



# Financial Report 2020–21

OFFICE OF FINANCE





## 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.



### OFFICE OF FINANCE AND ADMINISTRATION

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# Financial Report 2020–21

## Contents

Introduction From the President.....	4
Report of the Executive Vice President and Chief Financial Officer.....	6
Report of Independent Auditors .....	11

## Financial Statements

Consolidated Statements of Financial Position.....	12
Consolidated Statements of Activities .....	13
Consolidated Statements of Cash Flows .....	14
Consolidated Supplemental Schedule of Changes in Endowment Investments .....	15
Notes to Consolidated Financial Statements.....	16



## Isiaah Crawford

**Over the past year the university—our students, faculty, and staff members—has continued to thrive amid the constraints and concerns of the pandemic.** Beginning 2020-21 with remote learning, we ended the academic year with two truly memorable in-person Commencement ceremonies celebrating the graduating classes of 2020 and 2021. In between those two milestones we focused on supporting our students’ success; seeking funding and other resources to help manage the cost of virus mitigation on campus; and advancing the university’s ambitious *Leadership for a Changing World* strategic plan goals.

Through thoughtful use of our resources and the generous support of our community, we are weathering the financial impact of the pandemic and investing in the success of our students in tangible ways. New orientation programs; the expansion of high-impact experiential learning opportunities; new majors; a new master of public health program; and a task force devoted to identifying and overcoming barriers to student success are just a few of the initiatives undertaken this year. Notably, although enrollment is lower than initial projections, we are experiencing the highest first-to-second-year undergraduate student retention rate in a decade, indicating that students value their Puget Sound educational experience and persisted through the pivot to remote learning and back to a full residential campus experience in fall 2021.

Students and their families are also experiencing challenges at this time, and we were able to provide COVID relief funding as well as award more than \$51.7 million in institutional student financial aid. In addition, we were pleased that

Standard and Poor’s Global Ratings and Moody’s Investors Service affirmed their A+ and A1 ratings of the university, respectively. Our endowment is healthy, ending the fiscal year at \$474.2 million, an increase of \$95.6 million from \$378.6 million at June 30, 2020, with a fiscal year return of 30.1% that exceeded the benchmark of 27.41%.

Despite the university’s overall strength, the pandemic has affected us in significant ways, and we went into the year anticipating an operating deficit—which is unprecedented for Puget Sound. We ended 2020-21 with better results than were anticipated earlier in the year, and strategically leaned on the university’s strong balance sheet to cover the deficit with operating reserves and unrestricted quasi-endowment. We are implementing a strategy to return to a balanced operating budget as soon as feasible and prudent, which is guided by the implementation of a new strategic enrollment plan and a year-long comprehensive academic, administrative and auxiliary program review process that will inform





optimization of our programs, resources, institutional quality and financial performance.

In short, we are doing what Puget Sound has always done—meeting the challenges of the current moment while planning for the ongoing success of the institution for generations to come. We continue to believe the exceptional residential liberal arts education we provide is the best preparation for leading purposeful and impactful lives in our complex and ever-changing world. Puget Sound is ranked in the top seven percent of baccalaureate-granting institutions nationwide whose graduates go on to earn doctoral degree. Our students have a 90% acceptance rate into law school and a 10-year average acceptance rate into medical school that is well above national averages. An increased focus on experiential learning

opportunities, including internships, mentored research, study abroad/study away, project-based learning, and community engagement is providing all students with the tools they need to transition successfully to life after college. And our faculty continue to be lauded as among the very best in the country, including recent recognition for undergraduate teaching in *U.S. News and World Report*.

With 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 remain dedicated and focused on preparing our students for meaningful lives of service and leadership to meet the challenges of today and tomorrow.



## Sherry B. Mondou



**As Puget Sound completes its 133rd year of mission-driven work and I complete my 30th year with Puget Sound, I have never been prouder or more grateful to be a part of the Logger community that never wavers from its commitment to the wellbeing and success of our students.** Fulfilling Puget Sound’s mission during the worldwide COVID-19 pandemic has required us to adapt in how we teach, learn, work and live. While it was a difficult year, Loggers pulled together in remarkable ways—students, faculty, staff, alumni, trustees, donors and friends of the university—to overcome struggles of the pandemic while also imagining and preparing for a healthier and stronger future. Puget Sound’s strong financial footing and commitment to student success have and will continue to serve the university well.

As a supplement to the enclosed financial statements for the year ending June 30, 2021, I offer commentary below followed by closing remarks.

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### Assets

Puget Sound’s asset base grew 13% in fiscal year 2021 to \$771.4 million and grew 51% over the past decade (Figure 1). The university’s strong cash and investment position provides ample liquidity and financial flexibility to successfully fulfill its mission and mitigate impacts of unexpected events, such as the COVID-19 pandemic.

Cash and cash equivalents, short-term investments, endowment investments and campus facilities comprised 96% of total assets and are discussed below.

- Cash, cash equivalents, and short-term investments totaled \$71.1 million, up 5% over the prior year and comprising 9% of total assets at June 30, 2021. These funds are invested in a manner that preserves capital as a top priority and are highly liquid and available to support operations and meet debt service obligations.
- Endowment investments were valued at \$474.2 million as of June 30, 2021, an increase of 25% over \$378.6 million one year prior. Generous donor gifts, additions designated by the board of trustees, and healthy investment returns, net of distributions, resulted in an 89% increase in the endowment over the past decade (Figure 2). 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. Over time as the endowment has grown in value, it became increasingly diversified (Figure 3) in alignment 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 Agility as Puget Sound’s outsourced chief investment officer and co-fiduciary.

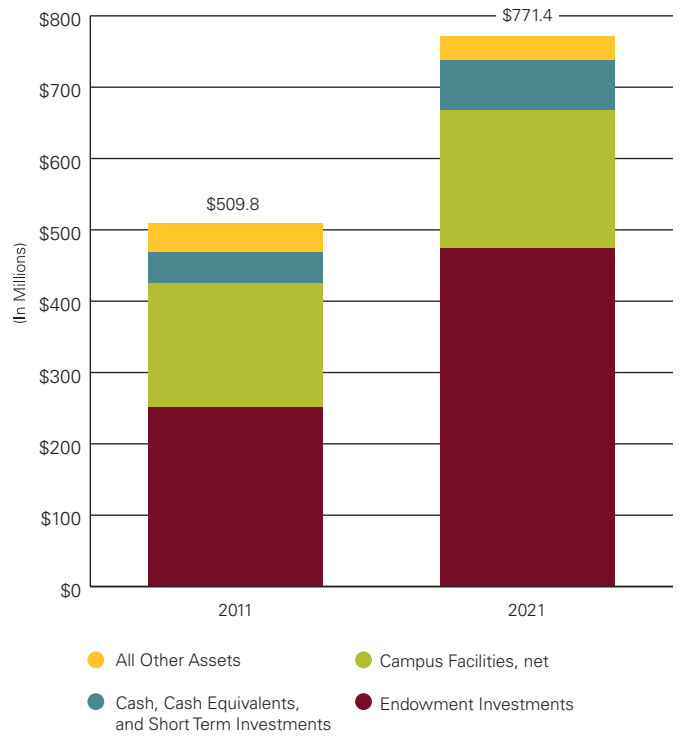
- **Campus facilities** had a book value of \$349.4 million (\$193 million net of accumulated depreciation) as of June 30, 2021. Puget Sound’s campus sits on 97 acres within Tacoma’s historic North End Neighborhood. Its 1.5 million square feet of buildings, Tudor Gothic style, and beautiful green spaces and landscaping provide an inspiring environment in which to live, learn and work. Campus facilities have been funded over the years with a combination of donor gifts, tax exempt bonds, and university reserves. Over the past decade, Puget Sound invested \$97.7 million in campus facilities (Figure 4). Its average age of plant (accumulated depreciation divided by annual depreciation expense) is 14.4 years as compared to the 2020 median of 17.8 years for Puget Sound’s national peer comparison group and 16.2 years for Moody’s small A-rated private colleges, suggesting that Puget Sound has a lower level of deferred maintenance than its peers.

