

Financial Report 2019–20

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MISSION STATEMENT

University of Puget Sound is an independent, predominantly residential, undergraduate liberal arts college with selected graduate programs building effectively on a liberal arts foundation. The university, as a community of learning, maintains a strong commitment to teaching excellence, scholarly engagement, and fruitful student-faculty interaction.

The mission of the university is to develop in its students capacities for critical analysis, aesthetic appreciation, sound judgment, and apt expression that will sustain a lifetime of intellectual curiosity, active inquiry, and reasoned independence. A Puget Sound education, both academic and cocurricular, encourages a rich knowledge of self and others; an appreciation of commonality and difference; the full, open, and civil discussion of ideas; thoughtful moral discourse; and the integration of learning, preparing the university's graduates to meet the highest tests of democratic citizenship. Such an education seeks to liberate each person's fullest intellectual and human potential to assist in the unfolding of creative and useful lives.



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Financial Report 2019–20

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Isiaah Crawford

By any measure, these are extraordinary times. As we confront a global health crisis, divisive political landscape, uncertain global economies, mounting cries for social and environmental justice, and more, we know that higher education offers the best path forward for our young people to contribute to a better future and become the leaders our world most needs.

Here at Puget Sound, we have mobilized in ways unimaginable just a few short months ago, addressing the immediate concerns of ensuring the health and well-being of the campus community while simultaneously moving forward to realize key objectives of our ambitious 10-year strategic plan, *Leadership for a Changing World*. This is not a time to stand still. Through prudent management of our resources and the generous support of our community, we have embarked on new programs and initiatives and will continue to deliver on our mission both today and for generations to come.

On the following pages, you will see evidence of financial stewardship in action. Decades of thoughtful management of our assets and operating budgets have provided us with a strong financial foundation to weather the challenges wrought by the novel coronavirus pandemic. The value of our assets remained on par with the previous year, even as our endowment value fell slightly. Our liabilities are up modestly over the previous year, due in part to the necessity of issuing room and board credits to our students who left campus in March as classes shifted to a virtual format. Still, we were able to award nearly \$57.6 million in institutional financial aid, removing barriers for students seeking to

secure a Puget Sound education. In a very dynamic environment, Puget Sound generated a modest operating surplus in 2019–20 and its credit ratings have remained unchanged (A1 from Moody’s Investors Service and A+ from Standard & Poor’s Global Ratings). This is a significant measure of strength at a time when rating agencies have a negative outlook for higher education as a whole.

By far, the best outcomes of the 2019–20 academic year are the achievements of our students. Far exceeding national averages, 90% of Puget Sound’s 2019 graduating class reported being employed, continuing their education, participating



in prestigious postgraduate fellowships, or engaging in public service within seven months following graduation. We have been particularly noted as a university that does an excellent job in creating opportunities for women in STEM fields. An increased focus on experiential learning opportunities, including internships, research, job shadowing, and mentorship programs, is providing all students with the tools they need to transition successfully to life after college. Their stories are ones we will celebrate in the halls of our new Welcome Center, which opened in February 2020 as part of a strategic effort to put our best foot forward in meeting the needs of prospective student and their families.

Our highest priority is to ensure that every graduate—every single one—is fully prepared with the knowledge, skills, and resilience to navigate a complex and always-changing world. Through the dedicated leadership of our board of trustees, the generous service of members of our Alumni Council and Parents Council, and the support of alumni, parents, faculty, staff, students, and other friends of Puget Sound, we are realizing the hopes and dreams of new generations of Loggers every day. No matter what comes our way, we remain confident about the future and the students we are privileged to serve.



Sherry B. Mondou

Fiscal year 2020 began with no inkling that a pandemic was on the horizon, and it ended with the clear realization that we were experiencing a public health crisis like no other in our lifetime. The COVID-19 pandemic continues to ravage the globe, upend plans, and test our collective ability to adapt, endure, and care for one another. Puget Sound is proud of the ways its community has responded and adapted, and at a pace not often seen in higher education. Moving to remote teaching, learning, and operations in a matter of days in March was not what anyone wanted or even thought possible. Throughout the pandemic, the university has remained steadfast in its commitment to providing an exceptional educational experience for its students and supporting students in the advancement of their education, even as the modalities of teaching, learning, and social engagement shift.

Though the pandemic has necessarily commanded our attention and drawn on the university's resources of time, talent, and treasure, Puget Sound has also remained focused on its longer-term strategic objectives. This is always important to do, but is especially important now as the pandemic adds an additional layer of challenge to those already facing institutions of higher education. The work of assessing, planning, adapting, and achieving goals is continuous and critical to long-term success. Puget Sound has a long track record of strong institutional planning and fiscal management and is well-poised to address the challenges and opportunities ahead.

I am pleased to present the enclosed financial statements for the year ending June 30, 2020, and to offer the following commentary as a companion to the financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

Puget Sound's asset base is an institutional strength, contributing significantly to the delivery of its educational mission and providing stability during challenging times. Assets of \$681.6 million as of June 30, 2020, are comparable in total to the prior year and 44% greater than a decade ago (Figure 1). Cash and cash equivalents, short-term investments, endowment investments, and campus facilities comprised 95% of total assets and are discussed below.

- Cash, cash equivalents, and short-term investments totaled \$67.7 million, up 9% over the prior year and comprising 10% of total assets at June 30, 2020. These

assets provide ample liquidity for university operations, including debt service requirements. They are invested in accordance with policy established by the finance and facilities committee of the board of trustees, and in a manner that preserves capital as a top priority, maximizes investment return within appropriate risk constraints, and aligns with the university's cash flow requirements.

- **Endowment investments** were estimated at \$378.6 million as of June 30, 2020, in comparison to \$380.5 million one year prior. Generous donor gifts, additions designated by the board of trustees, and prudent investment management, net of annual distributions, contributed to a 74% increase in the endowment over the decade (Figure 2). In fiscal year 2020, the endowment declined a net 0.5%, reflecting new additions and a pooled endowment return of 0.7%, less 4.06% of the beginning year balance in support of annual operations. Just over half of the endowment provides funding for student financial aid, with the remainder supporting faculty compensation, student and faculty research, academic programs, and other operating costs. The endowment is invested in a diversified portfolio (Figure 3) consistent with the endowment investment policy established by the finance and facilities committee of the board of trustees and executed by its investment subcommittee in partnership with Perella Weinberg Partners, Puget Sound's outsourced chief investment officer and co-fiduciary.

- **Campus facilities** comprise 1.5 million square feet of buildings on 97 acres, including green spaces, stands of fir trees, Tudor-Gothic architecture, and ivy-covered brick. Puget Sound's campus provides an integrated and inspiring living and learning environment that is consistent with its residential liberal arts mission. In 2019, The Princeton Review named Puget Sound among the top 20 most beautiful campuses in America. Funded by a combination of generous gifts, strategic use of debt, and unrestricted funds, the university invested \$125.3 million in campus facilities over the last 10 years (Figure 4). The historical cost, or book value, of campus facilities, net of depreciation, was \$200.8 million as of June 30, 2020. The university's average age of plant (accumulated depreciation divided by annual depreciation expense) is 13.6 years as compared to the 2019 median of 17.8 years for Puget Sound's national peer comparison group and 16.9 years for Moody's small A-rated private colleges, suggesting that Puget Sound has a lower level of deferred maintenance than its peers.

