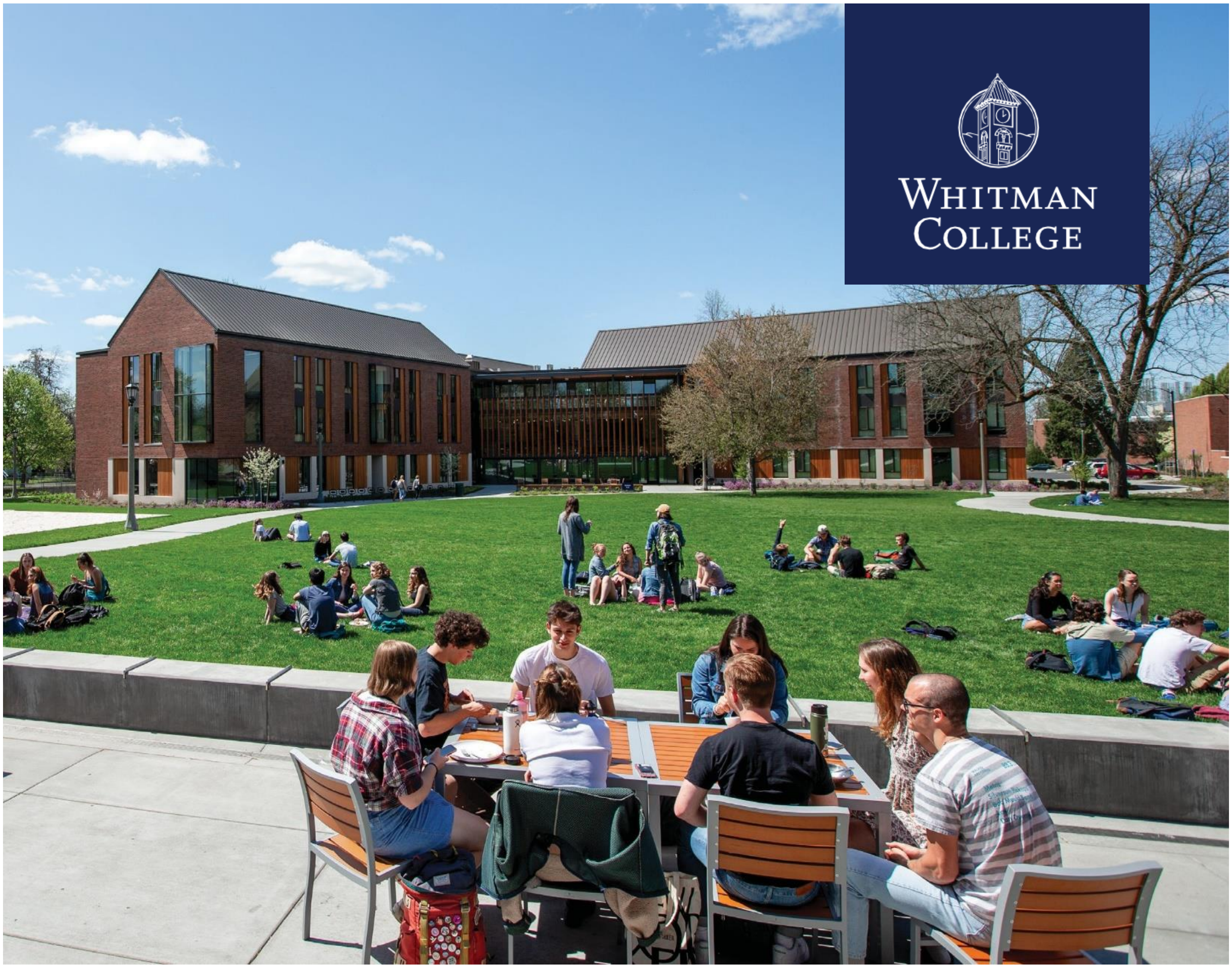

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

WHITMAN COLLEGE
Peter W. Harvey, Chief Financial Officer
Darlene R. Wilson, CPA, Controller

Audited by: Moss Adams, LLP
Certified Public Accountants

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We are pleased to present Whitman College's (College) consolidated financial statements for the years ended June 30, 2021 and 2020 for your review. Though challenged by the COVID-19 pandemic and having to implement difficult fiscal policies, the College was able to withstand the financial pressures and set itself up for sustainable growth and build on its successes for the future.

Despite the decline in enrollment and net student revenues this year, the College had a strong year overall financially. The statement of activities, for the year ended June 30, 2021, shows the following:

- Contributions and grants of almost $10 million at net present value
- Whitman's endowment contributed over $26.6 million in support of College operations
- An increase to net assets of $2 million from operations
- An overall increase to net assets of $272.4 million

The overall strong growth in total net assets was due to a very solid investment strategy with a net investment return of $297.9 million. However, this unfortunately also resulted in the generation of unrelated business income that is subject to federal taxes, which resulted in an estimated tax liability of $865 thousand that the College will have to pay for the first time this year.

Anticipating the impact that the COVID-19 pandemic would have on the College's resources, the College's Board of Trustees and Cabinet Officers acted to reduce the budget for the year in order to keep costs to a minimum, including a temporary suspension of retirement plan contributions. This strategy helped decrease the operating expenses overall by $14.2 million, and due to its success, the College was able to make a $2.8 million one-time retro-active retirement plan contribution for employees still working for the College as of June 30, 2021.

As part of the CARES, CRRSAA, and ARPA Acts, the College was awarded $3.9 million in Higher Education Emergency Relief Funds of which $1.8 million was for student support and $2.1 million was for institutional support. The College has distributed funds directly to students and used the institutional support to help offset room and board refunds to students, purchase equipment needed to provide virtual instruction for students, and to help implement campus safety and protocols related to the COVID-19 pandemic.

Whitman College strengthened its financial position at June 30, 2021. Assets and net assets grew to $1,132 million and $1,008 million, respectively. Whitman's endowment, exclusive of farms, grew to $813 million or 80.7% of total net assets. The College's total liabilities were just 10.9% of assets, and long-term bond debt was only 6% of assets. The most flexible net assets, those without donor restrictions, were 38.7% of total net assets.

With the ongoing challenges in higher education from lower enrollments, tuition discount pressures, changing demographics, and social and economic instability, Whitman's foundational financial strength and flexibility positions the College to confidently face the future. Whitman's success could not happen without the support of its students, families, alumni, faculty, staff, Board of Trustees, and friends. Thanks to all for making this a successful year and an optimistic future.