**Liabilities**

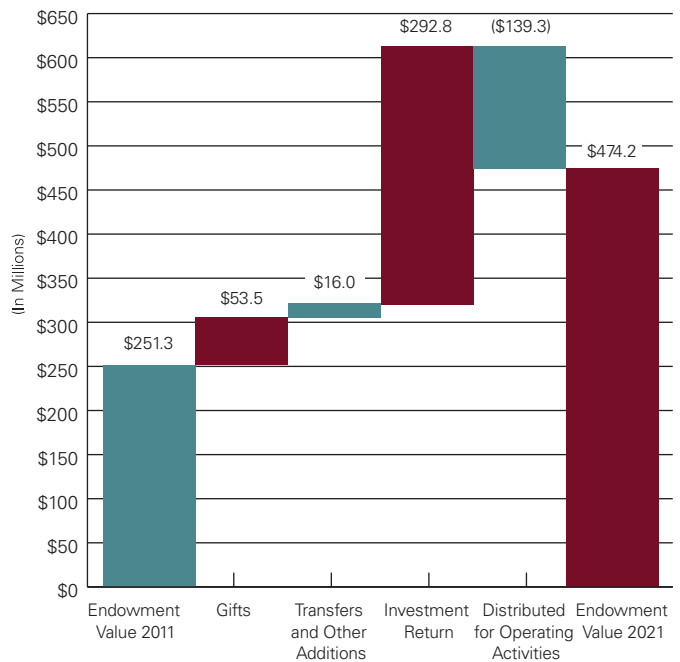
Total liabilities of \$116 million at June 30, 2021, were down from \$122.2 million in the prior year. Key reasons for the changes are noted below.

- **Accounts payable, accrued payroll and other liabilities** totaled \$24.2 million, up 9%, or \$2 million, in 2021. The single largest component of these liabilities is an \$11.3 million post-retirement benefit obligation (see Note 10 to the financial statements), which decreased \$2.4 million due to payments made in 2021 and fewer eligible faculty members. This and other decreases in liabilities were offset by a \$5 million increase for an unsettled investment trade and \$1.3 million increase in deferred employer Social Security taxes consistent with payment deferral provisions of the Coronavirus Aid, Relief, and Economic Security Act.
- **Advance deposits from students** of \$2.3 were down 53% from a higher than usual \$4.9 million in the prior year, which included spring 2020 prorated room and board credits issued to students as the university shifted to remote

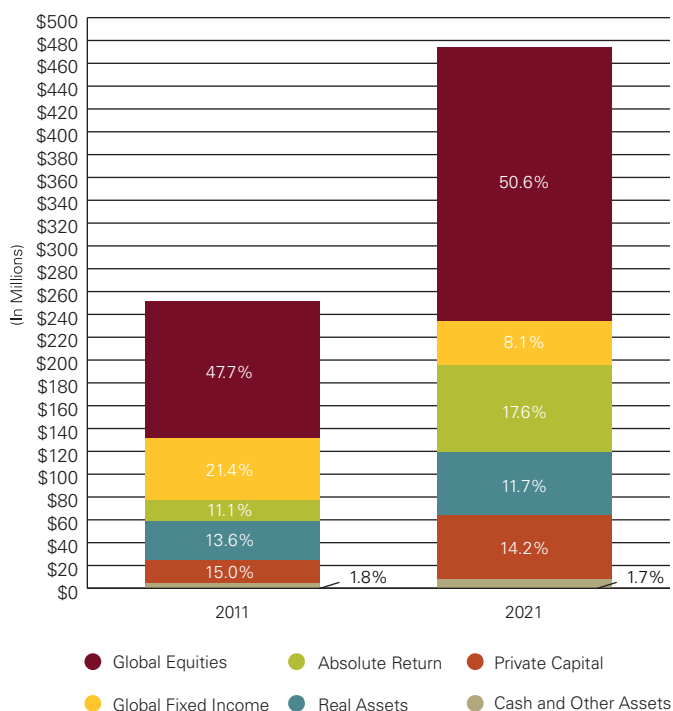
**FIGURE 1 Asset Growth Over Time**



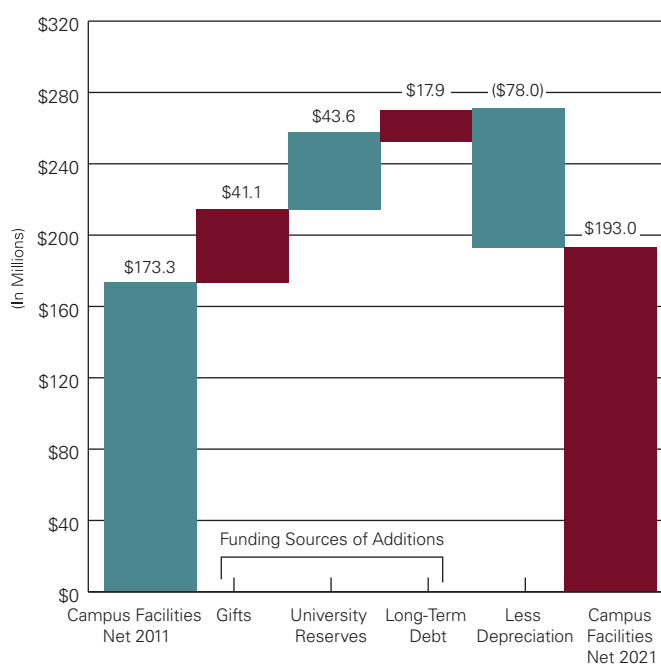
**FIGURE 2 Sources of Endowment Growth**



**FIGURE 3 Endowment Asset Allocation**



**FIGURE 4 Funding Sources of Campus Facilities Additions**



operations in March 2020, and which were held on deposit for application to fall 2021 charges.

- Government advances for student loans of \$8.1 million declined 16%, or \$1.5 million, in fiscal year 2021 with the continued wind-down of the Federal Perkins Loan Program as referenced in Note 1 to the financial statements.
- Long-term debt of \$67.5 million consists almost entirely of bonds that are either traditional fixed-rate or synthetically fixed with interest rate swap agreements. The university refinanced components of its debt portfolio in June 2021, achieving net present value savings estimated at \$4.9 million over ten years. See Note 6 to the financial statements for more information about the university’s debt portfolio. Puget Sound’s 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 November 15, 2021, Puget Sound’s credit ratings were A1 and A+ from Moody’s Investors Service and Standard & Poor’s Global Ratings, respectively. The university’s fiscal year 2021 debt service as a percentage of operating expenses was 4.8%, as

compared to the 2020 median of 5.2% for Moody’s small A-rated private colleges, and its total cash and investments to total debt was 5.7:1, as compared to the 2020 median of 4.1:1 for Moody’s small A-rated private colleges.

