic support		13,908	_	_	13,908
Auxiliary enterprises 12,612 — — 12,612 Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	Student services		34,755	_	_	34,755
Total expenses 195,704 — — 195,704 Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	Institutional support		37,041	_	_	37,041
Increase (decrease) in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	Auxiliary enterprises		12,612			12,612
in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	Total expenses		195,704			195,704
in net assets 7,851 (7,260) 2,446 3,037 Net assets at beginning of year 254,695 49,343 92,394 396,432	Increase (decrease)					
			7,851	(7,260)	2,446	3,037
Net assets at end of year \$ 262,546 42,083 94,840 399,469	Net assets at beginning of year		254,695	49,343	92,394	396,432
	Net assets at end of year	\$	262,546	42,083	94,840	399,469

Statements of Cash Flows

Years ended June 30, 2013 and 2012 (in thousands)

		2013	2012
Cash flows from operating activities:			
Increase in net assets	\$	16,756	3,037
Adjustments to reconcile increase in net assets to net cash			
provided by operating activities:			
Depreciation and amortization		21,071	13,449
Unrealized (gain) loss on interest rate swaps related to bonds		(1,294)	1,849
Change in value of split-interest agreements		(80)	273
Contributions restricted for long-term investments Net (appreciation) depreciation in fair value of investments		(2,546) (23,644)	(951) 1,184
Changes in assets and liabilities:		(23,044)	1,104
Accounts receivable, net		(2,094)	(126)
Contributions receivable, net		1,797	1,623
Other assets and liabilities, net		(2,915)	(2,451)
Accounts payable		1,743	(883)
Accrued liabilities		15	(1,563)
Net cash provided by operating activities		8,809	15,441
Cash flows from investing activities:			
Proceeds from sales of investments		33,086	37,344
Purchases of investments		(28,375)	(34,919)
Loans issued to students		(1,164)	(1,193)
Collections on loans to students		1,248	1,185
Acquisition of property, plant and equipment		(11,901)	(12,774)
Net cash used in investing activities	_	(7,106)	(10,357)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt, net of discount			15,739
Principal payments on long-term debt		(3,850)	(18,600)
Contributions restricted for long-term investment		2,546	951
Net cash used in financing activities	_	(1,304)	(1,910)
Net increase in cash		399	3,174
Cash and cash equivalents at beginning of year		44,913	41,739
Cash and cash equivalents at end of year	\$	45,312	44,913
Supplemental disclosure of cash flow information: Cash paid for interest	\$	6,492	6,656

Notes to Financial Statements June 30, 2013 and 2012

(1) Organization

Seattle University (the University) is an independent, coeducational institution of higher learning offering undergraduate and graduate degrees in a full range of studies with nearly 7,500 students enrolled. The University, founded in 1891, is a Jesuit Catholic University located on 50 acres on Seattle's First Hill. The University is dedicated to educating the whole person, to professional formation, and to empowering leaders for a just and humane world.

(2) Summary of Significant Accounting Policies

(a) Financial Statement Presentation

The University's financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). The primary source of revenue comes from tuition and fees; however, other sources of revenue include room and board, contributions, investment earnings, and auxiliary revenue.

(b) Estimates

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

(c) Cash and Cash Equivalents

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

(d) Accounts Receivable

Accounts receivable from students are reported net of an allowance for doubtful accounts. The allowance is an estimate by management based upon an analysis of delinquent amounts and the respective student's ability and intent to repay. Accounts are considered delinquent when they are greater than 90 days outstanding. These estimated uncollectible amounts can be affected by changes in the student's economic circumstances. As a result, it is reasonably possible that the allowance for doubtful accounts could change in the near term. The allowance for doubtful accounts was \$551,000 and \$584,000 as of June 30, 2013 and 2012, respectively.

(e) Investments

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

Notes to Financial Statements June 30, 2013 and 2012

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

Investments are stated at fair value in the financial statements (see footnote 4). Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the University's financial statements. The University's alternative investments are less liquid than the rest of its portfolio and, as a result, are exposed to an increased risk of loss.

Investment income, including dividends and interest, is recognized as income when earned and is classified in the statement of activities and changes in net assets based upon donor-imposed restrictions. Net realized and unrealized gains and losses are recognized in the statement of activities and changes in net assets. Investment management fees are accounted for in the statement of activities and changes in net assets under institutional support.

(f) Endowment

The endowment consists of contributions, split-interest agreements, and assets that are separately invested to provide income to support education and related activities, either as a result of donor-imposed restrictions or as a result of designations by the Board of Trustees. Endowment contributions are generally invested on a pooled basis and managed so as to achieve maximum long-term total return. The University's spending policy allocates the amount of the total return that can be spent versus reinvested for future earnings. The University utilizes a total return approach to determine the amount of endowment income that is available for institutional purposes. Under the total return approach, the University calculates endowment income to use for institutional purposes as 4.50% of the last 12 quarters' average fair value of the endowment investment pool. This approach emphasizes total investment return, which includes dividends, interest, and capital gains and losses.

