Report of Independent Auditors
and Financial Statements for

Saint Martin's University

June 30, 2016 and 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Saint Martin's University

Report on the Financial Statements

We have audited the accompanying financial statements of Saint Martin's University, which comprise the statements of financial position as of June 30, 2016 and 2015, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence 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 Saint Martin's University as of June 30, 2016 and 2015, and the changes its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Yakima, Washington
September 30, 2016

SAINT MARTIN'S UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents		
Operating cash	$ 1,831,668	$ 2,409,552
Investment cash	1,939,701	3,971,593
Total cash and cash equivalents	3,771,369	6,381,145
Prepaids	286,870	271,125
Student accounts receivable, net of allowance of $302,082 in 2016 and $287,621 in 2015	2,037,413	2,165,121
Gate loan receivable, net of allowance of $392,567 in 2016 and $339,081 in 2015	70,789	124,275
Student loans receivable - Perkins loan program	892,207	947,583
Contributions receivable, net	100,649	99,922
Other receivables	542,603	1,371,622
Investments	17,795,471	17,131,711
Fixed assets, net	55,598,088	55,503,557
Total assets	$ 81,095,459	$ 83,996,061
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 2,572,992	$ 2,451,336
Deferred revenues	905,984	1,349,769
Annuities payable	1,787,047	1,769,539
Related-party notes payable	476,882	516,328
Governmental grants refundable	972,178	972,178
Interest rate swap payable	9,538,596	8,410,211
Bonds payable	27,760,187	28,543,693
Total liabilities	44,013,866	44,013,054
NET ASSETS		
Unrestricted	15,622,614	18,155,365
Unrestricted - designated	5,816,448	5,216,479
Total unrestricted	21,439,062	23,371,844
Restricted		
Temporarily	3,757,078	5,953,676
Permanently	11,885,453	10,657,487
Total net assets	37,081,593	39,983,007
Total liabilities and net assets	$ 81,095,459	$ 83,996,061

See accompanying notes.

SAINT MARTIN'S UNIVERSITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS				
Tuition and fees	$ 42,296,759	$ -	$ -	$ 42,296,759
Less scholarship allowance	(17,050,399)	-	-	(17,050,399)
	25,246,360	-	-	25,246,360
Government grants and contracts	58,180	-	-	58,180
Contributions	1,556,805	192,054	621,001	2,369,860
Contributions from related party	125,000	-	606,965	731,965
Auxiliary enterprises	4,819,345	-	-	4,819,345
Investment income and realized gains (losses)	37,859	(10,450)	-	27,409
Unrealized loss on investments, net	(34,529)	(571,016)	-	(605,545)
Other sources	685,194	-	-	685,194
Change in value of split-interest agreements	(61,271)	-	-	(61,271)
	32,432,943	(389,412)	1,227,966	33,271,497
Net assets released from restrictions	1,807,186	(1,807,186)	-	-
	34,240,129	(2,196,598)	1,227,966	33,271,497
EXPENSES				
Program expenses				
Instruction	11,384,638	-	-	11,384,638
Research	51,679	-	-	51,679
Student services	7,081,364	-	-	7,081,364
Auxiliary enterprises	4,163,233	-	-	4,163,233
Support expenses				
Academic	3,663,643	-	-	3,663,643
Institutional	8,699,969	-	-	8,699,969
	35,044,526	-	-	35,044,526
OTHER				
Unrealized loss on interest rate swap	(1,128,385)	-	-	(1,128,385)
CHANGE IN NET ASSETS	(1,932,782)	(2,196,598)	1,227,966	(2,901,414)
NET ASSETS, beginning of year	23,371,844	5,953,676	10,657,487	39,983,007
NET ASSETS, end of year	$ 21,439,062	$ 3,757,078	$ 11,885,453	$ 37,081,593

See accompanying notes.

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS				
Tuition and fees	$ 42,969,220	$ -	$ -	$ 42,969,220
Less scholarship allowance	(17,120,730)	-	-	(17,120,730)
	25,848,490	-	-	25,848,490
Government grants and contracts	18,610	-	-	18,610
Contributions	2,105,222	968,318	247,459	3,320,999
Contributions from related party	-	310,000	-	310,000
Auxiliary enterprises	4,862,083	-	-	4,862,083
Investment income and realized gains	204,112	523,642	-	727,754
Unrealized loss on investments, net	(15,138)	(236,619)	-	(251,757)
Other sources	753,272	-	-	753,272
Change in value of split-interest agreements	(63,576)	-	-	(63,576)
	33,713,075	1,565,341	247,459	35,525,875
Net assets released from restrictions	791,731	(791,731)	-	-
	34,504,806	773,610	247,459	35,525,875
EXPENSES				
Program expenses				
Instruction	12,035,948	-	-	12,035,948
Research	16,369	-	-	16,369
Student services	7,053,031	-	-	7,053,031
Auxiliary enterprises	4,143,737	-	-	4,143,737
Support expenses				
Academic	4,006,217	-	-	4,006,217
Institutional	8,156,616	-	-	8,156,616
	35,411,918	-	-	35,411,918
OTHER				
Unrealized gain on interest rate swap	311,726	-	-	311,726
CHANGE IN NET ASSETS	(595,386)	773,610	247,459	425,683
NET ASSETS, beginning of year	23,967,230	5,180,066	10,410,028	39,557,324
NET ASSETS, end of year	$ 23,371,844	$ 5,953,676	$ 10,657,487	$ 39,983,007