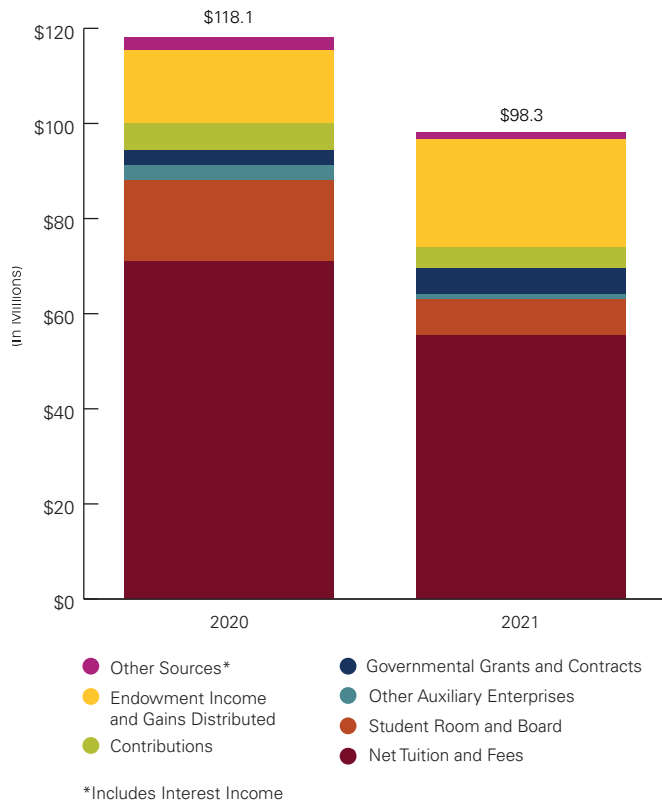
- The mark-to-market balance on interest rate swap agreements, reflected as a liability, was \$9.1 million as of June 30, 2021, down from \$12.4 million on June 30, 2020. The book valuation fluctuates as interest rates rise and fall and will be zero when the swap agreements expire.

**Net Assets**

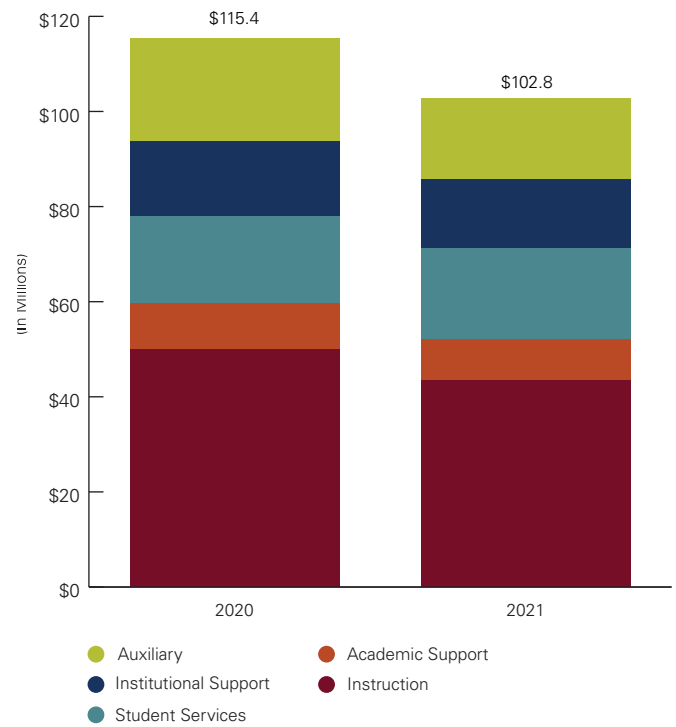
Net Assets totaled \$655.4 million at June 30, 2021, up 17% for the year, primarily due to strong endowment returns. Of total net assets, \$314.6 million, or 48%, is without donor restrictions, including \$130.2 million invested in or designated for campus facilities, \$150 million in board-designated quasi-endowment, and \$34.5 million designated for specific purposes. Liquid net assets without donor restrictions provide institutional flexibility and, with board approval, can help an institution weather fiscal shocks. This flexibility is a strength and of particular value at the present time given the financial impact of the global pandemic. The \$6 million balance in general operating reserves as of June 30, 2020, was fully utilized in fiscal year 2021 to help mitigate pandemic-induced loss of revenues and incremental expenses.



**FIGURE 5 Operating Revenues**



**FIGURE 6 Operating Expenses**



**CONSOLIDATED STATEMENTS OF ACTIVITIES**

The university categorizes changes in net assets as either operating or non-operating activities (see Note 1 to the financial statements).

**Increase in Net Assets from Operating Activities**

Operating activities were significantly impacted by the pandemic and the need to operate primarily remotely throughout fiscal year 2021. Net assets from operating activities decreased \$4.4 million in 2021 in comparison to an increase of \$2.7 in 2020. Total operating revenues and gains declined \$20 million in 2021, which was partially mitigated by expense reductions of \$12.6 million.

**Operating Revenues and Gains**

During fiscal year 2021, operating revenues and gains totaled \$98.3 million, a 17% decrease from 2020. Operating revenues were impacted by COVID-19, most significantly in terms of lower net tuition revenues, student room and board, and other auxiliary revenues, which on a combined basis comprised 66% of total operating revenues and gains in 2021, as compared to 77% in 2020. Figure 5 provides a visual breakdown of 2021 operating revenues and gains in comparison to 2020.

- Net tuition and fees declined nearly 22% in 2021. Annual full-time equivalent enrollment was 17% lower than in 2020, primarily due to a small entering class resulting from the need to teach and operate remotely. Additionally, 2021 tuition rates were held to 2020 levels given remote vs. in-person learning and operations, and at the same time, students required greater financial aid given the economic impact of the pandemic. The university has developed and is implementing a multi-year strategic enrollment plan to rebound from the pandemic and achieve future enrollment goals.
- Student room and board revenues were significantly impacted by the remote mode of teaching in fiscal year 2021, declining 56%, or \$9.6 million, from the prior year.
- Other auxiliary enterprises revenue declined 63% due to the necessary cancellation of conferences hosted on campus and reduced catering and Logger Store revenues with minimal student, faculty and staff presence on campus during remote operations.
- Governmental grants and contracts totaled \$5.3 million, up 75%, or \$2.3 million, from the prior year. 2021

governmental grants revenue includes \$3.1 million received under the Coronavirus Aid, Relief, and Economic Security Act and the Coronavirus Response and Relief Supplemental Appropriations Act, providing \$1.1 million in direct support for students and \$2 million in institutional support to help offset the negative financial impacts of the COVID-19 pandemic, whereas 2020 pandemic support totaled just under \$1 million.

