Est. 1888
UNIVERSITY of
PUGET
SOUND

FINANCIAL REPORT 2018–19

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.

Est. 1888
UNIVERSITY of
PUGET
SOUND

OFFICE OF FINANCE AND ADMINISTRATION

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UNIVERSITY OF PUGET SOUND | JUNE 30, 2019

FINANCIAL REPORT 2018–19

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INTRODUCTION FROM THE PRESIDENT

ISIAAH CRAWFORD

As University of Puget Sound embarks on an ambitious 10-year strategic plan, *Leadership for a Changing World*, we are building on our strengths to bring our national liberal arts college to its next level of distinction and success. With our focus firmly on the students we are called to serve, we are preparing graduates to become the world's next generation of visionary leaders.

We do so with an unwavering commitment to the delivery of our mission and prudent management of our resources. With our endowment to support students and faculty members at an all-time high, a modest increase in the value of our assets, and a reduction in our liabilities, we have retained our A1 and A+ ratings from Moody's Investors Service and Standard & Poor's Global Ratings, respectively, during fiscal year 2019, at a time when the outlook for the higher education sector overall has been challenged by the declining population of college-age students throughout the United States. Disciplined management of our assets, expenses and investments allowed us to provide nearly $53 million in institutional financial aid and end the year with a healthy operating margin, despite an anticipated reduction in student enrollment and resulting decline in net tuition and fees.

The entrepreneurial spirit that has characterized Puget Sound since its founding in 1888 inspires us to be creative and resilient in preparing for the changing population of college students and expectations of higher education. To best attract and retain diverse classes of curious, high-performing students, our faculty has been engaged over the past year in redesigning our undergraduate core curriculum in a manner that will most effectively prepare students to face challenges that were unimaginable just a generation ago. With a focus on experiential learning opportunities both inside and outside the classroom, Puget Sound is enhancing internships, field placements, research, study abroad, and other experiences and programs that prepare students for postgraduate success. Far exceeding national averages, 93% of Puget Sound students report being employed, enrolled in graduate school, participating in prestigious postgraduate fellowships, or engaged in public service within seven months following graduation. This is a strong result, and we are aiming even higher.

We also are exploring the development of new programs and strengthening local partnerships, especially in fast-grow-

ing sectors that benefit both our local region and the students who come to Tacoma from more than 35 states and nine countries, fluent in more than 17 languages and ready to invest their time, talent, and energy right here in Western Washington as part of their college experience.

In addition to our curriculum, programming, and partnerships, we are committed to maintaining and improving our spectacular residential campus, a 24/7 living and learning environment that The Princeton Review recently recognized as among the 20 most beautiful campuses in the country. Construction of our new Welcome Center, designed to support more than 5,000 students and their families who visit Puget Sound each year, is on schedule to open early in 2020, and will play an important role in the recruitment of our students and engagement with our local community.

Strong support from our alumni is also a critical part of the university's success, and this is evident in growing numbers of alumni interested in mentoring current students, hosting work shadow experiences, volunteering at networking events, and providing financial support. Last March, our second annual Logger Day Challenge, a one-day online giving event, was the largest day of participatory giving in Puget Sound history, with gifts made from alumni representing 62 classes.

These are just a few examples of the ways in which University of Puget Sound is thinking boldly and broadly about how we deliver an increasingly relevant liberal arts education. Our highest priority is to ensure that every graduate—not just our most energetic and ambitious—is fully prepared to go out into the world with the knowledge, skills, and resilience to navigate an always-changing world and grow into the leaders our communities need.

Through the dedicated leadership of our board of trustees; generous service of members of our Alumni Council and Parents Council; and support of alumni, parents, faculty, staff, students, and other friends of Puget Sound, we are realizing the hopes and dreams of new generations of Loggers every day. By continuing to embrace new challenges and pursue new opportunities with a spirit of innovation and courage, Puget Sound will remain a college of choice for those seeking a truly distinctive and relevant liberal arts education.

REPORT OF THE EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

SHERRY B. MONDOU

It is my pleasure to present the enclosed financial statements for the year ending June 30, 2019, and to offer the following commentary as a companion to the financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

Puget Sound's asset base is an institutional strength and contributes significantly to the delivery of its educational mission. Assets increased 2% during fiscal 2019 and 53% over the past decade (Figure 1) to $681.1 million. Cash and cash equivalents, short-term investments, endowment investments, and campus facilities constituted 94% of total assets and are discussed below.

- Cash, cash equivalents, and short-term investments totaled $62.3 million, up 10% over the prior year and constituting 9% of total assets at June 30, 2019. These financial assets provide ample liquidity for operations, including debt-service requirements. They are invested in accordance with policy established by the Finance and Facilities Committee of the board of trustees, and in a manner that preserves capital as a top priority, maximizes investment return within appropriate risk constraints, and aligns with cash flow requirements.

- Endowment investments reached $380.5 million as of June 30, 2019, an all-time high. Generous donor gifts, additions designated by the board of trustees, and prudent investment management contributed to a 95% increase in the endowment from $195.5 million a decade ago (Figure 2). In fiscal 2019, the endowment grew a net 3%, including a pooled endowment return of 5.79% and a distribution of 4.05% of beginning-of-year value. More than half of the endowment provides funding for student financial aid, with the remainder supporting faculty compensation, student and faculty research, academic programs, and other operating costs. The endowment is invested in a diversified portfolio (Figure 3) consistent with the endowment investment policy established by the Finance and Facilities Committee of the board of trustees and executed by its Investment Subcommittee in partnership with Perella Weinberg Partners, Puget Sound's outsourced chief investment officer and co-fiduciary.

- Campus facilities comprise 1.5 million square feet of buildings on 97 acres, including green spaces, stands of fir trees, Tudor-Gothic architecture, and ivy-covered brick. Puget Sound seeks to provide an integrated and inspiring living and learning environment consistent with its residential liberal arts mission. In 2019, Puget Sound was recognized by The Princeton Review as being among the top 20 most beautiful campuses in the country. Funded by a combination of generous gifts, strategic use of debt, and unrestricted funds, the university invested $117.9 million in academic, residential, and athletic facilities over the last 10 years (Figure 4). The book value of campus facilities, net of depreciation, was $199.5 million as of June 30, 2019. The university's average age of plant (accumulated depreciation divided by annual depreciation expense) is 12.6 years, as compared to the 2018 median of 17.3 years for Puget Sound's national peer comparison group and 17.1 years for Moody's small A-rated private colleges, suggesting that Puget Sound has a lower level of deferred maintenance than its peers.

