

FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022
WITH INDEPENDENT AUDITORS' REPORT THEREON



SEATTLE
UNIVERSITY



SEATTLE UNIVERSITY

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KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report

The Board of Trustees
Seattle University:

Opinion

We have audited the financial statements of Seattle University (the University), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.



- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Seattle, Washington
November 3, 2023

SEATTLE UNIVERSITY
Statements of Financial Position
June 30, 2023 and 2022
(In thousands)

Assets	2023	2022
Assets:		
Cash and cash equivalents	\$ 32,336	42,542
Short-term investments	58,216	58,189
Accounts receivable, net	15,726	20,263
Contributions receivable, net	7,894	9,284
Long-term investments	310,752	297,465
Student loans receivable, net	2,555	3,277
Assets held under split-interest agreements	12,146	12,347
Property, plant, and equipment, net	447,597	449,667
Right-of-use assets	11,675	12,329
Other assets	5,498	6,056
Total assets	\$ 904,395	911,419
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 3,779	3,472
Accrued liabilities	13,997	15,937
Deferred revenue	19,176	21,855
Liabilities under split-interest agreements	6,789	7,095
Lease liabilities	11,857	12,573
Bonds payable	152,800	157,661
Other liabilities	2,454	3,508
Total liabilities	210,852	222,101
Net assets:		
Without donor restriction	418,024	424,922
With donor restriction	275,519	264,396
Total net assets	693,543	689,318
Total liabilities and net assets	\$ 904,395	911,419

See accompanying notes to financial statements.

SEATTLE UNIVERSITY

Statement of Activities

Year ended June 30, 2023

(With summarized information for the year ended June 30, 2022)

(In thousands)

	2023			2022 Total
	Without donor restriction	With donor restriction	Total	
Operating:				
Revenues and other activities:				
Tuition and fees	\$ 296,385	—	296,385	293,065
Less student aid	(117,701)	—	(117,701)	(119,993)
Net tuition and fees	178,684	—	178,684	173,072
Contributions	979	10,238	11,217	8,264
Grants and contracts	10,927	—	10,927	16,283
Auxiliary enterprises	16,236	—	16,236	14,302
Return on investments designated for operating activities	3,115	—	3,115	—
Endowment income distributed for operating activities	3,352	10,555	13,907	11,791
Other revenue	8,721	—	8,721	7,311
Net assets released from restrictions	16,974	(16,974)	—	—
Total revenues and other activities	238,988	3,819	242,807	231,023
Expenses:				
Instruction	114,705	—	114,705	106,103
Academic support	22,646	—	22,646	21,025
Student services	44,393	—	44,393	41,979
Institutional support	50,672	—	50,672	46,834
Auxiliary enterprises	14,281	—	14,281	14,443
Total expenses	246,697	—	246,697	230,384
Increase (decrease) in net assets from operations	(7,709)	3,819	(3,890)	639
Nonoperating:				
Contributions to endowment funds	130	3,401	3,531	20,232
Contributions for/of capital assets	243	26	269	1,292
Endowment income, net of amounts distributed for operations	981	7,185	8,166	(45,198)
Change in fair value of split-interest agreements	(111)	217	106	(1,196)
Change in fair value of interest rate swap	320	—	320	776
Other	(4,264)	(13)	(4,277)	(91)
Net assets released from restrictions	3,512	(3,512)	—	—
Total nonoperating activities	811	7,304	8,115	(24,185)
Increase (decrease) in net assets	(6,898)	11,123	4,225	(23,546)
Net assets at beginning of year	424,922	264,396	689,318	712,864
Net assets at end of year	\$ 418,024	275,519	693,543	689,318

See accompanying notes to financial statements.

SEATTLE UNIVERSITY

Statement of Activities

Year ended June 30, 2022

(In thousands)

	2022		
	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Operating:			
Revenues and other activities:			
Tuition and fees	\$ 293,065	—	293,065
Less student aid	(119,993)	—	(119,993)
Net tuition and fees	173,072	—	173,072
Contributions	1,161	7,103	8,264
Grants and contracts	16,283	—	16,283
Auxiliary enterprises	14,302	—	14,302
Endowment income distributed for operating activities	2,989	8,802	11,791
Other revenue	7,311	—	7,311
Net assets released from restrictions	16,494	(16,494)	—
Total revenues and other activities	<u>231,612</u>	<u>(589)</u>	<u>231,023</u>
Expenses:			
Instruction	106,103	—	106,103
Academic support	21,025	—	21,025
Student services	41,979	—	41,979
Institutional support	46,834	—	46,834
Auxiliary enterprises	14,443	—	14,443
Total expenses	<u>230,384</u>	<u>—</u>	<u>230,384</u>
Increase (decrease) in net assets from operations	<u>1,228</u>	<u>(589)</u>	<u>639</u>
Nonoperating:			
Contributions to endowment funds	165	20,067	20,232
Contributions for/of capital assets	186	1,106	1,292
Endowment income, net of amounts distributed for operations	(10,231)	(34,967)	(45,198)
Change in fair value of split-interest agreements	(147)	(1,049)	(1,196)
Change in fair value of interest rate swap	776	—	776
Other	(6)	(85)	(91)
Net assets released from restrictions	77,584	(77,584)	—
Total nonoperating activities	<u>68,327</u>	<u>(92,512)</u>	<u>(24,185)</u>
Increase (decrease) in net assets	69,555	(93,101)	(23,546)
Net assets at beginning of year	<u>355,367</u>	<u>357,497</u>	<u>712,864</u>
Net assets at end of year	<u>\$ 424,922</u>	<u>264,396</u>	<u>689,318</u>

See accompanying notes to financial statements.