FIGURE 1 Asset Growth Over Time

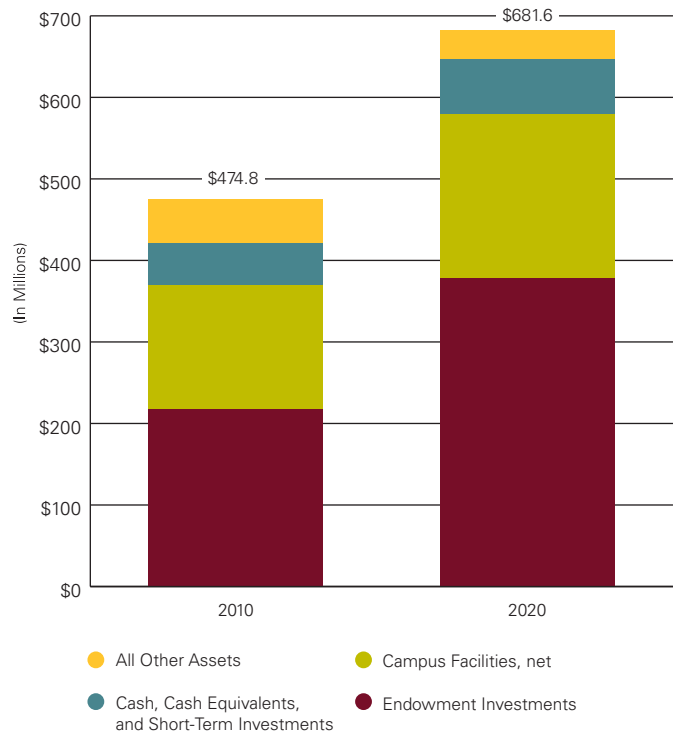


FIGURE 2 Sources of Endowment Growth



FIGURE 3 Endowment Asset Allocation

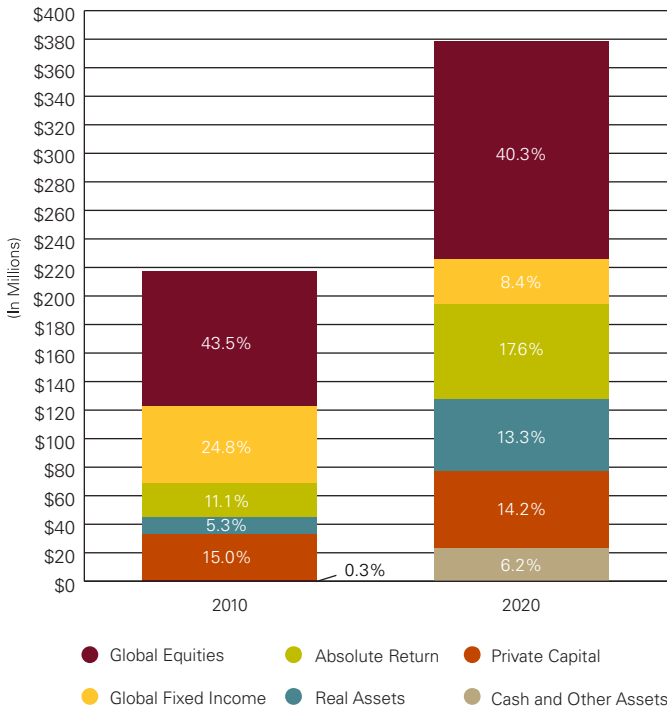


FIGURE 4 Funding Sources of Campus Facilities Additions

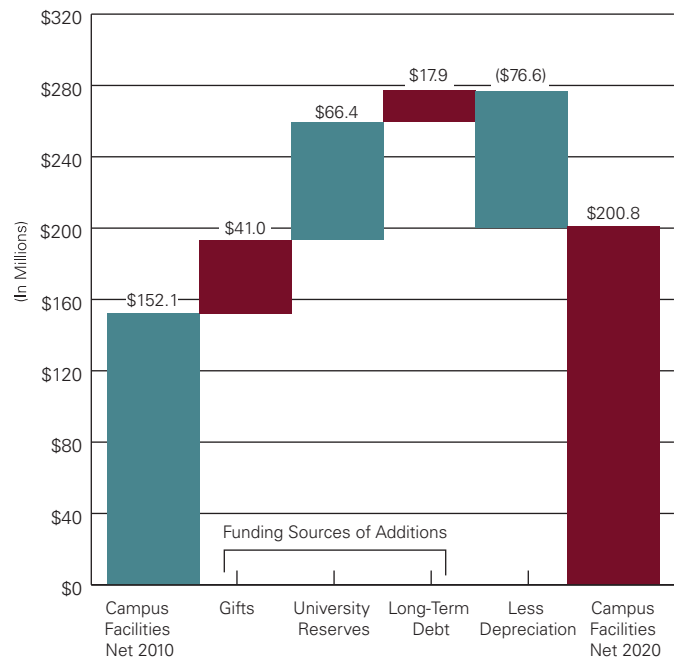


FIGURE 5 Operating Revenues and Gains

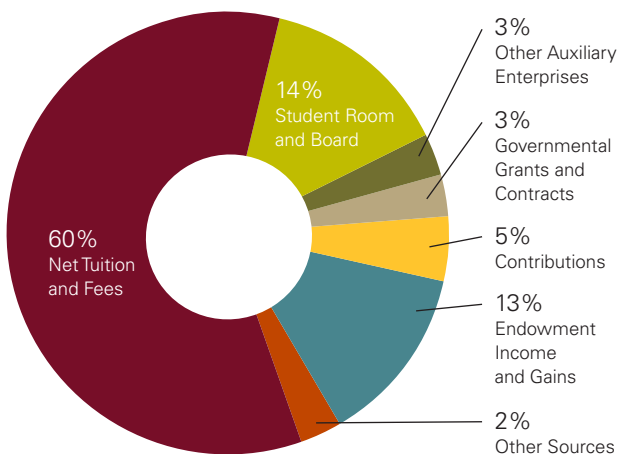
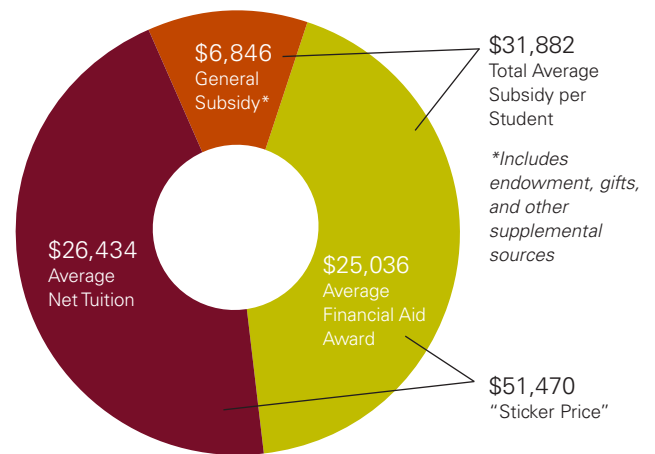


FIGURE 6 Keeping Undergraduate Tuition Affordable



Liabilities

Puget Sound’s liabilities totaled \$122.2 million at June 30, 2020, up from \$117.2 million in the prior year. Though total liabilities increased a net 4.3%, several individual categories of liabilities had larger-than-typical changes.

- Accounts payable, accrued payroll, and other liabilities totaled \$22.2 million, up 11%, or \$2.2 million, in 2020 primarily due to a \$1.5 million increase in the actuarially determined liability for the faculty early retirement and career transition plan (and associated medical benefits)

and lower discount rates used to calculate present value as detailed in Note 10 to the financial statements. Other liabilities also includes \$0.855 million in deferred revenue from the CARES Act that will be recognized in fiscal year 2021 as those funds are fully expended.

- Other deposits from students of \$4.9 million is up 172%, or \$3.1 million. The majority of the increase is driven by prorated room and board credits issued to students as the university shifted to remote operations in March.

- Government advances for student loans of \$9.6 million declined 16%, or \$1.8 million, in 2020 primarily due to the receipt of funds from the Department of Education as part of the wind-down of the Federal Perkins Loan Program as referenced in Note 1 to the financial statements.
- Long-term debt of \$68.7 million is the university's largest liability and includes \$68.5 million of tax-exempt bonds that are either traditional fixed-rate or synthetically fixed with interest rate swap agreements as more fully described in Note 6 to the financial statements. The use and management of long-term debt is guided by the board of trustees' debt policy, which recognizes that appropriate and strategic use of leverage enables the university to advance its mission, achieve its strategic goals, and ensure financial health in present terms and over the long term. As of Nov. 16, 2020, Puget Sound's credit ratings were A1 and A+ from Moody's Investors Service and Standard & Poor's Global Ratings, respectively. Fiscal year 2020 debt service as a percentage of operating expenses was 4.4%, as compared to the 2019 median of 5.0% for Moody's small A-rated private colleges, and its total cash and investments to total debt was 6.5%, as compared to the 2019 median of 4.3:1 for Moody's small A-rated private colleges.
- The mark-to-market balance on interest rate swap agreements, reflected as a liability, was \$12.4 million as of June 30, 2020, up from \$9 million in 2019. The book valuation fluctuates as interest rates rise and fall and will be zero when the swap agreements expire.

Net Assets

Net Assets totaled \$559.4 million at June 30, 2020, down 0.8% for the year. Of this amount, \$290.3 million, or 52%, is without donor restrictions, including \$137.7 million invested in or designated for campus facilities, \$123.6 million in unrestricted quasi-endowment, \$23 million designated for specific purposes, and \$6 million in general operating reserves. Liquid unrestricted net assets provide institutional flexibility and, with board approval, can help an institution weather a short-term fiscal shock. This flexibility is a strength and of particular value at the present time given the pandemic and the uncertainties and challenges it imposes.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Operating Revenues

Fiscal year 2020 operating revenues and gains totaled \$118 million, a decrease of 4.3% from 2019. Figure 5 provides a

breakdown of operating revenue composition, which is comparable to the prior year.

- Net tuition, fees, room, and board comprised 74% of 2020 operating revenues and gains, as compared to 77% in the prior year.
- Tuition and fees, net of student financial aid, totaled \$70.9 million, a decline of \$2.5 million, or 3.4%, from the prior year. Average fall and spring enrollment of 2,491 full-time-equivalent students was 35 fewer, or 1.4% lower, than in 2019. The average discount rate was 45.4% compared to 42.2% in 2019, reflective of changing student demographics and the competitive environment in which Puget Sound operates.
- Student room and board revenues declined \$4.2 million, or 19.8%, due to \$4.3 million in prorated room and board credits issued when students moved out of campus housing and the university shifted to remote learning in March in response to the COVID-19 public health crisis.
- Other auxiliary enterprises revenue totaled \$3.3 million, down 12.3% from 2019 due to lost conference, catering, and campus store revenues during remote operations necessitated by COVID-19.
- Governmental grants and contracts totaled \$3.1 million, up 38.6%, or \$0.9 million, from 2019 largely due to funding made available under the Coronavirus Aid, Relief, and Economic Security (CARES) Act via the Education Stabilization Fund for higher education and the Employee Retention Credit.
- Endowment distributions, contributions, and interest income: Operating support from endowment distributions, donor contributions, and interest income accounted for 19.4% of total operating revenues and gains, providing a source of funding for student financial aid awards and subsidizing the cost of education for all students (Figure 6).
- Endowment distributions of \$15.5 million provided 13% of operating revenues and gains in 2020 as compared to 12% in 2019. The annual endowment distribution was based on a board-approved spending formula that applied a 5% spending rate to a 36-month average endowment market value in a look-back period of July 2015 to June 2018, which resulted in an effective spending rate (distribution divided by beginning of the year market value) of 4.06% for 2020. Puget Sound's endowment spending formula resulted in a 10-year average effective spending rate of 4.2%.

- Contributions of \$5.6 million supporting operations accounted for 5% of operating revenues and gains, up from 3% in the prior year. In combination with contributions included in the nonoperating section of the Consolidated Statements of Activities, contributions totaled \$16.4 million for the year, the highest in eight years.
- Interest income from cash, cash equivalents, and short-term investments totaled \$1.8 million in 2020, down from \$2 million in 2019 due to lower interest rates.
- Other sources of revenue amounted to \$0.8 million, down 53.5%, or \$0.9 million, from 2019, due to the shift to remote operations in March and the resulting loss of event revenues, ticket sales, space rentals, and other miscellaneous revenues from in-person activities canceled during the pandemic.

Operating Expenses

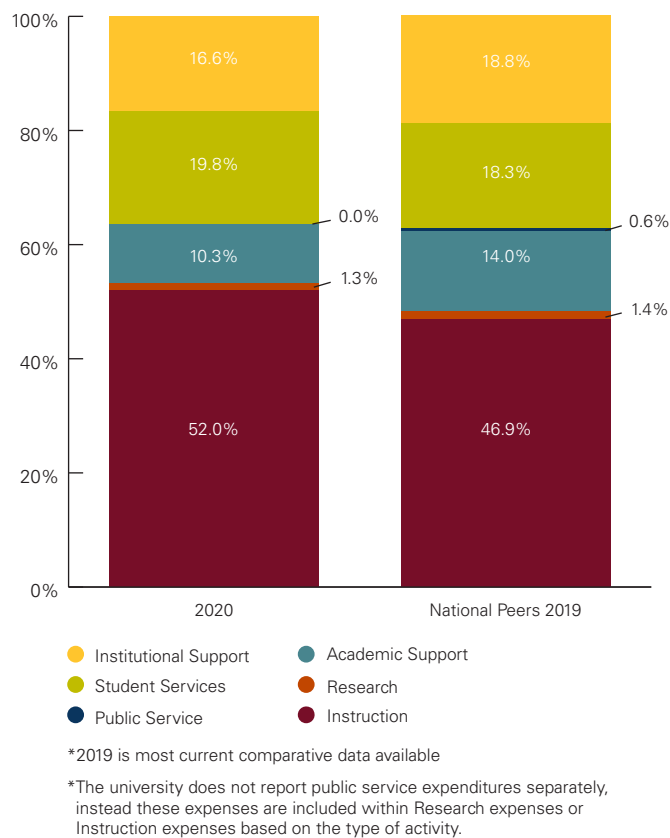
Operating expenses totaled \$115.4 million in 2020, reflecting a 2.6% decline from 2019 in keeping with lower revenues. Figure 7 provides a breakdown of educational and general expenses by major functional category in comparison to the most recently available data for its national peer comparison group. Puget Sound allocated a greater proportion of its resources to instruction and student services and a lower percentage to institutional support and academic support than its national peer comparison group. Puget Sound’s 2020 expenses for instruction, academic support, and student services were comparable to 2019, while institutional support expenses declined \$1.7 million, or 9.6%, due to a one-time payment in the prior year to reduce the notional amount on an “orphaned” interest rate swap agreement, as well as lower expenses in fiscal year 2020 for legal matters, contracted services, staff recruitment, and in-person events.