FIGURE 1 **Asset Growth Over Time**

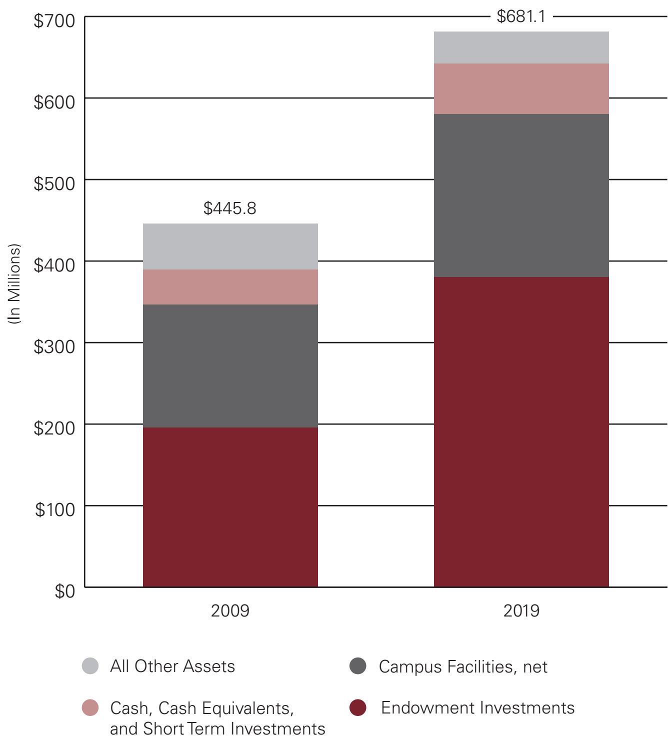


FIGURE 2 **Sources of Endowment Growth**

FIGURE 3 **Endowment Asset Allocation**

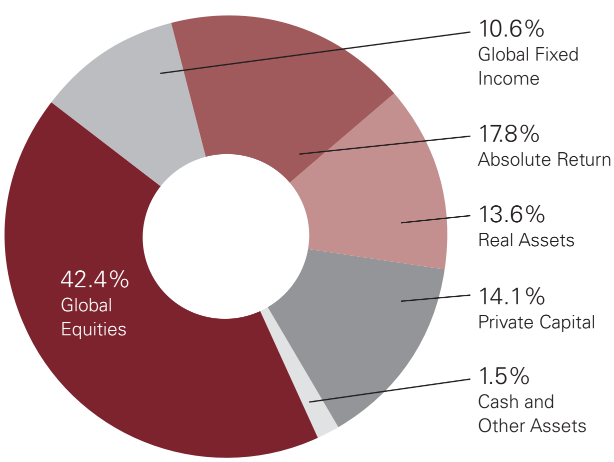
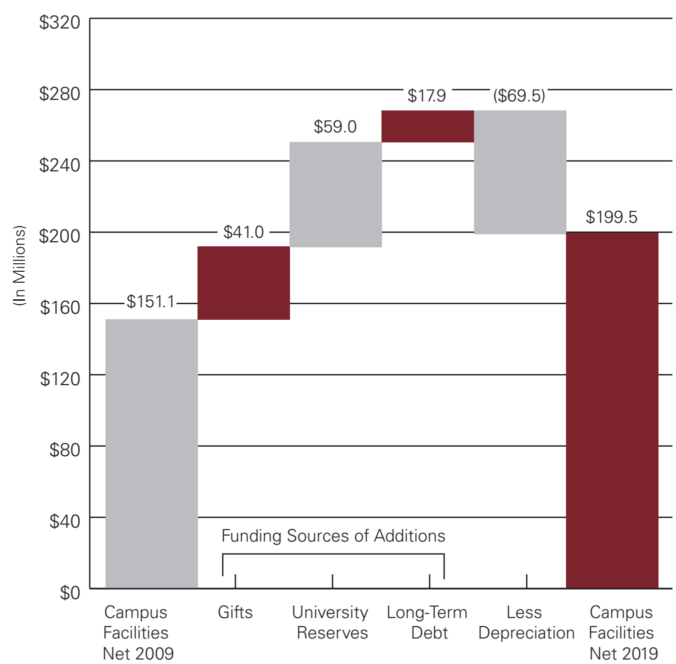


FIGURE 4 **Funding Sources of Campus Facilities Additions**



Puget Sound named one of the Top 20 Most Beautiful Campuses by The Princeton Review

Liabilities

Puget Sound's liabilities totaled $117.2 million at June 30, 2019, a reduction of $0.4 million from the prior year. The university's largest liability is long-term debt of $70.6 million, which includes $70.3 million of tax-exempt bonds that are either traditional fixed-rate or synthetically-fixed with interest rate swap agreements as more fully described in Note 6 to the financial statements.

- As of Oct. 31, 2019, Puget Sound's credit ratings were A1 and A+ from Moody's Investors Service and Standard & Poor's Global Ratings, respectively. These strong ratings help the university access affordable cost of capital and avoid overly restrictive debt covenants.
- 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.
- The university has been prudent in its use of debt. Fiscal 2019 debt service as a percentage of operating expenses was 4.3%, as compared to the 2018 median of 5.0% for Moody's small A-rated private colleges.
- Interest rates are lower than when the university entered its interest rate swap agreements, resulting in an unrealized mark-to-market valuation of $9 million as of June 30, 2019, shown as a liability in the Consolidated Statements of Financial Position. The valuation fluctuates as rates fluctuate and will be zero when the swap agreements expire.

Net Assets

Total net assets increased $13.1 million, or 2%, to $563.8 million at June 30, 2019, of which 52% is without donor restrictions.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Operating Revenues

Fiscal 2019 operating revenues and gains totaled $123.4 million, a decrease of 1.9% from 2018. Figure 5 provides a breakdown of operating revenues, which is comparable to the prior year.

- *Net tuition, fees, room and board:* 77% of 2019 operating revenues were derived from net tuition and fees and student room and board, consistent with 2018.
  - Tuition and fees, net of student financial aid, totaled $73.4 million, a decline of $1.8 million, or 2.4%, from the prior year. Average fall and spring enrollment of 2,526 full-time-equivalent students was 0.9% lower (23 fewer students) than in 2018, while the average discount rate was 42.2%, compared to 39.7% in 2018, reflective of the changing demographics and competitive environment in which Puget Sound operates. Despite the decline in net tuition and fees, the university ended the year with a positive operating margin.
  - Despite the modest decline in enrollment, student room and board revenues increased 0.6%. Of undergraduate students not studying abroad, 69% lived on campus in 2019, with the remainder typically living within a few blocks of campus, many of whom voluntarily purchased a meal plan.
- *Endowment and gift support for operations:* Operating support from endowment distributions and donor contributions has a positive impact on financial accessibility for students and the financial health of the university. Revenues from these sources accounted for 15.4% of total operating revenues and served to subsidize the cost of education for all students and provide funding for student financial aid awards (Figure 6).
  - Endowment distributions of $15 million provided 12% of operating revenues in 2019, as compared to 11% in 2018. The endowment distribution was based on a board-approved spending formula that applied a 5% spending rate to a 36-month average endowment market value in a look-back period of July 2014 to June 2017, which resulted in an effective spending rate (distribution divided by beginning of the year market value) of 4.05% for 2019. Puget Sound's five-year average effective spending rate is 4.1%.