SEATTLE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

	2023	2022
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 4,225	(23,546)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,836	19,442
Change in fair value on interest rate swaps	(320)	(776)
Change in fair value of split-interest agreements	(106)	1,196
Proceeds from contributions restricted for long-term investment	(5,975)	(20,141)
Net depreciation (appreciation) in fair value of investments	(19,736)	29,703
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable, net	4,537	4,984
Contributions receivable, net	1,381	1,193
Accounts payable	307	810
Accrued liabilities	(1,940)	(4,468)
Deferred revenue	(2,679)	1,231
Other assets and liabilities, net	(179)	(2,764)
Net cash provided by (used in) operating activities	(649)	6,864
Cash flows from investing activities:		
Proceeds from sales of investments	174,437	239,537
Purchases of investments	(167,987)	(250,448)
Loans issued to students	(272)	(184)
Collections on loans to students	1,037	895
Acquisition of property, plant, and equipment	(17,930)	(22,755)
Net cash provided by (used in) investing activities	(10,715)	(32,955)
Cash flows from financing activities:		
Principal payments on long-term debt	(4,698)	(4,534)
Proceeds from contributions restricted for long-term investment	5,975	20,141
Net cash provided by financing activities	1,277	15,607
Net (decrease) in cash and cash equivalents	(10,087)	(10,484)
Cash and cash equivalents at beginning of year	42,542	53,026
Cash and cash equivalents at end of year	\$ 32,455	42,542
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 5,575	5,660

See accompanying notes to financial statements.

SEATTLE UNIVERSITY

Notes to Financial Statements

June 30, 2023 and 2022

(1) Organization and Current Environment

Seattle University (the University) is an independent, coeducational institution of higher learning. Approximately 7,100 students are enrolled in undergraduate and graduate programs within the six schools and colleges. The University, founded in 1891, is a Jesuit Catholic University located on 50 acres in Seattle's Capitol Hill neighborhood. The University is dedicated to educating the whole person, to professional formation, and to empowering leaders for a just and humane world.

(2) Summary of Significant Accounting Policies

(a) Financial Statement Presentation

The University's financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

(b) Estimates

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

(c) Cash and Cash Equivalents

The University has a cash management program that provides for the investment of temporary excess cash balances in short-term money market and U.S. Treasury instruments. The University considers certain highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. The fair value of these cash equivalents is categorized as Level 1 of the valuation hierarchy described in note 4. Certain cash equivalents included in the investment portfolio are intended to be invested on a long-term basis and, therefore, excluded from the statements of cash flows. At times, the University may have cash balances in excess of federally insured limits.

(d) Accounts Receivable

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

SEATTLE UNIVERSITY
Notes to Financial Statements
June 30, 2023 and 2022

Accounts receivable, net, at June 30, 2023 and 2022 are as follows:

	2023	2022
	(In thousands)	
Student receivables	\$ 11,072	14,477
Federal, state, and local grants and contracts	3,400	4,843
Other	4,466	1,741
	18,938	21,061
Less allowance for doubtful accounts	(3,212)	(798)
Accounts receivable, net	\$ 15,726	20,263

(e) Investments

The University retains an Outsourced Chief Investment Officer (OCIO) for the management of the University's investment fund managers. Fund managers are selected by the OCIO to invest certain of the University's funds in various investment asset classes, in accordance with the Board of Trustees' approved Investment Policy Statement.

Investments are stated at an estimated fair value in the financial statements. Investments are exposed to various risks, such as interest rate, market, and credit risks.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the University's financial statements. The University's alternative investments are less liquid than the rest of its portfolio and, as a result, are exposed to an increased risk of loss.

Investment income, including dividends and interest, is recorded net of investment management fees. Investment income is recognized as income when earned and is classified in the statements of activities based upon donor-imposed restrictions. Net realized and unrealized gains and losses are recognized in the statements of activities in nonoperating investment returns, net of amounts allocated to operations.

(f) Endowment

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

SEATTLE UNIVERSITY

Notes to Financial Statements

June 30, 2023 and 2022

(g) Student Loans Receivable

Student loans receivable consist mainly of loans made to students under the Federal Perkins Loan and Nursing Student Loan programs. The loans are stated at net realizable value in the accompanying statements of financial position.

The majority of these loan funds are furnished by agencies of the U.S. government, and the remaining balance of the loan funds is furnished by the University. The portion of these loans that are refundable to the U.S. government is reflected as U.S. government loan funds in the statements of financial position. The availability of funds for loans under the Federal Perkins Loan and Nursing Student Loan programs is dependent on reimbursements to the pool from repayments on outstanding loans.

On October 1, 2017, the Federal Perkins Extension Act of 2015 expired and no longer permits disbursements to students of any kind after June 30, 2018. The University has been notified that the federal government will begin collecting the federal share of the University's Perkins Loan Revolving Funds annually from the University as loans are paid back to the University by students. The University estimates the federal share will be returned to the government over the next five years

Student loans receivable are stated net of an allowance for doubtful loans. The allowance is an estimate by management based upon an analysis of delinquent amounts and the respective student's ability and intent to repay. Loans are considered delinquent when they are greater than 90 days outstanding. These estimated uncollectible amounts can be affected by changes in the borrower's economic circumstances. As a result, it is reasonably possible that the allowance for doubtful loans could change in the near term. The allowance for doubtful loans was \$101,149 and \$144,125 as of June 30, 2023 and 2022, respectively.