A high-quality liberal arts education is a labor-intensive undertaking and, as such, compensation is the university’s single largest expenditure and accounted for 72% of total educational and general expenses in 2020. Note 8 to the financial statements shows the natural classification of expenses within each of the major functional categories reported in the Consolidated Statements of Activities.

Increase in Net Assets From Operating Activities

2020 operating revenues and gains exceeded operating expenses by nearly \$2.7 million, resulting in an operating margin of 2.3%, a positive outcome given lost revenue during modified operations in response to the COVID-19 pandemic. The board of trustees designated the operating surplus to general operating reserves in light of the uncertainties and

FIGURE 7 Educational and General Expenses



challenges in the coming year as the university navigates the pandemic.

Nonoperating Activities

Net assets from nonoperating activities decreased a net \$7.1 million in 2020, including:

- \$10.8 million increase from donor contributions restricted to facilities and endowment, up from \$4.4 million in 2019
- \$13 million decrease from endowment gains and income net of the annual distribution for operations
- \$4.9 million decrease from other adjustments and changes, including \$3.4 million loss on the mark-to market valuation of interest rate swap agreements and \$1.4 million in actuarial adjustments

Closing Comment

Puget Sound concludes its 132nd year on strong financial footing that will serve it well in navigating the unprecedented challenges presented by the COVID-19 pandemic, while simultaneously advancing its 2018–28 student-centered strategic plan, *Leadership for a Changing World*.



Report of Independent Auditors

The Board of Trustees
University of Puget Sound

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Puget Sound and subsidiaries (the University), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Mission Statement, Introduction from the President and Report of the Executive Vice President and Chief Financial Officer have not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Report on Summarized Comparative Information

We have previously audited the University's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated supplemental schedule of changes in endowment investments, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in blue ink that reads "Moss Adams LLP".

Yakima, Washington
November 16, 2020

UNIVERSITY OF PUGET SOUND Consolidated Statements of Financial Position

As of June 30, 2020 (With Comparative Financial Information as of June 30, 2019)

(Dollars in Thousands)

	2020	2019
ASSETS:		
Cash and cash equivalents (Note 1)	\$ 40,581	\$ 30,148
Short-term investments	27,081	32,103
Receivables, net	2,948	1,883
Contributions receivable, net (Notes 1 and 2)	3,372	3,173
Inventories (Note 1)	433	456
Prepaid expenses and other assets	4,285	4,507
Student loans receivable, net (Note 1)	9,094	11,002
Beneficial interest in outside trusts (Notes 1 and 3)	611	957
Assets held under split-interest agreements (Notes 1 and 3)	4,559	5,037
Endowment investments (Notes 3 and 4)	378,614	380,507
Intangibles, net (Notes 1 and 5)	9,297	9,123
Assets restricted for investment in campus facilities	-	2,613
Campus facilities, net (Notes 1 and 5)	200,769	199,541
	<u>200,769</u>	<u>199,541</u>
Total assets	\$ 681,644	\$ 681,050
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 1,762	\$ 2,122
Accrued payroll and other liabilities (Note 10)	20,434	17,908
Advance deposits from students (Note 1)	4,878	1,792
Liabilities under split-interest agreements (Note 1)	2,492	2,649
Government advances for student loans (Note 1)	9,628	11,456
Asset retirement obligation (Notes 1 and 5)	2,006	1,707
Interest rate swap agreements (Notes 3 and 6)	12,392	9,021
Long-term debt, net (Note 6)	68,647	70,551
	<u>68,647</u>	<u>70,551</u>
Total liabilities	\$ 122,239	\$ 117,206
Net Assets:		
Net assets without donor restrictions:		
Available for operations	\$ 6,033	\$ 3,034
Invested in or designated for campus facilities	137,740	135,123
Endowment (Note 4)	123,577	127,148
Designated for other specific purposes	22,935	27,274
Total net assets without donor restrictions	<u>290,285</u>	<u>292,579</u>
Net assets with donor restrictions (Note 9)	269,120	271,265
	<u>269,120</u>	<u>271,265</u>
Total net assets	559,405	563,844
Total liabilities and net assets	\$ 681,644	\$ 681,050

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

UNIVERSITY OF PUGET SOUND Consolidated Statements of Activities

For the Year Ended June 30, 2020 (With Summarized Financial Information for the Year Ended June 30, 2019)

(Dollars in Thousands)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2020	2019
Operating:				
Revenues and gains:				
Student tuition and fees	\$ 128,483		\$ 128,483	\$ 125,673
Less student financial aid	(57,566)		(57,566)	(52,296)
Net tuition and fees	70,917		70,917	73,377
Student room and board	17,081		17,081	21,289
Other auxiliary enterprises	3,329		3,329	3,798
Governmental grants and contracts	120	\$ 2,937	3,057	2,206
Contributions	2,270	3,338	5,608	3,979
Endowment income and gains distributed (Note 4)	4,974	10,498	15,472	14,962
Interest income	1,192	590	1,782	2,041
Other sources	799	5	804	1,722
Total operating revenues and gains	100,682	17,368	118,050	123,374
Expenses:				
Educational and general:				
Instruction	49,936		49,936	50,204
Academic support	9,658		9,658	9,646
Student services	18,536		18,536	18,454
Institutional support	15,591		15,591	17,251
Total educational and general expenses	93,721		93,721	95,555
Auxiliary enterprises	21,666		21,666	22,910
Total operating expenses	115,387		115,387	118,465
Net assets released from restrictions	14,642	(14,642)	-	-
Increase in net assets from operating activities	(63)	2,726	2,663	4,909
Nonoperating:				
Contributions	60	10,729	10,789	4,417
Change in allowance for uncollectible promises (Note 2)	-	(11)	(11)	(27)
Net losses and income on endowment investments, net of distributions (Note 4)	(4,139)	(8,811)	(12,950)	6,596
Other adjustments and changes	(4,390)	(540)	(4,930)	(2,819)
Net assets released from restrictions	6,238	(6,238)	-	-
(Decrease) increase in net assets from nonoperating activities	(2,231)	(4,871)	(7,102)	8,167
(Decrease) increase in net assets	(2,294)	(2,145)	(4,439)	13,076
Net assets at beginning of the year	292,579	271,265	563,844	550,768
Net assets at end of the year	\$ 290,285	\$ 269,120	\$ 559,405	\$ 563,844

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

UNIVERSITY OF PUGET SOUND Consolidated Statements of Cash Flows

For the Year Ended June 30, 2020 (With Comparative Financial Information for the Year Ended June 30, 2019)

(Dollars in Thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (4,439)	\$ 13,076
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,805	10,918
Contributions restricted for long-term investment	(11,063)	(4,483)
Gifts of investments, property, and outside trusts	(26)	(106)
(Gains) losses on endowment investments and split-interest agreements	333	(19,163)
Actuarial adjustments of liabilities under split-interest agreements	447	146
Loss on disposal of assets	94	82
Amortization of tax-exempt bond premium, discount, and issuance costs	29	(141)
Accretion, settlement, and adjustments to asset retirement obligations	299	28
Unrealized loss on interest rate swap agreements	3,371	1,506
Changes in:		
Receivables, net	(1,065)	(3)
Contributions receivable, net	(199)	250
Inventories, prepaid expenses, and other assets	245	(234)
Accounts payable	66	(379)
Accrued payroll and other liabilities	2,526	1,174
Advance deposits from students	3,085	(429)
Net cash provided by operating activities	<u>4,508</u>	<u>2,242</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	80,455	75,533
Purchases of investments	(78,415)	(67,137)
Net (purchases) sales of short-term investments	5,047	(3,200)
Receipt of assets restricted for investment in campus facilities	2,613	891
Purchases of campus facilities and intangibles	(12,726)	(10,394)
Repayments of Perkins loans from students	1,723	1,772
Net cash provided (used) for investing activities	<u>(1,303)</u>	<u>(2,535)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	11,063	4,483
Investment (expense) income subject to split-interest agreements	(23)	143
New liabilities under split-interest agreements	55	-
Payments to split-interest agreement beneficiaries	(291)	(364)
Proceeds from long-term debt	24,280	-
Bonds cost of issuance	(243)	-
Repayments of long-term debt	(25,970)	(1,622)
Changes in government advances for student loans	(1,643)	238
Net cash provided by financing activities	<u>7,228</u>	<u>2,878</u>
Net increase (decrease) in cash and cash equivalents	10,433	2,585
Cash and cash equivalents at beginning of the year	<u>30,148</u>	<u>27,563</u>
Cash and cash equivalents at end of the year	<u>\$ 40,581</u>	<u>\$ 30,148</u>
Supplemental cash flow information:		
Interest paid (net of capitalized interest of \$57 and \$17 in 2020 and 2019, respectively)	<u>\$ 3,327</u>	<u>\$ 3,510</u>
Noncash investing and financing activities:		
Purchases of equipment and building construction on account	<u>\$ 484</u>	<u>\$ 910</u>
Student loan cancellations	<u>\$ 185</u>	<u>\$ 175</u>

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

UNIVERSITY OF PUGET SOUND Consolidated Supplemental Schedule of Changes in Endowment Investments

For the Year Ended June 30, 2020 (With Comparative Financial Information for the Year Ended June 30, 2019)

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>
Endowment investments, beginning of the year	\$ 380,507	\$ 369,038
Contributions	10,047	2,629
Transfers and other additions	1,010	2,244
Return on endowment investments	2,522	21,558
Amount distributed for operating activities	<u>(15,472)</u>	<u>(14,962)</u>
Net change in endowment investments	<u>(1,893)</u>	<u>11,469</u>
Endowment investments, end of the year	<u>\$ 378,614</u>	<u>\$ 380,507</u>
Total return on pooled endowment	0.66%	5.79%

See accompanying Report of Independent Auditors

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

The University of Puget Sound (the university, Puget Sound), established in 1888, is a nonprofit corporation organized under the laws of the state of Washington. The university is an independent predominantly residential undergraduate liberal arts college with selected graduate programs building effectively on a liberal arts foundation. The university, as a community of learning, maintains a strong commitment to teaching excellence, scholarly engagement, and fruitful student-faculty interaction.