SAINT MARTIN'S UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,901,414)	$ 425,683
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,745,056	2,912,673
Unrealized loss on investments, net	605,545	251,757
Change in value of split-interest agreements	61,271	63,576
Bad debt expense	155,374	80,570
Contributions restricted for long-term purposes	(1,227,966)	(247,459)
Loss on disposal of fixed assets	-	13,388
Change in cash surrender value of life insurance	(172)	(209)
Change in fair value of interest rate swap	1,128,385	(311,726)
Change in cash due to changes in assets and liabilities		
Student accounts receivable	(27,666)	(127,202)
Contributions receivable	(727)	135,517
Other receivables	882,505	(436,082)
Prepaids	(15,745)	67,982
Accounts payable and accrued expenses	121,656	(105,064)
Deferred revenues	(443,785)	127,124
Net cash from operating activities	1,082,317	2,850,528
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(2,828,093)	(789,124)
Purchase of investments	(6,557,133)	(4,739,620)
Sale of investments	5,288,000	3,995,100
Change in student loans receivable - Perkins loan program	55,376	27,652
Net cash from investing activities	(4,041,850)	(1,505,992)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds and other payables	(834,446)	(786,624)
Contributions received restricted for long-term purposes	1,227,966	247,459
Increase in liability for new annuity agreement	-	346,312
Change in value/payments in annuity agreements	(43,763)	(128,422)
Net cash from financing activities	349,757	(321,275)
CHANGE IN CASH AND CASH EQUIVALENTS	(2,609,776)	1,023,261
CASH AND CASH EQUIVALENTS, beginning of year	6,381,145	5,357,884
CASH AND CASH EQUIVALENTS, end of year	$ 3,771,369	$ 6,381,145
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 1,908,072	$ 1,954,135

See accompanying notes.

Note 1 – Organizational Background

Saint Martin's University (the University) is a nonprofit, charitable institution of higher learning, which operates in accordance with its Catholic and Benedictine heritage. The main campus is located on 300+ acres in Lacey, Washington. Extension campuses are located at the Joint Fort Lewis McChord (JBLM) base near Tacoma, Washington, and Centralia, Washington. The University was established in 1895 by the monks of the Saint Martin's Benedictine monastic community, who have continued to support the education institution.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The University prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, 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.

Recently adopted accounting standards

ASU 2015-07 – In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement* (Topic 820)*: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient (NAV practical expedient). ASU 2015-07 has been adopted for the June 30, 2016 year-end; however, the retrospective approach requires that an investment for which fair value is measured using a NAV practical expedient be removed from the fair value hierarchy in all periods presented in the financial statements. Accordingly, the investment disclosures in Note 5 have been modified as of June 30, 2015 as well.

ASU 2015-03 – In March 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* This update changes the presentation of debt issuance costs in the financial statements. Under the ASU, an entity presents such costs in the statement of net position as a direct deduction from the recognized liability rather than as an asset. Amortization of the costs is reported as interest expense. The University adopted this standard effective June 30, 2016. As a result of this adoption of the ASU, the University reclassified debt issuance costs on the statement of financial position and included these costs in the Bonds and Other Payables disclosure (Note 9).

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – Demand deposit accounts (checking accounts) held at June 30, 2016 and 2015 are classified as operating cash on the accompanying statements of financial position. Invested cash consists of short-term, highly liquid investments that are readily convertible to known amounts of cash, including savings accounts, money market accounts, and short-term certificates of deposit with an original maturity of three months or less.

The University maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The University has not experienced any losses in such accounts to date.

Student loans receivable and student accounts receivable – Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Student accounts and loans receivable are less an estimate made for doubtful accounts based on a review of all outstanding amounts. The allowance for doubtful accounts represents the University's best estimate of the amount of probable credit losses in the University's existing accounts receivable and student loans receivable. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts receivable are written off when deemed uncollectible and student loans receivable may be assigned to the United States Department of Education (USDE). Recoveries of student accounts receivable previously written off are recorded when received. Interest is charged on all past-due accounts for students who are no longer enrolled in the University until the account is turned over to a collection agency. Late fees are charged on all student accounts receivable under a payment plan that are outstanding for more than 20 days after the due date.

