

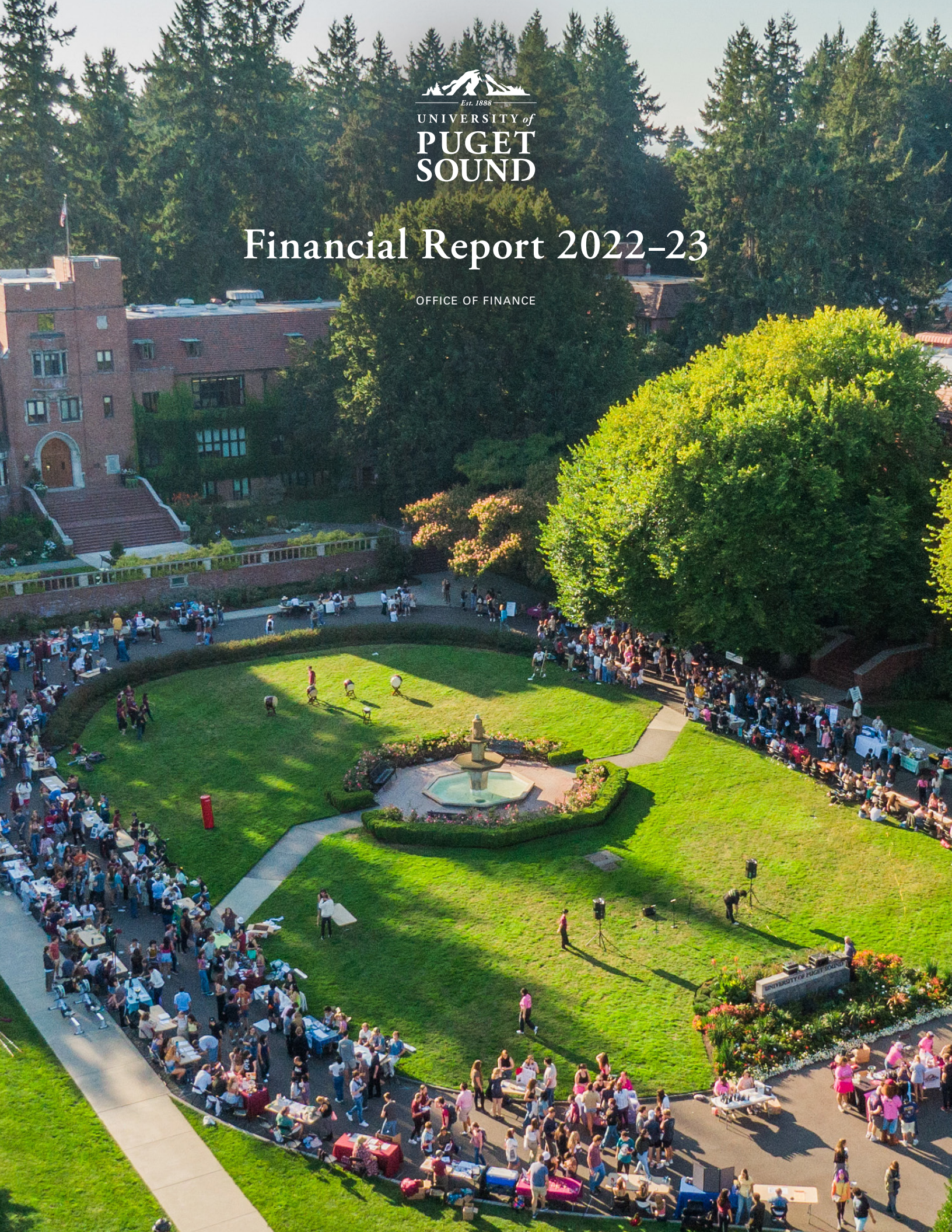


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UNIVERSITY of
**PUGET
SOUND**

Financial Report 2022-23

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 2022-23

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Report of Independent Auditors

The Board of Trustees
University of Puget Sound

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 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, 2023, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

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

Other Matter

Report on Summarized Comparative Information

We have previously audited the University's 2022 consolidated financial statements, and our report dated November 17, 2022, 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, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Seattle, Washington
December 6, 2023

UNIVERSITY OF PUGET SOUND Consolidated Statements of Financial Position

As of June 30, 2023 (With Comparative Financial Information as of June 30, 2022)

(Dollars in Thousands)