The mission of the university is to develop in its students capacities for critical analysis, aesthetic appreciation, sound judgment, and apt expression that will sustain a lifetime of intellectual curiosity, active inquiry, and reasoned independence. A Puget Sound education, both academic and co-curricular, encourages a rich knowledge of self and others; an appreciation of commonality and difference; the full, open, and civil discussion of ideas; thoughtful moral discourse; and the integration of learning, preparing the university's graduates to meet the highest tests of democratic citizenship. Such an education seeks to liberate each person's fullest intellectual and human potential to assist in the unfolding of creative and useful lives.

Basis of Accounting and Presentation

The accompanying financial statements are the consolidated statements of the university and its wholly owned subsidiaries CVI GVF Holdings 13 Ltd. and Rainier Heights Holdings, LLC. All material transactions between the university and its consolidated subsidiaries have been eliminated.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). While the underlying accounts of the university are maintained in accordance with the principles of fund accounting to facilitate observance of specific restrictions placed on the resources available to the university, the consolidated financial statements focus on the university as a whole.

The university's activities and net assets are classified in the consolidated financial statements as described below:

Net Assets without Donor Restrictions – resources not subject to donor-imposed restrictions.

Net Assets with Donor Restrictions – resources subject to donor-imposed restrictions (1) that can be expended subject to donor-imposed restrictions as to use or passage of time or (2) that a donor requires the university to retain in perpetuity. Generally, the donor permits the university to use all or a part of the income and appreciation earned on the contributed assets.

The university has defined nonoperating activities to include contributions added to endowment, contributions supporting major capital purchases, contributions and other activity related to split-interest agreements, and changes in the allowance for uncollectible promises. Also included are retirement plan actuarial adjustments, interest rate swap agreement changes in fair value, endowment income, gains, or losses, net of amounts distributed to support operations in accordance with the applicable spending policies. Certain other gains and losses that do not occur in the normal course of operations are also included in nonoperating activity.

The Consolidated Statements of Activities include comparative summarized information for the year ended June 30, 2019. Such information does not include sufficient detail by net asset class to constitute a presentation in conformity with U.S. GAAP. Accordingly such information should be read in conjunction with the university's consolidated financial statements for the year ended June 30, 2019, from which the summarized information was derived. In addition, the notes to the consolidated financial statements exclude comparative information for certain disclosures. Certain reclassifications of prior year amounts have been made to conform to the 2020 classifications. Such reclassifications had no effect on previously reported net assets, change in net assets or net cash flows.

Use of Estimates

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

Revenue Recognition

The university's revenue recognition policies are as follows:

Student Tuition, net of Financial Aid

The university recognizes revenue from student tuition and fees within the fiscal year in which the educational services are provided. The academic programs are delivered in the Fall (mid-August to mid-December) and Spring (mid-January to mid-May) terms, as well as in three summer terms that span from May to August. Payments for tuition are due approximately two weeks prior to the start of the semester, and are recorded as deferred revenue until the performance obligations are met.

The university offers both need-based and merit-based aid. Institutional awards in the form of financial aid scholarships and grants, including those funded by the endowment and gifts, are reported as a reduction to student tuition revenues. Institutional awards to students were \$57.6 million and \$52.3 million for the years ended June 30, 2020 and 2019, respectively.

Auxiliary Enterprises

Auxiliary enterprises exist to furnish goods or services to students, faculty and staff. Fees charged for auxiliary goods and services are priced to offset the cost of the goods or services provided. The distinguishing characteristic of auxiliary enterprises is that they are managed as an essentially self-supporting activity. Revenues and expenses from auxiliary enterprises are reported as changes in net assets without donor restrictions.

Auxiliary enterprise revenue includes student room and board, conference services, and the campus bookstore. The revenues are earned and recognized over the course of each term as the goods and services are delivered.

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Governmental grants and contracts**

Revenues from government grants and contracts have been evaluated and are considered non-exchange transactions, as the grantor does not receive a direct benefit for the resources provided to the university. Revenue is not recorded until barriers to entitlement are overcome and other conditions are met, which generally occurs as allowable expenditures are incurred. Contributions for which conditions and restrictions are met in the same reporting period are included within net assets without donor restrictions.

Functional Allocation of Expenses

The costs of various program activities have been summarized on a functional basis in the Consolidated Statements of Activities in accordance with the overall educational mission of the university. The analysis of functional expenses in Note 8 presents the natural classification detail of expenses by function. Costs have been either directly charged to or allocated among programs and the supporting activities. Costs not directly charged are allocated based on square footage, time and effort, or other reasonable basis.

Fundraising Expenses

Fundraising expenses of \$2,901 and \$3,282 are included in Institutional support in the Consolidated Statements of Activities for the years ended June 30, 2020 and 2019, respectively, and include direct expenses associated with fundraising activities and allocations for depreciation expense, interest on long-term debt, operation and maintenance of campus facilities, and information technology support.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with maturities of three months or less when purchased, except for those held for long-term investment. Cash equivalents totaled \$21,057 and \$11,835, respectively, at June 30, 2020 and 2019. The university's cash balances exceed federally insured limits at times. The university has not experienced any significant losses on its cash investments.

Contributions Receivable

Unconditional promises (contributions receivable) are recognized at the estimated present value of expected future cash flows, discounted using a risk-adjusted rate. An allowance for uncollectible promises is provided based on management's judgment, including but not limited to factors such as prior giving history, type of contribution, collection risk, and nature of fundraising activity. Conditional promises are recorded when donor stipulations are substantially met. Contributions received, including unconditional promises to give, are recognized as revenues in the period received.

Inventories

Inventories are carried at cost using the average cost method. The cost of inventories is not in excess of net realizable value.

Student Loans Receivable

The university participates in the Federal Perkins revolving loan program. The availability of funds for loans under the program has historically been dependent on reimbursements to the pool from repayments on outstanding loans. The Federal Perkins loan program expired on September 30, 2017, so no new loans have been disbursed after the close of the 2018 award year. The outstanding loan balance was \$9,094 and \$11,002 at June 30, 2020 and 2019, respectively. Funds contributed to the program by the Federal government must ultimately be returned to the government, therefore they are classified as liabilities under "Government advances for student loans" in the Consolidated Statements of Financial Position. Outstanding loans cancelled under the program result in a decrease in the liability to the government.

Investments

Investments include short-term investments, endowment investments, investments included in prepaid expenses and other assets, and assets held in split-interest agreements trusted by the university. Investments are stated at fair value (see Note 3) reported in the context of market conditions as of the valuation date. The university employs procedures to ensure appropriate oversight of its investments. Procedures include ongoing monitoring and review of valuations and assumptions provided by investment managers. Based on the results of these procedures, the university believes that the carrying amounts of these financial instruments are reasonable estimates of the fair value. Perpetual trusts and some charitable remainder trusts are managed by outside trustees and are not subject to the university's investment policies.

For real estate or hard-to-value assets held for investment directly or in trust by the university or its subsidiaries, reported fair value is based on a representative appraisal performed at intervals appropriate to establish current market values, with consideration given to the cost/benefit of the appraisal. Investment transactions are recorded on a trade-date basis and the cost of securities sold is based on their weighted average cost. Interest is accrued as earned, and dividends are recorded on the ex-dividend date.

Risk and Investment Performance

Cash, cash equivalents, and investments are exposed to various risks, which can include interest rate, market, and credit risks. To minimize these risks, the university has a diversified portfolio with a number of investment managers in a variety of asset classes. The university regularly evaluates its investments including their performance. Due to inherent risks and potential volatility in investment valuations, the amounts reported in the Consolidated Statements of Financial Position and Consolidated Statements of Activities can vary substantially from year to year.

Beneficial Interest in Outside Trusts

Funds held in trust by others represent resources neither in the possession nor under the control of the university. These trusts are administered by outside trustees, with the university deriving income and/or a residual interest from the assets. When an irrevocable trust is established and the university is notified of its existence and can establish the fair value of the assets of the trust, the university recognizes its beneficial interest in the outside trust as a contribution at fair value. The fair value is measured as the present value of the estimated expected future benefits to be received when the trust assets are distributed. The contribution revenue recognized is classified as an increase in net assets with donor restriction based

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

on the time or use restrictions placed by the donor upon the university's beneficial interest in the assets. Periodic adjustments to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate are recognized as actuarial gains or losses. The discount rates used at June 30, 2020 and June 30, 2019, were 0.60% and 2.80%, respectively.

Amounts held as Trustee or Agent Under Split-Interest Agreements

The university has legal title, either in the university's name or as trustee, to charitable remainder and lead trusts. No significant financial benefit can be realized until the contractual obligations are released. The university also receives contributions for charitable gift annuity contracts. Actuarial methods are used to record these annuities and trusts using discount rates ranging from 1.20% to 9.40%. For charitable gift annuities and charitable remainder trusts, when a gift is received, the present value of future expected payments to the beneficiaries is recorded as a liability based upon life expectancy tables and current discount rate assumptions and the remainder is recorded as a contribution. For charitable lead trusts, when a gift is received, the present value of future expected payments to the university, as lead beneficiary, is recorded as a contribution and the remainder is recorded as a liability to the remainder beneficiaries. Contribution revenue recognized from charitable gift annuities and charitable remainder and lead trusts is classified as an increase in assets with or without donor restriction, based on the existence or absence of time or use restrictions placed by the donor upon the university's interest in the assets. Annuity and trust assets are reported at fair value. Investment income and gains are credited, and beneficiary payments, direct costs of funds management, and investment losses are charged to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses resulting from changes in fair value and life expectancy.

The university maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws. The total amount held in separate reserve funds was \$728 as of June 30, 2020, and \$882 as of June 30, 2019.

Intangible Assets and Campus Facilities

Intangible assets, including software and software related contracts, electronic library resources, and website development costs, are recorded at cost. Purchased intangible assets with a cost of \$5 or more and developed intangible assets with a cost of \$100 or more are capitalized. Intangible library resources do not have a capitalization threshold. These assets have finite useful lives and are amortized on a straight-line basis over their estimated useful lives, ranging from four to 20 years.

Campus facilities, including land and improvements, buildings and improvements, equipment, and library resources, are recorded at cost or, if received as a gift, at fair value on the date of donation. Land improvements, buildings, and building improvements with a cost of \$25 or more and equipment with a cost of \$5 or more, are capitalized. Library resources and collections do not have capitalization thresholds. The university's natural history and other collections are capitalized but not depreciated. Maintenance and repairs are charged to operations when they occur. Expenditures that significantly increase the value, performance, capacity, or service potential or extend the useful lives of campus facilities are capitalized and depreciated. Depreciation is computed on a straight-line basis over estimated useful lives of 15 to 50 years for land improvements, 25 to 75 years for buildings, 20 to 40 years for building improvements, 4 to 10 years for equipment, and 15 years for library resources.