After a student is no longer enrolled in an institution of higher education, and after a grace period, interest is charged on student loans receivable and recognized as it is charged. Late fees are charged if payments are not made by the payment due date and recognized as they are charged. Student loans receivable are considered to be past due if a payment is not made within 90 days of the payment due date. After receivables become past due, the accrual of late charges is suspended. Students may be granted a deferment, forbearance, or cancellation of their student loans receivable based on eligibility requirements defined by the USDE.

Fair value of financial instruments – The carrying values of cash, cash equivalents, bond reserves, receivables, accounts payable and accrued liabilities, including deferred revenues, annuities payable and related-party notes payable, are reasonable estimates of their fair value due to discounting or the short-term nature and terms of these financial instruments. Investments are recorded at fair value as discussed in Note 5. The interest rate swap (used for purposes other than trading) is carried at fair value and is the estimated amount the University would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets and creditworthiness of the University for liabilities. The interest rate swap is categorized as Level 2 in the fair value hierarchy (see Note 5). The University recognizes the change in fair market value of the interest rate swap on the statements of activities. It is not practical to estimate the fair value of student receivables and the liability for governmental grants refundable, as these loans are subject to restrictions on interest rates and transferability.

Note 2 – Summary of Significant Accounting Policies (continued)

Fair value measurements – The *Fair Value Measurements and Disclosures Topic* of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification defines fair value, establishes a framework for measuring fair value, and expands disclosure of fair value measurements, which applies to all assets and liabilities that are measured and reported on a fair value basis. See Note 5 for additional information.

Interest rate swap – The University maintains an interest rate risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. The University's specific goal is to lower (where possible) the cost of its borrowed funds. The University has an interest rate swap agreement to convert variable-rate debt to a fixed rate, as described in Note 9.

Deferred compensation – A clause in the University President's contract entitles him to one year's compensation at the completion of a 5-year term, starting in 2011. In May 2016, at the request of the University President, the Board of Trustees terminated the deferred compensation agreement and the University President elected to forego receipt or payment of the deferred compensation accrued under the 2011 contract. As of June 30, 2016 and 2015, the accrued value of the president's deferred compensation was $0 and $176,000, respectively. For 2015, the liability is included in accounts payable and accrued expenses on the statement of financial position.

Federal income taxes – No provision for income taxes has been made in the financial statements since the University is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Additionally, the University has done an assessment of any uncertain tax positions as required under FASB accounting standard on *Accounting for Uncertainty in Income Taxes* (ASC 740), and has determined it currently has no uncertain tax benefits to record as a liability at June 30, 2016 and 2015. In addition, the University has no material unrelated business income subject to tax at June 30, 2016 and 2015.

Financial statement presentation – Net assets, revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the University and changes therein are classified into the following three categories:

Unrestricted net assets – Unrestricted net assets represent expendable funds available to support the University's operations and are resources not subject to donor-imposed restrictions.

Certain funds included in these amounts have been designated by the Board of Trustees to be utilized for various programs.

Temporarily restricted net assets – Temporarily restricted net assets consist of contributions restricted by the donor for specific purposes or not available for use until a specific time. Temporarily restricted net assets include income derived from donated assets, if specifically restricted by the donor. This classification also includes accumulated net investment income in excess of the original value of donor-restricted investments unless such income is explicitly restricted by the donor to be added to the endowment corpus.

Note 2 – Summary of Significant Accounting Policies (continued)

Permanently restricted net assets – Permanently restricted net assets consist of contributions with donor restrictions that stipulate the donated assets be maintained permanently but may permit the University to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains or losses on donor-restricted endowment investments are reported as increases or decreases in temporarily restricted net assets until appropriated by the Board of Trustees. Gains and losses on nonendowment investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported on the statements of activities as net assets released from restriction.

Tuition and fees – Student tuition and fees are recorded as revenue on a ratable basis over the term of instruction. The majority of the University's students rely on funds received from various federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. These programs are subject to periodic review by the USDE. Disbursements under each program are subject to disallowance by the USDE and repayment by the University. In addition, as an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the USDE. Deferred revenues represent primarily tuition from enrollment in summer school classes, which is attributable to the following fiscal year, and tuition deposits made by students in the current fiscal year that are to be used in following years.

Contributed services and long-lived assets – The fair value of contributed services is recognized in the financial statements when the services received create or enhance nonfinancial assets, require specialized skills, which are provided by individuals possessing those skills, and would have been purchased if not donated. There were no significant contributed services received by the University for the years ended June 30, 2016 and 2015.

Contributions of long-lived assets are reported at fair value in the period received. It is the University's policy to record gifts of long-lived assets received without stipulation of how long the donated asset must be used as unrestricted support. There were no significant contributions of long-lived assets received by the University for the years ended June 30, 2016 and 2015.

Contributions – Contributions, including unconditional promises to give, are recorded when it has been determined that there is a legal right to the contribution, and the actual amount to be received has been determined. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give, due after one year, are reported at the present value of net realizable value, using appropriate interest rates applicable to the years in which the promises were received. Amortization of discounts is recorded as an additional contribution, if any.