	2023	2022
ASSETS:		
Cash and cash equivalents (Note 1)	\$ 41,426	\$ 44,049
Short-term investments	23,267	20,989
Receivables, net	1,026	1,447
Contributions receivable, net (Notes 1 and 2)	10,058	1,826
Inventories (Note 1)	350	337
Prepaid expenses and other assets	7,828	7,113
Student loans receivable, net (Note 1)	3,740	5,660
Beneficial interest in outside trusts (Note 1)	1,071	1,195
Assets held under split-interest agreements (Note 1)	4,990	5,302
Endowment investments (Notes 1, 3 and 4)	448,622	427,977
Intangibles, net (Notes 1 and 5)	9,205	9,300
Campus facilities, net (Notes 1 and 5)	180,148	184,532
	<u>731,731</u>	<u>709,727</u>
Total assets	\$ 731,731	\$ 709,727
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 1,730	\$ 2,226
Accrued payroll and other liabilities (Note 10)	16,325	14,920
Advance deposits from students and deferred revenue (Note 1)	2,092	1,867
Liabilities under split-interest agreements (Note 1)	2,699	2,300
Government advances for student loans (Note 1)	4,376	6,423
Asset retirement obligation (Notes 1 and 5)	2,447	2,353
Interest rate swap agreements (Note 6)	2,323	3,916
Long-term debt, net (Note 6)	63,220	65,358
	<u>95,212</u>	<u>99,363</u>
Total liabilities	\$ 95,212	\$ 99,363
Net Assets:		
Net assets without donor restrictions:		
Invested in or designated for campus facilities	119,506	124,758
Endowment (Note 4)	139,549	135,068
Designated for other specific purposes	43,202	40,295
Total net assets without donor restrictions	302,257	300,121
Net assets with donor restrictions (Note 9)	334,262	310,243
	<u>636,519</u>	<u>610,364</u>
Total net assets	636,519	610,364
Total liabilities and net assets	\$ 731,731	\$ 709,727

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, 2023 (With Summarized Financial Information for the Year Ended June 30, 2022)

(Dollars in Thousands)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2023	2022
Operating:				
Revenues and gains:				
Student tuition and fees	\$ 107,689		\$ 107,689	\$ 111,763
Less student financial aid	(51,644)		(51,644)	(53,076)
Net tuition and fees	56,045		56,045	58,687
Student room and board	17,253		17,253	18,104
Other auxiliary enterprises	3,219		3,219	2,033
Governmental grants and contracts	181	\$ 5,482	5,663	6,758
Contributions	2,923	1,660	4,583	4,212
Endowment income and gains distributed (Note 4)	9,488	12,579	22,067	19,173
Other sources	2,573	299	2,872	1,721
Total operating revenues and gains	91,682	20,020	111,702	110,688
Expenses:				
Educational and general:				
Instruction	44,079		44,079	44,611
Academic support	9,898		9,898	9,164
Student services	19,200		19,200	20,205
Institutional support	17,421		17,421	17,106
Total educational and general expenses	90,598		90,598	91,086
Auxiliary enterprises	20,904		20,904	20,373
Total operating expenses	111,502		111,502	111,459
Net assets released from restrictions	20,342	(20,342)	-	-
Increase (decrease) in net assets from operating activities	522	(322)	200	(771)
Nonoperating:				
Contributions	-	11,782	11,782	2,966
Change in allowance for uncollectible promises (Note 2)	-	(119)	(119)	16
Net gains (losses) and income on endowment investments, net of distributions (Note 4)	1,516	13,279	14,795	(54,456)
Other adjustments and changes	(199)	(304)	(503)	7,225
Net assets released from restrictions	297	(297)	-	-
Increase (decrease) in net assets from nonoperating activities	1,614	24,341	25,955	(44,249)
Increase (decrease) in net assets	2,136	24,019	26,155	(45,020)
Net assets at beginning of the year	300,121	310,243	610,364	655,384
Net assets at end of the year	\$ 302,257	\$ 334,262	\$ 636,519	\$ 610,364

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, 2023 (With Comparative Financial Information for the Year Ended June 30, 2022)

(Dollars in Thousands)