Peter Harvey Darlene Wilson

Peter W. Harvey, Chief Financial Officer Darlene R. Wilson, CPA, Controller

(in thousands)

June 30,	2021	2020
ASSETS		
Cash, cash equivalents and restricted cash	$ 36,529	$ 24,579
Inventory and prepaid expenses	883	802
Accounts receivable, net	633	1,160
Student loans, net	1,022	1,353
Deferred compensation	1,260	1,140
Contributions and trusts receivable, net	25,165	27,948
Investments	897,486	629,988
Land, buildings, equipment, and collections, net	168,608	175,084
Total Assets	$1,131,586	$ 862,054
LIABILITIES		
Accounts payable	$ 2,228	$ 2,248
Accrued compensation and benefits	11,332	8,455
Deferred revenue and enrollment deposits	1,861	3,233
Deferred compensation	1,260	1,140
Interest rate exchange agreements	12,684	16,887
Refundable advance	2,419	2,619
Split-interest agreements	15,286	13,530
Other long-term obligations	7,788	7,942
Government loan funds payable	1,276	1,695
Bonds payable	67,714	68,952
Total Liabilities	123,848	126,701
NET ASSETS		
Without donor restrictions	390,321	297,765
With donor restrictions	617,417	437,588
Total Net Assets	1,007,738	735,353
Total Liabilities and Net Assets	$1,131,586	$ 862,054

For the Year Ended June 30, 2021
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
Revenues			
Tuition and fees net of institutional financial aid	$ 34,561		$ 34,561
(Institutional financial aid - $31,850)			
Room and board charges	3,861		3,861
Net student revenue	38,422		38,422
Contributions and government grants	5,261	$ 3,817	9,078
Investment return, net	4,304	(71)	4,233
Other income, net	873	21	894
Net Operating Revenues	48,860	3,767	52,627
Endowment support to operations	10,271	16,374	26,645
Net assets released from restrictions	15,212	(15,212)	-
Net Resources Funding Operations	74,343	4,929	79,272
Expenses By Function			
Instruction	28,840		28,840
Academic support	10,856		10,856
Student services	11,958		11,958
Institutional support	15,305		15,305
Auxiliary operations	10,326		10,326
Total Operating Expenses	77,285		77,285
Change in Net Assets From Operating Activities	(2,942)	4,929	1,987
NONOPERATING ACTIVITIES			
Contributions	519	392	911
Investment return, net	92,652	201,045	293,697
Net gain on interest rate exchange agreements	4,203	-	4,203
Change in split-interest agreements	(67)	(3,720)	(3,787)
Other income, net	1,722	297	2,019
Endowment support to operations	(10,271)	(16,374)	(26,645)
Net assets released from restrictions	6,740	(6,740)	-
Change in Net Assets from Nonoperating Activities	95,498	174,900	270,398
Total Change in Net Assets	92,556	179,829	272,385
Net Assets at Beginning of Year	297,765	437,588	735,353
Net Assets at End of Year	$ 390,321	$ 617,417	$ 1,007,738

For the Year Ended June 30, 2020

(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
Revenues			
Tuition and fees net of institutional financial aid (Institutional financial aid - $34,744)	$ 49,356		$ 49,356
Room and board charges	9,135		9,135
Net student revenue	58,491		58,491
Contributions and government grants	4,450	$ 3,882	8,332
Investment return, net	668	6	674
Other income, net	1,770	20	1,790
Net Operating Revenues	65,379	3,908	69,287
Endowment support to operations	9,903	15,567	25,470
Net assets released from restrictions	20,504	(20,504)	
Net Resources Funding Operations	95,786	(1,029)	94,757
Expenses By Function			
Instruction	33,514		33,514
Academic support	12,865		12,865
Student services	15,392		15,392
Institutional support	15,056		15,056
Auxiliary operations	14,624		14,624
Total Operating Expenses	91,451		91,451
Change in Net Assets From Operating Activities	4,335	(1,029)	3,306
NONOPERATING ACTIVITIES			
Contributions	94	11,514	11,608
Investment return, net	12,496	23,718	36,214
Net loss on interest rate exchange agreements	(4,137)	-	(4,137)
Change in split-interest agreements	155	1,046	1,201
Other income, net	1,307	223	1,530
Endowment support to operations	(9,903)	(15,567)	(25,470)
Net assets released from restrictions	2,208	(2,208)	
Change in Net Assets from Nonoperating Activities	2,220	18,726	20,946
Total Change in Net Assets	6,555	17,697	24,252
Net Assets at Beginning of Year	291,210	419,891	711,101
Net Assets at End of Year	$ 297,765	$ 437,588	$ 735,353

(in thousands)

For the Years Ended June 30,	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 272,385	$ 24,252
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation, amortization and accretion	8,569	8,420
Net gain on investments, other assets, and liabilities	(339,283)	(45,041)
Change in value of split-interest agreements	3,787	(1,201)
Contributions restricted to long-term investment and plant	(5,617)	(4,874)
Gifts of securities and real estate	(1,284)	(1,544)
Changes in operating assets and liabilities		
Receivables, inventory and prepaid expenses	5,342	(7,534)
Payables, deferred revenue and enrollment deposits	864	735
Long-term obligations	(185)	650
Net cash used in operating activities	(55,422)	(26,137)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(165,676)	(129,509)
Sales and maturities of investments	232,318	164,245
Purchases of land, buildings, equipment and collections	(2,494)	(7,931)
Student loan activity, net	331	426
Net cash provided by investing activities	64,479	27,231
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on long-term debt	(1,255)	(1,205)
Payments to beneficiaries	(1,494)	(1,509)
New split-interest agreements	25	523
Contributions restricted to long-term investment and plant	5,617	4,874
Net cash provided by financing activities	2,893	2,683
Net change in cash and cash equivalents	11,950	3,777
Cash, cash equivalents and restricted cash Beginning of year	24,579	20,802
Cash, cash equivalents and restricted cash End of year	$ 36,529	$ 24,579
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest (net of amounts capitalized)	$ 2,624	$ 2,655

Organization – Whitman College is an independent, co-educational, non-sectarian, residential, liberal arts and sciences, undergraduate college founded in 1859. Whitman College was chartered by the state of Washington as a degree granting college in 1883. The student body of approximately 1,500 students is drawn from across the United States and many other countries; however, it is predominantly from the western United States.

Note 1 – Summary of Significant Accounting Policies and Basis of Presentation

Basis of Presentation – The consolidated financial statements of Whitman College (the College or Whitman) have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) in the United States of America.

Net Asset Classifications – The activities and net assets of the College are classified as to whether or not their use is governed by donor-imposed restrictions.

> **Net Assets Without Donor Restrictions** – Are resources not subject to donor-imposed restrictions such as student tuition payments and board designated endowment funds.
>
> **Net Assets With Donor Restrictions** – Are resources subject to donor-imposed restrictions. Such restrictions may require either the passage of time or some action by the College to fulfill donor restrictions. If a donor has restricted funds to an endowment those funds will be held in perpetuity, the earnings of which will be used as the donor has specified.