(h) Split-Interest Agreements

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

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

For those irrevocable agreements in which the University does not serve as the trustee, contributions receivable and revenue are recognized at the present value of the estimated future benefits.

SEATTLE UNIVERSITY

Notes to Financial Statements

June 30, 2023 and 2022

Assets received from donors from the split-interest agreements are recorded at fair value on the date received. The present value of payments to beneficiaries of charitable gift annuities and charitable remainder trusts and the estimated future receipts from pooled income funds are calculated using the rates commensurate with the risks involved. The University uses the actuarial method of recording charitable gift annuities and charitable remainder trusts. Under this method, when a gift is received, the present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as a contribution in the appropriate net asset category. The liability account is credited with investment income and gains and is charged with investment losses and payments to beneficiaries. Periodic adjustments are made between the liability account and the net asset account for actuarial gains and losses. The actuarial liability is based on the present value of future payments discounted at rates ranging from 1.40% to 11.00% established at the date of agreement and over-estimated lives. These assets are recorded at fair value and are measured at the University's year-end using Level 2 inputs (based on hierarchy disclosed in note 4).

Legally mandated Washington state annuity reserves totaled \$1,386,871 and \$1,474,887 as of June 30, 2023 and 2022, respectively, and are included within the assets held under split-interest agreements on the statements of financial position.

(i) Property, Plant, and Equipment

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

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

The cost of repairs and maintenance and depreciation are expensed. Upon the sale or retirement of property, plant, and equipment, the related cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are reflected in the statements of activities.

Property, plant, and equipment is reviewed for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized if the carrying value is not recoverable and exceeds the assets' fair value. There were no impairments to property, plant, and equipment in the years ended June 30, 2023 and 2022.

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Notes to Financial Statements
June 30, 2023 and 2022

(j) Other Assets

Other assets comprise the following as of June 30, 2023 and 2022:

	2023	2022
	(In thousands)	
Prepaid expenses	\$ 3,418	4,067
Funds held in trust by others	2,080	1,989
Total other assets	\$ 5,498	6,056

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

The fair value of funds held in trust by others is based on quoted prices provided by the trusts' investment managers and custodian banks.

(k) Net Asset Categories

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

- *Net assets without donor restriction* – Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the board.
- *Net assets with donor restriction* – Net assets with donor restrictions represent resources subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that are restricted by the donor for a particular purpose and that will be met by the passage of time or other events specified by the donor. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the University, including contributions wherein donors stipulate that the corpus of the gift be held in perpetuity.

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Notes to Financial Statements
June 30, 2023 and 2022

(l) Financial Assets and Liquidity Resources

The University regularly monitors liquidity required to meet its operating needs, liabilities, and other obligations as they become due. The following table reflects the University's financial assets as of June 30, 2023 and 2022 available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

	2023	2022
	(In thousands)	
Financial assets:		
Cash and cash equivalents	\$ 32,336	42,542
Short-term investments	58,216	58,189
Accounts receivable, net	15,726	20,263
Contributions receivable, net	7,894	9,284
Long-term investments	310,752	297,465
Financial assets at June 30	424,924	427,743
Less financial assets unavailable for general expenditure within one year:		
Donor-restricted cash for property, plant, and equipment	6,351	9,240
Contributions receivable collectible beyond one year	5,651	7,594
Long-term investments unavailable for spend within one year	297,490	283,561
Financial assets unavailable for general expenditure within one year	309,492	300,395
Financial assets available to meet cash needs for general expenditure within one year	\$ 115,432	127,348

Long-term investments unavailable for spend within one year include all long-term investments less the appropriation of endowment in the subsequent year of \$13,262,000 and \$13,904,000 for the years ended June 30, 2023 and 2022, respectively. In addition to the \$115,432,000 of financial assets available to meet cash needs for general expenditure within one year, the University could access board-designated endowment funds with Board approval. The University had \$67,600,000 and \$64,583,000 in board-designated endowment funds as of June 30, 2023 and 2022, respectively.

(m) Revenue Recognition

The primary source of revenue comes from tuition and fees; however, other sources of revenue include auxiliary enterprises and grants and contracts.

Tuition and fees – Tuition and fees are recognized evenly over the applicable term and are not considered separate performance obligations. Student aid awarded reduces the amount of revenue recognized. Payments for tuition and fees are due prior to the start of the academic term and billed net of the related student award. The University has a tuition refund policy that allows students to drop

SEATTLE UNIVERSITY

Notes to Financial Statements

June 30, 2023 and 2022

courses, or withdraw, and receive a full or partial refund in the first 10 days of an academic term. Refunds issued reduce the amount of revenue recognized. Deferred tuition revenue is recorded when cash is received for an academic period that has not yet occurred. The entire amount of deferred revenue was recognized evenly over the academic period in which a student attended classes.

Auxiliary enterprises – Auxiliary enterprises consist primarily of housing revenue. Housing revenue is recognized evenly over the period housing is provided. The University has a housing cancellation deadline that allows students to receive a full or partial refund in the first 10 days of an academic term. Refunds issued reduce the amount of revenue recognized.

