



Report of Independent Auditors
and Financial Statements for
Saint Martin's University
June 30, 2017 and 2016

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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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, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2017 and 2016, and the changes in 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
November 20, 2017

SAINT MARTIN'S UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents		
Operating cash	\$ 3,021,837	\$ 1,831,668
Investment cash	1,918,853	1,939,701
Total cash and cash equivalents	4,940,690	3,771,369
Prepays	305,558	286,870
Student accounts receivable, net of allowance of \$432,048 in 2017 and \$302,082 in 2016	2,889,155	2,037,413
Gate loan receivable, net of allowance of \$421,204 in 2017 and \$392,567 in 2016	42,152	70,789
Student loans receivable - Perkins loan program	769,321	892,207
Contributions receivable, net	977,417	100,649
Other receivables	229,572	542,603
Investments	20,259,374	17,795,471
Fixed assets, net	54,190,296	55,598,088
Total assets	\$ 84,603,535	\$ 81,095,459
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,616,442	\$ 2,572,992
Deferred revenues	1,923,205	905,984
Annuities payable	1,862,547	1,787,047
Related-party notes payable	434,351	476,882
Governmental grants refundable	972,178	972,178
Interest rate swap payable	6,714,385	9,538,596
Bonds payable	27,504,681	27,760,187
Total liabilities	42,027,789	44,013,866
NET ASSETS		
Unrestricted	14,343,963	15,622,614
Unrestricted - designated	8,276,519	5,816,448
Total unrestricted	22,620,482	21,439,062
Restricted		
Temporarily	6,903,914	3,757,078
Permanently	13,051,350	11,885,453
Total net assets	42,575,746	37,081,593
Total liabilities and net assets	\$ 84,603,535	\$ 81,095,459

SAINT MARTIN'S UNIVERSITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND GAINS				
Tuition and fees	\$ 44,192,473	\$ -	\$ -	\$ 44,192,473
Less scholarship allowance	(18,953,529)	-	-	(18,953,529)
	<u>25,238,944</u>	<u>-</u>	<u>-</u>	<u>25,238,944</u>
Government grants and contracts	54,416	-	-	54,416
Contributions	2,342,352	2,735,407	772,020	5,849,779
Contributions from related party	1,000,000	-	-	1,000,000
Auxiliary enterprises	5,470,043	-	-	5,470,043
Investment income and realized gains	128,214	1,047,731	-	1,175,945
Unrealized gain on investments, net	274,898	575,744	-	850,642
Other sources	651,912	-	-	651,912
Change in value of split-interest agreements	(404,318)	-	-	(404,318)
	<u>34,756,461</u>	<u>4,358,882</u>	<u>772,020</u>	<u>39,887,363</u>
Net assets released from restrictions	833,345	(833,345)	-	-
	<u>35,589,806</u>	<u>3,525,537</u>	<u>772,020</u>	<u>39,887,363</u>
EXPENSES				
Program expenses				
Instruction	11,606,839	-	-	11,606,839
Research	105,645	-	-	105,645
Student services	7,751,561	-	-	7,751,561
Auxiliary enterprises	5,527,901	-	-	5,527,901
Support expenses				
Academic	3,993,745	-	-	3,993,745
Institutional	8,231,731	-	-	8,231,731
	<u>37,217,422</u>	<u>-</u>	<u>-</u>	<u>37,217,422</u>
OTHER				
Unrealized gain on interest rate swap	2,824,212	-	-	2,824,212
CHANGE IN NET ASSETS	<u>1,196,596</u>	<u>3,525,537</u>	<u>772,020</u>	<u>5,494,153</u>
NET ASSETS, beginning of year	21,439,062	3,757,078	11,885,453	37,081,593
RECLASSIFICATION OF NET ASSETS	(15,176)	(378,701)	393,877	-
NET ASSETS, end of year	<u>\$ 22,620,482</u>	<u>\$ 6,903,914</u>	<u>\$ 13,051,350</u>	<u>\$ 42,575,746</u>