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions which affect the reported amounts of assets, liabilities, and the disclosure of contingencies as well as revenues and expenses. Actual results could differ from those estimates.

Consolidation – The consolidated financial statements include the accounts of Whitman College and the 21st Century Trust. All significant intercompany transactions have been eliminated.

Cash, Cash Equivalents and Restricted Cash – Cash equivalents are highly liquid investments maturing within 90 days of the fiscal year-end. College holdings in commingled funds with daily liquidity related to College checking accounts are considered cash equivalents. Cash and cash equivalents held by investment managers are classified as investments. Cash balances maintained by the College at various depository and brokerage institutions are often in excess of federally insured limits. The College did not experience any significant losses on its cash equivalents. Restricted cash consisted of funds for the Federal Perkins Loan program of $367 and $720 as of June 30, 2021 and 2020, respectively.

Inventory – Inventory consists mainly of books and supplies and is valued at the lower of cost (retail method) or net realizable value. Effective July 1, 2021, the College bookstore was outsourced to a third-party service provider. During the transition, all of the inventory of the College bookstore was either sold to this third-party service provider or retired as of June 30, 2021.

Note 1 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

Land, Buildings, Equipment, and Collections – Land, buildings, building improvements, equipment, and collections are carried at original cost, or if donated, at fair value on the date of the gift. All such assets except land and collections are stated net of accumulated depreciation, which is computed on a straight-line basis over the estimated useful lives of the assets. Any eligible single items over ten thousand dollars and library books are capitalized and depreciated over their estimated useful lives. Estimated useful lives for buildings and building components is 10 to 40 years, for equipment 5 to 10 years, and for books 5 years. Normal repair and maintenance expenses are charged to operations as incurred.

Deferred Compensation – Certain employees of the College, at their option, may elect to defer a portion of their wages. Deferred compensation is placed in a separate fund, which is considered College property until the College approves a withdrawal by the employee due to an emergency or retirement. Because the participants are general creditors for these funds, the invested asset is separately recorded along with a separate corresponding liability to the employee. All such accounts are invested through an agent.

Refundable Advance – This account consists of vendor incentive payments that will be recognized as a reduction of operating expenses on a straight-line basis over the term of the agreement, which expires in 2033.

Revenue and Expense Recognition – Revenue is reported as an increase to net assets without donor restrictions, unless donor restrictions are imposed. Conditional promises to give are recognized as income when the donor-imposed conditions are substantially met. Operating expenses decrease net assets without donor restrictions; all other expenses are netted into related income.

Statements of Activities, Operating Activities – The College defines operations as activities closely related to its educational and residential mission, as well as any necessary ancillary activities. The endowment's support of operations is included as revenue in the operating section and is shown as an expense in the nonoperating section. All other significant transfers have been eliminated. Investment income and gain activity is related to excess operating balances and certain reserves.

Net Student Revenue – The College recognizes revenue from student tuition and fees and room and board charges within the fiscal year in which the educational and other services are provided. The academic programs are delivered in the Fall (mid-August to mid-December) and Spring (mid-January to mid-May) terms. There is some minor activity that spans from May to August. Payments for these summer services are due prior to the start of the semester, and are recorded as deferred revenue until the performance obligations are met.

The College provides institutional financial aid to students on both a need and merit basis. Institutional financial aid is provided in the form of scholarships and grants. Such aid is funded by the endowment, gifts, and other revenue without donor restrictions of the College and is reported as a reduction of student revenues. As of June 30, 2021 and 2020, the College provided institutional financial aid of $31,850 and $34,744, respectively.

Other Income, Net – Such revenue consists mainly of sales from the College bookstore and from events on campus. The revenues are earned and recognized over the course of each term as the goods and services are delivered.

Note 1 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

Release From Restrictions – Net assets are released from donor restrictions once the purpose for which the net assets were restricted or the completion of a time stipulation is satisfied. Restricted operating activity including contributions and net investment return earned are reported as net assets with donor restrictions and reclassified to net assets without donor restrictions when any donor-imposed restrictions are satisfied. Nonoperating restricted net assets associated with building costs are reclassified to net assets without donor restrictions when the related capital asset is placed in service.

Expenses By Function – Personnel costs, including salaries and benefits, represent the College's primary operating expense. Personnel costs and other operating expenses such as services and supplies, communications, and travel are presented by functional areas in the consolidated statements of activities. The cost of operation and maintenance of the physical plant, including the related depreciation and interest costs, is allocated to each functional area based on the estimated square footage used by the function. The College defines its five functional areas as follows:

Instruction – These costs include faculty salaries, related benefits, and other direct costs related to teaching.

Academic Support – These are costs that support the instructional process, but are not directly related to teaching such as the library, academic technology, student academic resources, the theater, and offices directly supporting faculty such as offices of the Provost and Off Campus Studies.

Student Services – These are costs to help students succeed in their academic mission and to enhance their overall experience at Whitman. This function includes such services as counseling and health services, admission, financial aid, and the registrar. This function also includes co-curricular programs outside of the classroom such as athletics, internships, and the Outing Program and offices such as the Vice President for Student Affairs.

Institutional Support – These are costs incurred to carry out the administration of the College such as the offices of the President and Treasurer, fundraising, communications, human resources, business, administrative technology, safety, and security.

Auxiliary Operations – These costs include student housing, food services, and the bookstore. The distinguishing characteristic of auxiliary operations is that they are managed as an essentially self-supporting activity.

Federal Income Taxes – Whitman College is a qualified not-for-profit organization under Internal Revenue Code Section 501(c)(3) and as such, is generally exempt from federal taxation of income. Contributions to the College are generally tax deductible. The 21st Century Trust is a separate qualified 501(c)(3) tax entity that is consolidated in these financial statements. For the fiscal year ended June 30, 2021, management estimates that Whitman College has generated unrelated business income subject to federal taxes from its investment activity of approximately $8,205. This taxable income will utilize all of the College's net operating losses of approximately $4,191 that was carried forward from previous fiscal years. As a result, management estimates that the College has incurred a tax liability plus potential underpayment penalties totaling approximately $865 which has been recorded as Accounts Payable on the Consolidated Statements of Financial Position as of June 30, 2021.

Note 1 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

Risks and Uncertainties – The financial instruments of the College are exposed to various risks such as interest rate, market and credit risks. The College seeks to mitigate such risks through prudent investment strategies such as diversified asset classes and investment managers. Due to such risks and market volatility, the values and related activity reported in the consolidated financial statements can vary substantially from year-to-year. Such variations could be material to the consolidated financial statements.