(n) Contributions

A promise to give is conditional based on whether the agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. A conditional promise to give becomes an unconditional promise to give when the barriers in the agreement are overcome. Unconditional promises to give are recognized as revenues when donors' commitments are received. Unconditional promises to give are recognized at the estimated net present value, net of an allowance for uncollectible amounts, and are classified in the net asset category in accordance with donor-imposed restriction. Contributions that have no donor-imposed restriction, including those contributions for which the restriction is met in the same year as received, are recognized as net assets without donor restriction. Contributions with donor-imposed restriction are reported as net assets with donor restriction. Once donor-imposed restrictions are met, net assets are released from net assets with donor restriction to net assets without donor restriction.

Governmental and private grants and contracts arrangements are nonreciprocal and are, therefore, considered contributions. The granting entity has not received a direct benefit in exchange for the resources provided. Revenue is recognized when the barrier to entitlement is overcome, which is when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met.

Unconditional promises to give with payments due in future periods are reported as net assets with donor restriction unless donor circumstances make it clear that the donor intended it to be used to support activities of the current period. Contributions of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restriction that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restriction. Absent explicit donor stipulations, the University reports expirations of donor restriction when the donated or acquired long-lived assets are placed in service. Contributions for endowment funds or capital assets are not considered support of the ongoing operations of the University and are, therefore, included in the statements of activities as a nonoperating activity.

Fundraising expenses of \$4,602,000 and \$4,630,000 are included in institutional support in the statements of activities for the years ended June 30, 2023 and 2022, respectively.

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Notes to Financial Statements

June 30, 2023 and 2022

(o) Operating and Nonoperating Changes in Net Assets

Operating activities include student-sourced revenues, such as tuition and fees and student housing. They also include grants and contracts, contributions for general operations, the allocation of endowment spending for current operations, return on investments designated for operating activities and other revenues that are ordinary and routine in nature, and all operating expenses.

Nonoperating activity consists of contributions for long-term purposes, investment returns net of amounts available for current operations, and other nonoperating expenses. Nonoperating activities tend to vary from year to year, such as changes in market values of investments. Accordingly, they are excluded from operating activities in order to preserve the comparability of the University's net operating results from year to year.

(p) Recently Issued and Adopted Accounting Standards

The University evaluated recently issued accounting standards and determined there were no standards that had an impact on the financial statements in the year ended June 30, 2023

(q) Reclassifications

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 financial statement presentation. Specifically, cash and cash equivalents were reclassified to short-term investments for investments with an original maturity of three months or greater at the time of purchase. See footnote 4.

(3) Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Fair value of contributions receivable is based on the discounted value of estimated future cash flows. The discount rate is estimated based upon rates that take into consideration the associated risk. The discount rates used as of both June 30, 2023 and 2022 range from 0.27% to 4.18% and are expected to be realized in the following periods:

	2023	2022
	(In thousands)	
In one year or less	\$ 2,644	2,114
Between one year and five years	2,998	4,943
More than five years	2,653	2,651
Total contributions receivable	8,295	9,708
Less discount	(401)	(424)
Total contributions receivable, net	\$ 7,894	9,284

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Notes to Financial Statements
June 30, 2023 and 2022

Contributions receivable at June 30, 2023 and 2022 are intended for the following uses:

	2023	2022
	(In thousands)	
Educational activities	\$ 4,469	3,597
Endowment	1,996	3,598
Facilities and equipment	1,777	2,462
General support	53	51
Total contributions receivable	\$ 8,295	9,708

As of June 30, 2023, conditional promises to give were \$32,898,000. Of these promises to give, \$28,009,000 was considered conditional due to the University being named a beneficiary in a revocable living trust, and \$4,889,000 was conditional due to federal grants that were awarded; however, the University has limited discretion in the way the funds may be spent, which creates a barrier to entitlement.

(4) Investments and Fair Value Hierarchy

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

Level 1: Observable inputs such as quoted prices in active markets that the University has the ability to access at the measurement date.

Level 2: Inputs, other than quoted prices in active markets, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs where there is little or no market data for the asset or liability, requiring the University to develop its own assumptions.

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

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Short-term investments at June 30, 2023, and 2022 are as follows:

	2023	2022
	(In thousands)	
Fixed-income securities	\$ 58,216	58,189

Short-term investments consist of operating funds and funds held for fixed asset acquisition, managed as a laddered portfolio, fixed income portfolio, and money market funds, with the objectives of preserving principal, maintaining an appropriate degree of liquidity, and generating an appropriate risk-adjusted return. These assets are recorded at fair value and are measured at year-end using Level 1 inputs.

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

In accordance with ASC Subtopic 820-10, certain investments that are measured at NAV per share using the practical expedient to estimate fair value have not been classified in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position. The following tables present the University's fair value hierarchy for those assets measured at fair value as of June 30, 2023 and 2022. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

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Investments in marketable equity and mutual fund securities are stated at fair value based on quoted market prices. Fixed-income government obligations are cash held in a money market fund that accrues interest. Fixed-income bonds invest in various corporate bonds, municipality bonds, and treasury bonds that are valued by the University's OCIO. The University's interests in certain non-readily-marketable alternative investments, such as hedge funds and private equity limited partnerships, as a practical expedient, are stated at an estimated fair value based on net asset value (NAV) estimates reported to the University by the investment managers.