(g) Student Loans Receivable

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

Student loans receivable are stated net of an allowance for doubtful loans. The allowance is an estimate by management based upon an analysis of delinquent amounts and the respective student's

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Notes to Financial Statements June 30, 2013 and 2012

ability and intent to repay. Loans are considered delinquent when they are greater than 90 days outstanding. The allowance is intended to provide for the principal portions of loans that are not likely to be collected from borrowers in repayment status as well as from borrowers who are not yet in repayment status (still enrolled at the University or in the grace period following graduation). These estimated uncollectible amounts can be affected by changes in the borrower's economic circumstances. As a result, it is reasonably possible that the allowance for doubtful loans could change in the near term. The allowance for doubtful loans was \$386,000 and \$359,000 as of June 30, 2013 and 2012, respectively.

(h) Split-Interest Agreements

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

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

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

Assets are recorded at fair value on the date received. The present value of payments to beneficiaries of charitable gift annuities and charitable remainder trusts and the estimated future receipts from pooled income funds are calculated using the rates commensurate with the risks involved. The University uses the actuarial method of recording charitable gift annuities and charitable remainder trusts. Under this method, when a gift is received, the present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as a contribution in the appropriate net asset category. The liability account is credited with investment income and gains and is charged with investment losses and payments to beneficiaries. Periodic adjustments are made between the liability account and the net asset account for actuarial gains and losses. The actuarial liability is based on the present value of future payments discounted at rates ranging from 1.00% to 11.00% established at the date of agreement and over estimated lives according to the 2000 Group Annuity Mortality Tables.

Legally mandated Washington state annuity reserves totaled \$2,925,000 and \$2,305,000 at June 30, 2013 and 2012, respectively, and are included within the assets held under split-interest agreements on the statement of financial position.

Notes to Financial Statements June 30, 2013 and 2012

(i) Property, Plant and Equipment

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

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

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

Property, plant and equipment is reviewed for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized if the carrying value is not recoverable and exceeds the assets' fair value.

(j) Other Assets

Other assets comprise the following as of June 30, 2013 and 2012:

	2013	2012	
	 (In thousands)		
Goodwill, net	\$ 4,941	4,941	
Prepaid expenses	4,139	2,773	
Funds held in trust by others	1,781	1,711	
Other assets	1,654	1,807	
Inventories	 1,195	819	
Total other assets	\$ 13,710	12,051	

The University has recorded goodwill on the statement of financial position in relation to the purchase of the School of Law in 1994. Goodwill in the amount of \$8,188,000 was recorded upon acquisition and is tested for impairment on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment losses are recognized if the carrying amount of goodwill exceeds the implied fair value of the goodwill.

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

Notes to Financial Statements June 30, 2013 and 2012

(k) Net Asset Categories

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

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

(l) Revenue Recognition

Tuition, room, and board and student fee revenues are recognized in the period in which the services are provided. Grant revenue is recognized either when the services are provided or when the funds are expended.

(m) Contributions

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

Unconditional promises to give with payments due in future periods are reported as temporarily restricted net assets unless donor circumstances make it clear that the donor intended it to be used to support activities of the current period. Contributions of land, buildings, and equipment are reported

Notes to Financial Statements June 30, 2013 and 2012

as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted net assets. Absent explicit donor stipulations, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The University holds various collections that are made up of artifacts of historical significance and art objects that are held for educational, research, scientific, and curatorial purposes. Each item is cataloged, preserved, and maintained to ensure their original condition is maintained. Collections, which have been acquired through purchases and contributions to the University, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset class. No collection items were deaccessioned in the years ended June 30, 2013 or 2012.

Fundraising expenses of \$3,560,000 and \$3,782,000 are included in institutional support in the statements of activities and changes in net assets for the years ended June 30, 2013 and 2012, respectively.

(n) Functional Expense Classification

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

Notes to Financial Statements June 30, 2013 and 2012

(o) Immaterial Correction of an Error

During the year ended June 30, 2013, the University identified an error in the classification of temporarily and permanently restricted net assets related to historical estate gifts received prior to 2011. The following adjustments have been made to properly present net assets as of July 1, 2011:

	_	Unrestricted	Temporarily restricted (In thou	Permanently restricted usands)	Total
Net assets, as of July 1, 2011, as previously reported Adjustments to net assets	\$	238,503 16,192	58,299 (8,956)	99,630 (7,236)	396,432
Net assets, as of July 1, 2011, as adjusted	\$_	254,695	49,343	92,394	396,432

(p) Recently Issued Accounting Standards

In October 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2012-05, Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows, which requires not-for-profit entities to consistently classify in the cash flow statement, cash donations with cash receipts from the sale of donated assets, if those assets were received without any limitations on sale and were nearly immediately converted to cash. The University is evaluating the impact of the adoption of this standard on its future financial statements.

In April 2013, the FASB issued ASU No. 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*, which requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. The University is evaluating the impact of the adoption of this standard on its future financial statements.