Recent Accounting Pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842),* which requires lessees to recognize a lease liability and a right-of-use asset for all lease obligations, with the exception of short-term leases. In July 2018, the FASB issued ASU No. 2018-11, *Leases – Targeted Improvements*, which allows entities to adopt the provisions of the standard prospectively without adjusting comparative periods. The College adopted the standard, as amended for the year ended June 30, 2021 using this option. Since the College has no significant leases for the fiscal year ended June 30, 2021, the adoption of this guidance did not impact Whitman College's Consolidated Statements of Financial Position, Activities, or Cash Flows.

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* The amendments in ASU No. 2018-13, in which certain disclosure requirements are removed, modified, or added, were adopted for the year ended June 30, 2021. The adoption of this guidance was not significant and did not impact Whitman College's Consolidated Statements of Financial Position, Activities, or Cash Flows.

On September 17, 2020, the FASB issued ASU No. 2020-07 on Topic 958, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The FASB ASU requires nonprofits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. The FASB issued the update in an effort to improve transparency in reporting nonprofit gifts-in-kind. The FASB ASU requires the new standard to be applied retrospectively, with amendments taking effect for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. The ASU does allow for early adoption. This change will have no material effect on Whitman College's Consolidated Statements of Financial Position, Activities, or Cash Flows.

(in thousands)

Note 2 – Receivables and Student Loans, Net

	2021	2020
Accounts Receivable		
Student and other accounts	$ 673	$ 1,203
Allowance for doubtful accounts	(40)	(43)
Total accounts receivable, net	$ 633	$ 1,160

	2021	2020
Student Loans		
Federal Perkins Loan Program	$ 1,038	$ 1,374
Less allowance for doubtful accounts	(16)	(21)
Net student loans	$ 1,022	$ 1,353

Federal Perkins Loan Program – Program amounts due are guaranteed by the government and student borrowers are not required to put up collateral or obtain co-signers. Qualifying borrowers may, under certain circumstances, defer principal payments and the interest and/or principal may be forgiven. Total government program funds of $1,276 and $1,695 as of June 30, 2021 and 2020, respectively, are ultimately refundable to the federal government. The federal government has ceased funding of the program as of July 1, 2017.

Allowances for doubtful accounts are established based upon prior collection experience and current economic factors, which could influence the borrower's ability to repay per loan terms. At June 30, 2021 and 2020, the past due loan amounts were $177 and $152, respectively.

Contributions and Trusts – Revenue related to unconditional promises to give is recorded when pledged at the net present value of the expected future inflows of cash using discount rates from 0.6% to 6.5%.

	2021	2020
Within one year	$ 6,063	$ 5,044
Between one and five years	6,885	13,538
More than five years	18,307	15,112
Gross receivable	31,255	33,694
Less allowance for uncollectible contributions	(566)	(789)
Less discount to present value	(5,524)	(4,957)
Net receivable	$ 25,165	$ 27,948

The College is the recipient of promises to give made by parties related to the College. At June 30, 2021 and 2020, such promises amounted to $9,769 and $13,771, respectively, at net present value. Of the net present value outstanding at June 30, 2021, $6,365 was from six parties related to the College.

(in thousands)

Note 2 – Receivables and Student Loans, Net (continued)

Contribution and trust receivables are intended to be used for the following purposes:

	2021	2020
Undesignated	$ 4,339	$ 5,685
Operations	5,084	5,119
Plant projects	1,511	7,505
Endowments	20,321	15,385
Gross receivable	$ 31,255	$ 33,694

Note 3 – Land, Buildings, Equipment, and Collections

	2021	2020
Buildings	$ 249,187	$ 245,386
Accumulated depreciation	(103,894)	(97,772)
	145,293	147,614
Construction in progress	2,400	6,520
Land	16,601	16,537
Net book value of land and buildings	164,294	170,671
Equipment and books	4,288	5,465
Accumulated depreciation	(2,533)	(3,611)
Net book value of equipment and books	1,755	1,854
Collections	2,559	2,559
Net book value of land, buildings, equipment, and collections	$ 168,608	$ 175,084

The College has commitments on outstanding construction contracts of $1,455 as of June 30, 2021. For the years ended June 30, 2021 and 2020, interest costs of $156 and $221, respectively, were capitalized into the cost of buildings.

Note 4 – Split-Interest Agreements

The College has legal title to certain annuity and life income agreements, subject to interests of beneficiaries, composed predominantly of charitable remainder annuity trusts, charitable remainder unitrusts, and perpetual trusts held by third parties. The contracted payments to the beneficiaries take precedence over any other financial claims upon the College.

Actuarial methods are used to record annuity and life income contracts and agreements where the beneficiary of the agreement is guaranteed annual amounts either by specified amounts or percentages of the value of the trusts. The account is credited with investment income and gains, and is charged with investment losses and payments to beneficiaries. Actuarial gains and losses are adjusted annually against the liability account. The liability is based on the present value of estimated future payments discounted at rates between 0.4% and 9.2% either over specified periods or lives estimated according to IRS mortality tables. No obligation has been recorded for contracts that do not guarantee a payment amount. Of the total split-interest contracts payable, the College had obligations for annuity contract payments of $3,076 and $3,257 at June 30, 2021 and 2020, respectively.

At June 30, 2021 and 2020, total assets held by the College under split-interest agreements amounted to $33,598 and $27,941, respectively, and of those totals, $30,980 and $25,424, respectively, are included in investments restricted for donor purposes. These investment assets are presented as commingled trusts in the fair value footnote. The College had time and purpose restricted split interest agreements of $6,741 and $5,822 for the years ended June 30, 2021 and 2020, respectively. These amounts are presented in the Net Assets Note 10 within total net assets with donor restrictions.

The College maintains reserves in compliance with applicable state requirements for contracts issued in the respective states. In accordance with state annuity requirements at June 30, 2021, the College has reserves of $477 for the state of California and $2,297 for the state of Washington.

Note 5 – Other Long-Term Obligations

Asset Retirement Obligation – The College has accrued obligations for costs required by law to be incurred relative to the retirement of certain College plant assets. At Whitman, such issues generally involve asbestos abatement costs at the retirement of certain buildings. At demolition or renovation, appropriate abatement procedures and the related costs are a legal requirement. The related costs are capitalized and each obligation is carried at the estimated net present value of the expected future costs required at retirement. The Asset Retirement Obligation at June 30, 2021 and 2020, is valued at $954 and $925, respectively.

Health Insurance Terminal Obligation – The College has accrued an obligation for estimated costs that would be incurred if the College’s health insurance plan were terminated. The value of such termination costs at June 30, 2021 and 2020, is estimated to be $595 and $637, respectively. These amounts are presented in other long-term obligations on the Consolidated Statements of Financial Position.