June 30, 2023				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	(In thousands)			
Investments held at fair value:				
Cash equivalents	\$ 1,336	1,336	—	—
Fixed income – Govt obligations	28,119	28,119	—	—
Mutual funds			—	—
Fixed income	12,512	12,512	—	—
Domestic equity	56,729	56,729	—	—
Foreign equity	21,156	21,156	—	—
Fixed-income bonds				
Domestic	23,153	—	23,153	—
Foreign	2,316	—	2,316	—
	<u>145,321</u>	<u>119,852</u>	<u>25,469</u>	<u>—</u>
Total cash and investments at fair value				
Investments measured at NAV	<u>141,525</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Total internally pooled investments	<u>286,846</u>	<u>119,852</u>	<u>25,469</u>	<u>—</u>

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		June 30, 2023			
		Total	Level 1	Level 2	Level 3
		(In thousands)			
Separately invested:					
Real estate	\$	22,714	—	—	22,714
Other		1,192	1,192	—	—
Total separately invested		23,906	1,192	—	22,714
Total long-term investments		310,752	121,044	25,469	22,714
Funds held in trust by others		2,080	—	—	2,080
Assets held under split-interest agreements		12,146	—	12,146	—
Total investments and financial assets		\$ 324,978	121,044	37,615	24,794
		June 30, 2022			
		Total	Level 1	Level 2	Level 3
		(In thousands)			
Investments held at fair value:					
Cash equivalents	\$	7,932	7,932	—	—
Fixed income – Govt obligations		8,946	8,946	—	—
Mutual funds					
Fixed income		16,645	16,645	—	—
Domestic equity		59,740	59,740	—	—
Foreign equity		17,822	17,822	—	—
Fixed-income bonds					
Domestic		38,689	—	38,689	—
Foreign		2,626	—	2,626	—
Total cash and investments at fair value		152,400	111,085	41,315	—
Investments measured at NAV		120,097	N/A	N/A	N/A
Total internally pooled investments		272,497	111,085	41,315	—

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	June 30, 2022			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Separately invested:				
Real estate	\$ 23,926	—	—	23,926
Other	1,042	1,042	—	—
Total separately invested	24,968	1,042	—	23,926
Total long-term investments	297,465	112,127	41,315	23,926
Funds held in trust by others	1,989	—	—	1,989
Assets held under split-interest agreements	12,347	—	12,347	—
Total investments and financial assets	\$ 311,801	112,127	53,662	25,915

The following table presents additional information for investments measured at NAV on a recurring basis for the fiscal years ended June 30, 2023 and 2022:

	Net asset value			Redemption	
	Ending balance at June 30, 2023	Ending balance at June 30, 2022	Unfunded commitments at June 30, 2022	Frequency	Days notice
Collective investment funds:					
Emerging markets equity	\$ 2,606	9,710	—	Monthly	30
Non-U.S. equity	19,907	17,221	—	Monthly	60
U.S. equity	44,042	36,014	—	Quarterly	60
Hedge funds:					
Absolute return	21	120	—	Quarterly	45–90
Income	16,355	2,454	—	Quarterly	45–90
Long/short	8,161	409	—	Quarterly	45–90
Real estate	—	13,075	—	Quarterly	60
Private equity partnerships:					
Buyout	10,496	7,640	8,153	N/A	N/A
Distressed	4,262	5,186	1,896	N/A	N/A
Income strategies	6,532	2,385	5,931	N/A	N/A
Real assets	6	8	30	N/A	N/A
Secondaries	1,542	750	3,857	N/A	N/A
Venture capital	27,595	24,677	20,679	N/A	N/A
Other	—	448	—	N/A	N/A
	\$ 141,525	120,097	40,546		

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

- *Collective investment funds* – The emerging markets equity subcategory consists of investments in emerging markets equities. The non-U.S. equity subcategory consists of investments in non-U.S. developed markets equities. U.S. equity subcategory consists of investments in U.S. equities.
- *Hedge funds* – This category invests in long and short marketable equity-oriented positions, and generally includes domestic, global, opportunistic themes, event driven strategies such as merger arbitrage, distressed debt, and special situations investing. These funds have the flexibility to invest in a wide array of other types of securities as deemed appropriate by the fund managers to carry out the funds' objectives.
- *Private equity partnerships* – This category includes direct investment funds and fund of funds structured as commitment based limited partnerships, where the limited partner commits to invest a maximum dollar amount, which is drawn down over the term of the partnership, as individual investment opportunities are identified by the fund manager. Limited partnership interests in such funds generally cannot be redeemed, and distributions are received from fund managers typically upon liquidation of underlying assets within the funds' portfolios. It is expected that the majority of underlying funds will reach the end of their lives over the next 10 years. The venture capital subcategory includes direct investment funds and fund of funds that invest primarily in earlier stage financing of domestic private companies, typically in the information technology and healthcare sectors. The distressed subcategory consists of fund of funds that invest in various types of distressed securities across a wide range of industries, both domestic and foreign, often with the goal of achieving turnarounds by influence or control positions over investee companies. The buyout subcategory includes fund of funds, which primarily invest in small-mid-market and large leveraged buyout funds, both domestic and internationally, with a mixture of other strategies including venture capital and growth equity. The secondaries subcategory consists of positions purchased in existing private equity partnerships on the secondary market, often at a discount to the current holding value of the purchase assets. The income strategies subcategory consists of direct investment funds that invest in discounted forced investment sales and in credit investment opportunities that require restructuring and complex capital solutions. The real estate subcategory consists of investments in real estate property.
- *Real property* – This category includes investments in real estate property. The following table represents the University's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs of the ranges of values for those inputs:

Year ended	Instrument	Fair value	Principal valuation technique	Significant unobservable inputs	Range of significant input values	Weighted average
June 30, 2023	Real property \$	22,714,000	Market comparables	Price/square foot	247-435	330
June 30, 2022	Real property \$	23,926,000	Market comparables	Price/square foot	253-373	302

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There were no purchases, redemptions, or transfers into or out of any Level 3 assets measured at fair value on a recurring basis for the fiscal years ended June 30, 2023 and 2022.