Notes to Financial Statements June 30, 2013 and 2012

(3) Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Fair value of contributions receivable is based on the discounted value of estimated future cash flows. The discount rate is estimated based upon rates that take into consideration the associated risk. The discount rates used as of June 30, 2013 and 2012 range from 0.67% to 5.70% and 0.71% to 5.70%, respectively, and are expected to be realized in the following periods:

		2013	2012
	_	(In thousa	nds)
In one year or less	\$	2,184	3,009
Between one year and five years		1,346	2,524
More than five years	_	78	211
Total contributions receivable		3,608	5,744
Less discount		(63)	(122)
Less allowance for uncollectible contributions	_	(30)	(312)
Total contributions receivable, net	\$_	3,515	5,310

Contributions receivable at June 30, 2013 and 2012 are intended for the following uses:

	 2013	2012	
	 (In thousands)		
Educational activities	\$ 2,067	3,115	
Endowment	595	788	
Facilities and equipment	907	1,805	
General support	 39	36	
Total contributions receivable	\$ 3,608	5,744	

The University has received conditional promises to give that are not recognized as assets in the statements of financial position. As of both June 30, 2013 and 2012, these conditional promises to give upon sale of donor property were \$500,000.

Notes to Financial Statements June 30, 2013 and 2012

(4) Investments and Fair Value Hierarchy

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

- Level 1: Observable inputs such as quoted prices in active markets that the University has the ability to access at the measurement date.
- Level 2: Inputs, other than quoted prices in active markets, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Unobservable inputs where there is little or no market data for the asset or liability, requiring the University to develop its own assumptions.

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

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

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

The carrying amounts reported in the balance sheets for cash and cash equivalents; accounts receivable, net; contributions receivable, net; accounts payable; and accrued liabilities approximate fair value.

Notes to Financial Statements June 30, 2013 and 2012

The following tables present the University's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2013 and 2012. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments. Investments held and valued using the NAV per share (or its equivalent) as a practical expedient for fair value are presented by major category.

	June 30, 2013				Redemption	
	Level 1	Level 2	Level 3	Total	frequency	Days' notice
		(In thous	sands)			
Investments:						
Internally pooled investments:						
Cash for investment purposes \$	9,405	_	_	9,405	Daily	1
Mutual funds:	7,403			2,403	Duny	1
Fixed income	12,091	_	_	12,091	Daily	1
U.S. equity	9,563	_	_	9,563	Daily	1
Non-U.S. equity	5,319	_	_	5,319	Daily	1
Emerging markets equity	9,799	_	_	9,799	Daily	1
Real assets	5,114	_	_	5,114	Daily	1
Collective investment funds:	0,11.			5,11.	Duny	•
Fixed income	_	11,774	_	11,774	Monthly	30
U.S. equity	_	18,404	_	18,404	Quarterly	60
Non-U.S. equity	_	15,319	_	15,319	Monthly	6
Emerging markets equity		2,250	_	2,250	Monthly	30
Real assets	_	12,233	141	12,374	Monthly – illiquid	9 – NA
Hedge funds:		12,233	111	12,571	montiny miquia	7 1111
Long/short	_	9,068	7,860	16,928	Monthly – illiquid	45 – NA
Absolute return	_	6,712	9,297	16,009	Quarterly – illiquid	45 – NA
Private equity partnerships:		0,712	7,277	10,000	Quarterly imquia	13 1111
Venture capital	_	_	14,651	14,651	Illiquid	NA
Distressed	_	_	17,279	17,279	Illiquid	NA
Real assets	_	_	1,299	1,299	Illiquid	NA
Buyout	_	_	6,768	6,768	Illiquid	NA
Other	_	_	500	500	Illiquid	NA
Guici			300	300	iniquia	1421
Total internally						
pooled investments	51,291	75,760	57,795	184,846		
•						
Separately invested:						
Real property	_	_	11,705	11,705		
Other	379			379		
T-4-1						
Total separately invested	270		11.705	12.004		
invested	379		11,705	12,084		
Total investments	51,670	75,760	69,500	196,930		
Funds held in trust by others	_	_	1,781	1,781		
Assets held under split-interest agreements:		8,906		8,906		
agreements.		0,500		0,700		
Total assets \$	51,670	84,666	71,281	207,617		

Notes to Financial Statements

June 30, 2013 and 2012

	June 30, 2012				Redemption	
_	Level 1	Level 2	Level 3	Total	frequency	Days' notice
_		(In thous	ands)			
T						
Investments:						
Internally pooled investments:	<i>5</i> 777			5 777	D-!1	1
Cash for investment purposes \$	5,777	_	_	5,777	Daily	1
Mutual funds:	14.011			14.011	D. '1	1
Fixed income	14,911	_	_	14,911	Daily	1
U.S. equity	10,771	_	_	10,771	Daily	1
Non-U.S. equity	4,716	_	_	4,716	Daily	1
Emerging markets equity	8,234	_	_	8,234	Daily	1
Real assets	4,614	_	_	4,614	Daily	1
Collective investment funds:						
Fixed income	_	8,211	_	8,211	Monthly	30
U.S. equity	_	14,586	_	14,586	Quarterly	60
Non-U.S. equity	_	11,141	_	11,141	Monthly	6
Real assets	_	12,805	1,837	14,642	Monthly – illiquid	9 – NA
Hedge funds:						
Long/short	_	_	10,418	10,418	Quarterly – illiquid	60 - NA
Absolute return	_	3,514	8,497	12,011	Quarterly – illiquid	65 – NA
Funds of funds	_	5,883	_	5,883	Quarterly – illiquid	60 - NA
Private equity partnerships:						
Venture capital	_	_	21,338	21,338	Illiquid	NA
Distressed	_	_	19,022	19,022	Illiquid	NA
Real assets	_	_	1,268	1,268	•	
Buyout	_	_	7,465	7,465	Illiquid	NA
Other	_	_	500	500	Illiquid	NA
			,		•	
Total internally						
pooled investments	49,023	56,140	70,345	175,508		
_						
Separately invested:						
Real property	_	_	305	305		
Other	327		100	427		
Total separately						
invested	327		405	732		
Invested	321		403	132		
Total investments	49,350	56,140	70,750	176,240		
Funds held in trust by others	_	_	1,711	1,711		
Assets held under split-interest agreements:		7,430	<u> </u>	7,430		
Total assets \$_	49,350	63,570	72,461	185,381		