FIGURE 5 **Operating Revenues and Gains**

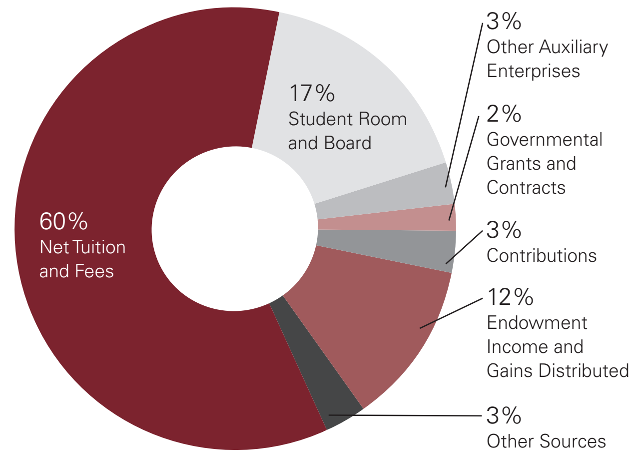
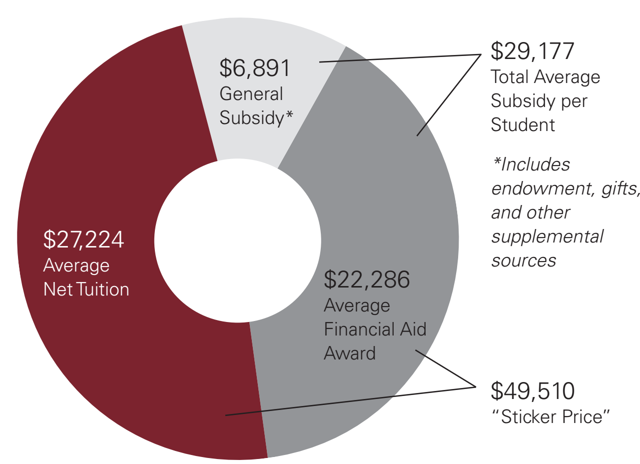


FIGURE 6 **Keeping Undergraduate Tuition Affordable**



– Contributions supporting operations accounted for 3% of operating revenues and totaled $4 million in 2019, down $1.9 million from the prior year during this period in between major fundraising campaigns. Planning is underway for the university's next comprehensive campaign.

- *Interest income:* Interest income from cash, cash equivalents, and short-term investments totaled $2 million in 2019, up $0.9 million from 2018 due to higher interest rates.

Operating Expenses

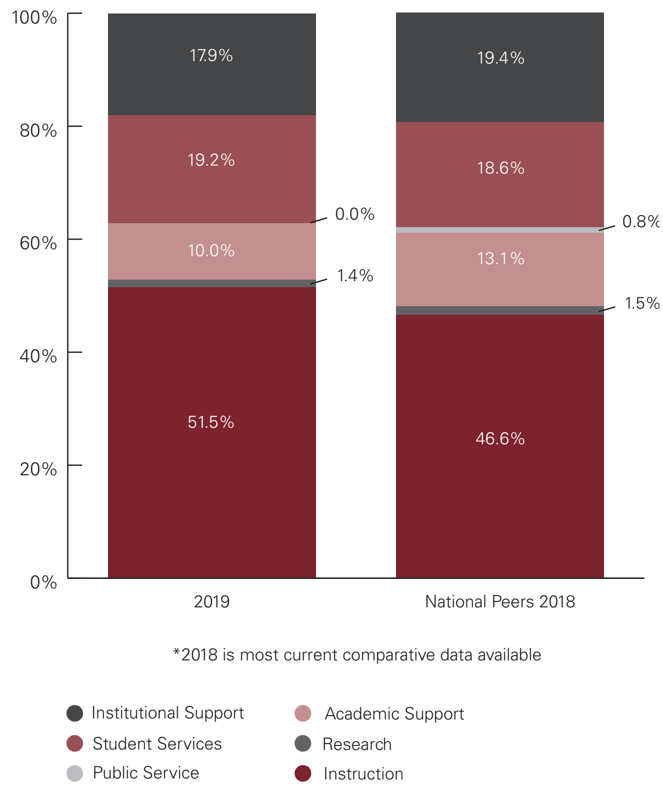
Operating expenses totaled $119.1 million in 2019, reflecting a 2% decline from 2018 in alignment with the 1.9% decline in total operating revenues. Figure 7 provides a breakdown of educational and general expenses by major functional category in comparison to the most recently available data for its national peer comparison group. Puget Sound allocated a greater proportion of its resources to instruction and student services and a lower percentage to institutional support and academic support than its national peer comparison group. Expenses declined in all program activity categories in 2019 except institutional support. Declines in expenses included savings during staff vacancies while searches were underway and savings from self-insured medical plans. Institutional support increases included employee recruitment costs and contracted services (in response to a staff turnover rate of about 20%, consistent with the turnover rate for all industries in the Puget Sound region), as well as a one-time payment to reduce the notional amount on an "orphaned" interest rate swap agreement.

A high-quality liberal arts education is a labor-intensive undertaking and, as such, compensation is the university's single largest expenditure. Compensation accounted for 69.4% of total educational and general expenses in 2019. Note 8 shows the natural classification of expenses within each of the program activities reported in the Consolidated Statement of Activities.

Increase in Net Assets From Operating Activities

2019 operating revenues and gains exceeded operating expenses by $4.3 million, resulting in an operating margin of 3.5%, as compared to 3.3% in 2018.

FIGURE 7 **Educational and General Expenses**



Nonoperating Activities

Nonoperating activities totaled $8.8 million in 2019, including:

- $4.4 million increase in donor contributions restricted to facilities and endowment.
- $6.6 million increase from endowment returns in excess of the $15 million distributed for operations.
- $2.2 million decrease from other adjustments and changes ($1.5 million from the mark-to-market valuation of interest rate swap agreements and $0.7 million from actuarial adjustments).

Closing Comment

Puget Sound has a long history of fiscal responsibility and is on strong financial footing as it concludes its 131st year, looks forward to the challenges and opportunities ahead, and implements its 2018–28 student-centered strategic plan, *Leadership for a Changing World*.