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 26,155	\$ (45,020)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,645	11,205
Contributions restricted for long-term investment	(3,229)	(3,864)
Gifts of investments, property, and outside trusts	32	(25)
(Gains) losses on endowment investments and split-interest agreements	(34,641)	36,739
Actuarial adjustments of liabilities under split-interest agreements	644	(613)
Amortization of tax-exempt bond premium, discount, and issuance costs	68	61
Accretion, settlement, and adjustments to asset retirement obligations	94	262
Unrealized gain on interest rate swap agreements	(1,593)	(5,227)
Changes in:		
Receivables, net	420	6
Contributions receivable, net	(8,232)	1,478
Inventories, prepaid expenses, and other assets	(721)	(1,594)
Accounts payable	(552)	(4,142)
Accrued payroll and other liabilities	1,402	(2,915)
Advance deposits from students	225	(425)
Net cash (used in) operating activities	<u>(10,283)</u>	<u>(14,073)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	37,374	71,599
Purchases of investments	(23,067)	(62,291)
Net (purchases) sales of short-term investments	(2,252)	13,897
Purchases of campus facilities and intangibles	(5,082)	(2,704)
Repayments of Perkins loans from students	1,039	1,389
Net cash provided for investing activities	<u>8,012</u>	<u>21,890</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	3,229	3,864
Investment income subject to split-interest agreements	180	1
New liabilities under split-interest agreements	-	234
Payments to split-interest agreement beneficiaries	(381)	(364)
Bonds cost of issuance	(78)	(8)
Repayments of long-term debt	(2,136)	(2,179)
Changes in government advances for student loans	(1,166)	(1,578)
Net cash (used in) financing activities	<u>(352)</u>	<u>(30)</u>
Net increase (decrease) in cash and cash equivalents	(2,623)	7,787
Cash and cash equivalents at beginning of the year	<u>44,049</u>	<u>36,263</u>
Cash and cash equivalents at end of the year	<u>\$ 41,426</u>	<u>\$ 44,049</u>
Supplemental cash flow information:		
Interest paid (net of capitalized interest, \$0 for both 2023 and 2022)	<u>\$ 1,641</u>	<u>\$ 2,231</u>
Noncash investing and financing activities:		
Purchases of equipment and building construction on account	<u>\$ 121</u>	<u>\$ 59</u>
Student loan cancellations	<u>\$ 881</u>	<u>\$ 85</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, 2023 (With Comparative Financial Information for the Year Ended June 30, 2022)

(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
Endowment investments, beginning of the year	\$ 427,977	\$ 474,232
Contributions	2,949	3,260
Transfers and other additions	2,890	4,940
Return (Loss) on endowment investments	36,872	(35,282)
Amount distributed for operating activities	<u>(22,067)</u>	<u>(19,173)</u>
Net change in endowment investments	<u>20,644</u>	<u>(46,254)</u>
Endowment investments, end of the year	<u>\$ 448,622</u>	<u>\$ 427,977</u>
Total return on pooled endowment	8.55%	(7.52%)

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. CVI GVF Holdings 13 Ltd. was liquidated as an exempt company in the Cayman Islands effective May 1, 2023. 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, 2022. 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, 2022, 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 and Fees, 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 \$51.6 million and \$53.1 million for the years ended June 30, 2023 and 2022, 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

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

receive a direct benefit for the resources provided to the university. Revenue is not recorded until barriers to entitlement are overcome and other conditions are met, which generally occurs as allowable expenditures are incurred. Governmental grants for which conditions and restrictions are met in the same reporting period are released from restriction and 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 \$3,299 and \$2,858 are included in Institutional support in the Consolidated Statements of Activities for the years ended June 30, 2023 and 2022, 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 \$25,025 and \$15,097, respectively, at June 30, 2023 and 2022. 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 \$3,740 and \$5,660 at June 30, 2023 and 2022, 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 restriction 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, 2023 and June 30, 2022, were 4.20% and 3.60%, 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 1.60% 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 net assets with or without donor restriction, based on the existence or absence of time or use restrictions placed by the donor upon the university's interest in the assets. Annuity and trust assets are reported at fair value. Investment income and gains are credited, and beneficiary payments, direct costs of funds management, and investment losses are charged to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses resulting from changes in fair value and life expectancy.

The university maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws. The total amount held in separate reserve funds was \$697 as of June 30, 2023, and \$705 as of June 30, 2022.

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, 2023 and 2022 were \$398 and \$408, respectively.

Related Parties

The university did not have any material related party transactions for the years ended June 30, 2023 and 2022, 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. These are pass through entities, and the taxes flow through to the university. The university had no unrecognized tax benefits that would have required an adjustment to its net assets at June 30, 2023 or 2022.

NOTE 2 – CONTRIBUTIONS RECEIVABLE

“Contributions receivable” consisted of the following unconditional promises to give:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Endowment	\$ 11,243	\$ 1,000
Construction and improvement of campus facilities	58	340
Student financial aid	40	36
Other programs and activities, including promises without donor restriction	<u>371</u>	<u>565</u>
	11,712	1,940
Allowance for uncollectable promises	(129)	(73)
Discount to present value	<u>(1,525)</u>	<u>(41)</u>
	<u>\$ 10,058</u>	<u>\$ 1,826</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,616	
One to five years	<u>7,096</u>	
	<u>\$ 11,712</u>	

Discount rates ranged from 4.99% to 5.37% and 2.92% to 3.01% for June 30, 2023 and June 30, 2022, respectively.

Conditional promises to give totaled \$1,272 and \$1,446 at June 30, 2023 and June 30, 2022, 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.