(5) Endowment

The University has a policy that interprets the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established, subject to the intent of the donor as expressed in the gift instrument. The University classifies net assets with donor restrictions as the original value of gifts to donor-restricted endowments, the original value of subsequent gifts made to donor-restricted endowments, and income or appreciation of donor-restricted endowments that donors have stipulated are not expendable. The remaining portion of the donor-restricted endowment fund that is not classified as donor restricted net assets is classified as net assets with donor restrictions, appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

The following table represents endowment net assets composition by type of fund as of June 30, 2023:

	<u>Without donor restriction</u>	<u>With donor restriction</u>		<u>Total</u>
		<u>Original gift</u>	<u>Accumulated return on investments, net of distributions</u>	
		(In thousands)		
Board-designated funds	\$ 67,600	—	—	67,600
Donor-restricted funds	—	188,579	41,620	230,199
Total funds	<u>\$ 67,600</u>	<u>188,579</u>	<u>41,620</u>	<u>297,799</u>

The following table represents changes in endowment net assets for the year ended June 30, 2023:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
		(In thousands)	
Endowment net assets at July 1, 2022	\$ 64,583	220,062	284,645
Investment return, net	6,196	17,371	23,567
Appropriation of endowment assets for expenditure	(3,352)	(10,555)	(13,907)
Contributions	116	3,401	3,517
Transfers	57	(80)	(23)
Endowment net assets at June 30, 2023	<u>\$ 67,600</u>	<u>230,199</u>	<u>297,799</u>

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The following table represents endowment net assets composition by type of fund as of June 30, 2022:

	<u>Without donor restriction</u>	<u>With donor restriction</u>		<u>Total</u>
		<u>Original gift</u>	<u>Accumulated return on investments, net of distributions</u>	
		(In thousands)		
Board-designated funds	\$ 64,583	—	—	64,583
Donor-restricted funds	<u>—</u>	<u>184,876</u>	<u>35,186</u>	<u>220,062</u>
Total funds	<u>\$ 64,583</u>	<u>184,876</u>	<u>35,186</u>	<u>284,645</u>

The following table represents changes in endowment net assets for the year ended June 30, 2022:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
		(In thousands)	
Endowment net assets at July 1, 2021	\$ 74,585	236,712	311,297
Investment return, net	(7,172)	(27,988)	(35,160)
Appropriation of endowment assets for expenditure	(2,989)	(8,802)	(11,791)
Contributions	159	20,067	20,226
Transfers	<u>—</u>	<u>73</u>	<u>73</u>
Endowment net assets at June 30, 2022	<u>\$ 64,583</u>	<u>220,062</u>	<u>284,645</u>

As of June 30, 2023, 40 individual donor-restricted endowment funds, out of a total of 458, had fair values that were \$1,125,000 less than their original contributed amount of \$27,655,000. As of June 30, 2022, 57 individual donor-restricted endowment funds, out of a total of 449, had fair values that were \$2,267,000 less than their original contributed amount of \$40,065,000. The University does appropriate for expenditure from an endowment when the fair value of the fund is less than the original gift amount.

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(6) Property, Plant, and Equipment

Property, plant, and equipment comprises the following at June 30, 2023 and 2022:

	2023	2022
	(In thousands)	
Land and improvements	\$ 64,587	64,587
Buildings and improvements	510,313	507,865
Equipment and computer hardware	50,800	50,150
Library books	59,964	57,281
Property held for sale	25,000	25,000
Construction in progress	9,746	1,070
	720,410	705,953
Less accumulated depreciation	(272,813)	(256,286)
Property, plant, and equipment, net	\$ 447,597	449,667

Depreciation expense for the years ended June 30, 2023 and 2022 totaled \$19,999,000 and \$19,606,000, respectively. There were \$0 and \$472,000 of interest costs capitalized for the years ended June 30, 2023 and 2022, respectively.

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(7) Bonds Payable

Bonds payable comprise the following at June 30, 2023 and 2022:

	2023	2022
	(In thousands)	
Bonds payable to the Washington Higher Education Facilities Authority (WHEFA) (interest due semiannually on November 1 and May 1):		
Series 2008A, weekly variable interest rate. Weekly variable rate (set by the remarketing agent) in effect on June 30, 2023 was 4%, principal due annually in increasing amounts from \$1,580 in May 2024 to \$1,825 in May 2028	\$ 8,500	10,025
Series 2015, interest at a fixed rate of 2.93% per annum, principal due annually from \$2,619 in November 2023 to a maximum of \$3,321 in November 2031 with final maturity in November 2037	39,661	42,209
Series 2017, interest at fixed rates ranging from 3.45% to 5.00% per annum, principal due in increasing amounts from \$2,095 in May 2029 to \$6,165 in November 2039	41,860	41,860
Series 2020, interest at fixed rates ranging from 3.50% to 5.00% per annum, principal due periodically from \$670 in May 2024 to \$5,485 in May 2050	58,785	59,410
	148,806	153,504
Net of unamortized premiums, discounts, and debt issuance costs	3,994	4,157
	\$ 152,800	157,661

Annual maturities of bonds payable are as follows (in thousands):

Year ending June 30:	
2024	\$ 4,869
2025	5,041
2026	5,229
2027	5,415
2028	5,615
Thereafter	122,637
	\$ 148,806

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As a condition of issuance of the WHEFA bonds, the University has agreed to certain covenants for the protection of bond owners. Management believes the University is in compliance with these covenants as of June 30, 2023.