Report of Independent Auditors

The Board of Trustees
University of Puget Sound

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Puget Sound and subsidiaries (the University), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2019, and the consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the consolidated financial statements, in the year ending June 30, 2019, the University adopted ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements for Not-for-Profit Entities*, ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), and ASU 2018-08, *Not for Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

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, Report of the President, and Report of the Executive Vice President and Chief Financial Officer listed in the table of contents 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 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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

Moss Adams LLP

Yakima, Washington
November 18, 2019

UNIVERSITY OF PUGET SOUND Consolidated Statements of Financial Position

As of June 30, 2019 (With Comparative Financial Information as of June 30, 2018) (Dollars in Thousands)

	2019	2018
ASSETS:		
Cash and cash equivalents (Note 1)	$ 30,148	$ 27,563
Short-term investments	32,103	28,892
Receivables, net	1,883	1,882
Contributions receivable, net (Notes 1 and 2)	3,173	3,421
Inventories (Note 1)	456	535
Prepaid expenses and other assets	4,507	4,194
Student loans receivable, net (Note 1)	11,002	12,950
Beneficial interest in outside trusts (Notes 1 and 3)	957	1,199
Assets held under split-interest agreements (Notes 1 and 3)	5,037	5,711
Endowment investments (Notes 3 and 4)	380,507	369,038
Intangibles, net (Notes 1 and 5)	9,123	9,086
Assets restricted for investment in campus facilities	2,613	3,504
Campus facilities, net (Notes 1 and 5)	199,541	200,380
Total assets	$ $681,050	$ 668,355
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	$ 2,122	$ 2,793
Accrued payroll and other liabilities (Note 10)	17,908	16,733
Advance deposits from students (Note 1)	1,792	2,222
Liabilities under split-interest agreements (Note 1)	2,649	2,937
Government advances for student loans (Note 1)	11,456	11,393
Asset retirement obligation (Notes 1 and 5)	1,707	1,679
Interest rate swap agreements (Notes 3 and 6)	9,021	7,515
Long-term debt, net (Note 6)	70,551	72,315
Total liabilities	$ 117,206	$ 117,587
Net Assets:		
Net assets without donor restrictions:		
Available for operations	$ 3,034	$ 3,037
Invested in or designated for campus facilities	135,123	131,820
Endowment (Note 4)	127,148	123,207
Designated for other specific purposes	27,274	29,386
Total net assets without donor restrictions	292,579	287,450
Net assets with donor restrictions (Note 9)	271,265	263,318
Total net assets	563,844	550,768
Total liabilities and net assets	$ $681,050	$ 668,355

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, 2019 (With Summarized Financial Information for the Year Ended June 30, 2018) (Dollars in Thousands)

	Without Donor Restrictions	With Donor Restrictions	Totals 2019	Totals 2018
Operating:				
Revenues and gains:				
Student tuition and fees	$ $125,673		$ 125,673	$ 123,314
Less student financial aid	(52,296)		(52,296)	(48,139)
Net tuition and fees	73,377		73,377	75,175
Student room and board	21,289		21,289	21,172
Other auxiliary enterprises	3,798		3,798	4,164
Governmental grants and contracts	192	$ 2,014	2,206	2,270
Contributions	2,658	1,321	3,979	5,893
Endowment income and gains distributed (Note 4)	4,798	10,164	14,962	14,541
Interest income	1,531	510	2,041	1,160
Other sources	1,715	7	1,722	1,368
Total operating revenues and gains	109,358	14,016	123,374	125,743
Expenses:				
Educational and general:				
Instruction	50,812		50,812	52,789
Academic support	9,657		9,657	9,867
Student services	18,454		18,454	19,279
Institutional support	17,251		17,251	16,141
Total educational and general expenses	96,174		96,174	98,076
Auxiliary enterprises	22,910		22,910	23,491
Total operating expenses	119,084		119,084	121,567
Net assets released from restrictions	14,070	(14,070)	-	-
Increase (decrease) in net assets from operating activities	4,344	(54)	4,290	4,176
Nonoperating:				
Contributions	-	4,417	4,417	5,189
Change in allowance for uncollectible promises (Note 2)	-	(27)	(27)	23
Net gains and income on endowment investments, net of distributions (Note 4)	1,926	4,670	6,596	18,492
Other adjustments and changes	(1,914)	(286)	(2,200)	4,237
Net assets released from restrictions	773	(773)	-	-
Increase in net assets from nonoperating activities	785	8,001	8,786	27,941
Increase in net assets	5,129	7,947	13,076	32,117
Net assets at beginning of the year	287,450	263,318	550,768	518,651
Net assets at end of the year	$ 292,579	$ 271,265	$ $563,844	$ 550,768

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, 2019 (With Comparative Financial Information for the Year Ended June 30, 2018) (Dollars in Thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 13,076	$ 32,117
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,918	10,790
Contributions restricted for long-term investment	(1,901)	(4,381)
Gifts of investments, property, and outside trusts	(106)	(28)
(Gains) losses on endowment investments and split-interest agreements	(19,163)	(31,478)
Actuarial adjustments of liabilities under split-interest agreements	146	168
Loss on disposal of assets	82	226
Amortization of tax-exempt bond premium, discount, and issuance costs	(141)	(145)
Accretion, settlement, and adjustments to asset retirement obligations	28	64
Unrealized (gain) loss on interest rate swap agreements	1,506	(2,552)
Changes in:		
Receivables, net	(3)	239
Contributions receivable, net	250	(801)
Inventories, prepaid expenses, and other assets	(234)	47
Accounts payable	(379)	72
Accrued payroll and other liabilities	1,174	579
Advance deposits from students	(429)	(106)
Net cash provided by operating activities	4,824	4,811
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	75,533	61,754
Purchases of investments	(67,137)	(54,643)
Net (purchases) sales of short-term investments	(3,200)	3,160
Receipt (purchases) of assets restricted for investment in campus facilities	891	(589)
Purchases of campus facilities and intangibles	(10,394)	(8,733)
Disbursements of loans to students	-	(2,315)
Repayments of Perkins loans from students	1,772	1,958
Net cash provided (used) for investing activities	(2,535)	592
Cash flows from financing activities:		
Contributions restricted for long-term investment	1,901	4,381
Investment income subject to split-interest agreements	143	216
New liabilities under split-interest agreements	-	44
Payments to split-interest agreement beneficiaries	(364)	(378)
Repayments of long-term debt	(1,622)	(1,165)
Changes in government advances for student loans	238	(52)
Net cash provided by financing activities	296	3,046
Net increase (decrease) in cash and cash equivalents	2,585	8,449
Cash and cash equivalents at beginning of the year	27,563	19,114
Cash and cash equivalents at end of the year	$ $30,148	$ 27,563
Supplemental cash flow information:		
Interest paid (net of capitalized interest of $17 and $12 in 2019 and 2018, respectively)	$ 3,510	$ 3,698
Noncash investing and financing activities:		
Purchases of equipment and building construction on account	$ $910	$ 1,201
Student loan cancellations	$ $175	$ 227

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, 2019 (With Comparative Financial Information for the Year Ended June 30, 2018) (Dollars in Thousands)

	2019	2018
Endowment investments, beginning of the year	$ 369,038	$ 344,560
Contributions	2,629	2,899
Transfers and other additions	2,244	3,087
Return on endowment investments	21,558	33,033
Amount distributed for operating activities	(14,962)	(14,541)
Net change in endowment investments	11,469	24,478
Endowment investments, end of the year	$ 380,507	$ 369,038
Total return on pooled endowment	5.79%	9.58%

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.

In the current fiscal year, the university has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard is intended to improve net asset classification requirements and the information presented in the consolidated financial statements and notes about liquidity, financial performance, and cash flows. The standard requires the university to reclassify its net assets from three categories (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions. In addition, the guidance requires disclosures about governing board designations, composition of net assets with donor restrictions, the university's liquidity, and expenses by both their natural and functional classification. There was no material impact to the consolidated financial statements resulting from the adoption of the ASU.