UNIVERSITY OF PUGET SOUND Notes to Consolidated Financial Statements

June 30, 2023

(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, 2023:

	Totals	Level 1	Level 2	Level 3
Endowment investments:				
Global equity:				
US	\$ 26,836	\$ 26,836	\$ -	\$ -
International	21,370	21,370	-	-
Global equity measured at net asset value	156,259	-	-	-
Global fixed income/credit:				
Mutual funds	12,815	12,815	-	-
Balanced fund	6,311	6,311	-	-
Global fixed income/credit measured at net asset value	11,388	-	-	-
Absolute return hedge funds:				
Absolute return hedge funds measured at net asset value	52,254	-	-	-
Real assets:				
Real assets measured at net asset value	65,552	-	-	-
Private capital:				
Private capital measured at net asset value	89,176	-	-	-
Cash and other assets:				
Cash and short-term investments	4,094	4,094	-	-
Perpetual trusts	2,175	-	-	2,175
Restricted cash measured at net asset value	392	-	-	-
Total endowment investments	<u>448,622</u>	<u>71,426</u>	<u>-</u>	<u>2,175</u>
Other investments:				
Marketable securities	7,382	7,382	-	-
Municipal/government agency obligations	15,885	-	15,885	-
Real estate	5,876	-	-	5,876
Beneficial interest in outside trusts	1,071	-	-	1,071
Assets held under split interest agreements	4,990	4,280	710	-
Total assets	<u>\$ 483,826</u>	<u>\$ 83,088</u>	<u>\$ 16,595</u>	<u>\$ 9,122</u>
Liabilities:				
Interest rate swap agreements	\$ 2,323	\$ -	\$ 2,323	\$ -
Total liabilities	<u>\$ 2,323</u>	<u>\$ -</u>	<u>\$ 2,323</u>	<u>\$ -</u>
	Fair Value	Redemption Restrictions	Redemption Notice	Unfunded Commitments
Investments measured at net asset value:				
Global equity:				
Commingled global equity	\$ 110,211	25% quarterly or 100% annually Illiquid	90 days	\$ -
Commingled global equity	45,262	-	-	-
Commingled global equity impact	786	25% quarterly or 100% annually	-	-
	<u>\$ 156,259</u>	-	-	<u>\$ -</u>
Global fixed income/credit:				
Commingled global fixed income	\$ 8,073	25% quarterly or 100% annually Illiquid	90 days	\$ -
Commingled global fixed income	3,315	-	-	-
	<u>\$ 11,388</u>	-	-	<u>\$ -</u>
Absolute return hedge funds:				
Absolute return hedge funds in liquidation	\$ 66	In Liquidation	-	\$ -
Commingled absolute return hedge funds	36,995	25% quarterly or 100% annually Illiquid	90 days	-
Commingled absolute return hedge funds	15,193	-	-	-
	<u>\$ 52,254</u>	-	-	<u>\$ -</u>
Real assets:				
Private energy	\$ 22,435	Illiquid	-	\$ 453
Timber	3,783	Illiquid	-	-
Real estate	697	Illiquid	-	78
Sustainable real assets	3,327	Illiquid	-	2,804
Commingled real assets	6,389	25% quarterly or 100% annually Illiquid	90 days	-
Commingled real assets	28,921	-	-	-
	<u>\$ 65,552</u>	-	-	<u>\$ 3,335</u>
Private capital:				
Private capital	\$ 29,150	Illiquid	-	\$ 13,126
Commingled private capital	60,026	Illiquid	-	-
	<u>\$ 89,176</u>	-	-	<u>\$ 13,126</u>
Cash:				
Restricted cash redemptive	\$ 279	25% quarterly or 100% annually Illiquid	90 days	\$ -
Restricted cash non-redemptive	113	-	-	-
	<u>\$ 392</u>	-	-	<u>\$ -</u>

UNIVERSITY OF PUGET SOUND Notes to Consolidated Financial Statements

June 30, 2023

(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, 2022:

	Totals	Level 1	Level 2	Level 3
Endowment investments:				
Global equity:				
US	\$ 17,410	\$ 17,410	\$ -	\$ -
International	14,336	14,336	-	-
Global equity measured at net asset value	117,835	-	-	-
Global fixed income/credit:				
Mutual funds	12,832	12,832	-	-
Balanced fund	13,779	13,779	-	-
Global fixed income/credit measured at net asset value	8,409	-	-	-
Absolute return hedge funds:				
Absolute return hedge funds measured at net asset value	76,878	-	-	-
Real assets:				
Real assets measured at net asset value	76,072	-	-	-
Private capital:				
Private capital measured at net asset value	84,503	-	-	-
Cash and other assets:				
Cash and short-term investments	3,063	3,063	-	-
Perpetual trusts	2,128	-	-	2,128
Restricted cash measured at net asset value	734	-	-	-
Total endowment investments	<u>427,977</u>	<u>61,420</u>	<u>-</u>	<u>2,128</u>
Other investments:				
Marketable securities	7,140	7,140	-	-
Municipal/government agency obligations	14,449	-	14,449	-
Real estate	5,779	-	-	5,779
Beneficial interest in outside trusts	1,195	-	-	1,195
Assets held under split interest agreements	5,302	4,351	951	-
Total assets	<u>\$ 461,842</u>	<u>\$ 72,911</u>	<u>\$ 15,400</u>	<u>\$ 9,102</u>
Liabilities:				
Interest rate swap agreements	\$ 3,916	\$ -	\$ 3,916	\$ -
Total liabilities	<u>\$ 3,916</u>	<u>\$ -</u>	<u>\$ 3,916</u>	<u>\$ -</u>
Investments measured at net asset value:				
Global equity:				
Commingled global equity	\$ 66,639	25% quarterly or 100% annually Illiquid	90 days	\$ -
Commingled global equity	50,461	-	-	-
Commingled global equity impact	735	25% quarterly or 100% annually	-	-
	<u>\$ 117,835</u>			<u>\$ -</u>
Global fixed income/credit:				
Commingled global fixed income	\$ 4,785	25% quarterly or 100% annually Illiquid	90 days	\$ -
Commingled global fixed income	3,624	-	-	-
	<u>\$ 8,409</u>			<u>\$ -</u>
Absolute return hedge funds:				
Absolute return hedge funds in liquidation	\$ 66	In Liquidation	-	\$ -
Commingled absolute return hedge funds	43,712	25% quarterly or 100% annually Illiquid	90 days	-
Commingled absolute return hedge funds	33,100	-	-	-
	<u>\$ 76,878</u>			<u>\$ -</u>
Real assets:				
Private energy	\$ 21,941	Illiquid	-	\$ 453
Timber	3,654	Illiquid	-	-
Real estate	719	Illiquid	-	78
Sustainable real assets	2,192	Illiquid	-	3,658
Commingled real assets	15,406	25% quarterly or 100% annually Illiquid	90 days	-
Commingled real assets	32,160	-	-	-
	<u>\$ 76,072</u>			<u>\$ 4,189</u>
Private capital:				
Private capital	\$ 27,095	Illiquid	-	\$ 16,592
Commingled private capital	57,408	Illiquid	-	-
	<u>\$ 84,503</u>			<u>\$ 16,592</u>
Cash:				
Restricted cash redemptive	\$ 420	25% quarterly or 100% annually Illiquid	90 days	\$ -
Restricted cash non-redemptive	314	-	-	-
	<u>\$ 734</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, 2023</u>	<u>June 30, 2022</u>
Balance, beginning of the year	\$ 9,102	\$ 7,864
Total realized and unrealized gains (losses)	326	1,052
Purchases	-	-
Issues	-	-
Sales	(184)	(178)
Net transfers	(122)	364
Balance, end of the year	<u>\$ 9,122</u>	<u>\$ 9,102</u>

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

\$	<u>326</u>	\$	<u>1,052</u>
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NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS

At June 30, 2023, the university’s endowment consisted of approximately 671 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, 2023 and June 30, 2022, 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 years ended June 30, 2023 and June 30, 2022. For a few donor-restricted endowment funds, the university honors and adheres to donor-stipulated spending limitations.

At June 30, 2023, approximately 99.3% of the university’s endowment investments were pooled.

Funds with Deficiencies

As of June 30, 2023 and 2022, there were \$8 and \$151, 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, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2022	\$ 135,068	\$ 293,838	\$ 428,906
Contributions, net	-	11,649	11,649
Transfers and other additions (deductions)	2,634	256	2,890
Net assets released from restrictions	339	(339)	-
Return on investments:			
Investment income	752	1,760	2,512
Net change on investments	10,252	24,108	34,360
Total return on investments	11,004	25,868	36,872
Amount distributed for operating activities	(9,488)	(12,579)	(22,067)
Endowment net assets, June 30, 2023	<u>139,557</u>	<u>318,693</u>	<u>458,250</u>

Endowment net assets consisted of the following at June 30, 2023:

Donor-restricted endowments	-	307,211	307,211
Board-designated quasi-endowments	139,557	1,854	141,411
	<u>139,557</u>	<u>309,065</u>	<u>448,622</u>
Unconditional promises to endowment	-	9,628	9,628
Total endowment net assets	<u>\$ 139,557</u>	<u>\$ 318,693</u>	<u>\$ 458,250</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, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2021	\$ 149,942	\$ 326,098	\$ 476,040
Contributions, net	-	2,381	2,381
Transfers and other additions (deductions)	4,779	161	4,940
Net assets released from restrictions	(1,407)	1,407	-
Return on investments:			
Investment income	287	536	823
Net change on investments	(11,123)	(24,982)	(36,105)
Total return on investments	(10,836)	(24,446)	(35,282)
Amount distributed for operating activities	(7,410)	(11,763)	(19,173)
Endowment net assets, June 30, 2022	<u>135,068</u>	<u>293,838</u>	<u>428,906</u>

Endowment net assets consisted of the following at June 30, 2022:

Donor-restricted endowments	-	291,225	291,225
Board-designated quasi-endowments	135,068	1,684	136,752
	<u>135,068</u>	<u>292,909</u>	<u>427,977</u>
Unconditional promises to endowment	-	929	929
Total endowment net assets	<u>\$ 135,068</u>	<u>\$ 293,838</u>	<u>\$ 428,906</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.