The costs and accumulated depreciation and amortization of assets sold or retired are removed from the accounts, and the related gains and losses are included in the Consolidated Statements of Activities. In the absence of donor-imposed restrictions on the use of assets, gifts of long-lived assets are reported as contributions without donor restrictions.

Asset Retirement Obligations

Asset retirement obligations include legal obligations associated with the retirement of long-lived assets. These liabilities are recorded at fair value when incurred and are capitalized by increasing the carrying amount of the associated long-lived asset. The fair value of each obligation is measured based on the present value of estimated future retirement costs. Asset retirement costs are depreciated on a straight-line basis over the useful life of the associated asset. Subsequent to the initial recognition, period-to-period changes in the carrying amount of the liability are recorded due to the passage of time and revisions to either the timing or amount of the original estimated cash flows. The liability is removed when the related obligation is settled.

Advance Deposits from Students

Payments from students received by the end of the current fiscal year that are for a term in the subsequent fiscal year have been deferred for inclusion in operating revenues without donor restrictions in that subsequent year. Advance deposits at June 30, 2020 and 2019 were \$2,708 and \$585, respectively.

Federal Income Taxes

The university has been recognized by the Internal Revenue Service as exempt from federal income taxes under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3) except to the extent of unrelated business taxable income. Donations to the university are generally tax deductible to the donor. The university's wholly-owned subsidiaries CVI GVF Holdings 13 Ltd. and Rainier Heights Holdings, LLC are subject to federal income tax as applicable. The university had no unrecognized tax benefits that would have required an adjustment to its net assets, and no unrecognized tax benefits at June 30, 2020 or 2019.

NOTE 2 – PROMISES TO GIVE AND CONDITIONAL GRANTS

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

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Endowment	\$ 1,551	\$ 1,408
Construction and improvement of campus facilities	1,219	1,927
Student financial aid	147	73
Other programs and activities, including unrestricted promises for future periods	<u>657</u>	<u>112</u>
	3,574	3,520
Discount to present value	(111)	(247)
Allowance for uncollectable promises	<u>(91)</u>	<u>(100)</u>
	<u>\$ 3,372</u>	<u>\$ 3,173</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,508	
One to five years	<u>2,066</u>	
	<u>\$ 3,574</u>	

Discount rates ranged from 1.16% to 1.49% and 1.14% to 3.23% for June 30, 2020 and June 30, 2019, respectively.

Conditional promises to give totaled \$1,029 and \$1,417 for June 30, 2020 and June 30, 2019, respectively. Conditions include meeting a fundraising goal and submissions of research proposals. These promises will be recognized when conditions are substantially met.

Conditional grants, both grants receivable and grant funds received but unexpended because conditions have not been met, totaled \$2,041 and \$1,309 for June 30, 2020 and June 30, 2019, respectively. Conditions include expending funds on allowable costs in accordance with the terms of the grants.

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value measurements are determined based on the assumptions that market participants, in the context of an orderly market, would use in pricing an asset or liability. U.S. GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in an active market for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

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

Unobservable inputs reflect an entity's own determination about the assumptions that market participants would use in pricing the asset or liability.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or the equivalent) practical expedient have not been classified in the fair value hierarchy leveling. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statements of Financial Position.

NOTE 3 – FAIR VALUE MEASUREMENTS, CONTINUED

For assets and liabilities reported at fair value, the following table presents the fair value measurements used as of June 30, 2020:

	Totals	Level 1	Level 2	Level 3
Endowment investments:				
Global equity:				
US	\$ 26,724	\$ 26,724	\$ -	\$ -
International	20,555	20,555	-	-
Global equity measured at net asset value	105,387	-	-	-
Global fixed income/credit:				
Mutual funds	15,788	15,788	-	-
Balanced fund	3,749	3,749	-	-
Global fixed income/credit measured at net asset value	12,209	-	-	-
Absolute return hedge funds:				
Absolute return hedge funds measured at net asset value	66,470	-	-	-
Real assets:				
Real assets measured at net asset value	50,478	-	-	-
Private capital:				
Private capital measured at net asset value	53,800	-	-	-
Cash and other assets:				
Cash and short-term investments	20,885	20,885	-	-
Perpetual trusts	2,164	-	-	2,164
Restricted cash measured at net asset value	405	-	-	-
Total endowment investments	<u>378,614</u>	<u>87,701</u>	<u>-</u>	<u>2,164</u>
Other investments:				
Marketable securities	7,414	7,414	-	-
Municipal/government agency obligations	19,667	-	19,667	-
Real estate	3,483	-	-	3,483
Beneficial interest in outside trusts	611	-	-	611
Assets held under split interest agreements	4,559	3,307	1,252	-
Total assets	<u>\$ 414,348</u>	<u>\$ 98,422</u>	<u>\$ 20,919</u>	<u>\$ 6,258</u>
Liabilities:				
Interest rate swap agreements	\$ 12,392	\$ -	\$ 12,392	\$ -
Total liabilities	<u>\$ 12,392</u>	<u>\$ -</u>	<u>\$ 12,392</u>	<u>\$ -</u>
Investments measured at net asset value:				
Global equity:				
Commingled global equity	\$ 72,081	25% quarterly or 100% annually	90 days	\$ -
Commingled global equity	32,548	Illiquid		-
Commingled global equity impact	758	25% quarterly or 100% annually		-
	<u>\$ 105,387</u>			<u>\$ -</u>
Global fixed income/credit:				
Commingled global fixed income	\$ 8,411	25% quarterly or 100% annually	90 days	\$ -
Commingled global fixed income	3,798	Illiquid		-
	<u>\$ 12,209</u>			<u>\$ -</u>
Absolute return hedge funds:				
Absolute return hedge funds in liquidation	\$ 62	In Liquidation		\$ -
Commingled absolute return hedge funds	45,750	25% quarterly or 100% annually	90 days	-
Commingled absolute return hedge funds	20,658	Illiquid		-
	<u>\$ 66,470</u>			<u>\$ -</u>
Real assets:				
Private energy	\$ 34,829	Illiquid		\$ 454
Timber	3,421	Illiquid		10
Real estate	1,651	Illiquid		97
Sustainable real assets	833	Illiquid		1,641
Commingled real assets	3,476	25% quarterly or 100% annually	90 days	-
Commingled real assets	6,268	Illiquid		-
	<u>\$ 50,478</u>			<u>\$ 2,202</u>
Private capital:				
Private capital	\$ 20,044	Illiquid		\$ 12,263
Commingled private capital	33,756	Illiquid		-
	<u>\$ 53,800</u>			<u>\$ 12,263</u>
Cash:				
Restricted cash redemptive	\$ 280	25% quarterly or 100% annually	90 days	\$ -
Restricted cash non-redemptive	125	Illiquid		-
	<u>\$ 405</u>			<u>\$ -</u>

NOTE 3 – FAIR VALUE MEASUREMENTS, CONTINUED

For assets and liabilities reported at fair value, the following table presents the fair value measurements used as of June 30, 2019:

	Totals	Level 1	Level 2	Level 3
Endowment investments:				
Global equity:				
US	\$ 22,788	\$ 22,788	\$ -	\$ -
International	28,162	28,162	-	-
Global equity measured at net asset value	110,491	-	-	-
Global fixed income/credit:				
Mutual funds	27,156	27,156	-	-
Balanced fund	825	825	-	-
Global fixed income/credit measured at net asset value	12,393	-	-	-
Absolute return hedge funds:				
Absolute return hedge funds measured at net asset value	67,626	-	-	-
Real assets:				
Real assets measured at net asset value	51,624	-	-	-
Private capital:				
Private capital measured at net asset value	53,670	-	-	-
Cash and other assets:				
Cash and short-term investments	2,913	2,913	-	-
Perpetual trusts	2,227	-	-	2,227
Restricted cash measured at net asset value	632	-	-	-
Total endowment investments	<u>380,507</u>	<u>81,844</u>	<u>-</u>	<u>2,227</u>
Other investments:				
Marketable securities	7,145	7,145	-	-
Municipal/government agency obligations	27,570	-	27,570	-
Real estate	3,032	-	-	3,032
Beneficial interest in outside trusts	957	-	-	957
Assets held under split interest agreements	5,037	3,631	1,406	-
Total assets	<u>\$ 424,248</u>	<u>\$ 92,620</u>	<u>\$ 28,976</u>	<u>\$ 6,216</u>
Liabilities:				
Interest rate swap agreements	\$ 9,021	\$ -	\$ 9,021	\$ -
Total liabilities	<u>\$ 9,021</u>	<u>\$ -</u>	<u>\$ 9,021</u>	<u>\$ -</u>
Investments measured at net asset value:				
Global equity:				
Commingled global equity	\$ 82,221	25% quarterly or 100% annually Illiquid	90 days	\$ -
Commingled global equity	27,501	-	-	-
Commingled global equity impact	769	25% quarterly or 100% annually	-	-
	<u>\$ 110,491</u>	-	-	<u>\$ -</u>
Global fixed income/credit:				
Commingled global fixed income	\$ 9,287	25% quarterly or 100% annually Illiquid	90 days	\$ -
Commingled global fixed income	3,106	-	-	-
	<u>\$ 12,393</u>	-	-	<u>\$ -</u>
Absolute return hedge funds:				
Absolute return hedge funds in liquidation	\$ 63	In Liquidation	-	\$ -
Commingled absolute return hedge funds	50,629	25% quarterly or 100% annually Illiquid	90 days	-
Commingled absolute return hedge funds	16,934	-	-	-
	<u>\$ 67,626</u>	-	-	<u>\$ -</u>
Real assets:				
Private energy	\$ 38,776	Illiquid	-	\$ 1,046
Timber	3,525	Illiquid	-	10
Real estate	2,046	Illiquid	-	390
Sustainable real assets	133	Illiquid	-	2,319
Commingled real assets	3,164	25% quarterly or 100% annually Illiquid	90 days	-
Commingled real assets	3,980	-	-	-
	<u>\$ 51,624</u>	-	-	<u>\$ 3,765</u>
Private capital:				
Private capital	\$ 24,879	Illiquid	-	\$ 14,338
Commingled private capital	28,791	Illiquid	-	-
	<u>\$ 53,670</u>	-	-	<u>\$ 14,338</u>
Cash:				
Restricted cash redemptive	\$ 474	25% quarterly or 100% annually Illiquid	90 days	\$ -
Restricted cash non-redemptive	158	-	-	-
	<u>\$ 632</u>	-	-	<u>\$ -</u>

NOTE 3 – FAIR VALUE MEASUREMENTS, CONTINUED

Although the university uses its best judgment in determining the fair value of assets and liabilities, there are inherent limitations in any methodology. Therefore, the values presented herein are not necessarily indicative of the amount the university could realize in a current transaction. Future confirming events could affect the estimates of fair value and could be material to the consolidated financial statements. These events could also affect the amount realized upon liquidation of the investments. Carrying amounts for cash and cash equivalents approximate fair value because of the short maturity of these instruments.