(in thousands)

Note 5 – Other Long-Term Obligations (continued)

Postretirement Benefit Plan – The College provides postretirement health benefits for all employees who were full-time employees hired prior to June 30, 1992, and retire after reaching a specified age with 10 years of service. Employees terminating prior to meeting age and length of service eligibility are not covered under the program. A small number of the currently retired and fully eligible active plan participants under the program are participating in the College's regular health insurance program or modified cost reimbursement under Medicare Supplement. All other participants are limited to the cost of the Medicare supplement at the rate established July 1, 1992, adjusted annually by not more than five percent.

The calculation and current assumptions used by the College are periodically reviewed by an actuary. At June 30, 2021 and 2020, the College utilized 2.62% and 2.38% discount rates, respectively, to determine the actuarial present value of the obligation, and a 5.0% percent health care cost trend rate for both years. A 1.0% increase in each year of the annual trend rate would increase the accumulated obligation by approximately $636, and increase the benefit cost components by approximately $24 for the year. Projected annual benefit payments for the five years after June 30, 2021, are estimated to average $235 and the total payment amount for the following five years is an estimated $1,499.

	2021	2020
Post-retirement benefit cost		
Benefits earned	$ 48	$ 55
Interest accrued on benefits earned in prior years	163	152
Benefit cost	$ 211	$ 207
Benefits paid	$ 202	$ 211
Post-retirement benefit obligation		
Current retirees	$ 2,511	$ 2,625
Active plan participants	3,728	3,755
Total accumulated benefit obligation	$ 6,239	$ 6,380
Board designated investments to fund obligation	$ 9,188	$ 6,452

Note 6 – Retirement Plan

The College eligible staff and faculty may participate in a qualified, defined contribution pension plan, which is administered by TIAA. The plan is available to substantially all full-time employees and is funded by employee and College contributions, which are based on levels of compensation.

From August 2020 through June 2021, the College temporarily suspended College contributions due to unforeseen circumstances surrounding the COVID-19 pandemic. On August 16, 2021, the Board of Trustees approved a one-time 10% (5% for cabinet officers and none for faculty salary continuation plan participants) retro-active College contribution to be made only for employees still working for the college as of June 30, 2021. The contribution was paid in August 2021 for the total amount of approximately $2,849 for the 2020-2021 plan year, which has been recorded as a liability on the Consolidated Statements of Financial Position as of June 30, 2021. The College's contributions to the plan for the years ended June 30, 2021 and 2020, amounted to $3,200 and $3,479, respectively.

Note 7 – Bonds Payable

The state of Washington provides tax-exempt financing capacity to private higher education institutions sited in the state, through Washington Higher Education Facilities Authority (WHEFA). Such bonds were issued on behalf of Whitman College, and are secured by the general revenues of the College. The related discounts, premium, and issuance costs for each bond issue are amortized on a straight-line basis until maturity. The College's long-term credit rating is "AA3" by Moody's Investor Service, Inc.

During 2004, WHEFA issued $28,770 of variable rate, tax-exempt bonds on behalf of the College to refund bonds previously issued in 1999. The bonds require a single principal payment due October 1, 2029, and were issued at a net discount of $95. The bonds bear interest at a rate determined weekly through the remarketing process, which rate averaged 0.09% for the year ended June 30, 2021. The College, through an agreement with JP Morgan Chase Bank as the counterparty, has exchanged the variable rate for a fixed rate of 4.34% for the life of the loan.

During 2008, WHEFA issued $30,395 of variable rate, tax-exempt bonds on behalf of the College to finance building renovations and partially fund a new building. The bonds require annual principal payments through January 1, 2038, and were issued at a net discount of $112. The bonds bear interest at a rate determined weekly through the remarketing process, which rate averaged 0.11% for the year ended June 30, 2021. The College, through an agreement with Bank of New York Mellon as the counterparty, has exchanged the variable rate for a fixed rate of 3.37% for the life of the loan.

(in thousands)

Note 7 – Bonds Payable (continued)

During 2017, WHEFA issued $17,705 of fixed rate, tax-exempt bonds on behalf of the College to finance two new buildings, a dining commons, and residence hall. The bonds require annual principal payments starting January 1, 2019, through January 1, 2047, and were issued at a net premium of $599. The bonds bear rates between 4% and 5%, which averaged 4.40% for the year ended June 30, 2021.

	2021	2020
Series 2004, Variable Rate Demand Revenue Bonds	$ 28,770	$ 28,770
Series 2008, Variable Rate Demand Revenue Bonds	22,290	23,215
Series 2017, Revenue Bonds	16,755	17,085
Subtotal WHEFA bonds	67,815	69,070
Unamortized discount/premium and issuance costs	(101)	(118)
Total	$ 67,714	$ 68,952

The College's standby bond purchasing agreements for its Series 2004 and 2008 variable rate demand revenue bonds contain various restrictive covenants, whereby the College is required to meet certain key financial ratios. As of June 30, 2021, the College was out of compliance with its debt service coverage ratio for both of these bonds. Subsequent to year-end, the College's financial institution waived the covenant violation as of June 30, 2021. The fair value of bonds payable at June 30, 2021, approximates $67,385 based on discounting the future cash flows through the scheduled maturities at rates available at June 30, 2021. The following schedules are the approximate principal payments required for these bonds.

June 30, 2022	$ 1,300
June 30, 2023	1,355
June 30, 2024	1,405
June 30, 2025	1,465
June 30, 2026	1,525
Thereafter	60,765
	$ 67,815

The 2004 and 2008 issues are structured to pay a variable rate of interest. The College, seeking to curtail exposure to rising interest rates and variable debt payments, entered into interest rate exchange agreements for each of those bond issues to synthetically convert the entire notional amount of each issue to a fixed rate of interest. The agreements can be terminated before the maturity date with an adjustment with the counterparty for the respective agreement's fair value at the termination date. The fair value of each of these agreements will be zero if held to their respective termination dates. The net changes in the fair value of these agreements for the years ended June 30, 2021 and 2020, amounted to unrealized gain of $4,203 and loss of $(4,137), respectively. These year-to-year changes are recorded in the nonoperating section of the Consolidated Statements of Activities.

Note 8 – Fair Value of Assets and Liabilities

Fair Value Measurements – The College's investments and interest rate exchange agreements are stated at fair value. Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of assets or liabilities should be based on assumptions market participants would use.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Inputs reflecting unadjusted quoted prices for identical assets or liabilities in active markets

Level 2 – Inputs other than quoted prices observable for the assets or liability either directly or indirectly, including inputs in markets not considered active or quoted prices for similar assets or liabilities

Level 3 – Unobservable inputs

The availability of valuation techniques and observable inputs can vary by instrument and can be affected by a wide variety of factors, including the type, whether it is new and not yet established in the marketplace, and other characteristics particular to the instrument. To the extent valuations are based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market existed. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input significant to the fair value measurement. There have been no changes in valuation methodologies used at June 30, 2021 and 2020.