Notes to Financial Statements June 30, 2013 and 2012

The following tables present additional information for all Level 3 assets measured at fair value on a recurring basis for the fiscal year ended June 30, 2013 and 2012:

	Level 3							
	Beginning balance at June 30, 2012		Purchases	Redemptions (In the	Net realized and unrealized gains and (losses) ousands)	Transfers into (out of) Level 3	Ending balance at June 30, 2013	
Internally pooled investments:								
Real assets	\$	3,105	38	(2,169)	466	_	1,440	
Hedge funds:								
Long/short		10,418	5,100	_	1,281	(8,939)	7,860	
Absolute return		8,497	2,500	_	1,138	(2,838)	9,297	
Private equity partnerships:								
Venture capital		21,338	847	(4,906)	(2,628)	_	14,651	
Distressed		19,022	533	(4,642)	2,366	_	17,279	
Buyout		7,465	95	(1,475)	683	_	6,768	
Other		500	_	(20)	20	_	500	
Separately invested:								
Real property		305	_	_	_	11,400	11,705	
Other		100	_	(100)	_	_	_	
Funds held in trust by others		1,711			70		1,781	
	\$	72,461	9,113	(13,312)	3,396	(377)	71,281	

Unrealized gains (losses) included in the statement of activities and changes in net assets for Level 3 investments held at the reporting date \$\$ (2,380)

				Le	vel 3		
	1	Beginning balance at ine 30, 2011	Purchases	Redemptions (In the	Net realized and unrealized gains and (losses) busands)	Transfers into (out of) Level 3	Ending balance at June 30, 2012
Internally pooled investments:							
Real assets	\$	1,894	141	(211)	1,281	_	3,105
Hedge funds:							
Long/short		_	10,400	_	18	_	10,418
Absolute return		_	8,500	_	(3)	_	8,497
Fund of funds		30,625	_	(24,343)	(399)	(5,883)	_
Private equity partnerships:							
Venture capital		21,162	780	(2,504)	1,900	_	21,338
Distressed		21,162	1,327	(3,943)	476	_	19,022
Buyout		8,578	493	(1,704)	98	_	7,465
Other		639	_	(139)	_	_	500
Separately invested:							
Real property		_	_	_	_	305	305
Other		100	_	_	_	_	100
Funds held in trust by others	_	1,749			(38)		1,711
	\$	85,909	21,641	(32,844)	3,333	(5,578)	72,461

Unrealized gains (losses) included in the statement of activities and changes in net assets for Level 3 investments held at the reporting date \$\\$1,992\$

Notes to Financial Statements June 30, 2013 and 2012

Transfers between Level 3 and Level 2 investments are the result of the expiration of lockup restrictions during the fiscal year as well as a reclassification of real property.

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

- *Fixed income* This category invests primarily in high-yield, senior secured domestic bank loans with a current income objective, as well as bonds issued primarily from governments in emerging markets countries and U.S. Treasury Bills with a total return objective.
- Equities This category invests primarily in publicly traded equities providing unique geographic exposure: United States, non-U.S. developed markets, and emerging markets.
- Real Assets This category invests primarily in publicly traded equity securities of companies in the energy, metals, and mining sectors, as well as commodity-related derivatives contracts, treasury inflation protection securities (TIPS), and money-market instruments. Additionally, this category invests in private equity transactions within the oil, gas and energy sectors. The unfunded commitments as of June 30, 2013 and 2012 were \$40,000 and \$77,000, respectively.
- Long/short hedge fund This category invests primarily in long and short marketable equity-oriented positions, and generally includes domestic, global, and opportunistic themes. These funds have the flexibility to invest in a wide array of other types of securities as deemed appropriate by the fund managers to carry out the funds' objectives.
- Absolute return hedge fund This category invests in long and short credit and equity-oriented positions, generally including event-driven strategies such as merger arbitrage, distressed debt and special situations investing. Funds within this category generally have the flexibility to invest in a wide array of security types as deemed appropriate by the fund managers to carry out the funds' objectives.
- Private equity partnerships This category includes direct-investment funds and fund-of-funds structured as commitment-based limited partnerships, where the limited partner commits to invest a maximum dollar amount, which is drawn-down over the term of the partnership, as individual investment opportunities are identified by the fund manager. Limited partnership interests in such funds generally cannot be redeemed, and distributions are received from fund managers typically upon liquidation of underlying assets within the funds portfolios. The venture capital subcategory includes direct-investment funds and fund-of-funds that invest primarily in earlier stage financing of domestic private companies, typically in the information technology and healthcare sectors. The distressed subcategory consists of fund-of-funds that invest in various types of distressed securities across a wide range of industries, both domestic and foreign, often with the goal of achieving turnarounds by influence or control positions over investee companies. The buyout subcategory includes fund-of-funds, which primarily invest in small/middle market and large leveraged buyout funds, both domestic and internationally, with a mixture of other strategies including venture capital and growth equity. The unfunded commitments as of June 30, 2013 and 2012 were \$6,233,000 and \$7,487,000, respectively.
- Real Property This category includes investments in real estate property. The following table represents the University's Level 3 financial instruments (other than those valued at NAV), the