It is the University's policy to treat temporarily restricted net assets received, whose restrictions expire within the current accounting period, as unrestricted.

Note 2 – Summary of Significant Accounting Policies (continued)

Auxiliary enterprises – Auxiliary enterprises consist of revenues and expenses relating to the operation of the residence halls, food services, and bookstore, and the rental of facilities. Revenues from auxiliary enterprises are recorded at the time the related services are provided.

Expense allocation – The cost of operations and maintenance of the physical plant including depreciation and interest cost related to plant has been allocated to functional expense categories based on each functional expense category's percent of total expenses.

Fundraising costs – The University incurred fundraising costs of approximately $499,000 and $500,000 for the years ended June 30, 2016 and 2015, respectively, which are included in institutional support on the statements of activities. The related revenue from these activities is recorded in other sources.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The University recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The University's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are to be issued.

The University has evaluated subsequent events through September 30, 2016, which is the date the financial statements are to be issued.

Note 3 – Student Loans and Student Accounts Receivable

Student loans receivable represents loans from the Perkins loan fund that are generally payable with interest between 3.00% and 5.00% over approximately 11 years following University attendance. Principal payments, interest, and losses due to cancellation are shared by the University and the U.S. government in proportion to their share of funds provided. The program provides for cancellation of loans if the student is employed in certain occupations following graduation. Losses from employment cancellations are absorbed in full by the U.S. government. At June 30, 2016 and 2015, student loans funded through the Perkins loan program were $892,207 and $947,583, respectively.

The availability of funds for loans under the Perkins program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $972,178 at June 30, 2016 and 2015 are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loans and a decrease in the liability to the government.

Note 3 – Student Loans and Student Accounts Receivable (continued)

At June 30, 2016 and 2015, the following amounts were past due under student loan programs:

	1-60 Days	60-90 Days	90+ Days	Total Past Due
June 30, 2016	$ 35,275	$ 13,760	$ 65,542	$ 114,577
June 30, 2015	31,726	4,236	105,335	141,297

Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program.

Student accounts receivable policy is that tuition and fees are due by the first day of the semester. Students and their families are offered monthly payment plans through Tuition Management Systems (TMS) and, in some cases, through the University itself. Amounts owed through either TMS or the University are recorded as student accounts receivable. A reserve for bad debts is calculated each year. The University's Calculation of Allowance for Doubtful Accounts policy assumes balances between 1 and 60 days old are 100% collectible, balances between 60 and 90 days old are 75% collectible and balances greater than 90 days old are 65% collectible. The Calculated Allowance for Doubtful Accounts divided by the end of year student accounts receivable balance (Calculated Percent of Accounts Receivable) is then compared to the ten-year average of the allowance for doubtful accounts divided by the end of year student accounts receivable balance. If the Calculated Percent of Accounts Receivable is two percentage points greater than the ten-year average, then the two-year average of the allowance for doubtful accounts divided by the end of year student accounts receivable balance would be multiplied by the current end of year student accounts receivable balance to determine the allowance for doubtful accounts. For 2016, the calculated allowance was more than the two percent average; as such, the alternative method was used to calculate the allowance for doubtful accounts. For 2015, the Calculated Percent of Accounts Receivable was less than two percent of the ten-year average and the standard methodology was used to calculate the allowance for doubtful accounts. Per the University's policy, an account with an established payment plan is defined as past due when any scheduled payment is more than two weeks late.

	1-60 Days	60-90 Days	90+ Days	Total Past Due
June 30, 2016	$ 17,044	$ 284	$ 576,070	$ 593,398
June 30, 2015	28,861	2,015	495,765	526,641

Note 4 – Investments

At June 30, 2016 and 2015, investments in equity securities that have readily determinable market values and all investments in debt securities are accounted for and reported at fair value. Investments received by gift are initially recorded at fair value at the date the gift is received. Cash surrender value of life insurance is recorded at cost.

Dividends, interest, and other investment income are reported in the period earned as increases in unrestricted net assets, unless donor-imposed restrictions limit the use of the assets, in which case they are reported as increases in temporarily or permanently restricted net assets. Gains and losses on donor-restricted endowment investments are reported as increases or decreases in temporarily restricted net assets until appropriated by the Board of Trustees. Gains and losses on other investments are reported as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulation or law.

The aggregate carrying amount of investments by major type at June 30 is as follows:

	2016	2015
Invested cash		
Savings accounts	$ 681,009	$ 2,174,978
Money market funds	1,258,692	1,796,615
	1,939,701	3,971,593
Investments		
Mutual funds	11,664,360	8,265,871
Common stocks	2,859,562	5,038,433
Alternative investments	3,258,716	3,814,746
Cash surrender value of life insurance	12,833	12,661
	17,795,471	17,131,711
	$ 19,735,172	$ 21,103,304

The University invests in various investment securities, which 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 that such change could materially impact the value of the investment securities held.