- Contributions of \$4.7 million supporting operations accounted for 4.7% of operating revenues and gains, as compared to 4.8% in 2020. In combination with contributions included in the non-operating section of the Consolidated Statements of Activities, contributions totaled \$7.5 million compared to \$16.4 million in 2020, which was the highest in 8 years and included a \$6 million estate gift. Puget Sound is in between major fundraising campaigns and is planning to launch a comprehensive campaign in the coming year.
- Endowment distributions of \$22.6 million provided 23% of operating revenues and gains in 2021 as compared to 13% in 2020. The 2021 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 2016 to June 2019, which resulted in an effective spending rate (distribution divided by beginning of the year market value) of 4.35% for 2021. The 2021 distribution also included an additional \$6 million draw from unrestricted quasi-endowment for operational support, of which \$4.3 million was subsequently returned to endowment. Puget Sound's effective spending rate, including the net additional draw of \$1.7 million, was 4.81%. Its ten-year average effective spending rate of 4.2% is lower than the averages of Northwest and national peer institutions, and lower than the average of similar sized endowments as reported in the 2020 NACUBO-TIAA Study of Endowments.
- Interest income and other sources of revenue amounted to \$1.5 million in 2021, down from \$2.6 million in the prior year due to lower short-term interest rates and a loss of event revenues, ticket sales, space rentals and other miscellaneous revenues from in-person activities cancelled during the pandemic.

### Operating Expenses

While operating revenues and gains declined \$19.7 million in 2021, operating expenses were reduced by \$12.6 million to \$102.8 million. Expenses were reduced in a manner that main-

tained the quality of a Puget Sound education and included reductions in compensation, travel, and other expenses. Figure 6 provides a breakdown of operating expenses by major functional category in comparison to 2020. Expenses were reduced in each functional category except student services, which included incremental expenses associated with COVID-19 testing on campus and federally funded emergency aid grants to students in 2021. Note 8 to the financial statements shows the 2021 and 2020 natural classification of expenses within each of the major functional categories reported in the Consolidated Statements of Activities.

### Nonoperating Activities

Net assets from nonoperating activities increased \$100.4 million in 2021, including the following:

- \$2.8 million from donor contributions restricted to the endowment.
- \$92.4 million from endowment gains and income, net of \$22.6 million distributed for operations. The pooled endowment investment return of 30.1% was a bright spot in fiscal year 2021, exceeding the portfolio benchmark of 27.4%.
- \$5.5 million from other adjustments and changes, including a \$3.4 million gain on the mark-to-market valuation of interest rate swap agreements and a \$2.2 million increase in net assets from actuarial adjustments associated with the faculty early retirement and career transition plan.

### Closing Comments

Puget Sound was founded in 1888, one year before Washington became a state. Fiscal year 2021 is but one of many years in the university's long history. Puget Sound has operated, adapted, and prepared and graduated students during times of economic boom and hardship, during times of war and peace, during times of social change and political turmoil, and during times of public health crises. Each situation is different, from which we learn, adapt, survive and thrive. Even as campus leadership met multiple times weekly in 2021 to respond to the pandemic's twists and turns, we stayed simultaneously focused on the future. We continued to implement key initiatives of the 2018-2028 student-centered *Leadership for a Changing World* strategic plan, developed a five-year strategic enrollment plan, launched a comprehensive program review process, and prepared for an upcoming comprehensive fundraising campaign. These initiatives shine light on the path forward for Puget Sound as we work together to fulfill mission and prepare students to lead and contribute in positive ways to a complicated and ever-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, 2021, 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 audit. We conducted our audit 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, 2021, 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 2020 consolidated financial statements, and our report dated November 16, 2020, expressed an unmodified audit opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, 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 are 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.

*Moss Adams LLP*

Yakima, Washington  
November 15, 2021

# UNIVERSITY OF PUGET SOUND Consolidated Statements of Financial Position

As of June 30, 2021 (With Comparative Financial Information as of June 30, 2020)

(Dollars in Thousands)

	<b>2021</b>	<b>2020</b>
<b>ASSETS:</b>		
Cash and cash equivalents (Note 1)	\$ 36,263	\$ 40,581
Short-term investments	34,862	27,081
Receivables, net	1,453	2,948
Contributions receivable, net (Notes 1 and 2)	3,304	3,372
Inventories (Note 1)	382	433
Prepaid expenses and other assets	5,474	4,285
Student loans receivable, net (Note 1)	7,134	9,094
Beneficial interest in outside trusts (Note 1)	832	611
Assets held under split-interest agreements (Note 1)	5,093	4,559
Endowment investments (Notes 1, 3 and 4)	474,232	378,614
Intangibles, net (Notes 1 and 5)	9,349	9,297
Campus facilities, net (Notes 1 and 5)	192,973	200,769
<b>Total assets</b>	<b>\$ 771,351</b>	<b>\$ 681,644</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 1,349	\$ 1,762
Accrued payroll and other liabilities (Note 10)	22,844	20,434
Advance deposits from students and deferred revenue (Note 1)	2,292	4,878
Liabilities under split-interest agreements (Note 1)	2,678	2,492
Government advances for student loans (Note 1)	8,086	9,628
Asset retirement obligation (Notes 1 and 5)	2,091	2,006
Interest rate swap agreements (Note 6)	9,143	12,392
Long-term debt, net (Note 6)	67,484	68,647
<b>Total liabilities</b>	<b>\$ 115,967</b>	<b>\$ 122,239</b>
<b>Net Assets:</b>		
Net assets without donor restrictions:		
Available for operations	\$ -	\$ 6,033
Invested in or designated for campus facilities	130,160	137,740
Endowment (Note 4)	149,942	123,577
Designated for other specific purposes	34,489	22,935
Total net assets without donor restrictions	314,591	290,285
Net assets with donor restrictions (Note 9)	340,793	269,120
<b>Total net assets</b>	<b>655,384</b>	<b>559,405</b>
<b>Total liabilities and net assets</b>	<b>\$ 771,351</b>	<b>\$ 681,644</b>

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, 2021 (With Summarized Financial Information for the Year Ended June 30, 2020)

(Dollars in Thousands)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2021	2020
<b>Operating:</b>				
Revenues and gains:				
Student tuition and fees	\$ 107,245		\$ 107,245	\$ 128,483
Less student financial aid	(51,722)		(51,722)	(57,566)
Net tuition and fees	55,523		55,523	70,917
Student room and board	7,461		7,461	17,081
Other auxiliary enterprises	1,248		1,248	3,329
Governmental grants and contracts	147	\$ 5,190	5,337	3,057
Contributions	2,284	2,375	4,659	5,608
Endowment income and gains distributed (Note 4)	11,158	11,399	22,557	15,472
Other sources	373	1,159	1,532	2,586
Total operating revenues and gains	78,194	20,123	98,317	118,050
Expenses:				
Educational and general:				
Instruction	43,543		43,543	49,936
Academic support	8,614		8,614	9,658
Student services	19,094		19,094	18,536
Institutional support	14,570		14,570	15,591
Total educational and general expenses	85,821		85,821	93,721
Auxiliary enterprises	16,944		16,944	21,666
Total operating expenses	102,765		102,765	115,387
Net assets released from restrictions	20,647	(20,647)	-	-
(Decrease) increase in net assets from operating activities	(3,924)	(524)	(4,448)	2,663
<b>Nonoperating:</b>				
Contributions	-	2,860	2,860	10,789
Change in allowance for uncollectible promises (Note 2)	-	(12)	(12)	(11)
Net losses and income on endowment investments, net of distributions (Note 4)	23,415	68,967	92,382	(12,950)
Loss on debt extinguishment	(313)	-	(313)	-
Other adjustments and changes	4,815	695	5,510	(4,930)
Net assets released from restrictions	313	(313)	-	-
Increase (decrease) in net assets from nonoperating activities	28,230	72,197	100,427	(7,102)
Increase (decrease) in net assets	24,306	71,673	95,979	(4,439)
Net assets at beginning of the year	290,285	269,120	559,405	563,844
Net assets at end of the year	\$ 314,591	\$ 340,793	\$ 655,384	\$ 559,405