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

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND GAINS				
Tuition and fees	\$ 42,296,759	\$ -	\$ -	\$42,296,759
Less scholarship allowance	(17,050,399)	-	-	(17,050,399)
	<u>25,246,360</u>	<u>-</u>	<u>-</u>	<u>25,246,360</u>
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)
	<u>32,432,943</u>	<u>(389,412)</u>	<u>1,227,966</u>	<u>33,271,497</u>
Net assets released from restrictions	1,807,186	(1,807,186)	-	-
	<u>34,240,129</u>	<u>(2,196,598)</u>	<u>1,227,966</u>	<u>33,271,497</u>
EXPENSES				
Program expenses				
Instruction	11,043,124	-	-	11,043,124
Research	83,792	-	-	83,792
Student services	7,254,803	-	-	7,254,803
Auxiliary enterprises	5,209,166	-	-	5,209,166
Support expenses				
Academic	3,483,092	-	-	3,483,092
Institutional	7,970,549	-	-	7,970,549
	<u>35,044,526</u>	<u>-</u>	<u>-</u>	<u>35,044,526</u>
OTHER				
Unrealized loss on interest rate swap	(1,128,385)	-	-	(1,128,385)
CHANGE IN NET ASSETS	<u>(1,932,782)</u>	<u>(2,196,598)</u>	<u>1,227,966</u>	<u>(2,901,414)</u>
NET ASSETS, beginning of year	23,371,844	5,953,676	10,657,487	39,983,007
RECLASSIFICATION OF NET ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS, end of year	<u>\$ 21,439,062</u>	<u>\$ 3,757,078</u>	<u>\$ 11,885,453</u>	<u>\$37,081,593</u>

SAINT MARTIN'S UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,494,153	\$ (2,901,414)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,924,000	2,745,056
Unrealized (gain) loss on investments, net	(850,642)	605,545
Change in value of split-interest agreements	404,318	61,271
Bad debt expense	279,767	155,374
Contributions restricted for long-term purposes	(772,020)	(1,227,966)
Change in cash surrender value of life insurance	(100)	(172)
Change in fair value of interest rate swap	(2,824,212)	1,128,385
Change in cash due to changes in assets and liabilities		
Student accounts receivable	(1,131,509)	(27,666)
Contributions receivable	(876,768)	(727)
Other receivables	341,668	882,505
Prepays	(18,688)	(15,745)
Accounts payable and accrued expenses	43,450	121,656
Deferred revenues	1,017,221	(443,785)
Net cash from operating activities	4,030,638	1,082,317
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(1,504,714)	(2,828,093)
Purchase of investments	(10,774,161)	(6,557,133)
Sale of investments	9,161,000	5,288,000
Change in student loans receivable - Perkins loan program	122,886	55,376
Net cash from investing activities	(2,994,989)	(4,041,850)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds and other payables	(882,531)	(834,446)
Proceeds from bonds payable	573,000	-
Contributions received restricted for long-term purposes	772,020	1,227,966
Change in value/payments in annuity agreements	(328,817)	(43,763)
Net cash from financing activities	133,672	349,757
CHANGE IN CASH AND CASH EQUIVALENTS	1,169,321	(2,609,776)
CASH AND CASH EQUIVALENTS, beginning of year	3,771,369	6,381,145
CASH AND CASH EQUIVALENTS, end of year	\$ 4,940,690	\$ 3,771,369
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 1,861,706	\$ 1,908,072

SAINT MARTIN'S UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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. An extension campus is located at Joint Base Lewis-McChord (JBLM) base near Tacoma, Washington. The University was established in 1895 by the monks of the Saint Martin's Benedictine monastic community, who have continued to support the educational 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 (GAAP), 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 2014-15 – In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements – Going Concern* (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*.

In connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the *financial statements are issued* (or within one year after the date that the *financial statements are available to be issued* when applicable).

Cash and cash equivalents – Demand deposit accounts (checking accounts) held at June 30, 2017 and 2016 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 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.

Deferred revenue – Deferred revenue consists of prepaid tuition which will be earned in the following fiscal year and vendor incentive payments that will be recognized as a reduction of operating expenses on a straight line basis due in the term of the agreement, which expires in 2032.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

Deferred compensation – In February 2016, the President signed an employment contract superseding and replacing a similar agreement signed in 2011. The new agreement commenced on July 1, 2016 and terminates on June 30, 2022. In each year under the Agreement, the President is entitled to an additional \$50,000 in deferred compensation in accordance with the 2016 Deferred Compensation Agreement with the University. Such amounts shall remain unvested until the earlier of June 30, 2022 or the termination of the President's employment under certain conditions specified within the contract. It is probable that the deferred compensation will vest and be paid in accordance with the agreement, and the deferred compensation is recorded as a liability on the balance sheet.

A clause in the University President's prior contract entitled 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, 2017 and 2016, the accrued value of the President's deferred compensation was \$50,000 and zero, respectively.