As a result of the adoption of the ASU, 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, 2018. 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, 2018, from which the summarized information was derived. In addition, the notes to the consolidated financial statements exclude comparative information for certain disclosures. Certain reclassifications of prior year amounts have been made to conform to the 2019 classifications. Such reclassifications had no effect on previously reported net assets, change in net assets or net cash flows.

Use of Estimates

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

Revenue Recognition

As of July 1, 2018, the university adopted the provisions of FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.*

ASU 2014-09 applies to exchange transactions with customers that are bound by contracts, and establishes a performance obligation approach to revenue recognition. Following the adoption of the ASU, the university continues to recognize revenue from students as services are provided, which corresponds to the year in which the related academic services are rendered. There was no material impact to the consolidated financial statements as a result of the adoption of the ASU. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued consolidated financial statements.

ASU 2018-08 is intended to clarify and improve the accounting guidance for contributions received and made. There was no impact to the university's revenue recognition practices or to the consolidated financial statements as a result of the adoption of the ASU, which has been applied prospectively.

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

Student Tuition, net of Financial Aid

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

The university offers both need-based and merit-based aid. Institutional awards in the form of financial aid scholarships and grants, including those funded by the endowment and gifts, are reported as a reduction to student tuition revenues. Institutional awards to students were $52.3 million and $48.1 million for the years ended June 30, 2019 and 2018, respectively.

Auxiliary Enterprises

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

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

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 $3,282 and $3,191 are included in Institutional support in the Consolidated Statements of Activities for the years ended June 30, 2019 and 2018, 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 $11,835 and $11,633, respectively, at June 30, 2019 and 2018. 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 average cost, first-in first-out, and retail valuation methods. The cost of inventories is not in excess of net realizable value.

Student Loans Receivable

The university participates in the Federal Perkins revolving loan program. The availability of funds for loans under the program has historically been dependent on reimbursements to the pool from repayments on outstanding loans. The Federal Perkins loan program expired on September 30, 2017, so no new loans have been disbursed after the close of the 2018 award year. The outstanding loan balance was $11,002 and $12,950 at June 30, 2019 and 2018, respectively. Funds contributed to the program by the Federal government must ultimately be returned to the government so 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. The Distribution of Assets from the Perkins Loan Revolving Fund process replaces the existing Excess Liquid Capital process as part of the wind-down of the Federal Perkins Loan Program. The U.S. Department of Education had initially determined that asset distributions from the Perkins fund, which include the return of federal contributions to the Department, would begin after October 1, 2018. The university anticipates further communication from the U.S. Department of Education in fiscal year 2020.

Investments

Investments include short-term investments, endowment investments, investments included in prepaid expenses and other assets, and assets held in split-interest agreements trusteed 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.

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

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, 2019 and June 30, 2018, were 2.80% and 3.40%, respectively.

Amounts held as Trustee or Agent Under Split-Interest Agreements

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

The university maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws. The total amount held in separate reserve funds was $882 as of June 30, 2019, and $931 as of June 30, 2018.

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, four to ten years for equipment, and 15 years for library resources.

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

Asset Retirement Obligations

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

June 30, 2019 (Dollars in Thousands)

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, 2019 and 2018 were $585 and $614, respectively.

Federal Income Taxes

The university has been recognized by the Internal Revenue Service as exempt from federal income taxes under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3) except to the extent of unrelated business taxable income. Donations to the university are generally tax deductible to the donor. The university's wholly-owned subsidiaries CVI GVF Holdings 13 Ltd. and Rainier Heights Holdings, LLC are subject to federal income tax as applicable. The university had no unrecognized tax benefits that would have required an adjustment to its net assets, and no unrecognized tax benefits at June 30, 2019 or 2018.

NOTE 2 – PROMISES TO GIVE

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

	June 30, 2019	June 30, 2018
Endowment	$ 1,408	$ 1,831
Construction and improvement of campus facilities	1,927	1,660
Student financial aid	73	94
Other programs and activities, including unrestricted promises for future periods	112	201
	3,520	3,786
Discount to present value	(247)	(277)
Allowance for uncollectable promises	(100)	(88)
	$ 3,173	$ 3,421

Unconditional promises expected to be collected in:	
Less than one year	$ 1,171
One to five years	2,349
More than five years	-
	$ 3,520

Discount rates ranged from 1.14% to 3.23% for June 30, 2019 and June 30, 2018.

Conditional promises to give totaled $1,417 and $1,617 for June 30, 2019 and June 30, 2018, respectively. Conditions include meeting a fundraising goal and submissions of research grants. 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 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.

June 30, 2019 (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, 2019:

	Totals	Level 1	Level 2	Level 3
Endowment investments:				
Global equity:				
US	$ 22,788	$ 22,788	$ -	$ -
International	28,162	28,162	-	-
Global equity measured at net asset value	110,491	-	-	-
Global fixed income/credit:				
Mutual funds	27,156	27,156	-	-
Balanced fund	825	825	-	-
Global fixed income/credit measured at net asset value	12,393	-	-	-
Absolute return hedge funds:				
Absolute return hedge funds measured at net asset value	67,626	-	-	-
Real assets:				
Real assets measured at net asset value	51,624	-	-	-
Private capital:				
Private capital measured at net asset value	53,670	-	-	-
Cash and other assets:				
Cash and short-term investments	2,913	2,913	-	-
Perpetual trusts	2,227	-	-	2,227
Restricted cash measured at net asset value	632	-	-	-
Total endowment investments	380,507	81,844	-	2,227
Other investments:				
Marketable securities	7,145	7,145	-	-
Municipal/government agency obligations	27,570	-	27,570	-
Real estate	3,032	-	-	3,032
Beneficial interest in outside trusts	957	-	-	957
Assets held under split interest agreements	5,037	3,631	1,406	-
Total assets	$ 424,248	$ 92,620	$ 28,976	$ 6,216
Liabilities:				
Interest rate swap agreements	$ 9,021	$ -	$ 9,021	$ -
Total liabilities	$ 9,021	$ -	$ 9,021	$ -

	Fair Value	Redemption Restrictions	Redemption Notice	Unfunded Commitments
Investments measured at net asset value:				
Global equity:				
Commingled global equity	$ 82,221	25% quarterly or 100% annually	90 days	$ -
Commingled global equity	27,501	Illiquid		-
Commingled global equity impact	769	25% quarterly or 100% annually		-
	$ 110,491			$ -
Global fixed income/credit:				
Commingled global fixed income	$ 9,287	25% quarterly or 100% annually	90 days	$ -
Commingled global fixed income	3,106	Illiquid		-
	$ 12,393			$ -
Absolute return hedge funds:				
Absolute return hedge funds in liquidation	$ 63	In Liquidation		$ -
Commingled absolute return hedge funds	50,629	25% quarterly or 100% annually	90 days	-
Commingled absolute return hedge funds	16,934	Illiquid		-
	$ 67,626			$ -
Real assets:				
Private energy	$ 38,776	Illiquid		$ 1,046
Timber	3,525	Illiquid		10
Real estate	2,046	Illiquid		390
Sustainable real assets	133	Illiquid		2,319
Commingled real assets	3,164	25% quarterly or 100% annually		-
Commingled real assets	3,980	Illiquid		-
	$ 51,624			$ 3,765
Private capital:				
Private capital	$ 24,879	Illiquid		$ 14,338
Commingled private capital	28,791	Illiquid		-
	$ 53,670			$ 14,338
Cash:				
Restricted cash redemptive	$ 474	25% quarterly or 100% annually	90 days	$ -
Restricted cash non-redemptive	158	Illiquid		-
	$ 632			$ -