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, 2021 (With Comparative Financial Information for the Year Ended June 30, 2020)

(Dollars in Thousands)

	2021	2020
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 95,979	\$ (4,439)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,885	10,805
Contributions restricted for long-term investment	(2,725)	(11,063)
Gifts of investments, property, and outside trusts	(25)	(26)
(Gains) losses on endowment investments and split-interest agreements	(114,063)	333
Actuarial adjustments of liabilities under split-interest agreements	20	447
Loss on debt extinguishment	313	-
Loss on disposal of assets	13	94
Amortization of tax-exempt bond premium, discount, and issuance costs	(93)	29
Accretion, settlement, and adjustments to asset retirement obligations	85	299
Unrealized loss (gain) on interest rate swap agreements	(3,248)	3,371
Changes in:		
Receivables, net	1,495	(1,065)
Contributions receivable, net	68	(199)
Inventories, prepaid expenses, and other assets	(1,138)	245
Accounts payable	5,025	66
Accrued payroll and other liabilities	(2,593)	2,526
Advance deposits from students	(2,586)	3,085
Net cash (used in) provided by operating activities	<u>(12,588)</u>	<u>4,508</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	132,820	80,455
Purchases of investments	(114,908)	(78,415)
Net (purchases) sales of short-term investments	(7,756)	5,047
Receipt of assets restricted for investment in campus facilities	-	2,613
Purchases of campus facilities and intangibles	(3,591)	(12,726)
Repayments of Perkins loans from students	1,828	1,723
Net cash provided (used) for investing activities	<u>8,393</u>	<u>(1,303)</u>
<b>Cash flows from financing activities:</b>		
Contributions restricted for long-term investment	2,725	11,063
Investment (expense) income subject to split-interest agreements	304	(23)
New liabilities under split-interest agreements	-	55
Payments to split-interest agreement beneficiaries	(359)	(291)
Proceeds from long-term debt	59,940	24,280
Bonds cost of issuance	(542)	(243)
Repayments of long-term debt	(60,781)	(25,970)
Changes in government advances for student loans	(1,410)	(1,643)
Net cash provided by financing activities	<u>(123)</u>	<u>7,228</u>
Net increase (decrease) in cash and cash equivalents	(4,318)	10,433
Cash and cash equivalents at beginning of the year	<u>40,581</u>	<u>30,148</u>
Cash and cash equivalents at end of the year	<u>\$ 36,263</u>	<u>\$ 40,581</u>
<b>Supplemental cash flow information:</b>		
Interest paid (net of capitalized interest of \$0 and \$57 in 2021 and 2020, respectively)	<u>\$ 3,663</u>	<u>\$ 3,327</u>
Noncash investing and financing activities:		
Purchases of equipment and building construction on account	<u>\$ 47</u>	<u>\$ 484</u>
Student loan cancellations	<u>\$ 132</u>	<u>\$ 185</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, 2021 (With Comparative Financial Information for the Year Ended June 30, 2020)

(Dollars in Thousands)

	<u>2021</u>	<u>2020</u>
Endowment investments, beginning of the year	\$ 378,614	\$ 380,507
Contributions	2,428	10,047
Transfers and other additions	808	1,010
Return on endowment investments	114,939	2,522
Amount distributed for operating activities	<u>(22,557)</u>	<u>(15,472)</u>
Net change in endowment investments	<u>95,618</u>	<u>(1,893)</u>
Endowment investments, end of the year	<u>\$ 474,232</u>	<u>\$ 378,614</u>
Total return on pooled endowment	30.10%	0.66%

*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, 2020. 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, 2020, from which the summarized information was derived.

**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) semesters, 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 \$51.7 million and \$57.6 million for the years ended June 30, 2021 and 2020, 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 as the goods and services are delivered.

**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

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

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 \$2,555 and \$2,901 are included in Institutional support in the Consolidated Statements of Activities for the years ended June 30, 2021 and 2020, 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 \$17,554 and \$21,057, respectively, at June 30, 2021 and 2020. 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 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 \$7,134 and \$9,094 at June 30, 2021 and 2020, 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 trustee 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 restrictions based 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, 2021 and June 30, 2020, were 1.20% and 0.60%, respectively.



**NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED****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 restrictions, 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 \$888 as of June 30, 2021, and \$728 as of June 30, 2020.

**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 environmental 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, 2021 and 2020 were \$539 and \$2,708, 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 at June 30, 2021 or 2020.

**NOTE 2 – PROMISES TO GIVE AND CONDITIONAL GRANTS**

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

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Endowment	\$ 1,888	\$ 1,551
Construction and improvement of campus facilities	936	1,219
Student financial aid	129	147
Other programs and activities, including promises without donor restriction	497	657
	<u>3,450</u>	<u>3,574</u>
Discount to present value	(89)	(111)
Allowance for uncollectable promises	(57)	(91)
	<u>\$ 3,304</u>	<u>\$ 3,372</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,890	
One to five years	1,560	
	<u>\$ 3,450</u>	

Discount rates ranged from 0.96% to 1.49% and 1.16% to 1.49% for June 30, 2021 and June 30, 2020, respectively.

Conditional promises to give totaled \$1,645 and \$1,029 for June 30, 2021 and June 30, 2020, respectively. Conditions include meeting a fundraising goal and submissions of research proposals. These promises will be recognized when conditions are substantially met.

**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 Financial Accounting Standards Board (FASB) 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, 2021:

	Totals	Level 1	Level 2	Level 3
<b>Endowment investments:</b>				
Global equity:				
US	\$ 26,917	\$ 26,917	\$ -	\$ -
International	17,099	17,099	-	-
Global equity measured at net asset value	172,856	-	-	-
Global fixed income/credit:				
Mutual funds	17,919	17,919	-	-
Balanced fund	5,879	5,879	-	-
Global fixed income/credit measured at net asset value	12,756	-	-	-
Absolute return hedge funds:				
Absolute return hedge funds measured at net asset value	75,847	-	-	-
Real assets:				
Real assets measured at net asset value	55,707	-	-	-
Private capital:				
Private capital measured at net asset value	81,145	-	-	-
Cash and other assets:				
Cash and short-term investments	5,328	5,328	-	-
Perpetual trusts	2,525	-	-	2,525
Restricted cash measured at net asset value	254	-	-	-
Total endowment investments	<u>474,232</u>	<u>73,142</u>	<u>-</u>	<u>2,525</u>
<b>Other investments:</b>				
Marketable securities	7,488	7,488	-	-
Municipal/government agency obligations	27,374	-	27,374	-
Real estate	4,507	-	-	4,507
Beneficial interest in outside trusts	832	-	-	832
Assets held under split interest agreements	5,093	3,951	1,142	-
<b>Total assets</b>	<u>\$ 519,526</u>	<u>\$ 84,581</u>	<u>\$ 28,516</u>	<u>\$ 7,864</u>
<b>Liabilities:</b>				
Interest rate swap agreements	\$ 9,143	\$ -	\$ 9,143	\$ -
<b>Total liabilities</b>	<u>\$ 9,143</u>	<u>\$ -</u>	<u>\$ 9,143</u>	<u>\$ -</u>
<b>Investments measured at net asset value:</b>				
Global equity:				
Commingled global equity	\$ 129,815	25% quarterly or 100% annually Illiquid	90 days	\$ -
Commingled global equity	42,014			-
Commingled global equity impact	1,027	25% quarterly or 100% annually		-
	<u>\$ 172,856</u>			<u>\$ -</u>
Global fixed income/credit:				
Commingled global fixed income	\$ 9,637	25% quarterly or 100% annually Illiquid	90 days	\$ -
Commingled global fixed income	3,119			-
	<u>\$ 12,756</u>			<u>\$ -</u>
Absolute return hedge funds:				
Absolute return hedge funds in liquidation	\$ 59	In Liquidation		\$ -
Commingled absolute return hedge funds	57,257	25% quarterly or 100% annually Illiquid	90 days	-
Commingled absolute return hedge funds	18,531			-
	<u>\$ 75,847</u>			<u>\$ -</u>
Real assets:				
Private energy	\$ 20,808	Illiquid		\$ 454
Timber	3,638	Illiquid		-
Real estate	1,178	Illiquid		78
Sustainable real assets	1,507	Illiquid		4,071
Commingled real assets	13,554	25% quarterly or 100% annually Illiquid	90 days	-
Commingled real assets	15,022			-
	<u>\$ 55,707</u>			<u>\$ 4,603</u>
Private capital:				
Private capital	\$ 25,284	Illiquid		\$ 7,449
Commingled private capital	55,861	Illiquid		-
	<u>\$ 81,145</u>			<u>\$ 7,449</u>
Cash:				
Restricted cash redemptive	\$ 194	25% quarterly or 100% annually Illiquid	90 days	\$ -
Restricted cash non-redemptive	60			-
	<u>\$ 254</u>			<u>\$ -</u>



# UNIVERSITY OF PUGET SOUND Notes to Consolidated Financial Statements

June 30, 2021

(Dollars in Thousands)

## 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
<b>Endowment investments:</b>				
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>
<b>Other investments:</b>				
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	-
<b>Total assets</b>	<u>\$ 414,348</u>	<u>\$ 98,422</u>	<u>\$ 20,919</u>	<u>\$ 6,258</u>
<b>Liabilities:</b>				
Interest rate swap agreements	\$ 12,392	\$ -	\$ 12,392	\$ -
<b>Total liabilities</b>	<u>\$ 12,392</u>	<u>\$ -</u>	<u>\$ 12,392</u>	<u>\$ -</u>
<b>Investments measured at net asset value:</b>				
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**

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, 2021</u>	<u>June 30, 2020</u>
Balance, beginning of the year	\$ 6,258	\$ 6,216
Total realized and unrealized gains (losses)	1,519	503
Purchases	-	-
Issues	-	-
Sales	(134)	(116)
Net transfers	221	(345)
Balance, end of the year	<u>\$ 7,864</u>	<u>\$ 6,258</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>1,519</u>	\$	<u>503</u>
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**NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS**

At June 30, 2021, the university's endowment consisted of approximately 661 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. Within the pooled endowment is a fossil fuel free option for donors who want their gifts invested in a portfolio free of companies that own fossil fuel reserves. 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 endowment supports the educational mission of the university by providing a substantial, sustainable flow of funds for operations in real or inflation-adjusted terms, as adjusted for new additions. The primary investment objective of the pooled endowment is to provide a sustainable maximum level of return that is consistent with prudent risk levels. The specific investment objectives of the general and fossil fuel free pooled endowments are to attain annual total real returns 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 for the years ended June 30, 2021 and June 30, 2020, and approved a spending rate for the fossil fuel free portfolio based on 3.5% of a trailing 36-month average market value for the year ended June 30, 2021 and 3.5% of a trailing 31-month market value for the year ended June 30, 2020 (in alignment with the December 2016 inception date of the fossil fuel free portfolio). For a few donor-restricted endowment funds, the university honors and adheres to donor-stipulated spending limitations.

At June 30, 2021, approximately 99.3% of the university's endowment investments were pooled.

**Funds with Deficiencies**

As of June 30, 2021 and 2020, there were \$0 and \$8, 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, 2021 are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, June 30, 2020	\$ 123,577	\$ 256,468	\$ 380,045
Contributions, net	-	2,806	2,806
Transfers and other additions (deductions)	364	445	809
Net assets released from restrictions	2,587	(2,587)	-
Return on investments:			
Investment income	559	1,182	1,741
Net appreciation of investments	34,013	79,183	113,196
Total return on investments	34,572	80,365	114,937
Amount distributed for operating activities	(11,158)	(11,399)	(22,557)
Endowment net assets, June 30, 2021	<u>149,942</u>	<u>326,098</u>	<u>476,040</u>
Endowment net assets consisted of the following at June 30, 2021:			
Donor-restricted endowments	-	322,522	322,522
Board-designated quasi-endowments	149,942	1,768	151,710
	149,942	324,290	474,232
Unconditional promises to endowment	-	1,808	1,808
Total endowment net assets	<u>\$ 149,942</u>	<u>\$ 326,098</u>	<u>\$ 476,040</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, 2020 are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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
Net assets released from restrictions	-	-	-
Return on investments:			
Investment income	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 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 15 years.

	<b>June 30, 2021</b>	<b>June 30, 2020</b>
Intangible assets:		
Gross carrying amount	\$ 15,513	\$ 14,829
Accumulated amortization	(6,164)	(5,532)
Net carrying amount	<u>\$ 9,349</u>	<u>\$ 9,297</u>

Aggregate amortization expense:

2021	\$ 843
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Estimated amortization expense for each of the next five years and thereafter is as follows:

2022	\$ 918
2023	916
2024	909
2025	896
2026	838
Thereafter	4,872
Total	<u>\$ 9,349</u>

**Campus Facilities**

Campus facilities consisted of the following:

	<b>June 30, 2021</b>	<b>June 30, 2020</b>
Land and improvements	\$ 42,251	\$ 42,251
Building and improvements	289,866	288,762
Equipment	12,911	13,335
Library resources	2,710	2,606
Collections	1,025	1,025
Construction in progress	646	169
	<u>349,409</u>	<u>348,148</u>
Accumulated depreciation	(156,436)	(147,379)
Campus facilities, net	<u>\$ 192,973</u>	<u>\$ 200,769</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, 2021</u>	<u>June 30, 2020</u>
Asset retirement obligation, beginning of the year	\$ 2,006	\$ 1,707
Obligations settled	(4)	(32)
Obligations incurred	5	3
Accretion expense	84	80
Revisions in estimated cash flows	-	248
Asset retirement obligation, end of the year	<u>\$ 2,091</u>	<u>\$ 2,006</u>

**NOTE 6 – LONG-TERM DEBT**

Long-term debt consisted of the following:

	<u>Final Maturity</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
WHEFA Revenue Bonds, 2021A	2036	\$ 23,525	\$ -
WHEFA Revenue Bonds, 2021B	2042	35,874	-
WHEFA Revenue Bonds, 2012A	2021	-	35,949
WHEFA Revenue Bonds, 2001	2031	7,958	8,462
WHEFA Revenue Bonds, 2019	2021	-	24,063
Capital lease obligations	2032	127	173
Total		<u>\$ 67,484</u>	<u>\$ 68,647</u>

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

2022	2,179
2023	2,136
2024	2,251
2025	2,327
2026	2,412
Thereafter	<u>56,787</u>
	68,092
Unamortized issuance costs	(608)
Total	<u>\$ 67,484</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 bond obligations. The bonds are obligations solely of the university and are not guaranteed by the state. The university has agreed to covenants relating to maintenance of facilities, insurance, and other general items, and certain financial covenants. The university’s underlying long-term rating is “A1” by Moody’s Investors Service, Inc., and “A+” by Standard & Poor’s Global Ratings.