Included in alternative investments are:

	2016	2015
Marketable securities	$ 873,709	$ -
Hedge funds measured at net asset value practical expedient	2,385,007	3,814,746
	$ 3,258,716	$ 3,814,746

Investment income has been presented net of management fees. Management fees totaled $66,639 and $64,744 for the years ended June 30, 2016 and 2015, respectively.

Note 5 – Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value also establishes a hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, 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 for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no changes in valuation methodologies used at June 30, 2016 and 2015.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. In certain cases where Level 1 inputs are not available, investments are classified within Level 2 of the hierarchy. There were no Level 3 investments as of June 30, 2016 or June 30, 2015.

Common stock: Common stock is valued at the closing price reported on the active markets on which the individual securities are traded.

Mutual funds: Shares of mutual funds are valued at the net asset value (NAV) of shares held by the Plan and are valued at the closing price reported on the active market on which the individual securities are traded.

Alternative investments: These primarily consist of shares of hedge funds, which are valued at the NAV of total assets of the fund, less all of its liabilities, including accrued fees and expenses. Total assets are reported as the total interests in underlying investment funds, as reported by the investment fund manager. In general, the fair value of the hedge fund's interest in an investment fund will represent the amount the hedge fund could reasonably expect to receive from an investment fund based on information reasonably available at the time valuation is made and the hedge fund believes to be reliable. At times, the hedge fund manager may conclude that the information provided by the investment fund does not represent the fair value of the hedge fund's investment in the investment fund and adjust the value accordingly. The repurchase date is generally expected to be on a quarterly basis. The notice due date will be generally no sooner than 20 business days after the commencement of the repurchase offer. There were no unfunded cash commitments at June 30, 2016.

Note 5 – Fair Value Measurements (continued)

The Portfolio seeks to primarily achieve growth of initial capital investments and income generation with a secondary goal of principal preservation. The Portfolio also aims to maintain moderate exposure to risk of capital loss in pursuit of this return objective. Consistent with these objectives, this Portfolio expects to invest proportionately in assets that tend to have a history of lower capital returns and volatility such as fixed income, and those with a more volatile history and upside return potential such as equities and alternative assets.

Interest Rate Swap

The fair value of the interest rate swap is calculated and reported by the issuing bank as the present value of the difference between the fixed-rate payments to be made by the University and the variable-rate payments to be received by the University under the terms of the swap. The fixed-rate payments are known, and the variable-rate payments are estimated based on the market yield curve that are observable or that can be corroborated by market data and, therefore, is classified within Level 2 of the valuation hierarchy.

The following presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy for the years ended June 30.

	Fair Value Measurements as of June 30, 2016			
	Total	(Level 1)	(Level 2)	(Level 3)
Investments				
Common stock				
U.S. marketable equities	$ 3,733,271	$ 3,733,271	$ -	$ -
Equity mutual funds				
Small cap funds	181,716	181,716	-	-
Mid cap funds	698,534	698,534	-	-
Large cap funds	1,541,582	1,541,582	-	-
Real estate	36,665	36,665	-	-
Other	124,802	124,802	-	-
International funds	3,721,706	3,721,706	-	-
Fixed income mutual funds				
Debt funds	5,359,355	5,359,355	-	-
Total assets in fair value hierarchy	$ 15,397,631	$ 15,397,631	$ -	$ -
Obligation under interest rate swap	$ (9,538,596)	$ -	$ (9,538,596)	$ -
Total liabilities in fair value hierarchy	$ (9,538,596)	$ -	$ (9,538,596)	$ -
Investment measured at net asset value	$ 2,385,007			

Note 5 – Fair Value Measurements (continued)

	Fair Value Measurements as of June 30, 2015			
	Total	(Level 1)	(Level 2)	(Level 3)
Investments				
Common stock				
U.S. marketable equities	$ 3,260,609	$ 3,260,609	$ -	$ -
Global market equities	1,777,824	1,777,824	-	-
Equity mutual funds				
Small cap funds	151,511	151,511	-	-
Mid cap funds	476,742	476,742	-	-
Large cap funds	1,145,452	1,145,452	-	-
Real estate	28,071	28,071	-	-
Other	473,562	473,562	-	-
International funds	1,872,797	1,872,797	-	-
Fixed income mutual funds				
Debt funds	3,866,450	3,866,450	-	-
Asset allocation funds	251,286	251,286	-	-
Total assets in fair value heirarchy	$ 13,304,304	$ 13,304,304	$ -	$ -
Obligation under interest rate swap	$ (8,410,211)	$ -	$ (8,410,211)	$ -
Total liabilities in fair value heirarchy	$ (8,410,211)	$ -	$ (8,410,211)	$ -
Investments measured at net asset value	$ 3,814,746			

Cash surrender value of life insurance of $12,833 and $12,661 for the years ended June 30, 2016 and 2015, respectively, are not included above, as it is carried at cost.