Notes to Financial Statements June 30, 2013 and 2012

valuation techniques used to measure the fair value of those financial instruments as of June 30, 2013, and the significant unobservable inputs of the ranges of values for those inputs:

Instrument	 Fair value	Principal valuation technique	Significant unobservable inputs (In thousands)	Range of significant input values	Weighted average
Real property	\$ 11,705	Market comparables Income	Price/square foot	\$ 211 – 325 \$	251
		capitalization	Discount rate	5.75 - 8.50%	6.55%

Net realized and unrealized gains (losses) on investments comprise the following for the years ended June 30, 2013 and 2012:

	2013	2012	
	 (In thousands)		
Realized gains, net Change in unrealized gains (losses), net	\$ 8,832 14,006	6,456 (7,885)	
Total net realized and unrealized gains (losses) on investments	\$ 22,838	(1,429)	

(5) Endowment

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

As of June 30, 2013, 31 individual donor-restricted endowment funds, out of a total of 282, had fair values that were \$919,000 less than their permanently restricted value. As of June 30, 2012, 48 individual donor-restricted funds, out of a total of 269, had fair values that were \$1,729,000 less than their permanently restricted value.

Notes to Financial Statements June 30, 2013 and 2012

The following represents endowment net assets composition by type of fund as of June 30, 2013:

	-	Unrestricted	Temporarily restricted (In thou	Permanently restricted usands)	Total
Donor-restricted endowment funds Board-designated endowment	\$	(919)	30,934	98,068	128,083
funds	_	56,648			56,648
Total funds	\$_	55,729	30,934	98,068	184,731

The following represents changes in endowment net assets for the year ended June 30, 2013:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
	-	Cincstricted	(In thou		Total
				,	
Endowment net assets at July 1, 2012	\$	52,573	26,737	94,840	174,150
Investment return: Investment income Net realized and unrealized		973	1,281	_	2,254
gains (losses), net of fees		4,977	6,509	(27)	11,459
Total investment return		5,950	7,790	(27)	13,713
Appropriation of endowment assets for expenditure Contributions Other changes:		(2,990) 58	(3,963) 12	3,255	(6,953) 3,325
Transfers to add or remove: Board designated endowment funds		138	358	_	496
Endowment net assets at June 30, 2013	\$	55,729	30,934	98,068	184,731

Notes to Financial Statements June 30, 2013 and 2012

The following represents endowment net assets composition by type of fund as of June 30, 2012:

	-	Unrestricted	Temporarily restricted (In thou	Permanently restricted usands)	Total
Donor-restricted endowment funds Board-designated endowment funds	\$	(1,729) 54,302	26,737 —	94,840	119,848 54,302
Total funds	\$	52,573	26,737	94,840	174,150

The following represents changes in endowment net assets for the year ended June 30, 2012:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
	•		(In thou	isands)	
Endowment net assets at July 1, 2011	\$	54,223	32,142	92,394	178,759
Investment return: Investment income Net realized and unrealized		718	952	2	1,672
losses, net of fees		(975)	(2,488)	(196)	(3,659)
Total investment return		(257)	(1,536)	(194)	(1,987)
Appropriation of endowment assets for expenditure Contributions Other changes:		(2,919) 1,240	(3,869)	2,640	(6,788) 3,880
Transfers to add or remove: Board designated endowment funds		286			286
Endowment net assets at June 30, 2012	\$	52,573	26,737	94,840	174,150

Notes to Financial Statements June 30, 2013 and 2012

(6) Property, Plant and Equipment

Property, plant and equipment is comprised of the following at June 30, 2013 and 2012:

	 2013	2012	
	(In thousands)		
Land and improvements	\$ 50,530	44,691	
Buildings and improvements	348,014	349,633	
Equipment	23,489	21,384	
Construction in progress	1,970	2,179	
Library books	 34,065	31,198	
	458,068	449,085	
Less accumulated depreciation and amortization	 (137,522)	(117,438)	
Property, plant and equipment, net	\$ 320,546	331,647	

Depreciation expense for the years ended June 30, 2013 and 2012 totaled \$21,175,000 and \$13,449,000, respectively. In 2013, the University changed the policy for depreciation of land improvements, which resulted in additional depreciation expenses of \$7,004,000. There were no interest costs capitalized for the years ended June 30, 2013 and 2012.