Investments in marketable securities, consisting of fixed income funds, balanced funds, and domestic equity funds, are valued based on quoted market prices and are typically classified within Level 1.

Where available, audited investment net asset values are used as a starting point to establish fair value. The College reviews such net asset values for possible adjustments to arrive at fair value. For the years ended June 30, 2021 and 2020, there were no adjustments made to net asset values provided by investment managers.

The commingled trusts are composed of individual annuity trusts, unitrusts, and funds held on Whitman's behalf by other entities. Whitman College is the trustee for the annuity trusts and unitrusts. Such trusts are allocated to a varying mix of publicly traded equity and fixed income securities and real estate investment trusts. These trusts are generally held in trust for the life or lives of the respective beneficiaries or for a set period of time. Funds held on Whitman's behalf by other entities are largely invested in publicly traded equity and fixed income securities, but some are also invested in farm real estate and private notes. Where applicable, market values of such trusts are recorded based on the College's pro-rata share of the trust. These funds are intended to be held in trust by these other entities in perpetuity.

(in thousands)

Note 8 – Fair Value of Assets and Liabilities (continued)

Investments that are valued utilizing unobservable inputs and commingled trusts, which are illiquid by nature of the trust, are classified within Level 3. The managers and trustees of such assets generally value their underlying investments at fair value and in accordance with fair value accounting. Investments with no readily available market are generally valued according to the estimated fair value, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, and/or the income approach. Consideration is also given to the financial condition and operating results of the investment, the amount a fund can reasonably expect to realize upon the sale of an investment, and any other factors deemed relevant. An investment can be carried at acquisition price (cost) if little has changed since the initial investment of the company and is most representative of fair value. Investments with a readily available market (listed on a securities exchange or traded in the over-the-counter market) are valued at quoted market prices or at an appropriate discount from such price if marketability of the securities is restricted.

The following tables show the College’s assets and liabilities, which are stated at fair value, and how they are classified within the valuation hierarchy.

As of June 30, 2021	**Level I**	**Level 2**	**Level 3**	**Total**
Investments				
Marketable securities	$ 112,053	$ -	$ -	$ 112,053
Commingled trusts	-	-	49,367	49,367
Alternative investments	-	-	42	42
	$ 112,053	$ -	$ 49,409	161,462
Investments measured at net asset value				
Equity (long only) funds				376,783
Alternative investments				359,241
				736,024
Total investments				$ 897,486
Interest rate exchange agreements	$ -	$ (12,684)	$ -	$ (12,684)

(in thousands)

Note 8 – Fair Value of Assets and Liabilities (continued)

As of June 30, 2020	Level I	Level 2	Level 3	Total
Investments				
Marketable securities	$ 89,392	$ -	$ -	$ 89,392
Commingled trusts	-	-	40,295	40,295
Alternative investments	-	-	42	42
	$ 89,392	$ -	$ 40,337	129,729
Investments measured at net asset value				
Equity (long only) funds				225,763
Alternative investments				274,496
				500,259
Total investments				$ 629,988
Interest rate exchange agreements	$ -	$ (16,887)	$ -	$ (16,887)

Marketable securities held at June 30, 2021 and 2020, are summarized as follows:

	2021	2020
Fixed income funds	$ 39,930	$ 40,442
Balanced funds	1,805	1,416
Domestic equity funds	70,318	47,534
Total	$ 112,053	$ 89,392

(in thousands)

Note 8 – Fair Value of Assets and Liabilities (continued)

Below additional information about Level 3 assets measured at fair value is presented. Both observable and unobservable inputs may be used to determine the fair value of positions the College has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category may include changes in fair value attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes to the investment manager's internal valuation models) inputs. Total gains and (losses) in the table below are shown in the Consolidated Statements of Activities. The College's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances causing the transfer.

	Commingled Trusts	Alternative Investments	Total
Level 3 beginning balance, July 1, 2020	$ 40,295	$ 42	$ 40,337
Investment return, net	11,505	4	11,509
Purchases	113	-	113
Sales	(2,546)	(4)	(2,550)
Level 3 ending balance, June 30, 2021	$ 49,367	$ 42	$ 49,409

	Commingled Trusts	Alternative Investments	Total
Level 3 beginning balance, July 1, 2019	$ 44,823	$ 42	$ 44,865
Investment return, net	(33)	4	(29)
Purchases	1,205	-	1,205
Sales	(5,700)	(4)	(5,704)
Level 3 ending balance, June 30, 2020	$ 40,295	$ 42	$ 40,337

"Investment return, net" is reflected in the consolidated statements of activities in both operating and nonoperating activities. Included in the Consolidated Statements of Activities for Level 3 assets on hand at June 30, 2021 and 2020, is a gain of $11,970 and a loss of $(565), respectively.

(in thousands)

Note 8 – Fair Value of Assets and Liabilities (continued)

The fair value, unfunded commitments, and redemption restrictions for investments reported at net asset value as of June 30, 2021, are as follows:

	Fair Value at June 30, 2021	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity (long only) funds (a)	$ 376,783	$ -	Daily-three years	10-90 days
Alternative investments (b)	$ 830	$ -	At least quarterly	30-65 days
	25,164	$ -	Beyond quarterly up to 3 years	45-90 days
	333,247	$ 128,819	Greater than 3 years	N/A
Total alternative investments	$ 359,241			

The unfunded commitments of $128,819 represent the College's commitment to make additional investments in 37 limited partnerships.

(a) Equity (long only) funds are commingled funds whose managers invest in publicly traded domestic and international securities. Some funds participating in securities lending programs may be invested in short-term investment vehicles collateralized by cash, US Treasury, and/or government agency issues. Investments are well diversified geographically, but managers may overweight investments in specific markets opportunistically.

(b) The managers of alternative investment funds use a variety of strategies and vehicles to benefit from perceived mispricings in investment markets or to manage risk within their portfolios. Underlying holdings include the following:

- Private securities are illiquid securities, most of which were donated to the College. A portion of these assets are held for their income generating capacity while others will be sold at the next available opportunity.

- Private equity limited partnerships invest in distressed, relative value, venture, buyout, and merger opportunities. Holdings are composed of private equity and debt. There are no redemption rights available for investors other than the liquidation of assets held by the fund, which will result in a distribution of capital to investors.

- Hedged equity fund managers invest in global long/short primarily publicly traded equities, but also have exposure in private equity, debt, and derivatives.

- Real asset fund limited partnerships are invested primarily in energy, commodities, and real estate sectors through real asset holdings, as well as public/private equity and debt instruments.

- Absolute return funds invest to achieve consistent positive returns regardless of the direction of financial markets through the use of arbitrage strategies, as well as investments in distressed securities, long/short equity, and private market transactions.