	June 30, 2023	June 30, 2022
Intangible assets:		
Gross carrying amount	\$ 17,256	\$ 16,364
Accumulated amortization	(8,051)	(7,064)
Net carrying amount	<u>\$ 9,205</u>	<u>\$ 9,300</u>

Aggregate amortization expense:

2023	\$ 1,012
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Estimated amortization expense for each of the next five years and thereafter is as follows:

2024	\$ 1,033
2025	1,020
2026	962
2027	944
2028	911
Thereafter	4,335
Total	<u>\$ 9,205</u>

Campus Facilities

Campus facilities consisted of the following:

	June 30, 2023	June 30, 2022
Land and improvements	\$ 42,357	\$ 42,264
Building and improvements	292,784	291,450
Equipment	13,471	13,079
Library resources	2,963	2,838
Collections	1,046	1,025
Construction in progress	1,850	454
	<u>354,471</u>	<u>351,110</u>
Accumulated depreciation	(174,323)	(166,578)
Campus facilities, net	<u>\$ 180,148</u>	<u>\$ 184,532</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 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, 2023</u>	<u>June 30, 2022</u>
Asset retirement obligation, beginning of the year	\$ 2,353	\$ 2,091
Obligations settled	(8)	(8)
Obligations incurred	-	-
Accretion expense	99	94
Revisions in estimated cash flows	3	176
Asset retirement obligation, end of the year	<u>\$ 2,447</u>	<u>\$ 2,353</u>

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

	<u>Final Maturity</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
WHEFA Revenue Bonds, 2021A	2036	\$ 21,950	\$ 22,750
WHEFA Revenue Bonds, 2022	2042	34,382	35,106
WHEFA Revenue Bonds, 2001	2031	6,861	7,425
Capital lease obligations	2032	27	77
Total		<u>\$ 63,220</u>	<u>\$ 65,358</u>

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

2024	2,251
2025	2,327
2026	2,412
2027	2,492
2028	2,582
Thereafter	<u>51,713</u>
	63,777
Unamortized issuance costs	(557)
Total	<u>\$ 63,220</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.

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 converted to tax-exempt in fiscal year 2023 (Series 2022), with a fixed, tax-exempt interest rate of 2.0%. The 2021A bonds bear variable rate interest at 80% of the one-month LIBOR plus a credit spread, which equated to an average interest rate of 3.73% for the fiscal year of 2023.

During 2001, the university entered into a loan agreement with WHEFA whereby WHEFA issued \$10,620 of tax-exempt Variable Rate Demand Revenue Bonds, Series 2001. The proceeds were used to finance the construction of a new student residence hall. Pursuant to the loan agreement, the bonds bear interest at a rate that is determined weekly through the remarketing process, with the maximum annual rate capped at 12%. The average interest rate for the fiscal year 2023 was 2.88%, which included 10 basis points for remarketing.

For the years ending June 30, 2023 and June 30, 2022, the university incurred total interest costs related to long-term debt of \$2,048 and \$2,456,

NOTE 6 – LONG-TERM DEBT, CONTINUED

respectively, 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 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:

<u>Swap Counterparty</u>	<u>Outstanding Notional</u>	<u>Trade Date</u>	<u>Effective Date</u>	<u>Swap Fixed Rate</u>	<u>Final Maturity Date</u>
The Bank of New York Mellon	\$ 21,800	5/25/06	6/30/06	3.855%	10/1/2036
Societe Generale, New York Branch	\$ 6,915	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, 2023 and 2022, for "Interest rate swap agreements" of \$2,323 and \$3,916, 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, 2023 and 2022, were net unrealized gains of \$1,593 and \$5,228, 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, 2023 and June 30, 2022, reduced by amounts not available for general expenditures within one year.