During 2013, the University reclassified real property with a cost basis of \$2,918,000 and accumulated depreciation of \$1,091,000 from property, plant, and equipment to an investment property. Upon reclassification, a \$9,573,000 unrealized gain was recognized in order to state the investment property at fair value of \$11,400,000. This asset is recorded in the investments line on the statement of financial position and the corresponding unrealized gain on reclassification is included in net realized and unrealized gains on investments in the statement of activities and changes in net assets.

Notes to Financial Statements June 30, 2013 and 2012

(7) Bonds Payable

Bonds payable comprise the following at June 30, 2013 and 2012:

Bonds payable to the Washington Higher Education Facilities Authority (WHEFA) (interest due semi-annually on November 1, and May 1): Series 2003, interest at fixed rates ranging from 2.00% to 4.00% per annum, principal of \$1,030 due in November 2013 Series 2005, interest at fixed rates ranging from 3.00% to 4.50% per annum, principal due annually in increasing amounts from \$690 in November 2013 to \$1,470 in November 2031 Series 2007, interest at fixed rates ranging from 4.50% to 5.25% per annum, principal due annually in increasing amounts from \$700 in November 2013 to \$2,590 in November 2037 Series 2008A, weekly variable interest rate. Weekly variable rate (set by the remarketing agent) in effect on June 30, 2013 was 0.06%, principal due annually in increasing amounts from \$1,115 in May 2014 to \$1,825 in May 2028 Series 2009, interest at a fixed rate of 5.25% per annum, principal due annually in increasing amounts from amounts from \$1,975 in May 2029 to \$6,410 in May 2039 Series 2011, interest at fixed rates ranging from 3.00% to 5.00% per annum, principal due annually in increasing amounts from \$465 in May 2014 to \$1,125 in May 2032 14,175 135,315 139,165 Plus bond premiums/discounts, net (In thousands) (In thousands) Authority (WHEFA) (interest at fixed rates ranging from 2.00% to 4.00% to 5.00% to 5.00% to 5.00% to 5.00% per annum, principal due annually in increasing amounts from 37,400 38,075 21,585 22,660 21,585 22,660 21,585 22,660 21,585 22,660 21,585 21,585 22,660 21,585 21,585 22,660 21,585 21,585 22,660 21,585 21,585 22,660 21,585 21,585 22,660		2013	2012
Authority (WHEFA) (interest due semi-annually on November 1, and May 1): Series 2003, interest at fixed rates ranging from 2.00% to 4.00% per annum, principal of \$1,030 due in November 2013 Series 2005, interest at fixed rates ranging from 3.00% to 4.50% per annum, principal due annually in increasing amounts from \$690 in November 2013 to \$1,470 in November 2031 Series 2007, interest at fixed rates ranging from 4.50% to 5.25% per annum, principal due annually in increasing amounts from \$700 in November 2013 to \$2,590 in November 2037 Series 2008A, weekly variable interest rate. Weekly variable rate (set by the remarketing agent) in effect on June 30, 2013 was 0.06%, principal due annually in increasing amounts from \$1,115 in May 2014 to \$1,825 in May 2028 Series 2009, interest at a fixed rate of 5.25% per annum, principal due annually in increasing amounts from amounts from \$1,975 in May 2029 to \$6,410 in May 2039 Series 2011, interest at fixed rates ranging from 3.00% to 5.00% per annum, principal due annually in increasing amounts from \$465 in May 2014 to \$1,125 in May 2032 Plus bond premiums/discounts, net 1,199 1,303		 (In thou	sands)
4.00% per annum, principal of \$1,030 due in November 2013 Series 2005, interest at fixed rates ranging from 3.00% to 4.50% per annum, principal due annually in increasing amounts from \$690 in November 2013 to \$1,470 in November 2031 Series 2007, interest at fixed rates ranging from 4.50% to 5.25% per annum, principal due annually in increasing amounts from \$700 in November 2013 to \$2,590 in November 2037 Series 2008A, weekly variable interest rate. Weekly variable rate (set by the remarketing agent) in effect on June 30, 2013 was 0.06%, principal due annually in increasing amounts from \$1,115 in May 2014 to \$1,825 in May 2028 Series 2009, interest at a fixed rate of 5.25% per annum, principal due annually in increasing amounts from amounts from \$1,975 in May 2029 to \$6,410 in May 2039 Series 2011, interest at fixed rates ranging from 3.00% to 5.00% per annum, principal due annually in increasing amounts from \$465 in May 2014 to \$1,125 in May 2032 135,315 Plus bond premiums/discounts, net 1,199 1,303	Authority (WHEFA) (interest due semi-annually on November 1, and May 1):		