The University is required to maintain an irrevocable letter of credit equal to the principal amount of the Series 2008A WHEFA Variable Rate Demand Refunding Revenue Bonds (the Bonds). The letter of credit is issued by U.S. Bank National Association (the Bank), pursuant to an irrevocable letter of credit agreement dated March 20, 2008, between the Bank and the University. The direct pay letter of credit is an irrevocable obligation that is scheduled to expire on March 20, 2025.

The Series 2008A bonds remarket every seven days. To the extent the Bonds do not remarket, a liquidity draw against the letter of credit may occur. Any draws under the letter of credit are subject to an accelerated repayment of the Bonds. Additionally, pursuant to the terms of the Reimbursement Agreement, if certain material adverse changes were to occur, such changes could result in the 2008A bonds becoming immediately due. There were no amounts outstanding on this letter of credit as of June 30, 2023 or 2022.

Total interest expense was \$5,553,000 and \$5,265,000 for the years ended June 30, 2023 and 2022, respectively.

(8) Interest Rate Swap

Variable rate debt obligations inherently expose the University to variability in interest payments due to changes in interest rates. As such, the University believes it is prudent to limit the variability of debt service to the extent possible. To meet this intent, the University entered into an interest rate swap with the Bank of New York Mellon associated with the issuance of the Series 2008A variable rate demand notes. The notional amount of the swap at the time of issuance was \$26,595,000, and there was no cash exchanged at the time of the acquisition due to the relationship between the variable rates and the swap rate at that time.

The interest rate swap does not meet the criteria for hedge accounting, and therefore, all changes in the fair value of the interest rate swap are reported on the statements of activities. For the years ended June 30, 2023 and 2022, the valuation of the swap resulted in a net unrealized gain of \$320,000 and \$776,000, respectively. The related asset of \$6,000 and liability of \$314,000, respectively, related to a cumulative loss is reported on the statements of financial position within other liabilities. This liability is recorded at fair value and is measured at year-end using Level 2 inputs. Cash flows related to the swap are reported in the operating section of the statements of cash flows. Provided that the University holds the swap to maturity, the value of the derivative will be \$0. The swap transaction can be terminated at market rates at any time during the term of the swap upon all final settlements.

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

(9) Income Taxes

The University is generally exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) of the IRC and corresponding Washington State provisions. Certain University activities are unrelated business activities from which any net income derived is taxable under federal income tax law. No income tax provision has been recorded as the net

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income from any unrelated business activities is not material to the financial statements in the opinion of management.

(10) Retirement Plan

University employees who meet certain eligibility requirements can participate in a defined-contribution plan in which the University has historically contributed 10% of an employee's salary. As a result of the COVID-19 pandemic discussed in note 13, the contribution percentage was reduced and was subsequently reinstated at 5% as of January 1, 2021 and increased to 8% beginning January 1, 2022. On June 30, 2022, the University restored its prior contribution of 10%. Amounts contributed by the University and charged to retirement plan expense for the years ended June 30, 2023 and 2022 were \$9,159,000 and \$6,748,000, respectively.

(11) Net Assets

The University's net assets consist of the following:

	2023	2022
	(In thousands)	
Without donor restriction:		
For current operations	\$ 25,722	33,724
Designated for investment in property, plant, and equipment	50,739	47,279
Invested in property, plant, and equipment	273,963	279,336
Board-designated endowment funds	67,600	64,583
Total without donor restriction	418,024	424,922
With donor restriction:		
For educational activity purposes	35,602	31,130
For purchase of property, plant, and equipment	9,718	13,204
Endowment funds	230,199	220,062
Total with donor restriction	275,519	264,396
Total net assets	\$ 693,543	689,318

(12) Leasing Arrangements

The University has leasing arrangements where the University is the lessor and leasing arrangements where the University is the lessee. These arrangements where the University is the lessee create right-of-use assets and lease liabilities. The University's policy is not to record a right-of-use asset and lease liability for leases with terms less than one year for operating leases.

As of June 30, 2023, the University is a party to nine operating leases as the lessee. Eight of these leases are for academic, office, and residential space and the ninth is an equipment lease. As of June 30, 2023 and 2022, the University recognized a lease liability of \$11,857,000 and \$12,573,000, respectively, with a right-of-use asset of \$11,675,000 and \$12,329,000, respectively, based on the present value of the minimum rental payments of such leases. Many of the University's leases provide for options to renew

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subsequent to the current term. The options to renew the leases were not considered when assessing the value of the right-of-use asset because the University was not reasonably certain that it will assert its option to renew these leases. Two leases include variable rent payments that increase each year based on the consumer price index.