June 30, 2019 (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, 2018:

	Totals	Level 1	Level 2	Level 3
Endowment investments:				
Global equity:				
US	$ 23,140	$ 23,140	$ -	$ -
International	26,454	26,454	-	-
Global equity measured at net asset value	95,309	-	-	-
Global fixed income/credit:				
Mutual funds	27,708	27,708	-	-
Balanced fund	839	839	-	-
Global fixed income/credit measured at net asset value	14,640	-	-	-
Absolute return hedge funds:				
Absolute return hedge funds measured at net asset value	63,606	-	-	-
Real assets:				
Real assets measured at net asset value	55,834	-	-	-
Private capital:				
Private capital measured at net asset value	55,740	-	-	-
Cash and other assets:				
Cash and short-term investments	3,194	3,194	-	-
Perpetual trusts	2,188	-	-	2,188
Restricted cash measured at net asset value	386	-	-	-
Total endowment investments	369,038	81,335	-	2,188
Other investments:				
Marketable securities	6,825	6,825	-	-
Municipal/government agency obligations	25,571	-	25,571	-
Real estate	2,674	-	-	2,674
Beneficial interest in outside trusts	1,199	-	-	1,199
Assets held under split interest agreements	5,711	4,240	1,471	-
Total assets	$ 411,018	$ 92,400	$ 27,042	$ 6,061
Liabilities:				
Interest rate swap agreements	$ 7,515	$ -	$ 7,515	$ -
Total liabilities	$ 7,515	$ -	$ 7,515	$ -

	Fair Value	Redemption Restrictions	Redemption Notice	Unfunded Commitments
Investments measured at net asset value:				
Global equity:				
Commingled global equity	$ 81,482	25% quarterly or 100% annually	90 days	$ -
Commingled global equity	13,066	Illiquid		-
Commingled global equity impact	761	25% quarterly or 100% annually		-
	$ 95,309			$ -
Global fixed income/credit:				
Commingled global fixed income	$ 12,617	25% quarterly or 100% annually	90 days	$ -
Commingled global fixed income	2,023	Illiquid		-
	$ 14,640			$ -
Absolute return hedge funds:				
Absolute return hedge funds in liquidation	$ 81	In Liquidation		$ -
Commingled absolute return hedge funds	54,746	25% quarterly or 100% annually	90 days	-
Commingled absolute return hedge funds	8,779	Illiquid		-
	$ 63,606			$ -
Real assets:				
Private energy	$ 39,964	Illiquid		$ 1,818
Timber	3,562	Illiquid		10
Real estate	10,192	Illiquid		1,366
Sustainable real assets				2,500
Commingled real assets	159	25% quarterly or 100% annually		
Commingled real assets	1,957	Illiquid		
	$ 55,834			$ 5,694
Private capital:				
Private capital	$ 31,780	Illiquid		$ 6,659
Commingled private capital	23,960	Illiquid		-
	$ 55,740			$ 6,659
Cash:				
Restricted cash redemptive	$ 333	25% quarterly or 100% annually	90 days	$ -
Restricted cash non-redemptive	53	Illiquid		-
	$ 386			$ -

June 30, 2019 (Dollars in Thousands)

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):

	June 30, 2019	June 30, 2018
Balance, beginning of the year	$ 6,061	$ 6,058
Total realized and unrealized gains (losses)	529	532
Purchases	-	-
Issues	-	-
Sales	(162)	(183)
Net transfers	(212)	(346)
Balance, end of the year	$ 6,216	$ 6,061
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	$ 529	$ 532

NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS

At June 30, 2019, the university's endowment consisted of approximately 635 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowments and funds designated by the board of trustees to function as endowments (quasi-endowments). Quasi-endowment funds may be expended at the discretion of the university's board of trustees. As required by U.S. GAAP, net assets associated with endowment funds, including quasi-endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment Investment and Spending Policies

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

June 30, 2019 (Dollars in Thousands)

NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS, *CONTINUED*

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

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

Pooled endowment spending is determined using the total return concept. The board of trustees approved a spending rate for the general pooled endowment based on 5% of a trailing 36-month average market value and for the fossil fuel free portfolio based on 3.5% of the inception to date average market value for the years ended June 30, 2019 and 2018. For a few donor-restricted endowment funds, the university honors and adheres to donor-stipulated spending limitations.

At June 30, 2019, nearly 99.2% of the university's endowment investments were pooled.

Funds with Deficiencies
As of June 30, 2019 and 2018, there were $0 and $4, 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, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	$ 123,207	$ 247,466	$ 370,673
Contributions, net	-	2,253	2,253
Transfers and other additions (deductions)	1,792	452	2,244
Net assets released from restrictions	223	(223)	-
Return on investments:			
Investment income (loss)	792	1,680	2,472
Net appreciation (depreciation) of investments	5,932	13,154	19,086
Total return on investments	6,724	14,834	21,558
Amount distributed for operating activities	(4,798)	(10,164)	(14,962)
Endowment net assets, June 30, 2019	127,148	254,618	381,766
Endowment net assets consisted of the following at June 30, 2019:			
Donor-restricted endowments	-	251,774	251,774
Board-designated quasi-endowments	127,148	1,585	128,733
	127,148	253,359	380,507
Unconditional promises to endowment	-	1,259	1,259
Total endowment net assets	$ 127,148	$ 254,618	$ 381,766

June 30, 2019 (Dollars in Thousands)

NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS, *CONTINUED*

Net asset balances and changes to the net asset balances for the year ended June 30, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2017	$ 115,604	$ 230,280	$ 345,884
Contributions, net	-	3,210	3,210
Transfers and other additions (deductions)	1,297	1,790	3,087
Net assets released from restrictions	624	(624)	-
Return on investments:			
Investment income (loss)	571	1,160	1,731
Net appreciation (depreciation) of investments	9,821	21,481	31,302
Total return on investments	10,392	22,641	33,033
Amount distributed for operating activities	(4,706)	(9,835)	(14,541)
Endowment net assets, June 30, 2018	$ 123,211	$ 247,462	$ 370,673
Endowment net assets consisted of the following at June 30, 2018:			
Donor-restricted endowments	$ -	$ 244,251	$ 244,251
Board-designated quasi-endowments	123,211	1,576	124,787
	123,211	245,827	369,038
Unconditional promises to endowment	-	1,635	1,635
Total endowment net assets	$ 123,211	$ 247,462	$ 370,673

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 13 years.