UNIVERSITY OF PUGET SOUND Notes to Consolidated Financial Statements

June 30, 2023

(Dollars in Thousands)

NOTE 7 – LIQUIDITY AND AVAILABILITY, CONTINUED

Financial Assets:	June 30, 2023	June 30, 2022
Cash and cash equivalents	\$ 41,426	\$ 44,049
Short-term investments	23,267	20,989
Receivables, net	1,026	1,447
Contributions receivable, net	10,058	1,826
Beneficial interest in outside trusts	1,071	1,195
Assets held under split-interest agreements	4,990	5,302
Endowment investments	448,622	427,977
Financial assets, at year-end	\$ 530,460	\$ 502,785
Less those unavailable for general expenditures within one year, due to:		
Donor-restricted endowment, net of anticipated draw	(298,875)	(280,470)
Donor and grant-restricted expendable funds	(7,669)	(6,354)
Assets held under split interest agreements	(4,990)	(5,302)
Beneficial interest in outside trusts	(1,071)	(1,195)
Contributions receivable, net, scheduled to be collected in more than one year	(5,458)	(451)
Other restricted assets	(2,268)	(2,409)
Financial assets available to meet cash needs for general expenditures within one year, before board designations:	\$ 210,129	\$ 206,604
Less board designations:		
Board-designated quasi-endowment, net of anticipated draw	(130,450)	(129,536)
Financial assets available to meet general expenditures within one year	\$ 79,679	\$ 77,068

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, 2023 and June 30, 2022 respectively:

June 30, 2023:	Program Activities				Supporting Activities	
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Total Expenses
Salaries and wages	\$ 25,547	\$ 4,366	\$ 8,325	\$ 5,401	\$ 9,517	\$ 53,156
Employee benefits	7,815	1,202	2,625	1,453	2,845	15,940
Supplies, travel, and other	3,859	1,340	3,052	5,413	1,356	15,020
Service and professional fees	1,050	1,032	2,276	2,099	2,995	9,452
Facilities maintenance and operations	1,561	446	994	3,009	164	6,174
Depreciation and amortization	2,959	1,407	1,889	2,892	498	9,645
Interest	1,288	105	39	637	46	2,115
Total Expenses	\$ 44,079	\$ 9,898	\$ 19,200	\$ 20,904	\$ 17,421	\$ 111,502

June 30, 2022:	Program Activities				Supporting Activities	
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Total Expenses
Salaries and wages	\$ 26,342	\$ 4,379	\$ 8,107	\$ 4,524	\$ 8,996	\$ 52,348
Employee benefits	6,879	1,176	2,225	1,209	2,675	14,165
Supplies, travel, and other	4,537	692	4,713	5,884	1,005	16,831
Service and professional fees	855	788	2,083	1,436	3,528	8,690
Facilities maintenance and operations	1,262	367	811	3,124	141	5,705
Depreciation and amortization	3,309	1,609	2,194	3,443	650	11,205
Interest	1,427	153	72	753	111	2,516
Total Expenses	\$ 44,611	\$ 9,164	\$ 20,205	\$ 20,373	\$ 17,106	\$ 111,459

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

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

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, 2023</u>	<u>June 30, 2022</u>
Time or purpose restricted:		
Time restrictions:		
Unappropriated earnings from donor-restricted endowments	\$ 141,404	\$ 129,398
Term endowment	605	581
Total donor-restricted endowments	<u>142,009</u>	<u>129,979</u>
Unconditional promises to give	429	899
Split-interest agreements - life income	1,066	1,367
Split-interest agreements - annuities	9	8
Cash surrender value of life insurance policies	107	107
Total time restrictions	<u>143,620</u>	<u>132,360</u>
Purpose restrictions:		
Construction of campus facilities	1,666	1,504
Educational programs and activities	11,849	11,382
Total purpose restrictions	<u>13,515</u>	<u>12,886</u>
Total time or purpose restricted	<u>\$ 157,135</u>	<u>\$ 145,246</u>
Restricted in perpetuity:		
Endowment funds	\$ 174,839	\$ 162,175
Split-interest agreements	2,283	2,817
Loan funds	5	5
Total restricted in perpetuity	<u>\$ 177,127</u>	<u>\$ 164,997</u>
 Total net assets with donor restrictions	 <u>\$ 334,262</u>	 <u>\$ 310,243</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). 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, 2023 and 2022 and are fully vested. The university’s contributions totaled \$2,456 and \$2,458 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022, and in the Consolidated Statements of Activities for the years then ended are as follows:

NOTE 10 – RETIREMENT PLANS, CONTINUED

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2023	2022	2023	2022
Projected and accumulated post-retirement benefit obligations:				
Beginning of the year	\$ 5,990	\$ 7,222	\$ 3,652	\$ 4,113
Benefits paid	(611)	(549)	(104)	(227)
Amounts recognized in the Consolidated Statements of Activities:				
Components of net benefit expense:				
Service cost	277	352	178	217
Interest cost	269	174	164	102
Amortization of actuarial loss	-	48	-	47
Total net benefit expense	546	574	342	366
Loss recognized within other adjustments and changes	63	(1,257)	(118)	(600)
End of the year	<u>\$ 5,988</u>	<u>\$ 5,990</u>	<u>\$ 3,772</u>	<u>\$ 3,652</u>
Post-retirement benefit liability recognized within accrued payroll and other liabilities in the Consolidated Statements of Financial Position:				
Current portion	\$ 313	\$ 286	\$ 225	\$ 214
Noncurrent portion	5,675	5,704	3,547	3,438
Total	<u>\$ 5,988</u>	<u>\$ 5,990</u>	<u>\$ 3,772</u>	<u>\$ 3,652</u>
Plan funded (unfunded) status	<u>\$ (5,988)</u>	<u>\$ (5,990)</u>	<u>\$ (3,772)</u>	<u>\$ (3,652)</u>

The weighted-average assumptions used to determine plan benefit obligations as of June 30, 2023 and 2022, and the net benefit expense for the years then ended, included:

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2023	2022	2023	2022
Benefit obligation (post-retirement benefit liability):				
Discount rate	4.59%	2.45%	5.06%	4.64%
Rate of compensation increase	3.50%	3.50%	N/A	N/A
Net benefit expense:				
Discount rate	4.59%	2.45%	4.64%	2.56%
Rate of compensation increase	3.50%	3.50%	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 \$0 for the faculty early retirement and career change plan and a net loss of \$0 for the post-retirement medical plan.

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

	Faculty Early Retirement and Career Change Plan	Post-Retirement Medical Plan
2024	\$ 313	\$ 225
2025	400	244
2026	476	235
2027	549	292
2028	639	303
2029–2033	2,963	1,846

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, 2023:

	University of Puget Sound (unconsolidated)	Wholly Owned Subsidiaries	Eliminating Entries	University of Puget Sound (consolidated)
Assets:				
Cash and cash equivalents	\$ 41,426	\$ -	\$ -	\$ 41,426
Due from subsidiaries	1,011	-	(1,011)	-
Short-term investments	23,267	-	-	23,267
Receivables, net	1,026	-	-	1,026
Contributions receivable, net	10,058	-	-	10,058
Inventories	350	-	-	350
Prepaid expenses and other assets	1,950	5,878	-	7,828
Student loans receivable, net	3,740	-	-	3,740
Beneficial interest in outside trusts	1,071	-	-	1,071
Assets held under split-interest agreements	4,990	-	-	4,990
Endowment investments	448,622	-	-	448,622
Intangibles, net	9,205	-	-	9,205
Campus facilities, net	180,148	-	-	180,148
Total assets	<u>\$ 726,864</u>	<u>\$ 5,878</u>	<u>\$ (1,011)</u>	<u>\$ 731,731</u>
Liabilities:				
Accounts payable	\$ 1,730	\$ -	\$ -	\$ 1,730
Due to university	-	1,011	(1,011)	-
Accrued payroll and other liabilities	16,325	-	-	16,325
Advance deposits from students	2,092	-	-	2,092
Liabilities under split-interest agreements	2,699	-	-	2,699
Government advances for student loans	4,376	-	-	4,376
Asset retirement obligation	2,447	-	-	2,447
Interest rate swap agreements	2,323	-	-	2,323
Long-term debt, net	63,220	-	-	63,220
Total liabilities	<u>\$ 95,212</u>	<u>\$ 1,011</u>	<u>\$ (1,011)</u>	<u>\$ 95,212</u>
Net Assets:				
Net assets without donor restrictions	\$ 302,257	\$ -	\$ -	\$ 302,257
Net assets with donor restrictions	329,395	4,867	-	334,262
Total net assets	<u>631,652</u>	<u>4,867</u>	<u>-</u>	<u>636,519</u>
Total liabilities and net assets	<u>\$ 726,864</u>	<u>\$ 5,878</u>	<u>\$ (1,011)</u>	<u>\$ 731,731</u>

The amount included to meet future payments under gift annuity contracts in liabilities under split-interest agreements was \$397 as of June 30, 2023, and \$424 as of June 30, 2022.

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, 2023, the university had unfunded commitments of \$16,461.

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 response to the coronavirus pandemic, U.S. Congress passed several legislative acts that have resulted in funding allocations to institutions of higher education. The university recognized \$2,827 and \$4,403 for the periods ended June 30, 2023 and 2022, respectively, in grant revenue made available by this legislation.

NOTE 14 – SUBSEQUENT EVENTS

On September 6th of 2023, the university refinanced the Series 2001 variable-rate bonds and the Series 2021A variable-rate bonds into the Series 2023 fixed-rate, tax-exempt bonds bearing an interest rate of 5.0%. The remaining two interest rate swap agreements with The Bank of New York Mellon and Societe Generale, referenced in Note 6, were terminated as part of the refinance. The university has evaluated events through December 6, 2023, the date the consolidated financial statements were available to be issued.

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