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 positions and therefore no liability at June 30, 2017 and 2016. In addition, the University has no material unrelated business income subject to tax at June 30, 2017 and 2016.

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.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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, 2017 and 2016.

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, 2017 and 2016.

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.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 their use of the square footage of the University's fixed assets.

Fundraising costs – The University incurred fundraising costs of approximately \$398,000 and \$499,000 for the years ended June 30, 2017 and 2016, respectively, which are included in institutional support on the statements of activities.

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 November 20, 2017, which is the date the financial statements are to be issued.

Reclassification – Certain amounts reported in the June 30, 2016 financial statements have been reclassified to conform to the June 30, 2017 financial statement presentation.

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, 2017 and 2016, student loans funded through the Perkins loan program were \$769,321 and \$892,207, 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, 2017 and 2016 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.

SAINT MARTIN'S UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

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

At June 30, 2017 and 2016, the following amounts were past due under student loan programs:

	<u>1-60 Days</u>	<u>60-90 Days</u>	<u>90+ Days</u>	<u>Total Past Due</u>
June 30, 2017	\$ 35,485	\$ 13,480	\$ 107,129	\$ 156,094
June 30, 2016	\$ 35,275	\$ 13,760	\$ 65,542	\$ 114,577

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 analyzed the allowance for doubtful accounts based upon historical loss ratios by identifying troubled accounts and using historical experience applied to an aging of the accounts. Reserves were estimated at approximately 13% and 12.9% of outstanding student receivables at June 30, 2017 and 2016 respectively. 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. At June 30, 2017 and 2016, the following amounts were past due under student receivables:

	<u>1-60 Days</u>	<u>60-90 Days</u>	<u>90+ Days</u>	<u>Total Past Due</u>
June 30, 2017	\$ 4,247	\$ 425	\$ 551,903	\$ 556,575
June 30, 2016	\$ 17,044	\$ 284	\$ 576,070	\$ 593,398

SAINT MARTIN'S UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

Note 4 – Investments

At June 30, 2017 and 2016, 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 surrender value.

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:

	<u>2017</u>	<u>2016</u>
Invested cash		
Savings accounts	\$ 682,030	\$ 681,009
Money market funds	<u>1,236,823</u>	<u>1,258,692</u>
	<u>1,918,853</u>	<u>1,939,701</u>
Investments		
Mutual funds	14,272,637	11,664,360
Common stocks	3,675,638	2,859,562
Alternative investments	1,767,570	3,258,716
Bonds	530,596	-
Cash surrender value of life insurance	<u>12,933</u>	<u>12,833</u>
	<u>20,259,374</u>	<u>17,795,471</u>
	<u>\$ 22,178,227</u>	<u>\$ 19,735,172</u>

The University invests in 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:

	<u>2017</u>	<u>2016</u>
Marketable securities	\$ -	\$ 873,709
Hedge funds measured at net asset value practical expedient	<u>1,767,570</u>	<u>2,385,007</u>
	<u>\$ 1,767,570</u>	<u>\$ 3,258,716</u>

Investment income has been presented net of management fees. Management fees totaled \$76,252 and \$66,639 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016.

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, 2017 or June 30, 2016.

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, 2017.

SAINT MARTIN'S UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

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, 2017			
	Total	(Level 1)	(Level 2)	(Level 3)
Investments				
Common stock				
U.S. marketable equities	\$ 3,675,638	\$ 3,675,638	\$ -	\$ -
Equity mutual funds				
Small cap funds	134,779	134,779	-	-
Mid cap funds	542,177	542,177	-	-
Large cap funds	2,468,318	2,468,318	-	-
Other	1,119,851	1,119,851	-	-
International funds	3,652,124	3,652,124	-	-
Fixed income mutual funds				
Debt funds	6,355,388	6,355,388	-	-
U.S. marketable bonds	530,596	530,596	-	-
Total assets in fair value hierarchy	<u>\$ 18,478,871</u>	<u>\$ 18,478,871</u>	<u>\$ -</u>	<u>\$ -</u>
Obligation under interest rate swap	<u>\$ (6,714,385)</u>	<u>\$ -</u>	<u>\$ (6,714,385)</u>	<u>\$ -</u>
Total liabilities in fair value hierarchy	<u>\$ (6,714,385)</u>	<u>\$ -</u>	<u>\$ (6,714,385)</u>	<u>\$ -</u>
Investment measured at net asset value	<u>\$ 1,767,570</u>			

SAINT MARTIN'S UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

Note 5 – Fair Value Measurements (continued)