4.50% per annum, principal due annually in increasing amounts from \$690 in November 2013 to \$1,470 in November 2031 19,405 20,070 Series 2007, interest at fixed rates ranging from 4.50% to 5.25% per annum, principal due annually in increasing amounts from \$700 in November 2013 to \$2,590 in November 2037 37,400 38,075 Series 2008A, weekly variable interest rate. Weekly variable rate (set by the remarketing agent) in effect on June 30, 2013 was 0.06%, principal due annually in increasing amounts from \$1,115 in May 2014 to \$1,825 in May 2028 21,585 22,660 Series 2009, interest at a fixed rate of 5.25% per annum, principal due annually in increasing amounts from amounts from \$1,975 in May 2029 to \$6,410 in May 2039 41,775 Series 2011, interest at fixed rates ranging from 3.00% to 5.00% per annum, principal due annually in increasing amounts from \$465 in May 2014 to \$1,125 in May 2032 14,120 14,570 In May 2032 14,120 14,570 In May 2032 135,315 139,165 Plus bond premiums/discounts, net 1,199 1,303	4.00% per annum, principal of \$1,030 due in November 2013	\$ 1,030	2,015
5.25% per annum, principal due annually in increasing amounts from \$700 in November 2013 to \$2,590 in November 2037 Series 2008A, weekly variable interest rate. Weekly variable rate (set by the remarketing agent) in effect on June 30, 2013 was 0.06%, principal due annually in increasing amounts from \$1,115 in May 2014 to \$1,825 in May 2028 Series 2009, interest at a fixed rate of 5.25% per annum, principal due annually in increasing amounts from amounts from \$1,975 in May 2029 to \$6,410 in May 2039 Series 2011, interest at fixed rates ranging from 3.00% to 5.00% per annum, principal due annually in increasing amounts from \$465 in May 2014 to \$1,125 in May 2032 14,120 14,570 135,315 139,165 Plus bond premiums/discounts, net 1,199 1,303	4.50% per annum, principal due annually in increasing amounts from \$690 in November 2013 to	19,405	20,070
Series 2008A, weekly variable interest rate. Weekly variable rate (set by the remarketing agent) in effect on June 30, 2013 was 0.06%, principal due annually in increasing amounts from \$1,115 in May 2014 to \$1,825 in May 2028 21,585 22,660 Series 2009, interest at a fixed rate of 5.25% per annum, principal due annually in increasing amounts from amounts from \$1,975 in May 2029 to \$6,410 in May 2039 41,775 Series 2011, interest at fixed rates ranging from 3.00% to 5.00% per annum, principal due annually in increasing amounts from \$465 in May 2014 to \$1,125 in May 2032 14,120 14,570 Plus bond premiums/discounts, net 1,199 1,303	5.25% per annum, principal due annually in increasing amounts from \$700 in November 2013 to	37 400	38 075
Series 2009, interest at a fixed rate of 5.25% per annum, principal due annually in increasing amounts from amounts from \$1,975 in May 2029 to \$6,410 in May 2039 Series 2011, interest at fixed rates ranging from 3.00% to 5.00% per annum, principal due annually in increasing amounts from \$465 in May 2014 to \$1,125 in May 2032 14,120 14,570 135,315 139,165 Plus bond premiums/discounts, net 1,199 1,303	Series 2008A, weekly variable interest rate. Weekly variable rate (set by the remarketing agent) in effect on June 30, 2013 was 0.06%, principal due annually in increasing amounts from \$1,115 in May 2014 to	·	
Series 2011, interest at fixed rates ranging from 3.00% to 5.00% per annum, principal due annually in increasing amounts from \$465 in May 2014 to \$1,125 in May 2032 14,120 14,570 Plus bond premiums/discounts, net 1,199 1,303	Series 2009, interest at a fixed rate of 5.25% per annum, principal due annually in increasing amounts from amounts from \$1,975 in May 2029 to \$6,410	·	
May 2032 14,120 14,570 135,315 139,165 Plus bond premiums/discounts, net 1,199 1,303	Series 2011, interest at fixed rates ranging from 3.00% to 5.00% per annum, principal due annually in increasing	41,775	41,//5
Plus bond premiums/discounts, net	May 2032	 14,120	14,570
<u> </u>		135,315	139,165
\$ <u>136,514</u> <u>140,468</u>	Plus bond premiums/discounts, net	 1,199	1,303
		\$ 136,514	140,468