Note 6 – Contributions Receivable

Contributions receivable, which are unconditional promises to give, are summarized as follows at June 30:

	2016	2015
Contributions to be collected		
In one year or less	$ 87,768	$ 66,615
Between one year and five years	13,324	34,694
	101,092	101,309
Less discount	443	1,387
Net contributions receivable	$ 100,649	$ 99,922

Management believes all balances are collectible, and therefore no allowance for doubtful accounts is necessary.

Note 7 – Fixed Assets

Land improvements, buildings, and equipment with a cost of $2,500 or more and a useful life of one year are recorded at cost or, if donated, at fair value at the date of gift. Depreciation is computed on the straight-line basis over the estimated useful lives of buildings and land improvements (15 to 50 years) and equipment (3 to 15 years). Equipment retirements are removed from the records at the time of disposal.

Fixed assets comprise the following at June 30:

	2016	2015
Land improvements	$ 3,486,009	$ 3,577,329
Buildings	73,020,512	72,388,538
Equipment	16,602,137	17,010,487
Construction in progress	150,714	230,758
	93,259,372	93,207,112
Less accumulated depreciation	37,661,284	37,703,555
	$ 55,598,088	$ 55,503,557

Capitalized interest – The University follows the policy of capitalizing interest as a component of fixed assets for self-constructed projects. Interest incurred on funds used during construction, less interest earned on related interest-bearing investments, is capitalized as a cost of construction. No interest was capitalized for the years ended June 30, 2016 and 2015.

Construction in progress – The University has a signed contract for the construction of an industrial lab. The total estimated cost to complete the project is approximately $475,000.

Note 8 – Annuities Payable

Assets received under trusts are recorded at fair value in the investment account and totaled $2,763,677 and $2,549,002 at June 30, 2016 and 2015, respectively. Of these amounts, $842,519 and $905,472 relate to charitable gift annuities at June 30, 2016 and 2015, respectively. The related receivable or liability is calculated based on the life expectancy of the beneficiary or the term of the agreement, discounted at the applicable federal rate per the IRS tables. At June 30, 2016 and 2015, liabilities under the charitable trusts are reported as annuities payable, totaling $1,787,047 and $1,769,539, respectively. Of these amounts, $584,605 and $586,759 relate to charitable gift annuities at June 30, 2016 and 2015, respectively.

The University's unrestricted net assets meet the minimum amount required to issue annuities in the state of Washington.

Note 9 – Bonds and Other Payables

Bonds and other payables consist of the following at June 30:

	2016	2015
Saint Martin's University 2014 Washington Higher Education Facilities Authority Refunding Revenue Bonds (Series 2014A), payable to U.S. Bancorp, as trustee, issued April 24, 2014.	$ 27,990,000	$ 28,785,000
Payable to St. Martin's Abbey (Note 14).	476,882	516,328
	28,466,882	29,301,328
Unamortized discount and issuance cost	(229,813)	(241,307)
	$ 28,237,069	$ 29,060,021

A summary of the approximate annual maturities of the bonds and other payables, assuming the debt is paid as agreed, for future years ending June 30 is as follows:

2017	$ 883,000
2018	801,000
2019	860,000
2020	53,000
2021	57,000
Thereafter	25,812,882
	$ 28,466,882

2014A Refunding Revenue Bonds:

On April 24, 2014, Washington Higher Education Facilities Authority (the Authority), pursuant to an Indenture of Trust dated April 1, 2014, between the Authority and U.S. Bank National Association, as trustee, issued $29,535,000 of tax-exempt, refunding revenue bonds (Series 2014A) to provide funds to the University for the following purposes: 1) refund the Series 2007 Variable Rate Demand Revenue Bonds, and 2) pay the costs of issuing the Bonds.

Interest shall be paid monthly on the first business day of each month as long as the bond bears interest at the weekly or daily rate. Variable annual principal payments ($840,000 in 2017 and $755,000 in 2018) will commence February 1, 2015 and extend through final maturity of the bond on February 1, 2037 when a balloon payment of $25,585,000 is due. The bond is a direct placement by U.S. Bancorp. Additionally, the University has pledged a security interest in a 1st Leasehold Deed of Trust and assignment of rents and leases on three buildings located on the campus, as well as in unrestricted revenues, gains, and other support for collateral for the bond. The direct placement expires April 24, 2019, unless both parties choose to extend it. The University, through an agreement with U.S. Bank as the counterparty, has exchanged the variable rate for a fixed rate of 4.965% for the life of the loan. The variable interest rate as of June 30, 2016 was 1.53%.

Note 9 – Bonds and Other Payables (continued)

The Indenture of Trust also authorized tax-exempt revenue bonds (Series 2014B) which are not to exceed $4,000,000. These funds are for construction of the industrial lab and science building. The University has to meet fundraising requirements to access the funds. The funds must be accessed by April 24, 2017, or the funding authority expires. As of June 30, 2016, no funds have been accessed. Interest rate was 3.25% as of June 30, 2016.