	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	<u>\$ 15,397,631</u>	<u>\$ 15,397,631</u>	<u>\$ -</u>	<u>\$ -</u>
Obligation under interest rate swap	<u>\$ (9,538,596)</u>	<u>\$ -</u>	<u>\$ (9,538,596)</u>	<u>\$ -</u>
Total liabilities in fair value hierarchy	<u>\$ (9,538,596)</u>	<u>\$ -</u>	<u>\$ (9,538,596)</u>	<u>\$ -</u>
Investments measured at net asset value	<u>\$ 2,385,007</u>			

Cash surrender value of life insurance of \$12,933 and \$12,833 for the years ended June 30, 2017 and 2016, 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:

	2017	2016
Contributions to be collected		
In one year or less	\$ 279,822	\$ 87,768
Between one year and five years	587,689	13,324
More than five years	300,000	-
	<u>1,167,511</u>	<u>101,092</u>
Less discount	<u>190,094</u>	<u>443</u>
Net contributions receivable	<u>\$ 977,417</u>	<u>\$ 100,649</u>

Management believes all balances are collectible, and therefore no allowance for doubtful accounts is necessary. The discount rate applied to multi-year promises was 5%.

SAINT MARTIN'S UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

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:

	<u>2017</u>	<u>2016</u>
Land improvements	\$ 3,486,009	\$ 3,486,009
Buildings	73,111,814	73,020,512
Equipment	17,377,247	16,602,137
Construction in progress	<u>789,016</u>	<u>150,714</u>
	94,764,086	93,259,372
Less accumulated depreciation	<u>40,573,790</u>	<u>37,661,284</u>
	<u><u>\$ 54,190,296</u></u>	<u><u>\$ 55,598,088</u></u>

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, 2017 and 2016.

Construction in progress – The University has signed contracts for the construction of a new tennis facility. The total estimated cost to complete is approximately \$590,000. Additionally, the University entered into a contract to renovate the dining facility. The total construction cost is estimated at \$1,000,000, of which \$850,000 was paid as an incentive payment by the University's food service vendor. (See Note 2, Deferred Revenue.)

Note 8 – Annuities Payable

Assets received under trusts are recorded at fair value in the investment account and totaled \$2,749,290 and \$2,763,677 at June 30, 2017 and 2016, respectively. Of these amounts, \$734,716 and \$842,519 relate to charitable gift annuities at June 30, 2017 and 2016, 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, 2017 and 2016, liabilities under the charitable trusts are reported as annuities payable, totaling \$1,862,547 and \$1,787,047, respectively. Of these amounts, \$366,902 and \$584,605 relate to charitable gift annuities at June 30, 2017 and 2016, respectively.

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

SAINT MARTIN'S UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

Note 9 – Bonds and Other Payables

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

	2017	2016
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.	\$ 27,150,000	\$ 27,990,000
Saint Martin's University 2014 Washington Higher Education Facilities Authority Refunding Revenue Bonds (Series 2014B), payable to U.S. Bancorp, as trustee, issued April 24, 2014.	573,000	-
Payable to St. Martin's Abbey (Note 14).	434,351	476,882
	28,157,351	28,466,882
Unamortized discount and issuance cost	(218,319)	(229,813)
	\$ 27,939,032	\$ 28,237,069

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:

2018	\$ 933,000
2019	991,000
2020	53,000
2021	57,000
2022	62,000
Thereafter	26,061,351
	\$ 28,157,351

Note 9 – Bonds and Other Payables (continued)

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 (\$755,000 in 2018 and \$810,000 in 2019) commenced 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, 2017 was 1.953%.

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 new engineering labs and a science building. The University has to meet fundraising requirements to access the funds. The funds must be accessed by April 24, 2019, or the funding authority expires. As of June 30, 2017, \$573,000 have been accessed. Interest rate was 2.203% as of June 30, 2017.

Issuance costs, aggregating \$264,295, have been capitalized and are being amortized over the remaining 22-year life of the bonds. Accumulated amortization totaled \$45,976 and \$34,482 at June 30, 2017 and 2016, 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 \$6,714,385 and \$9,538,596 at June 30, 2017 and 2016, respectively.

SAINT MARTIN'S UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

Note 9 – Bonds and Other Payables (continued)

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:

	<u>2017</u>	<u>2016</u>
Interest expense	\$ 1,861,706	\$ 1,908,072
Unrealized loss (gain) on interest rate swap	<u>(2,824,212)</u>	<u>1,128,385</u>
	<u>\$ (962,506)</u>	<u>\$ 3,036,457</u>

As of June 30, 2017 and 2016, the total notional amount of the University's pay-fixed, receive-variable interest rate swap was \$29,430,000 and \$30,270,000, 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, 2017 and 2016.