Quantitative information regarding the University's leases for the years ended June 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Lease cost	\$ 2,468,000	2,729,000
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	\$ 2,540,000	2,793,000
Weighted average remaining lease term (in years)	12.20	12.84
Weighted average discount rate	4.00 %	4.00 %

Scheduled rental payments for operating leases are as follows (in thousands):

Year ending June 30:		
2024	\$	2,349
2025		2,263
2026		1,475
2027		847
2028		806
Thereafter		<u>7,426</u>
Total rental payments		15,166
Less present value discount		<u>(3,309)</u>
Lease liabilities	\$	<u><u>11,857</u></u>

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The University has two ground leasing arrangements where the University is the lessor. These ground leases have remaining terms of 50 years and 63 years and include rents that increase each year based on the consumer price index. Cash received and reported in operating cash flows for lease payments in which the University acts as the lessor in the years ended June 30, 2023 and 2022 was \$481,000 and \$369,000, respectively. Future minimum lease payments to be received under leasing agreements are as follows (in thousands):

Year ending June 30:		
2024	\$	490
2025		490
2026		490
2027		489
2028		489
Thereafter		<u>27,264</u>
	\$	<u><u>29,712</u></u>

(13) Contingencies

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

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

Approximately 7.2% of the University's nonfaculty employees are covered under collective bargaining agreements. These employees provide maintenance, mechanical, custodial, and other technical services to the University. Bargaining disputes could adversely affect the University.

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The outbreak of the disease has affected travel, commerce, and financial markets globally, including in the United States. The continued spread of COVID-19 and its impact on social interaction, travel, economies, and financial markets may adversely affect operations and financial condition, including, among other things, (i) the ability of the University to conduct its operations and/or the cost of operations, (ii) governmental and non-governmental funding, and (iii) financial markets impacting investments valuation and interest rates.

In response to the COVID-19 pandemic, the U.S. Congress passed legislative acts creating Higher Education Emergency Relief Funds (HEERF) I, II, & III, which have provided institutions of higher education with funding. As of June 30, 2023, the University has been awarded a total of \$19,692,000. The University has recognized funding from the awards in financial statements ended June 30, 2023 and 2022, totaling \$0 and \$10,255,000, respectively, in grant revenue as a result of the federal funding received.

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Commencing March 18, 2020, undergraduate and graduate course instruction was conducted virtually and most students vacated the campus. The University resumed most on-campus instruction and operations with the start of the 2021–22 academic year.

(14) Functional Expense Classification

The financial statements present expenses by functional classification in accordance with the overall mission of the University and industry standards. Each functional classification includes direct expenses related to the provision of a part of the University’s operations as well as allocated costs, such as depreciation, interest expense, and plant operating costs. Depreciation expense for buildings and building improvements is allocated based on each building’s principal use. Interest expense on external debt is allocated to the functional categories, which have benefited from the proceeds of the debt. Plant operations and maintenance and other nonbuilding depreciation represent building occupancy costs that are allocated to functional categories on the basis of functional expense to total expense.

Expenses by functional and natural classification for the year ended June 30, 2023 were as follows (in thousands):

	<u>Instruction</u>	<u>Academic support</u>	<u>Student services</u>	<u>Institutional support</u>	<u>Auxiliary enterprises</u>	<u>Total expenses</u>
Salaries, wages, and benefits	\$ 91,969	13,559	26,248	31,983	4,339	168,098
Depreciation	6,512	3,982	2,460	5,411	1,634	19,999
Professional services	6,913	1,439	4,457	3,483	1,667	17,959
Meetings, travel, and memberships	2,548	469	4,678	1,604	25	9,324
Occupancy, utilities, and maintenance	1,746	420	1,556	1,040	3,887	8,649
Supplies, printing, and marketing	1,601	262	3,318	610	91	5,882
Interest	2,569	1,249	247	903	585	5,553
Insurance, banking, and taxes	36	9	88	3,498	31	3,662
Other	811	1,257	1,341	2,140	2,022	7,571
	<u>\$ 114,705</u>	<u>22,646</u>	<u>44,393</u>	<u>50,672</u>	<u>14,281</u>	<u>246,697</u>

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June 30, 2023 and 2022

Expenses by functional and natural classification for the year ended June 30, 2022 were as follows (in thousands):

	<u>Instruction</u>	<u>Academic support</u>	<u>Student services</u>	<u>Institutional support</u>	<u>Auxiliary enterprises</u>	<u>Total expenses</u>
Salaries, wages, and benefits	\$ 86,592	11,830	23,879	30,181	3,987	156,469
Depreciation	6,147	3,769	2,722	4,843	2,125	19,606
Professional services	5,042	1,687	4,195	3,503	1,462	15,889
Occupancy, utilities, and maintenance	1,618	440	1,795	1,049	3,475	8,377
Meetings, travel, and memberships	1,161	243	4,107	1,426	45	6,982
Supplies, printing, and marketing	1,943	228	3,085	693	92	6,041
Interest	2,674	1,248	252	469	621	5,264
Insurance, banking, and taxes	33	8	73	3,250	28	3,392
Other	893	1,572	1,871	1,420	2,608	8,364
	<u>\$ 106,103</u>	<u>21,025</u>	<u>41,979</u>	<u>46,834</u>	<u>14,443</u>	<u>230,384</u>

(15) Related Party Transactions

During the normal course of business, the University may engage in transactions with an entity or person with which the University or a member of the Board of Trustees is affiliated. The University has a policy to require trustees and officers to disclose affiliations and to review and authorize such transactions, as appropriate. For the years ended June 30, 2023 and 2022, there were no such transactions deemed material.

(16) Subsequent Events

The University has performed an evaluation of subsequent events from the statements of financial position date through November 3, 2023, which is the date these financial statements were issued, and has included all necessary adjustments and disclosure



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