Redemption terms and restrictions and unfunded commitments are presented for investments when manager-reported net asset value (NAV) is used as a practical expedient to estimate fair value. Valuations of underlying assets which comprise the NAV are provided by fund managers and consider observable market-based inputs, observable market data, valuation models, comparable sales, recent known financing transactions, and income streams discounted for risk levels, among other valuation methodologies.

Global equities include marketable US and international securities held in exchange traded funds and commingled multi-manager pools. The investments consist of primarily equity-oriented securities from developed and emerging markets globally. The exchange traded funds are passive strategies designed to closely track specified equity benchmarks. The commingled pools include exposure to passive strategies to closely track specified equity benchmarks and active strategies that attempt to deliver above-market performance. Directional hedged equities generally utilize both long and short positions in corporate securities and derivatives to provide favorable risk-adjusted returns.

Global fixed income investments provide diversification to reduce the overall volatility and generate predictable cash flows that can be used in support of annual spending requirements. Fixed income is diversified across various sub-classes by investment style and strategy.

Absolute return hedge funds utilize strategies designed to generate long-term capital appreciation with low volatility and little correlation with equity and bond markets. Some absolute return funds may invest a small portion of assets in private capital funds or other illiquid vehicles.

Real assets include private investments in real estate, timber, oil, natural gas, and agriculture. The primary purpose of these investments is to provide a potential hedge against inflationary pressures and to achieve overall portfolio diversification. Real asset investments may have low correlations to the traditional equity and fixed income markets and offer attractive long-term risk-adjusted returns.

Private capital funds are not generally available for liquidation by the university and depend on fund managers' decisions about exit timing to provide distributions. In addition, the university has minimal ability to influence the operating decisions affecting these investments. The fair values of private capital funds have been estimated using the most current information available and as applicable, adjusting for cash flows since the valuation date.

Unfunded commitments may be called at any time during the fund investment periods, which currently range from one to 12 years.

The following table presents changes for assets measured at fair value using significant unobservable inputs (Level 3):

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Balance, beginning of the year	\$ 6,216	\$ 6,061
Total realized and unrealized gains (losses)	503	529
Purchases	-	-
Issues	-	-
Sales	(116)	(162)
Net transfers	(345)	(212)
Balance, end of the year	<u>\$ 6,258</u>	<u>\$ 6,216</u>

Unrealized gains (losses) related to Level 3 assets held at the end of the year included in "Net gains (losses) and income on endowment investments, net of distributions" in the Consolidated Statements of Activities

<u>\$ 503</u>	<u>\$ 529</u>
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NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS

At June 30, 2020, the university's endowment consisted of approximately 649 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowments and funds designated by the board of trustees to function as endowments (quasi-endowments). Quasi-endowment funds may be expended at the discretion of the university's board of trustees. As required by U.S. GAAP, net assets associated with endowment funds, including quasi-endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment Investment and Spending Policies

To enable broad diversification and economies of scale, the university's policy is to pool endowment assets for investment purposes to the fullest extent possible as permitted by gift agreements and applicable government regulations. On January 1, 2017, the university implemented its Board of Trustees' Statement on Divestment, a portion of which creates a new fossil fuel free portfolio within the pooled endowment. This option provides donors a way to make gifts to a pool that avoids investment in companies deemed to contribute to climate change. In the rare cases when a donor has prohibited a gift from being pooled for investment purposes, such endowments (referred to as non-pooled endowments) are separately invested and managed.

NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS, CONTINUED

The university’s pooled endowment provides ongoing financial support for operations that will remain stable (or grow) in real or inflation-adjusted terms, as adjusted for new additions to the pooled endowment. The primary investment objective of the pooled endowment is to provide a sustainable maximum level of return consistent with prudent risk levels. The specific investment objectives of the general and fossil fuel free pooled endowments are to attain annual total real return of at least 5% and 3.5%, respectively, over the long-term. Policy dictates that adherence to a sound long-term investment program, which balances short-term spending needs with the preservation of the real (inflation-adjusted) value of assets, is crucial to the endowment’s long-term success. Investments are diversified across a wide range of asset classes, including those providing return premiums for illiquidity, so as to provide a balance that will enhance total return under a range of economic scenarios, while avoiding undue risk concentrations in any single asset class or investment category. Sufficient liquidity in the endowment portfolio to meet the spending policy and operational needs, preserve the university’s desired credit ratings, and maintain compliance with any debt agreements is also considered when making investment decisions regarding asset allocation.

In accordance with the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA), the university considers the following factors, among others, in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the university and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the university; and (7) the investment policies of the university.

Pooled endowment spending is determined using the total return concept. The board of trustees approved a spending rate for the general pooled endowment based on 5% of a trailing 36-month average market value and for the fossil fuel free portfolio based on 3.5% of the inception to date average market value for the years ended June 30, 2020 and 2019. For a few donor-restricted endowment funds, the university honors and adheres to donor-stipulated spending limitations.

At June 30, 2020, nearly 99.2% of the university’s endowment investments were pooled.

Funds with Deficiencies

As of June 30, 2020 and 2019, there were \$8 and \$0, respectively, in endowment funds with values less than the total original and all subsequent contributions. Deficiencies of this nature are reported in net assets with donor restrictions.

Interpretation of Relevant Law

Consistent with its understanding of donor intent, the board of trustees of the university has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The university classifies as net assets with donor restrictions: (a) the original value of gifts to donor-restricted endowments and (b) any other amounts added to donor-restricted endowments that donors have stipulated are not expendable. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restriction until those amounts are appropriated for expenditure by the university in a manner consistent with the standard of prudence prescribed by UPMIFA. Board-designated quasi-endowment funds with donor restrictions were established with expendable restricted bequests and gifts.

Net asset balances and changes to the net asset balances for the year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ 127,148	\$ 254,618	\$ 381,766
Contributions, net	60	10,157	10,217
Transfers and other additions (deductions)	507	504	1,011
Return on investments:			
Investment income (loss)	868	1,858	2,726
Net appreciation (depreciation) of investments	(32)	(171)	(203)
Total return on investments	836	1,687	2,523
Amount distributed for operating activities	(4,974)	(10,498)	(15,472)
Endowment net assets, June 30, 2020	<u>123,577</u>	<u>256,468</u>	<u>380,045</u>
Endowment net assets consisted of the following at June 30, 2020:			
Donor-restricted endowments	-	253,422	253,422
Board-designated quasi-endowments	123,577	1,615	125,192
	<u>123,577</u>	<u>255,037</u>	<u>378,614</u>
Unconditional promises to endowment	-	1,431	1,431
Total endowment net assets	<u>\$ 123,577</u>	<u>\$ 256,468</u>	<u>\$ 380,045</u>

NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS, CONTINUED

Net asset balances and changes to the net asset balances for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 123,207	\$ 247,466	\$ 370,673
Contributions, net	-	2,253	2,253
Transfers and other additions (deductions)	1,792	452	2,244
Net assets released from restrictions	223	(223)	-
Return on investments:			
Investment income (loss)	792	1,680	2,472
Net appreciation (depreciation) of investments	5,932	13,154	19,086
Total return on investments	6,724	14,834	21,558
Amount distributed for operating activities	(4,798)	(10,164)	(14,962)
Endowment net assets, June 30, 2019	<u>\$ 127,148</u>	<u>\$ 254,618</u>	<u>\$ 381,766</u>

Endowment net assets consisted of the following at June 30, 2019:

Donor-restricted endowments	\$ -	\$ 251,774	\$ 251,774
Board-designated quasi-endowments	127,148	1,585	128,733
	<u>127,148</u>	<u>253,359</u>	<u>380,507</u>
Unconditional promises to endowment	-	1,259	1,259
Total endowment net assets	<u>\$ 127,148</u>	<u>\$ 254,618</u>	<u>\$ 381,766</u>

NOTE 5 – INTANGIBLE ASSETS AND CAMPUS FACILITIES

Intangible Assets

Intangible assets include software and software related contracts, electronic library resources, and website development costs. The weighted average amortization period for assets acquired in the current period is 14 years.

	June 30, 2020	June 30, 2019
Intangible assets:		
Gross carrying amount	\$ 14,829	\$ 15,125
Accumulated amortization	(5,532)	(6,002)
Net carrying amount	<u>\$ 9,297</u>	<u>\$ 9,123</u>

Aggregate amortization expense:

2020	\$ 805
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Estimated amortization expense for each of the next five years and thereafter is as follows:

2021	\$ 836
2022	858
2023	856
2024	849
2025	811
Thereafter	5,087
Total	<u>\$ 9,297</u>

Campus Facilities

Campus facilities consisted of the following:

	June 30, 2020	June 30, 2019
Land and improvements	\$ 42,251	\$ 41,351
Building and improvements	288,762	276,758
Equipment	13,335	12,002
Library resources	2,606	2,491
Collections	1,025	1,025
Construction in progress	169	3,293
	<u>348,148</u>	<u>336,920</u>
Accumulated depreciation	(147,379)	(137,379)
Campus facilities, net	<u>\$ 200,769</u>	<u>\$ 199,541</u>

NOTE 5 – INTANGIBLE ASSETS AND CAMPUS FACILITIES, CONTINUED

Asset Retirement Obligations

Under U.S. GAAP, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the liability can be reasonably estimated. For the university, these obligations are primarily for the disposal of asbestos and certain other regulated materials generally found in pre-1980 campus facilities. Though these materials do not currently pose a health hazard in any of these facilities, appropriate remediation procedures are required to remove these materials upon renovation or demolition.

The following schedule summarizes the university’s asset retirement obligation activity:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Asset retirement obligation, beginning of the year	\$ 1,707	\$ 1,679
Obligations settled	(32)	(47)
Obligations incurred	3	-
Accretion expense	80	72
Revisions in estimated cash flows	248	3
Asset retirement obligation, end of the year	<u>\$ 2,006</u>	<u>\$ 1,707</u>

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

	<u>Final Maturity</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
WHEFA Revenue Bonds, 2012A	2042	\$ 35,949	\$ 36,521
WHEFA Revenue Bonds, 2012B	2036	-	24,872
WHEFA Revenue Bonds, 2001	2031	8,462	8,940
WHEFA Revenue Bonds, 2019	2036	24,063	-
Capital lease obligations	2032	173	218
Total		<u>\$ 68,647</u>	<u>\$ 70,551</u>

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

2021	\$ 1,762
2022	1,844
2023	1,931
2024	1,971
2025	2,057
Thereafter	<u>57,393</u>
	66,958
Unamortized premium	2,290
Unamortized issuance costs	(601)
Total	<u>\$ 68,647</u>

The Washington Higher Education Facilities Authority (WHEFA) is a financing conduit provided by the State of Washington for private higher education facility acquisition and construction in the state. The university’s revenues without donor restrictions are pledged as collateral on the WHEFA tax-exempt bond obligations. The tax-exempt bonds are obligations solely of the university and are not guaranteed by the state. The WHEFA bond agreements contain covenants relating to maintenance of facilities, insurance, and other general items. In addition, the WHEFA 2001 and WHEFA 2012B bond agreements contain covenants that the university will comply with certain liquidity requirements. The university’s underlying long-term rating is “A1” by Moody’s Investors Service, Inc., and “A+” by Standard & Poor’s Global Ratings.