SAINT MARTIN'S UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

Note 11 – Temporarily Restricted and Permanently Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Scholarships and fellowships	\$ 3,104,260	\$ 2,479,591
Investment in plant	3,332,460	597,053
Split interest agreements	460,685	454,318
Other	6,509	226,116
	<u>\$ 6,903,914</u>	<u>\$ 3,757,078</u>

Permanently restricted net assets as of June 30, 2017 and 2016 represent the original corpus of the endowment gifts. The funds are restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Endowment scholarships	\$ 12,502,523	\$ 11,336,627
Split interest agreements	548,827	548,826
	<u>\$ 13,051,350</u>	<u>\$ 11,885,453</u>

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, 2017 and 2016.

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.

SAINT MARTIN'S UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

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:

	<u>Unrestricted</u>	<u>Temporarily Restricted*</u>	<u>Permanently Restricted</u>	<u>Total</u>
2017				
Donor-restricted endowment funds	\$ -	\$ 3,104,260	\$ 13,051,350	\$ 16,155,610
Board-designated endowment\scholarship funds	4,449,046	-	-	4,449,046
Total funds	<u>\$ 4,449,046</u>	<u>\$ 3,104,260</u>	<u>\$ 13,051,350</u>	<u>\$ 20,604,656</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted*</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>\$ 3,505,978</u>	<u>\$ 2,100,891</u>	<u>\$ 11,885,453</u>	<u>\$ 17,492,322</u>

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

SAINT MARTIN'S UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

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
2017				
Endowment net assets, beginning of year	\$ 3,505,978	\$ 2,100,891	\$ 11,885,453	\$ 17,492,322
Investment return				
Investment income	102,461	198,290	-	300,751
Net appreciation (depreciation), realized and unrealized	317,758	1,107,929	-	1,425,687
	<u>420,219</u>	<u>1,306,219</u>	<u>-</u>	<u>1,726,438</u>
Interest on Quasi-endowment loan payment	223,508	-	-	223,508
Quasi-endowment loan payment	-	-	-	-
	<u>223,508</u>	<u>-</u>	<u>-</u>	<u>223,508</u>
Transfer from annuity	(46,799)	391,002	393,877	738,080
Contributions	626,616	-	772,020	1,398,636
Expenditures appropriated	(280,476)	(693,852)	-	(974,328)
Endowment net assets, end of year	<u>\$ 4,449,046</u>	<u>\$ 3,104,260</u>	<u>\$ 13,051,350</u>	<u>\$ 20,604,656</u>
	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)
	<u>(64,612)</u>	<u>(587,232)</u>	<u>-</u>	<u>(651,844)</u>
Interest on Quasi-endowment loan payment	223,508	-	-	223,508
Quasi-endowment loan payment	-	-	-	-
	<u>223,508</u>	<u>-</u>	<u>-</u>	<u>223,508</u>
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	<u>\$ 3,505,978</u>	<u>\$ 2,100,891</u>	<u>\$ 11,885,453</u>	<u>\$ 17,492,322</u>

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, 2017 and 2016, 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, 2017 and 2016, this amount was 4%. 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.

SAINT MARTIN'S UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

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:

	<u>2017</u>	<u>2016</u>
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.	\$ 340,393	\$ 376,049
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.	<u>93,958</u>	<u>100,833</u>
	<u>\$ 434,351</u>	<u>\$ 476,882</u>

Related-Party – Other

For the years ended June 30, 2017 and 2016, the University received various gifts from the Abbey totaling approximately \$1,000,000 and \$731,000, respectively. As of June 30, 2017 and 2016, the University had accounts receivable from the Abbey of \$21,341 and \$24,077.

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, 2017 and 2016, resulting in total contributions of \$1,121,125 for 2017 and of \$853,084 for 2016.

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.

In fiscal year 2017, the University received notice from the United States Department of Education and the Washington State Student Achievement Council that its financial responsibility ratio score had fallen below a 1.0 for the period July 1, 2016 to June 30, 2017. As a result, the University is required to post a Letter of Credit in the amount of \$1,287,300 for the benefit of the United States Department of Education, and \$216,099 for the benefit of the Washington Student Achievement Council. The Letters of Credit are secured by unrestricted investment cash and securities.