(in thousands)

Note 8 – Fair Value of Assets and Liabilities (continued)

Alternative investments are based on valuations provided by the external investment managers. The Investment Committee, in conjunction with the external investment advisors, monitors and analyzes the valuation of the investments other than commingled trusts on a quarterly basis. The valuations consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information.

Investment returns and classification according to purpose for the years ended June 30, 2021 and 2020, are summarized as follows:

	2021	2020
Investment return, net		
Interest and dividend income	$ 7,960	$ 5,232
Realized net gains	25,173	13,508
Unrealized net gain	310,955	35,650
Expenses	(46,158)	(17,502)
Total investment return, net	$ 297,930	$ 36,888
Investments according to purpose		
Donor-restricted endowment	$ 570,809	$ 395,719
Board-designated endowment	241,906	164,934
Total endowment investments	812,715	560,653
Other, trusts and reserves	84,771	69,335
Total investments	$ 897,486	$ 629,988

Note 9 – Financial Assets Liquidity

The College's financial assets comprised the following at June 30:

	2021	2020
Cash and cash equivalents	$ 36,529	$ 24,579
Accounts receivable, net	633	1,160
Student loans, net	1,022	1,353
Contributions and trusts receivable, net	25,165	27,948
Investments	897,486	629,988
Total financial assets	$ 960,835	$ 685,028

(in thousands)

Note 9 – Financial Assets Liquidity (continued)

Of those financial assets, the following could readily be made available within one year to meet the general expenses of the College at June 30:

	2021	2020
Cash and cash equivalents	$ 27,803	$ 19,739
Accounts receivable, net	658	1,125
Contributions and trusts receivable, net	632	917
Investments	31,326	36,385
Total financial assets available	$ 60,419	$ 58,166

The College monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the College considers all expenses related to and supporting its ongoing mission-related activities.

Student loans receivable are part of a federal program and are not available to meet general expenditures.

In addition to financial assets available to meet general expenses within one year, the following amounts are expected to be released from donor-restricted and board-designated financial assets over the next 12 months to meet expected future construction costs at June 30:

	2021	2020
Board-designated	$ 1,973	$ 2,099
Donor-restricted	1,200	1,450
	$ 3,173	$ 3,549

In addition to financial assets available to meet general expenditures over the next 12 months, the College operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

(in thousands)

Note 9 – Financial Assets Liquidity (continued)

The College's governing board has designated a portion of its resources without donor restrictions for endowment and other purposes. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the board. At June 30, 2021 and 2020, the following amounts were designated for specific purposes by the board:

	2021	2020
Enrollment reserve	$ 3,252	$ 2,331
Capital construction reserve	41,230	26,310
Board-designated endowment	241,906	164,934
	$ 286,388	$ 193,575

Note 10 – Net Assets

	2021	2020
Without donor restrictions		
Operations and reserves	$ 23,580	$ 20,060
Plant related	116,873	102,832
Board designated endowment	241,906	164,934
Trusts and other	6,088	8,712
Split-interest agreements	1,874	1,227
Total net assets without donor restrictions	$ 390,321	$ 297,765
With donor restrictions		
Operations and reserves	$ 20,554	$ 15,103
Plant related	1,207	505
Donor restricted endowment	570,809	395,719
Trusts and other	8,410	13,078
Split-interest agreements	16,437	13,183
Total net assets with donor restrictions	$ 617,417	$ 437,588

Total Net Assets Held in Perpetuity – The College's total net assets with donor restrictions consist of assets that are restricted to time or purpose, and assets held in perpetuity. Of the $617,417 and $437,588 total net assets with donor restrictions, total net assets held in perpetuity were $206,075 and $197,503 for the years ended June 30, 2021 and 2020, respectively.

Note 10 – Net Assets (continued)

Expendable Net Assets – The College's expendable assets are those available for operations. These consist mainly of net assets without donor restrictions and time or purpose restricted net assets, adjusted for net property, plant, and equipment; plant related debt; related-party receivable; post-employment liabilities; split-interest agreements; and annuities. The College had $16,437 and $13,183 of total split interest agreements and annuities reported as net assets with donor restrictions as of June 30, 2021 and 2020, respectively.

Endowment Net Assets – The College's endowment consists of approximately 999 individual funds established for a variety of purposes. These funds include donor-restricted endowment funds, funds designated by the Board of Trustees to function as endowment, and certain funds held in trust by others. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The College is subject to the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the state of Washington. The College's Board of Trustees 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. As a result of this interpretation, the College classifies as net assets with donor restrictions required to be held in perpetuity as (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument in force at the time the accumulation is added to the fund.

The remaining portion of a donor-restricted endowment fund that is not required to be held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors 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 College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

(in thousands)

Note 10 – Net Assets (continued)

Endowment net asset composition by type of fund and restriction are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
As of June 30, 2021			
Held for a specific period or purpose	$ -	$ 380,990	$ 380,990
Held in perpetuity	-	189,819	189,819
Board-designated	241,906	-	241,906
Total endowment net assets	$ 241,906	$ 570,809	$ 812,715

	Without Donor Restrictions	With Donor Restrictions	Total
As of June 30, 2020			
Held for a specific period or purpose	$ -	$ 209,934	$ 209,934
Held in perpetuity	-	185,785	185,785
Board-designated	164,934	-	164,934
Total endowment net assets	$ 164,934	$ 395,719	$ 560,653

Changes in endowment net assets:

	Without Donor Restrictions	With Donor Restrictions	June 30, 2021
Beginning balance	$ 164,934	$ 395,719	$ 560,653
Investment return, net	84,636	187,370	272,006
Contributions and other	27	4,094	4,121
Endowment payout	(10,271)	(16,374)	(26,645)
Transfers to endowment funds	2,580	-	2,580
Ending balance	$ 241,906	$ 570,809	$ 812,715

	Without Donor Restrictions	With Donor Restrictions	June 30, 2020
Beginning balance	$ 157,787	$ 381,611	$ 539,398
Investment return, net	11,694	23,772	35,466
Contributions and other	4	5,903	5,907
Endowment payout	(9,903)	(15,567)	(25,470)
Transfers to endowment funds	5,352	-	5,352
Ending balance	$ 164,934	$ 395,719	$ 560,653

(in thousands)

Note 10 – Net Assets (continued)

As shown above, investment return, net, without donor restrictions was $84,636 less the endowment payout of $10,271, for a total endowment return, net of appropriations for operations, of $74,365 for the year ended June 30, 2021.

Return objectives and risk parameters – The College has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by their endowments and maintain the purchasing power of the endowment assets. The investment policy, as approved by the Board of Trustees, provides general investment guidelines as follows:

	Target	Acceptable Ranges
Fixed income and cash	5.0%	0.0%–15.0%
Developed equity	40.0%	30.0%–50.0%
Private capital	35.0%	25.0%–45.0%
Emerging markets	20.0%	15.0%–25.0%
	100%	

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. Actual returns in any given year are expected to vary from the payout rate.