The university issued WHEFA Series 2012A bonds to finance the construction of a student residence hall at a rate determined weekly. The university issued WHEFA 2012B bonds to refund outstanding WHEFA 2006A bonds. The 2012B bonds were sold through a direct purchase transaction with a bank that held the bonds for a seven year term that expired in October 2019.

In 2019, the 2012B bonds were refunded and refinanced through a direct purchase transaction with a bank in the amount of \$24,280 (WHEFA Series 2019) bearing interest at 80% of the one-month London Interbank Offer Rate LIBOR plus a credit spread.

In June 2021, the university issued WHEFA Series 2021A and 2021B to refinance the Series 2019 and the Series 2012A bonds, respectively, through a direct purchase transaction with a bank for a ten-year term. The Series 2012A fixed-rate bonds have a call date in October 2022, and were therefore advance refunded with a taxable to tax-exempt converter structure (Series 2021B) which enabled the university to refinance the debt in advance of the call date. The 2021B bonds bear interest at a fixed, taxable rate until the bonds are converted to tax-exempt, at which point the bonds will bear interest at a fixed tax-exempt rate. The 2021A bonds bear variable rate interest at 80% of the one-month LIBOR plus a credit spread.

**NOTE 6 – LONG-TERM DEBT, CONTINUED**

For the year ended June 30, 2021, the university incurred total interest costs related to long-term debt of \$3,176 of which \$0 was capitalized. Interest costs include debt interest payments, net interest rate swap agreement payments, remarketing, and amortization of bond premium, discount and costs of issuance.

**Interest Rate Swap Agreements**

During 2005 and 2006, the university entered into three 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:

<b>Swap Counterparty</b>	<b>Outstanding Notional</b>	<b>Trade Date</b>	<b>Effective Date</b>	<b>Swap Fixed Rate</b>	<b>Final Maturity Date</b>
The Bank of New York Mellon	\$ 8,980	5/25/06	4/1/08	3.875%	10/1/2030
The Bank of New York Mellon	\$ 23,360	5/25/06	6/30/06	3.855%	10/1/2036
Societe Generale, New York Branch	\$ 8,025	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, 2021 and 2020, for "Interest rate swap agreements" of \$9,143 and \$12,392, 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, 2021 and 2020, were net unrealized gains and losses of \$3,248 and \$(3,371), 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, and certain endowment investments. The university can also draw from its board-designated quasi-endowment with board approval, should it be determined prudent to do so.

The following table reflects the university's financial assets as of June 30, 2021 and June 30, 2020, reduced by amounts not available for general expenditures within one year.

# UNIVERSITY OF PUGET SOUND Notes to Consolidated Financial Statements

June 30, 2021

(Dollars in Thousands)

## NOTE 7 – LIQUIDITY AND AVAILABILITY, CONTINUED

	June 30, 2021	June 30, 2020
<b>Financial Assets:</b>		
Cash and cash equivalents	\$ 36,263	\$ 40,581
Short-term investments	34,862	27,081
Receivables, net	1,453	2,948
Contributions receivable, net	3,304	3,372
Beneficial interest in outside trusts	832	611
Assets held under split-interest agreements	5,093	4,559
Endowment investments	474,232	378,614
<b>Financial assets, at year-end</b>	<b>\$ 556,039</b>	<b>\$ 457,766</b>
<b>Less those unavailable for general expenditures within one year, due to:</b>		
Donor-restricted endowment, net of anticipated draw	(315,084)	(243,936)
Donor and grant-restricted expendable funds	(7,825)	(5,537)
Assets held under split interest agreements	(5,093)	(4,559)
Beneficial interest in outside trusts	(832)	(611)
Contributions receivable, net, scheduled to be collected in more than one year	(1,445)	(1,864)
Other restricted assets	(2,931)	(2,932)
<b>Financial assets available to meet cash needs for general expenditures within one year, before board designations:</b>	<b>\$ 222,829</b>	<b>\$ 198,327</b>
Less board designations:		
Board-designated quasi-endowment, net of anticipated draw	(142,307)	(118,545)
<b>Financial assets available to meet general expenditures within one year</b>	<b>\$ 80,522</b>	<b>\$ 79,782</b>

## 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, 2021 and June 30, 2020, respectively:

June 30, 2021:	Program Activities				Supporting Activities	Total Expenses
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	
Salaries and wages	\$ 26,887	\$ 3,943	\$ 7,804	\$ 3,920	\$ 8,332	\$ 50,886
Employee benefits	7,562	1,238	2,425	1,248	2,706	15,179
Supplies, travel, and other	2,714	1,014	4,252	3,673	701	12,354
Service and professional fees	513	426	1,874	1,328	2,010	6,151
Facilities maintenance and operations	910	257	593	2,260	114	4,134
Depreciation and amortization	3,272	1,536	2,041	3,445	591	10,885
Interest	1,685	200	105	1,070	116	3,176
<b>Total Expenses</b>	<b>\$ 43,543</b>	<b>\$ 8,614</b>	<b>\$ 19,094</b>	<b>\$ 16,944</b>	<b>\$ 14,570</b>	<b>\$ 102,765</b>

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
<b>Total Expenses</b>	<b>\$ 49,936</b>	<b>\$ 9,658</b>	<b>\$ 18,536</b>	<b>\$ 21,666</b>	<b>\$ 15,591</b>	<b>\$ 115,387</b>

**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, 2021</u>	<u>June 30, 2020</u>
Time or purpose restricted:		
Time restrictions:		
Unappropriated earnings from donor-restricted endowments	\$ 164,335	\$ 101,909
Term endowment	654	521
Total donor-restricted endowments	<u>164,989</u>	<u>102,430</u>
Unconditional promises to give	1,495	1,941
Split-interest agreements - life income	1,047	815
Split-interest agreements - annuities	23	15
Cash surrender value of life insurance policies	84	63
Total time restrictions	<u>167,638</u>	<u>105,264</u>
Purpose restrictions:		
Construction of campus facilities	1,552	1,446
Educational programs and activities	10,094	8,142
Total purpose restrictions	<u>11,646</u>	<u>9,588</u>
Total time or purpose restricted	<u>\$ 179,284</u>	<u>\$ 114,852</u>
Restricted in perpetuity:		
Endowment funds	\$ 159,340	\$ 152,423
Split-interest agreements	2,164	1,840
Loan funds	5	5
Total restricted in perpetuity	<u>\$ 161,509</u>	<u>\$ 154,268</u>
 Total net assets with donor restrictions	 <u>\$ 340,793</u>	 <u>\$ 269,120</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 6% of salaries for the year ended June 30, 2021 and are fully vested. The university’s contributions totaled \$2,608 and \$5,219 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, and in the Consolidated Statements of Activities for the years then ended are as follows:



**NOTE 10 – RETIREMENT PLANS, CONTINUED**

	<b>Faculty Early Retirement and Career Change Plan</b>		<b>Post-Retirement Medical Plan</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Projected and accumulated post-retirement benefit obligations:				
Beginning of the year	\$ 9,653	\$ 8,553	\$ 4,169	\$ 3,734
Benefits paid	(1,360)	(87)	(196)	(91)
Amounts recognized in the Consolidated Statements of Activities:				
Components of net benefit expense:				
Service cost	541	469	246	214
Interest cost	238	278	107	123
Amortization of actuarial loss	167	151	64	57
Total net benefit expense	946	898	417	394
(Gain) loss recognized within other adjustments and changes	(2,017)	289	(277)	132
End of the year	<u>\$ 7,222</u>	<u>\$ 9,653</u>	<u>\$ 4,113</u>	<u>\$ 4,169</u>
Post-retirement benefit liability recognized within accrued payroll and other liabilities in the Consolidated Statements of Financial Position:				
Current portion	\$ 284	\$ 412	\$ 198	\$ 212
Noncurrent portion	6,938	9,241	3,915	3,957
Total	<u>\$ 7,222</u>	<u>\$ 9,653</u>	<u>\$ 4,113</u>	<u>\$ 4,169</u>
Plan funded (unfunded) status	<u>\$ (7,222)</u>	<u>\$ (9,653)</u>	<u>\$ (4,113)</u>	<u>\$ (4,169)</u>

The weighted-average assumptions used to determine plan benefit obligations as of June 30, 2021 and 2020, and the net benefit expense for the years then ended, included:

	<b>Faculty Early Retirement and Career Change Plan</b>		<b>Post-Retirement Medical Plan</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Benefit obligation (post-retirement benefit liability):				
Discount rate	2.45%	2.52%	2.56%	2.63%
Rate of compensation increase	3.50%	5.00%	N/A	N/A
Net benefit expense:				
Discount rate	2.52%	3.33%	2.63%	3.41%
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 \$167 for the faculty early retirement and career change plan and a net loss of \$64 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:

	<b>Faculty Early Retirement and Career Change Plan</b>	<b>Post-Retirement Medical Plan</b>
2022	284	198
2023	285	213
2024	313	216
2025	400	232
2026	476	222
2027–2031	3,067	1,605

**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, 2021:

	University of Puget Sound (unconsolidated)	Wholly Owned Subsidiaries	Eliminating Entries	University of Puget Sound (consolidated)
<b>Assets:</b>				
Cash and cash equivalents	\$ 36,263	\$ -	\$ -	\$ 36,263
Due from subsidiaries	1,397	-	(1,397)	-
Short-term investments	34,862	-	-	34,862
Receivables, net	1,453	-	-	1,453
Contributions receivable, net	3,304	-	-	3,304
Inventories	382	-	-	382
Prepaid expenses and other assets	967	4,507	-	5,474
Student loans receivable, net	7,134	-	-	7,134
Beneficial interest in outside trusts	832	-	-	832
Assets held under split-interest agreements	5,093	-	-	5,093
Endowment investments	474,153	79	-	474,232
Intangibles, net	9,349	-	-	9,349
Campus facilities, net	192,973	-	-	192,973
<b>Total assets</b>	<b>\$ 768,162</b>	<b>\$ 4,586</b>	<b>\$ (1,397)</b>	<b>\$ 771,351</b>
<b>Liabilities:</b>				
Accounts payable	\$ 1,349	\$ -	\$ -	\$ 1,349
Due to university	-	1,397	(1,397)	-
Accrued payroll and other liabilities	22,844	-	-	22,844
Advance deposits from students	2,292	-	-	2,292
Liabilities under split-interest agreements	2,678	-	-	2,678
Government advances for student loans	8,086	-	-	8,086
Asset retirement obligation	2,091	-	-	2,091
Interest rate swap agreements	9,143	-	-	9,143
Long-term debt, net	67,484	-	-	67,484
<b>Total liabilities</b>	<b>\$ 115,967</b>	<b>\$ 1,397</b>	<b>\$ (1,397)</b>	<b>\$ 115,967</b>
<b>Net Assets:</b>				
Net assets without donor restrictions	\$ 314,591	\$ -	\$ -	\$ 314,591
Net assets with donor restrictions	337,604	3,189	-	340,793
<b>Total net assets</b>	<b>652,195</b>	<b>3,189</b>	<b>-</b>	<b>655,384</b>
<b>Total liabilities and net assets</b>	<b>\$ 768,162</b>	<b>\$ 4,586</b>	<b>\$ (1,397)</b>	<b>\$ 771,351</b>

The amount included to meet future payments under gift annuity contracts in liabilities under split-interest agreements was \$456 as of June 30, 2021, and \$479 as of June 30, 2020.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

The university is obligated under certain limited partner investment fund agreements to fund capital commitments yet to be called by the investment fund. At June 30, 2021, the university had unfunded commitments of \$12,052.

In the normal course of activities, the university from time to time is the subject of various claims and legal actions. In the opinion of management, most such claims and legal actions are covered by insurance and the ultimate disposition of these matters will not have a material impact on the consolidated financial statements.

Amounts received or receivable under federal grant programs are subject to audit by governmental agencies. Management expects that any liabilities resulting from such audits would be immaterial.

**NOTE 13 – CORONAVIRUS PANDEMIC**

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The related public health response since that time, including orders to shelter-in-place, travel restrictions and mandated business closures, has led to increased volatility and disruptions in normal business operations. 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 refunded \$4.4 million of student room and board for the year ended June 30, 2020.

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 October 16th, 2020, the university announced spring semester courses would be offered in a number of different instructional modes, primarily remote, but with some hybrid courses, and some in-person courses with physical distancing in place. Residential occupancy continued to be limited, providing de-densification in light of COVID-19. While some faculty and staff worked on-campus during the 2020-21 academic year to ensure continuity of essential operations, most transitioned temporarily to remote work. During summer 2021, faculty and staff began to return to in-person work in anticipation of regular, in-person course instruction and campus operations at the start of fall semester 2021.

The U.S. Congress passed several legislative acts that have resulted in funding allocations to institutions of higher education, a portion of which must go directly to students in the form of emergency grants and a portion of which helps cover expenses related to the disruption of campus operations or helps replace lost revenue because of the pandemic. The university recognized \$3,158 and \$950 for the periods ended June 30, 2021 and 2020, respectively, in grant revenue made available by this legislation. The portion used to award relief to students is included in student services.

As a result of the ongoing impact of the pandemic and the extent of remote operations and COVID-19 restrictions, the university incurred an operating loss in fiscal year 2021. Contributing factors include loss of enrollment and associated net tuition, room, board, and campus store revenues; loss of conference and event revenues; and incremental costs of testing and other COVID-19 mitigations.

Given continued uncertainty over the progression of the virus, duration of the pandemic, public health guidelines, and governmental directives, the future operational and financial impact on the university from the pandemic cannot be quantified at this time. The university continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the university community and promote continuity of its academic mission.

**NOTE 14 – SUBSEQUENT EVENTS**

The university has evaluated subsequent events through November 15, 2021, the date the consolidated financial statements were available to be issued.

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As of November 2021

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