	June 30, 2019	June 30, 2018
Intangible assets:		
Gross carrying amount	$ 15,125	$ 14,158
Accumulated amortization	(6,002)	(5,072)
Net carrying amount	$ 9,123	$ 9,086
Aggregate amortization expense:		
2019	$ 1,021	

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

2020	$ 790
2021	786
2022	778
2023	776
2024	748
Thereafter	5,245
Total	$ 9,123

Campus Facilities

Campus facilities consisted of the following:

	June 30, 2019	June 30, 2018
Land and improvements	$ 41,351	$ 40,062
Building and improvements	276,758	271,892
Equipment	12,002	13,572
Library resources	2,491	2,346
Collections	1,025	940
Construction in progress	3,293	1,904
	336,920	330,716
Accumulated depreciation	(137,379)	(130,336)
Campus facilities, net	$ 199,541	$ 200,380

June 30, 2019 (Dollars in Thousands)

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:

	June 30, 2019	June 30, 2018
Asset retirement obligation, beginning of the year	$ 1,679	$ 1,615
Obligations settled	(47)	(11)
Accretion expense	72	69
Revisions in estimated cash flows	3	6
Asset retirement obligation, end of the year	$ 1,707	$ 1,679

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

	Final Maturity	June 30, 2019	June 30, 2018
WHEFA Revenue Bonds, 2012A	2042	$ 36,521	$ 37,086
WHEFA Revenue Bonds, 2012B	2036	24,872	25,579
WHEFA Revenue Bonds, 2001	2031	8,940	9,389
Capital lease obligations	2032	218	261
Total		$ 70,551	$ 72,315

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

2020	$ 1,689
2021	1,762
2022	1,844
2023	1,931
2024	1,971
Thereafter	59,450
Unamortized premium	2,451
Unamortized issuance costs	(547)
Total	$ 70,551

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

In October 2012 the university entered into loan agreements whereby WHEFA issued tax-exempt Revenue and Refunding Revenue Bonds in the amount of $34,805 at a net premium of $3,577 (Series 2012A) and Refunding Revenue Bonds in the amount of $29,195 (Series 2012B). The bonds are general obligations of the university. The proceeds from the Series 2012A bonds were used to finance the construction of a 135-bed residence hall, and to refund outstanding WHEFA 2006A bonds. The proceeds from Series 2012B were used to refund outstanding WHEFA 2006B bonds. The 2012A bonds bear interest at fixed rates ranging from 3.0% to 5.0%. The 2012B bonds were sold through a direct purchase transaction with a bank, who will hold the bonds for an initial seven year term, after which the university will remarket the bonds. The bonds bear interest at 70% of the one-month London Interbank Offer Rate (LIBOR) plus a credit spread, which equated to an average interest rate of 2.54% for fiscal year 2019. The university is subject to certain financial covenants.

During 2001 the university entered into a loan agreement with WHEFA whereby WHEFA issued $10,620 of tax-exempt Variable Rate Demand Revenue Bonds, Series 2001. The proceeds were used to finance the construction of a new student residence hall. Pursuant to the loan agreement, the bonds bear interest at a rate that is determined weekly through the remarketing process, with the maximum annual rate capped at 12%. The average interest rate for fiscal year 2019 was 1.71%, which included 10 basis points for remarketing.

June 30, 2019 (Dollars in Thousands)

NOTE 6 – LONG-TERM DEBT, *CONTINUED*

For the year ended June 30, 2019, the university incurred total interest costs related to long-term debt of $3,500 of which $17 was capitalized. Interest costs include debt interest payments, swap agreement interest, remarketing, amortization of bond premium, discount and costs of issuance.

The university has a $5,000 unsecured line of credit in the form of a demand note with a bank. The agreement provides for interest at the bank's prime rate with no additional fees. As of June 30, 2019, the bank's prime rate was 5.5%. This line of credit, which may be renewed annually, has not been drawn on but is available for operating expenses or to provide liquidity for the Series 2001 bonds should the need arise. The current agreement matures February 29, 2020.

Interest Rate Swap Agreements

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

Swap Counterparty	Outstanding Notional	Trade Date	Effective Date	Swap Fixed Rate	Final Maturity Date
The Bank of New York Mellon	$ 10,370	5/25/06	4/1/08	3.875%	10/1/2030
The Bank of New York Mellon	$ 24,840	5/25/06	6/30/06	3.855%	10/1/2036
Societe Generale, New York Branch	$ 9,020	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, 2019 and 2018, for "Interest rate swap agreements" of $9,021 and $7,515, 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, 2019 and 2018, were net unrealized gains (losses) of $(1,506) and $2,552, respectively, recognized within "Other adjustments and changes" in the Consolidated Statements of Activities. Providing the university holds the swaps to maturity, the fair value of the derivatives will be zero. The university retains the option to terminate, cancel, and cash settle the interest rate swap agreements at any time.

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

NOTE 7 – LIQUIDITY AND AVAILABILITY

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

The university has various sources of liquidity at its disposal, including cash and cash equivalents, short-term investments, an available line of credit (as further discussed in Note 6), and certain endowment investments. The university could also draw from its board-designated quasi-endowment, although the university does not intend to spend from its quasi-endowment other than amounts distributed in accordance with its endowment spending policy.

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

June 30, 2019 (Dollars in Thousands)

NOTE 7 – LIQUIDITY AND AVAILABILITY, *CONTINUED*

	June 30, 2019
Financial Assets:	
Cash and cash equivalents	$ 30,148
Short-term investments	32,103
Receivables, net	1,883
Contributions receivable, net	3,173
Beneficial interest in outside trusts	957
Assets held under split-interest agreements	5,037
Endowment investments	380,507
Assets restricted for investment in campus facilities	2,613
Financial assets, at year-end	$ 456,421
Less those unavailable for general expeditures within one year, due to:	
Donor-restricted endowment, net of anticipated draw	(242,982)
Donor-restricted expendable funds	(12,811)
Assets held under split interest agreements	(5,037)
Beneficial interest in outside trusts	(957)
Other restricted assets	(3,861)
Contributions receivable, net, scheduled to be collected in more than one year	(2,002)
Financial assets available to meet cash needs for general expenditures within one year, before board designations:	$ 188,771
Less board designations:	
Board-designated quasi-endowment, net of anticipated draw	(122,273)
Financial assets available to meet general expenditures within one year	$ 66,498

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 table below presents the natural classification of these expenses by program activity.

	Program Activities				Supporting Activities	
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Total Expenses
Salaries and wages	$ 29,100	$ 4,619	$ 8,410	$ 6,539	$ 8,851	$ 57,519
Employee benefits	9,033	1,367	2,527	1,649	2,858	17,434
Supplies, travel, and other	5,164	914	2,733	6,360	971	16,142
Service and professional fees	1,256	810	1,956	1,446	3,742	9,210
Facilities maintenance and operations	990	300	691	2,444	94	4,519
Depreciation and amortization	3,442	1,444	2,034	3,377	621	10,918
Interest	1,827	203	103	1,095	114	3,342
Total Expenses	$ 50,812	$ 9,657	$ 18,454	$ 22,910	$ 17,251	$ 119,084

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.