In October 2012 the university entered into loan agreements whereby WHEFA issued tax-exempt Revenue and Refunding Revenue Bonds in the amount of \$34,805 at a net premium of \$3,577 (Series 2012A) and Refunding Revenue Bonds in the amount of \$29,195 (Series 2012B). The bonds are general obligations of the university. The proceeds from the Series 2012A bonds were used to finance the construction of a 135-bed residence hall, and to refund outstanding WHEFA 2006A bonds. The 2012A bonds bear interest at fixed rates ranging from 3.0% to 5.0%. The proceeds from Series 2012B were used to refund outstanding WHEFA 2006B bonds. The 2012B bonds were sold through a direct purchase transaction with a bank, who held the bonds for a seven year term, that expired in October 2019, at which time the bonds were refunded. The bonds bore interest at 70% of the one-month London Interbank Offer Rate (LIBOR) plus a credit spread, which equated to an average interest rate of 2.52% for fiscal year 2020.

During 2001 the university entered into a loan agreement with WHEFA whereby WHEFA issued \$10,620 of tax-exempt Variable Rate Demand Revenue Bonds, Series 2001. The proceeds were used to finance the construction of a new student residence hall. Pursuant to the loan agreement, the bonds bear interest at a rate that is determined weekly through the remarketing process, with the maximum annual rate capped at 12%. The average interest rate for fiscal year 2020 was 1.18%, which included 10 basis points for remarketing.

NOTE 6 – LONG-TERM DEBT, CONTINUED

In October 2019 the university entered into a loan agreement whereby WHEFA issued tax-exempt Revenue Refunding Bonds in the amount of \$24,280 (Series 2019). The proceeds were used to refund outstanding WHEFA 2012B bonds. The 2019 bonds were sold through a direct purchase transaction with a bank, who will hold the bonds for an initial seven year term. On October 1, 2026, the bonds are subject to a mandatory tender and may be remarketed or retired. The bonds bear interest at 80% of the one-month LIBOR plus a credit spread, which equated to an average interest rate of 1.68% for fiscal year 2020. The interest rate is subject to an increase if the university's credit rating drops below A1 by Moody's Investors Service, Inc., or A+ by Standard & Poor's Rating Services. The university is subject to certain financial covenants.

For the year ended June 30, 2020, the university incurred total interest costs related to long-term debt of \$3,273 of which \$57 was capitalized. Interest costs include debt interest payments, swap agreement interest, remarketing, amortization of bond premium, discount and costs of issuance.

The university has a \$5,000 unsecured line of credit in the form of a demand note with a bank. The agreement provides for interest at the bank's prime rate with no additional fees. As of June 30, 2020, the bank's prime rate was 3.25%. This line of credit, which may be renewed annually, has not been drawn on but is available for operating expenses or to provide liquidity for the Series 2001 bonds should the need arise. The current agreement matures February 29, 2021.

Interest Rate Swap Agreements

During 2005 and 2006, in an effort to manage the fluctuations in cash flows resulting from variable interest rates and to lower its overall borrowing costs, the university entered into three separate interest rate swap agreements to convert its variable rate bonds to a substantially fixed rate through maturity. Under the terms of the swap agreements, the university pays the swap counterparties fixed amounts of interest over the term of the contracts and receives variable interest payments based on 67% of the one-month LIBOR. Additional key terms of the agreements are as follows:

Swap Counterparty	Outstanding Notional	Trade Date	Effective Date	Swap Fixed Rate	Final Maturity Date
The Bank of New York Mellon	\$ 9,690	5/25/06	4/1/08	3.875%	10/1/2030
The Bank of New York Mellon	\$ 24,110	5/25/06	6/30/06	3.855%	10/1/2036
Societe Generale, New York Branch	\$ 8,535	8/9/05	9/1/05	3.426%	10/1/2031

The university accounts for its interest rate swap agreements in accordance with U.S. GAAP. The fair value of the interest rate swap agreements is the estimated amount that the university would receive or pay to transfer the agreements as of the reporting date, net of credit valuation adjustments, and is recognized as either an unrealized gain or loss, as appropriate. Amounts reported in the Consolidated Statements of Financial Position as of June 30, 2020 and 2019, for "Interest rate swap agreements" of \$12,392 and \$9,021, respectively, are also known as the mark-to-market value. The net changes in the fair value of the interest rate swap agreements for the years ended June 30, 2020 and 2019, were net unrealized losses of \$(3,371) and \$(1,506), respectively, recognized within "Other adjustments and changes" in the Consolidated Statements of Activities. Providing the university holds the swaps to maturity, the fair value of the derivatives will be zero. The university retains the option to terminate, cancel, and cash settle the interest rate swap agreements at any time.

The university utilizes its interest rate swap agreements solely as a cash flow hedge and does not use derivative instruments for trading or speculative purposes. The university seeks to diversify counterparty risk and executes credit-sensitive derivative transactions only with counterparties with strong credit ratings. The university is not required to post collateral for its swaps unless its credit rating drops below Baa2 by Moody's Investors Service, Inc or BBB by Standard & Poor's Rating Services on the Societe Generale Swap and Baa3 by Moody's Investors Service, Inc or BBB- by Standard & Poor's Rating Services on the Bank of New York Mellon swaps. The amount of the collateral would be the mark-to-market loss exposure at the time the credit rating dropped below the required level.

NOTE 7 – LIQUIDITY AND AVAILABILITY

The university manages its financial assets to be available for general expenditures, liabilities and other obligations as they come due. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other limitations include perpetual endowments and accumulated earnings net of distributions within one year, board-designated quasi-endowment funds, trust assets, assets held for others and mandated annuity reserves.

The university has various sources of liquidity at its disposal, including cash and cash equivalents, short-term investments, an available line of credit (as further discussed in Note 6), and certain endowment investments. The university could draw from its board-designated quasi-endowment with board approval, should it be prudent to do so.

The following table reflects the university's financial assets as of June 30, 2020 and June 30, 2019, reduced by amounts not available for general expenditures within one year.

UNIVERSITY OF PUGET SOUND Notes to Consolidated Financial Statements

June 30, 2020

(Dollars in Thousands)

NOTE 7 – LIQUIDITY AND AVAILABILITY, CONTINUED

	June 30, 2020	June 30, 2019
Financial Assets:		
Cash and cash equivalents	\$ 40,581	\$ 30,148
Short-term investments	27,081	32,103
Receivables, net	2,948	1,883
Contributions receivable, net	3,372	3,173
Beneficial interest in outside trusts	611	957
Assets held under split-interest agreements	4,559	5,037
Endowment investments	378,614	380,507
Assets restricted for investment in campus facilities	-	2,613
Financial assets, at year-end	<u>\$ 457,766</u>	<u>\$ 456,421</u>
Less those unavailable for general expenditures within one year, due to:		
Donor-restricted endowment, net of anticipated draw	(243,936)	(242,982)
Donor and grant-restricted expendable funds	(5,537)	(12,811)
Assets held under split interest agreements	(4,559)	(5,037)
Beneficial interest in outside trusts	(611)	(957)
Contributions receivable, net, scheduled to be collected in more than one year	(1,864)	(2,002)
Other restricted assets	(2,932)	(3,861)
Financial assets available to meet cash needs for general expenditures within one year, before board designations:	<u>\$ 198,327</u>	<u>\$ 188,771</u>
Less board designations:		
Board-designated quasi-endowment, net of anticipated draw	(118,545)	(122,273)
Financial assets available to meet general expenditures within one year	<u>\$ 79,782</u>	<u>\$ 66,498</u>

NOTE 8– ANALYSIS OF EXPENSE BY FUNCTIONAL AND NATURAL CLASSIFICATIONS

The Consolidated Statements of Activities report the functional classification of expenses by program activity. The following tables present the natural classification of expenses by program activity for the years ended June 30, 2020 and June 30, 2019, respectively:

June 30, 2020:	Program Activities				Supporting Activities	Total Expenses
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	
Salaries and wages	\$ 28,945	\$ 4,675	\$ 8,569	\$ 6,156	\$ 8,777	\$ 57,122
Employee benefits	9,230	1,490	2,725	1,719	3,077	18,241
Supplies, travel, and other	5,046	769	2,705	5,239	750	14,509
Service and professional fees	674	759	1,656	1,497	2,127	6,713
Facilities maintenance and operations	1,080	305	682	2,543	171	4,781
Depreciation and amortization	3,235	1,466	2,100	3,424	580	10,805
Interest	1,726	194	99	1,088	109	3,216
Total Expenses	<u>\$ 49,936</u>	<u>\$ 9,658</u>	<u>\$ 18,536</u>	<u>\$ 21,666</u>	<u>\$ 15,591</u>	<u>\$ 115,387</u>

June 30, 2019:	Program Activities				Supporting Activities	Total Expenses
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	
Salaries and wages	\$ 29,100	\$ 4,619	\$ 8,410	\$ 6,539	\$ 8,851	\$ 57,519
Employee benefits	8,425	1,356	2,527	1,649	2,858	16,815
Supplies, travel, and other	5,164	914	2,733	6,360	971	16,142
Service and professional fees	1,256	810	1,956	1,446	3,742	9,210
Facilities maintenance and operations	990	300	691	2,444	94	4,519
Depreciation and amortization	3,442	1,444	2,034	3,377	621	10,918
Interest	1,827	203	103	1,095	114	3,342
Total Expenses	<u>\$ 50,204</u>	<u>\$ 9,646</u>	<u>\$ 18,454</u>	<u>\$ 22,910</u>	<u>\$ 17,251</u>	<u>\$ 118,465</u>