Notes to Financial Statements June 30, 2013 and 2012

Annual maturities of bonds payable are as follows at June 30, 2013(in thousands):

2014	\$	4,000
2015		3,080
2016		3,300
2017		3,420
2018		3,570
Thereafter	_	117,945
	\$	135,315

Bonds payable are recorded at amortized cost; however, accounting standards require the University to disclose the fair value. The fair value of the University's bonds payable is estimated based on Level 2 inputs, such as the future cash flows at the discounted current rates available to the University for outstanding debt. Any call provisions that apply are taken into account when valuing the debt. The fair value of the bonds payable was \$139,784,000 and \$151,593,000 at June 30, 2013 and 2012, respectively.

As a condition of issuance of the WHEFA bonds, the University has agreed to certain covenants for the protection of bond owners, including covenants to maintain debt service ratios as defined in the agreement.

The University is required to maintain an irrevocable letter of credit equal to the principal amount of the Series 2008A Washington Higher Education Facilities Authority Variable Rate Demand Refunding Revenue Bonds (the Bonds). The letter of credit is issued by U.S. Bank National Association (the Bank), pursuant to an irrevocable Letter of Credit Agreement (the Agreement), dated March 20, 2008, between the Bank and the University. The direct pay letter of credit is an irrevocable obligation that is scheduled to expire on March 20, 2015, unless extended. The University has the ability to extend this Agreement annually through May 1, 2028, the maturity date of the Bonds.

The Series 2008A bonds remarket every seven days. To the extent the Bonds do not remarket, a liquidity draw against the letter of credit may occur. Any draws under the letter of credit are subject to an accelerated repayment of the Bonds. Additionally, pursuant to the terms of the Reimbursement Agreement, if certain material adverse changes were to occur, such changes could result in the 2008A bonds becoming immediately due. There were no amounts outstanding on this letter of credit as of June 30, 2013.

The University has a line of credit with Union Bank in the amount of \$5,000,000, which bears interest at a rate per annum equal to the bank's reference rate. The line of credit is due and payable in full on March 1, 2015. There were no amounts outstanding on the line of credit as of June 30, 2013.

Total interest expense was \$6,464,000 and \$6,626,000 for the years ended June 30, 2013 and 2012, respectively.

(8) Accounting for Interest Rate Swap

Variable rate debt obligations inherently expose the University to variability in interest payments due to changes in interest rates. As such, the University believes it is prudent to limit the variability of debt service to the extent possible. To meet this intent, the University entered into an interest rate swap with the Bank of New York Mellon associated with the issuance of the Series 2008A variable rate demand notes.

Notes to Financial Statements June 30, 2013 and 2012

The notional amount of the swap at the time of issuance was \$26,595,000 and there was no cash exchanged at the time of the acquisition due to the relationship between the variable rates and the swap rate at that time.

Changes in the fair value of the interest rate swap are reported as unrealized gains or losses on interest rate swaps related to bonds on the statement of activities and changes in net assets. For the years ended June 30, 2013 and 2012, the valuation of the swap resulted in a net unrealized gain (loss) of \$1,294,000 and \$(1,849,000), respectively. The related liability of \$2,073,000 and \$3,368,000, respectively, related to a cumulative loss is reported on the statement of financial position within other liabilities. This liability is recorded at fair value and is measured at year end using Level 2 inputs. Cash flows related to the swap are reported in the operating section of the statement of cash flows. Provided that the University holds the swap to maturity, the value of the derivative will be zero. The swap transaction can be terminated at market rates at any time during the term of the swap.

The University does not enter into derivative instruments for any purpose other than cash flow hedging purposes and does not speculate for investment purposes using derivative instruments.

(9) Income Taxes

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

The University has considered the impact of ASC 740, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, and after review of the potential impact of various tax provisions, it was determined that no potential liability exists for those positions.

(10) Retirement Plan

University employees who meet certain eligibility requirements can participate in a defined contribution plan in which the University contributes 10% of an employee's salary. Amounts contributed by the University and charged to retirement plan expense for the years ended June 30, 2013 and 2012 were \$8,326,000 and \$7,697,000, respectively.

Notes to Financial Statements June 30, 2013 and 2012

(11) Net Assets

The University's net assets were available for the following purposes at June 30, 2013 and 2012:

		2013	2012
		(In thou	isands)
Unrestricted:			
For current operations	\$	182	76
Designated for investment in property, plant and equipment		32,814	19,027
Invested in property, plant and equipment		185,353	190,870
Board designated endowment funds	_	55,729	52,573
Total unrestricted	_	274,078	262,546
Temporarily restricted:			
Unexpended funds received for educational activity			
purposes		12,925	14,086
Unexpended funds received for purchase of property, plant			
and equipment and gifts included in CIP		220	1,260
Unappropriated endowment earnings	_	30,934	26,737
Total temporarily restricted		44,079	42,083
Permanently restricted:			
Endowment funds		98,068	94,840
Total net assets	\$	416,225	399,469

(12) Commitments

The University leases certain facilities, vehicles and computer equipment under operating lease agreements. Future minimum lease payments under operating leases are as follows at June 30, 2013 (in thousands):

2014	\$ 3,027
2015	2,319
2016	1,398
2017	1,214
2018	1,200
Thereafter	 2,976
	\$ 12,134

Total rent expense under these and other month-to-month lease agreements was \$2,101,000 and \$2,342,000 for the years ended June 30, 2013 and 2012, respectively.

Notes to Financial Statements June 30, 2013 and 2012

Future minimum lease payments to be received under leasing agreements in which the University acts as the lessor are as follows at June 30, 2013 (in thousands):

2014	\$	126
2015		126
2016		126
2017		126
2018		126
Thereafter	_	8,573
	\$	9,203

(13) Contingencies

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

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

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

Approximately 9.2% of the University's nonfaculty employees are covered under collective bargaining agreements. These employees provide maintenance, mechanical, custodial, and other technical services to the University. Bargaining disputes could adversely affect the University.

(14) Subsequent Events

The University has performed an evaluation of subsequent events through November 8, 2013, which is the date these financial statements were issued.