Issuance costs, aggregating $264,295, have been capitalized and are being amortized over the remaining 23-year life of the bonds. Accumulated amortization totaled $34,482 and $22,988 at June 30, 2016 and 2015, respectively.

The University's credit agreement, associated with the issuance of the bonds, contains several ratio and covenant requirements. Requirements include cash flow coverage and liquidity ratios.

The University entered into an interest swap agreement with U.S. Bank, with a fixed interest rate of 4.965% per annum. The interest rate swap agreement matures July 2025. The fair value of the swap agreement was a liability of $9,538,596 and $8,410,211 at June 30, 2016 and 2015, respectively.

As discussed previously, the University has entered into an interest rate swap agreement to hedge the University's exposure to interest rate risk related to its variable-rate bond. The University's specific goal is to lower (where possible) the cost of its borrowed funds over the borrowing term. The swap is recorded on the statements of financial position as an interest rate swap at its fair market value, with changes in fair value recognized in current period change in unrestricted net assets. The following amounts have been included on the statement of activities for the years ended June 30:

	2016	2015
Interest expense	$ 1,908,072	$ 1,910,122
Unrealized loss (gain) on interest rate swap	1,128,385	(311,726)
	$ 3,036,457	$ 1,598,396

As of June 30, 2016 and 2015, the total notional amount of the University's pay-fixed, receive-variable interest rate swap was $30,270,000 and $31,065,000, respectively. The original notional amount was $34,405,000.

Note 10 – Government Grants Refundable

Government grants refundable represent refundable advances made by the federal government under the University's Perkins Federal Loan Program. There were no new advances under the program during the years ended June 30, 2016 and 2015.

Note 11 – Temporarily Restricted and Permanently Restricted Net Assets

Temporarily restricted net assets are subject to the following donor restrictions at June 30:

	2016	2015
Scholarships and fellowships	$ 2,479,591	$ 3,454,744
Investment in plant	597,053	1,727,276
Split interest agreements	454,318	492,745
Other	226,116	278,911
	$ 3,757,078	$ 5,953,676

Permanently restricted net assets as of June 30, 2016 and 2015 represent the original corpus of the endowment gifts. The funds are restricted for the following purposes:

	2016	2015
Endowment scholarships	$ 11,336,627	$ 10,108,660
Split interest agreements	548,826	548,827
	$ 11,885,453	$ 10,657,487

Note 12 – Board-Designated Unrestricted Net Assets

During the year ended June 30, 2004, the board committed to using designated unrestricted net assets to fund construction of the new dormitory, Spangler Hall. This required a reclassification of $4,500,000 board-designated funds from "Endowment/Scholarships" to "Maintenance of Plant." The board intends to restore the amount reclassified from Endowment/Scholarships in full over 20 years. There were no repayments in either of the years ended June 30, 2016 and 2015.

Note 13 – Endowment Fund and Net Asset Classification

The University’s endowments consist of various donor restricted endowment funds and funds designated as quasi endowments by the Board of Trustees.

The University’s endowment consists of approximately 100 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 13 – Endowment Fund and Net Asset Classification (continued)

Interpretation of relevant law – The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2009 Washington legislature 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. As a result of this interpretation, the University classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the state of Washington in its enacted version of UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund; (2) the purposes of the University and the donor-restricted Endowment Fund; (3) general economic conditions; (4) the possible effect of inflation and 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.

Endowment net asset composition by type of fund as of June 30:

	Unrestricted	Temporarily Restricted*	Permanently Restricted	Total
2016				
Donor-restricted endowment funds	$ -	$ 2,100,891	$ 11,885,453	$ 13,986,344
Board-designated endowment\scholarship funds	3,505,978	-	-	3,505,978
Total funds	$ 3,505,978	$ 2,100,891	$ 11,885,453	$ 17,492,322

* These funds consist of accumulated earnings available to fund future scholarships.

	Unrestricted	Temporarily Restricted*	Permanently Restricted	Total
2015				
Donor-restricted endowment funds	$ -	$ 3,081,544	$ 10,657,487	$ 13,739,031
Board-designated endowment\scholarship funds	3,578,398	-	-	3,578,398
Total funds	$ 3,578,398	$ 3,081,544	$ 10,657,487	$ 17,317,429

* These funds consist of accumulated earnings available to fund future scholarships.