NOTE 8— ANALYSIS OF EXPENSE BY FUNCTIONAL AND NATURAL CLASSIFICATIONS, CONTINUED

The costs of compensation, supplies and services are recorded directly to the appropriate program activity. Certain categories of expenses are attributable to one or more program or supporting activities, and are allocated to the functional areas. The cost of facilities maintenance and operations is allocated to the functional areas based on occupancy square footage. Depreciation and amortization expense is allocated directly to functional classifications based on the use of the underlying assets. Interest expense on long-term debt is allocated to the functional areas that have benefited from the proceeds. The cost of information technology services included in supporting activities is allocated to the functional areas based on estimated utilization of system resources and support.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net Assets with Donor Restrictions consisted of the following:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Time or purpose restricted:		
Time restrictions:		
Unappropriated earnings from donor-restricted endowments	\$ 101,909	\$ 110,171
Term endowment	521	539
Total donor-restricted endowments	<u>102,430</u>	<u>110,710</u>
Unconditional promises to give	1,941	1,914
Split-interest agreements	830	1,194
Cash surrender value of life insurance policies	63	43
Total time restrictions	<u>105,264</u>	<u>113,861</u>
Purpose restrictions:		
Construction of campus facilities	1,446	6,559
Educational programs and activities	8,142	6,362
Total purpose restrictions	<u>9,588</u>	<u>12,921</u>
Total time or purpose restricted	<u>\$ 114,852</u>	<u>\$ 126,782</u>
Restricted in perpetuity:		
Endowment funds	\$ 152,423	\$ 142,323
Split-interest agreements	1,840	2,155
Loan funds	5	5
Total restricted in perpetuity	<u>\$ 154,268</u>	<u>\$ 144,483</u>
 Total net assets with donor restrictions	 <u>\$ 269,120</u>	 <u>\$ 271,265</u>

NOTE 10 – RETIREMENT PLANS

Defined Contribution Plan

The university contributes to a defined contribution retirement plan for the benefit of eligible faculty and staff (participants), with funding vehicles available through Teachers Insurance Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), (together TIAA-CREF). University contributions for participants begin after one year of service to the university or one year of service at an eligible employer during the twelve months immediately prior to their employment at the university. Contributions were 10% or 12% of salaries for the year ended June 30, 2020, depending upon position classifications and are fully vested. The university’s contributions totaled \$5,219 and \$5,287 for the years ended June 30, 2020 and 2019, respectively.

Defined Benefit Plans

The university has in place an unfunded early retirement and career change plan for eligible members of the faculty. The university also accrues post-retirement medical benefits available to certain active faculty under the faculty early retirement and career change policy (pre-65 benefits) and certain retired faculty and staff under a discontinued medical benefits plan for retirees (post-65 benefits). Plan expenses and liabilities are valued based on actuarial methods and are reflected in the consolidated financial statements. U.S. GAAP requires employers to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in their statement of financial position and to recognize changes in that funded status in the year in which the changes occur. As a not-for-profit organization, the university recognizes such changes through changes in net assets without donor restrictions.

Amounts recognized in “Accrued payroll and other liabilities” in the Consolidated Statements of Financial Position as of June 30, 2020 and 2019, and in the Consolidated Statements of Activities for the years then ended are as follows:

NOTE 10 – RETIREMENT PLANS, CONTINUED

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2020	2019	2020	2019
Projected and accumulated post-retirement benefit obligations:				
Beginning of the year	\$ 8,553	\$ 7,446	\$ 3,734	\$ 3,301
Benefits paid	(87)	(125)	(91)	(105)
Amounts recognized in the Consolidated Statements of Activities:				
Components of net benefit expense:				
Service cost	469	400	214	179
Interest cost	278	301	123	135
Amortization of actuarial loss	151	136	57	47
Total net benefit expense	898	837	394	361
(Gain) loss recognized within other adjustments and changes	289	395	132	177
End of the year	<u>\$ 9,653</u>	<u>\$ 8,553</u>	<u>\$ 4,169</u>	<u>\$ 3,734</u>
Post-retirement benefit liability recognized within accrued payroll and other liabilities in the Consolidated Statements of Financial Position:				
Current portion	\$ 412	\$ 429	\$ 212	\$ 222
Noncurrent portion	9,241	8,124	3,957	3,512
Total	<u>\$ 9,653</u>	<u>\$ 8,553</u>	<u>\$ 4,169</u>	<u>\$ 3,734</u>
Plan funded (unfunded) status	<u>\$ (9,653)</u>	<u>\$ (8,553)</u>	<u>\$ (4,169)</u>	<u>\$ (3,734)</u>

The weighted-average assumptions used to determine plan benefit obligations as of June 30, 2020 and 2019, and the net benefit expense for the years then ended, included:

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2020	2019	2020	2019
Benefit obligation (post-retirement benefit liability):				
Discount rate	2.52%	3.33%	2.63%	3.41%
Rate of compensation increase	5.00%	5.00%	N/A	N/A
Net benefit expense:				
Discount rate	3.33%	4.18%	3.41%	4.21%
Rate of compensation increase	5.00%	5.00%	N/A	N/A

Amounts recognized as changes in net assets without donor restrictions that are expected to be recognized as amortization components of net benefit expense in the next fiscal year include a net loss of \$151 for the faculty early retirement and career change plan and a net loss of \$57 for the post-retirement medical plan.

Benefits were estimated based upon the same assumptions used to measure the benefit obligation. Benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter, are as follows:

	Faculty Early Retirement and Career Change Plan	Post-Retirement Medical Plan
2021	412	212
2022	340	224
2023	369	209
2024	402	204
2025	512	198
2026-2030	3,644	1,619

NOTE 11 – WASHINGTON STATE STATUTORY REQUIREMENTS

Washington State statutory requirements related to charitable gift annuities require the following disclosure of unconsolidated financial information for the university as of June 30, 2020:

	University of Puget Sound (unconsolidated)	Wholly Owned Subsidiaries	Eliminating Entries	University of Puget Sound (consolidated)
Assets:				
Cash and cash equivalents	\$ 40,581	\$ -	\$ -	\$ 40,581
Due from subsidiaries	1,669	-	(1,669)	-
Short-term investments	27,081	-	-	27,081
Receivables, net	2,948	-	-	2,948
Contributions receivable, net	3,372	-	-	3,372
Inventories	433	-	-	433
Prepaid expenses and other assets	802	3,483	-	4,285
Student loans receivable, net	9,094	-	-	9,094
Beneficial interest in outside trusts	611	-	-	611
Assets held under split-interest agreements	4,559	-	-	4,559
Endowment investments	378,448	166	-	378,614
Intangibles, net	9,297	-	-	9,297
Assets restricted for investment in campus facilities	-	-	-	-
Campus facilities, net	200,769	-	-	200,769
Total assets	<u>\$ 679,664</u>	<u>\$ 3,649</u>	<u>\$ (1,669)</u>	<u>\$ 681,644</u>
Liabilities:				
Accounts payable	\$ 1,762	\$ -	\$ -	\$ 1,762
Due to university	-	1,669	(1,669)	-
Accrued payroll and other liabilities	20,434	-	-	20,434
Advance deposits from students	4,878	-	-	4,878
Liabilities under split-interest agreements	2,492	-	-	2,492
Government advances for student loans	9,628	-	-	9,628
Asset retirement obligation	2,006	-	-	2,006
Interest rate swap agreements	12,392	-	-	12,392
Long-term debt, net	68,647	-	-	68,647
Total liabilities	<u>\$ 122,239</u>	<u>\$ 1,669</u>	<u>\$ (1,669)</u>	<u>\$ 122,239</u>
Net Assets:				
Net assets without donor restrictions	\$ 290,285	\$ -	\$ -	\$ 290,285
Net assets with donor restrictions	267,140	1,980	-	269,120
Total net assets	<u>557,425</u>	<u>1,980</u>	<u>-</u>	<u>559,405</u>
Total liabilities and net assets	<u>\$ 679,664</u>	<u>\$ 3,649</u>	<u>\$ (1,669)</u>	<u>\$ 681,644</u>

The amount included to meet future payments under gift annuity contracts in liabilities under split-interest agreements was \$479 as of June 30, 2020, and \$527 as of June 30, 2019.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The university has allocated a portion of its pooled endowment to investments in natural resources, private real estate and equity and fixed income asset classes. At June 30, 2020, an outstanding commitment of \$14,465 remains to be invested in these asset classes.

As of June 30, 2020, the university had no outstanding commitments related to the construction, renovation and improvement of campus facilities.

In the normal course of activities, the university from time to time is the subject of various claims and also has claims against others. In the opinion of management, the results of these matters will not have a significant impact on the consolidated financial statements.

Federally funded programs, including financial aid, research and development, and other programs, are routinely subject to special audit. The reports on examinations, which are conducted pursuant to specific regulatory requirements by the auditors for the university, are required to be submitted to both the university and the Federal Audit Clearinghouse. Federal oversight agencies have the authority to determine liabilities as well as to limit, suspend, or terminate federally funded programs. In the university's opinion, no material instances of noncompliance have occurred during the year ended June 30, 2020, related to the university's federally funded student financial aid, research and development, and other programs.

Coronavirus pandemic

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The related public health response, including orders to shelter-in-place, travel restrictions and mandated business closures, has led to increased market volatility and disruptions in normal business operations.

In the state of Washington, the governor issued an order on March 16, 2020, prohibiting gatherings of more than 50 people, and colleges and universities were mandated to cease in-person instruction. The university transitioned to virtual instruction on March 17, 2020, and the vast majority of non-essential employees were instructed to work remotely. As a result, the university credited \$4.3 million of room and board back to students for the year ended June 30, 2020.

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security ("CARES") Act became law. In addition to providing for broad economic relief, the CARES Act allocated \$14 billion to higher education through the creation of the Education Stabilization Fund and the establishment of Higher Education Emergency Relief Fund ("HEERF") grants.

Fifty percent of the emergency grant funds received by institutions must be distributed directly to students in the form of emergency aid grants to cover expenses related to the disruption of campus operations and the move to remote learning due to COVID-19 ("Student Aid portion"). Institutions may use the remaining fifty percent of the grant funds to cover costs associated with significant changes to the delivery of instruction due to COVID-19 ("Institutional Aid portion").

The university received a total of \$1,418 in HEERF funding, with \$709 allocated to direct, emergency student aid. The remaining \$709 will be used by the university to offset the refunding of student room and board, as disclosed above.

As of June 30, 2020, \$281 of the Student Aid portion had been expended to provide direct aid to students impacted by COVID-19. Expending the Student Aid portion of the HEERF grant is a barrier to entitlement of the Institutional Aid portion, based on the terms of the HEERF grants. As such, the university recognized \$281 in revenue for the Institutional Aid portion for the year ended June 30, 2020.

At June 30, 2020, the amount of unexpended HEERF funds was \$856 and was included in "Accrued payroll and other liabilities" in the university's consolidated statement of financial position.

NOTE 13 – SUBSEQUENT EVENTS

The severity and duration of the pandemic remains uncertain. The university continues to monitor the impact of COVID-19 on campus operations, and is prepared to make modifications as needed. On July 29th, 2020, the university announced the continuation of virtual instruction for the fall 2020 semester due to COVID-19, with only a limited number of students approved to live on campus in residential housing. On September 25th, 2020, the university announced preparations for an in-person spring semester, if public health guidelines and the course of the virus allow for it. The university is prepared to pivot between remote and in-person learning as needed. At this time, there is insufficient information to estimate the full financial impact of COVID-19 on the university's operations.

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