June 30, 2019 (Dollars in Thousands)

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net Assets with Donor Restrictions consisted of the following:

	June 30, 2019	June 30, 2018
Time or purpose restricted:		
Time restrictions:		
Unappropriated earnings from donor-restricted endowments	$ 110,171	$ 106,122
Term endowment	539	531
Total donor-restricted endowments	110,710	106,653
Unconditional promises to give	1,914	1,804
Split-interest agreements	1,194	1,449
Cash surrender value of life insurance policies	43	25
Total time restrictions	113,861	109,931
Purpose restrictions:		
Construction of campus facilities	6,559	5,418
Educational programs and activities	6,362	6,233
Total purpose restrictions	12,921	11,651
Total time or purpose restricted	$ 126,782	$ 121,582
Restricted in perpetuity:		
Endowment funds	$ 142,323	$ 139,219
Split-interest agreements	2,155	2,512
Loan funds	5	5
Total restricted in perpetuity	$ 144,483	$ 141,736
Total net assets with donor restrictions	$ 271,265	$ 263,318

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 are 10% or 12% of salaries, depending upon position classifications and are fully vested. The university's contributions totaled $5,287 and $5,308 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, and in "Other adjustments and changes" in the Consolidated Statements of Activities for the years then ended are as follows:

June 30, 2019 (Dollars in Thousands)

NOTE 10 – RETIREMENT PLANS, *CONTINUED*

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2019	**2018**	**2019**	**2018**
Projected and accumulated post-retirement benefit obligations:				
Beginning of the year	$ 7,446	$ 7,996	$ 3,301	$ 3,443
Benefits paid	(125)	(253)	(105)	(117)
Amounts recognized in the Consolidated Statements of Activities:				
Components of net benefit expense recognized as operating expense:				
Service cost	400	490	179	169
Interest cost	301	286	135	124
Amortization of actuarial loss	136	225	47	72
Total net benefit expense	837	1,001	361	365
(Gain) loss recognized within other adjustments and changes	395	(1,298)	177	(390)
End of the year	$ 8,553	$ 7,446	$ 3,734	$ 3,301
Post-retirement benefit liability recognized within accrued payroll and other liabilities in the Consolidated Statements of Financial Position:				
Current portion	$ 429	$ 469	$ 222	$ 198
Noncurrent portion	8,124	6,977	3,512	3,103
Total	$ 8,553	$ 7,446	$ 3,734	$ 3,301
Plan funded (unfunded) status	$ (8,553)	$ (7,446)	$ (3,734)	$ (3,301)

The weighted-average assumptions used to determine plan benefit obligations as of June 30, 2019 and 2018, and the net benefit expense for the years then ended, included:

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2019	**2018**	**2019**	**2018**
Benefit obligation (post-retirement benefit liability):				
Discount rate	3.33%	4.18%	3.41%	4.21%
Rate of compensation increase	5.00%	5.00%	N/A	N/A
Net benefit expense:				
Discount rate	4.18%	3.68%	4.21%	3.70%
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 $136 for the faculty early retirement and career change plan and a net loss of $47 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
2020	429	222
2021	411	211
2022	339	223
2023	368	208
2024	401	204
2025-2029	3,336	1,428

June 30, 2019 (Dollars in Thousands)

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, 2019:

	University of Puget Sound (unconsolidated)	Wholly Owned Subsidiaries	Eliminating Entries	University of Puget Sound (consolidated)
Assets:				
Cash and cash equivalents	$ 30,148	$ -	$ -	$ 30,148
Due from subsidiaries	1,992	-	(1,992)	-
Short-term investments	32,103	-	-	32,103
Receivables, net	1,883	-	-	1,883
Contributions receivable, net	3,173	-	-	3,173
Inventories	456	-	-	456
Prepaid expenses and other assets	1,475	3,032	-	4,507
Student loans receivable, net	11,002	-	-	11,002
Beneficial interest in outside trusts	957	-	-	957
Assets held under split-interest agreements	5,037	-	-	5,037
Endowment investments	380,134	373	-	380,507
Intangibles, net	9,123	-	-	9,123
Assets restricted for investment in campus facilities	2,613	-	-	2,613
Campus facilities, net	199,541	-	-	199,541
Total assets	$ 679,637	$ 3,405	$ (1,992)	$ $681,050
Liabilities:				
Accounts payable	$ 2,122	$ -	$ -	$ 2,122
Due to university	-	1,992	(1,992)	-
Accrued payroll and other liabilities	17,908	-	-	17,908
Advance deposits from students	1,792	-	-	1,792
Liabilities under split-interest agreements	2,649	-	-	2,649
Government advances for student loans	11,456	-	-	11,456
Asset retirement obligation	1,707	-	-	1,707
Interest rate swap agreements	9,021	-	-	9,021
Long-term debt, net	70,551	-	-	70,551
Total liabilities	$ 117,206	$ 1,992	$ (1,992)	$ 117,206
Net Assets:				
Net assets without donor restrictions	$ 292,579	$ -	$ -	$ 292,579
Net assets with donor restrictions	269,852	1,413	-	271,265
Total net assets	562,431	1,413	-	563,844
Total liabilities and net assets	$ 679,637	$ 3,405	$ (1,992)	$ 681,050

The amount included to meet future payments under gift annuity contracts in liabilities under split-interest agreements was $527 as of June 30, 2019, and $562 as of June 30, 2018.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The university has allocated a portion of its pooled endowment to investments in natural resources, private real estate and equity and fixed income asset classes. At June 30, 2019, an outstanding commitment of $18,103 remains to be invested in these asset classes.

As of June 30, 2019, the university had outstanding commitments in the amount of $6,420 related to the construction, renovation and improvement of campus facilities.

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

Federally funded programs, including financial aid, research and development, and other programs, are routinely subject to special audit. The reports on examinations, which are conducted pursuant to specific regulatory requirements by the auditors for the university, are required to be submitted to both the university and the Federal Audit Clearinghouse. Federal oversight agencies have the authority to determine liabilities as well as to limit, suspend, or terminate federally funded programs. In the university's opinion, no material instances of noncompliance have occurred during the year ended June 30, 2019, related to the university's federally funded student financial aid, research and development, and other programs.

NOTE 13 – SUBSEQUENT EVENTS

In October 2019 the university entered into a loan agreement whereby WHEFA issued tax-exempt Refunding Revenue Bonds in the amount of $24,280 (Series 2019). The proceeds from Series 2019 were used to refund outstanding WHEFA 2012B bonds. The 2019 bonds were sold through a direct purchase transaction with a bank, who will hold the bonds for an initial seven year term.

UNIVERSITY OF PUGET SOUND Board of Trustees and Officers (Unaudited)

As of November 2019

Est. 1888

UNIVERSITY of PUGET SOUND

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