Note 13 – Endowment Fund and Net Asset Classification (continued)

Changes in endowment net assets for the fiscal years ended June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2016				
Endowment net assets, beginning of year	$ 3,578,398	$ 3,081,544	$ 10,657,487	$ 17,317,429
Investment return				
Investment income	43,455	194,817	-	238,272
Net appreciation (depreciation), realized and unrealized	(108,067)	(782,049)	-	(890,116)
	(64,612)	(587,232)	-	(651,844)
Interest on Quasi-endowment loan payment	223,508	-	-	223,508
Quasi-endowment loan payment	-	-	-	-
	223,508	-	-	223,508
Transfer from annuity	-	-	-	-
Contributions	18,032	-	1,227,966	1,245,998
Expenditures appropriated	(249,348)	(393,421)	-	(642,769)
Endowment net assets, end of year	$ 3,505,978	$ 2,100,891	$ 11,885,453	$ 17,492,322

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2015				
Endowment net assets, beginning of year	$ 3,097,331	$ 3,330,282	$ 10,410,028	$ 16,837,641
Investment return				
Investment income	62,373	299,388	-	361,761
Net appreciation (depreciation), realized and unrealized	2,040	(77,104)	-	(75,064)
	64,413	222,284	-	286,697
Interest on Quasi-endowment loan payment	223,508	-	-	223,508
Quasi-endowment loan payment	-	-	-	-
	223,508	-	-	223,508
Transfer from annuity	-	-	-	-
Contributions	439,109	-	247,459	686,568
Expenditures appropriated	(245,963)	(471,022)	-	(716,985)
Endowment net assets, end of year	$ 3,578,398	$ 3,081,544	$ 10,657,487	$ 17,317,429

Note 13 – Endowment Fund and Net Asset Classification (continued)

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. Deficiencies, should they occur, would be the result of unfavorable market fluctuations that occurred shortly after the investment of new, permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees. At June 30, 2016 and 2015, the University had no such deficiencies to be reported in unrestricted net assets.

Return objectives and risk parameters – The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce appropriate results while assuming a moderate level of investment risk.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy – The University has a policy of appropriating for distribution each year a portion of its endowment fund's average fair value over the prior 16 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. For the years ended June 30, 2016 and 2015, this amount was 4% and 4.1875%, respectively. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 14 – Related-Party Transactions

Related-Party Leases:

St. Martin's Abbey (the Abbey) holds title to and is landlord for all real estate associated with the University's campus. It has been the policy and practice of the Abbey to allow the University to utilize the real estate for purposes of operating an institution of higher education.

At various times, the Abbey has entered into lease agreements with the University for the use of the premises under and surrounding certain buildings located on the University's campus. The lease agreements are generally long term in nature and provide for renewal options at the conclusion of the original lease term. Additionally, by specific provision of the lease documents, an annual rent for the lease period is not required to be paid by the University. Management has determined that the fair value of the contribution of such leases to the University, at the date of the underlying leases, was not material to the financial statements and, as such, has not recorded the leases as a donation.

Payables to St. Martin's Abbey

During the years 1993 through 1996, the Abbey, as owner of the property known as Saint Martin's Campus, developed and constructed new potable and storm water, and sanitary and irrigation systems necessary to meet the needs of the Abbey and the University. This construction was done in three phases: Phase I - domestic water; Phase II - sanitary sewer and wastewater; and Phase III - irrigation.

The University's allocated share of costs under the three phases represents the infrastructure costs from the Abbey.

Notes payable due to the Abbey for the University's share of infrastructure costs at June 30 are as follows:

	2016	2015
Note payable, dated October 19, 1994, for Phase I and Phase II costs, with monthly payments of $5,220, including interest at 7.5% per annum, due June 1, 2024, unsecured.	$ 376,049	$ 409,118
Note payable, dated October 22, 1996, for Phase III costs, with monthly payments of $1,184 including interest at 7.5% per annum, due September 1, 2026, unsecured.	100,833	107,210
	$ 476,882	$ 516,328

Related-Party – Other

For the years ended June 30, 2016 and 2015, the University received various gifts from the Abbey totaling approximately $731,000 and $310,000, respectively. As of June 30, 2016 and 2015, the University had accounts receivable from the Abbey of $24,077 and $15,979.

Note 14 – Related-Party Transactions (continued)

Members of the University's Board of Trustees and senior management may, from time to time, be associated either directly or indirectly with companies doing business with the University. For senior management, the University requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the University, and in accordance with applicable conflict of interest laws. No such associations are considered to be significant.

Note 15 – Pension Plan

The University has a defined contribution pension plan under Internal Revenue Code Section 403(b). The plan covers all regular employees, working at least 1,000 hours per year, who have completed one year of service with the University and reached 21 years of age. The University contribution rate was 8% as of June 30, 2016 and 2015, resulting in total contributions for 2016 of $853,084 and for 2015 of $1,003,146.

Note 16 – Commitments and Contingencies

Regulation and litigation – The University receives funding or reimbursement from governmental agencies for various activities which are subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. The University is subject to such regulatory reviews and, while these reviews may result in repayments and/or civil remedies, management believes, based on its current knowledge and information, that such repayments and/or civil remedies, if any, would not have a material effect on the University's financial position.

The University is subject to legal proceedings arising in the normal course of its various activities. The eventuality of legal action, or further, the liability from any such potential action, is subject to a great degree of uncertainty. Management currently believes the resolution of all such matters would not have a material effect on these financial statements.