Performance of the College's investments is reviewed by the College’s Investment Committee and reported to the College’s Board of Trustees on at least a quarterly basis.

Spending Policy – The Board of Trustees authorizes the annual endowment support to operations. The spending rate will be periodically reviewed by the College Investment Committee to reassess anticipated future rates of inflation and the total return on investments. Typically, at least one year’s earnings will be accumulated in a new endowment before expenditures begin. Endowment support to operations in the Consolidated Statements of Activities is based on a percentage of the average values for a 12-quarter period lagging one full year. Such percentage for June 30, 2021 and 2020, was 5%. To this amount is added a six-year average of the net income from the College’s farms. Deficiencies, should they occur, could be due to the result of unfavorable market fluctuations, or the Board of Trustees’ policy, which allows them to continue appropriations from funds with deficiencies. There were no endowment fund deficiencies for the years ended June 30, 2021 or 2020.

Unconsolidated Net Assets – Whitman’s net assets without donor restrictions at June 30, 2021, belong to the two consolidated entities as follows:

21st Century Trust	$ 1
The Board of Trustees of Whitman College	$ 390,320

Note 11 – Commitments and Contingencies

The College has adopted a self-insured health program, which provides for the payment or reimbursement of all or a portion of eligible medical, prescription drug, vision, and dental expenses. The College is self-insured up to the first $100 for each occurrence and has aggregate loss insurance to cover all medical costs in excess of 120% of expected costs. The accompanying consolidated financial statements include an additional liability, in excess of the health insurance terminal obligation, of $3,118 and $2,768 (included in accrued compensation and benefits on the Consolidated Statements of Financial Position) at June 30, 2021 and 2020, respectively. The overall liability is based upon management's review and an independent third-party claims administrator for claims incurred but not reported at year-end. The College maintains a separate cash account, as reserves, to meet these estimated claims.

The College has a $6,500 unsecured line of credit, which matured May 31, 2021 and was subsequently renewed with a maturity of December 31, 2022. Interest is based on the New York Prime Rate (3.25% at June 30, 2021) plus 1.50%. There was no balance outstanding at June 30, 2021 and 2020.

The College is subject to legal proceedings arising in the normal course of its various activities. The eventuality of legal action, or further, the liability from any such potential action, is subject to a great degree of uncertainty. Management currently believes the resolution of all such matters would not have a material effect on these consolidated financial statements.

Note 12 – Other Income, Net

Other income on the Consolidated Statements of Activities is presented in both the operating and nonoperating sections. This other income consists primarily of College bookstore revenues and net revenues from rental properties and farming activities. Such income in the operating section is primarily revenues from the College bookstore. The expenses related to the bookstore are shown in auxiliary expenses. Such income in the nonoperating section includes all of the College's farming and most of its rental property activity. The College's total other income related to farm and rental property activities is shown net of expenses. Those expenses total $1,131 and $1,135 for the years ended June 30, 2021 and 2020, respectively. For June 30, 2021 and 2020, the College did not have any future commitments to provide grain, on forward contracts.

(in thousands)

Note 13 – Analysis of Expense by Function and Natural Categories

	June 30, 2021					
	Instruction	Academic Support	Student Services	Institutional Support	Auxiliary Operations	Total
Personnel	$ 24,566	$ 5,227	$ 6,801	$ 9,038	$ 2,546	$ 48,178
Services and supplies	1,101	3,152	2,375	4,604	3,371	14,603
Communications	24	14	335	738	82	1,193
Travel	22	57	402	222	32	735
Utilities	293	226	192	49	916	1,676
Interest	682	525	446	157	813	2,623
Depreciation and amortization	2,152	1,655	1,407	497	2,566	8,277
Total expense	$ 28,840	$ 10,856	$ 11,958	$ 15,305	$ 10,326	$ 77,285
Fund-raising costs (included in the institutional support function)				$ 3,103		

	June 30, 2020					
	Instruction	Academic Support	Student Services	Institutional Support	Auxiliary Operations	Total
Personnel	$ 27,061	$ 6,044	$ 8,582	$ 9,370	$ 3,001	$ 54,058
Services and supplies	3,082	3,580	3,002	3,275	7,078	20,017
Communications	69	36	320	1,099	74	1,598
Travel	177	801	1,445	612	86	3,121
Utilities	314	241	205	52	1,033	1,845
Interest	690	531	451	159	823	2,654
Depreciation and amortization	2,121	1,632	1,387	489	2,529	8,158
Total expense	$ 33,514	$ 12,865	$ 15,392	$ 15,056	$ 14,624	$ 91,451
Fund-raising costs (included in the institutional support function)				$ 3,748		

Note 14 – Net Assets Released from Restrictions

	2021	2020
Institutional financial aid	$ 10,158	$ 9,061
Functional expenses, primarily instruction and academic support	5,054	11,443
Total release for operations	15,212	20,504
Matured life contracts	344	609
Other	6,396	1,599
	6,740	2,208
Total release	$ 21,952	$ 22,712

Note 15 – Subsequent Events

Management has evaluated subsequent events for the period after June 30, 2021, through November 5, 2021, the date the consolidated financial statements were available to be issued. The following significant event has been noted:

The College is in the process of potentially refinancing its 2004 and 2008 bonds through the Washington Higher Education Facilities Authority (WHEFA). These variable rate bond issues and their interest rate exchange agreements are intended to be refinanced through a fixed rate bond issue with an expected date of November 30, 2021. This refinance would protect the College from the risk of rising costs of variable rate bonds, eliminate the debt covenants, and eliminate interest rate exchange agreements that have negative values in the College's Consolidated Statements of Financial Position. In addition, this will alleviate significant administrative time and costs to the College.

Note 16 – Risks and Uncertainties

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, their customers, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, including the College's operations.

The College transitioned its students to online learning and almost all of its employees to remote work in mid-March of 2020. The College consulted with Walla Walla Community Health officials to develop plans to bring employees back to on-campus work and students back to in-person instruction. Restrictions on the student housing have had the most significant impact to revenues. The College refunded $1,267 of student room and board after March 13, 2020, when the College ceased on-campus instruction. Students continued to meet their academic requirements for the remainder of the 2019–2020 academic year virtually.

As part of the Coronavirus Aid, Relief, and Economic Securities ("CARES") Act 2020, the Coronavirus Response and Relief Supplemental Appropriations Act 2021 ("CRRSSA") and the American Rescue Plan Act 2021 ("ARPA") passed by Congress and signed into law, the College was awarded $3.9 million total in Higher Education Emergency Relief Funds. Fifty percent of the emergency funds received by institutions must go directly to students in the form of emergency financial aid grants to cover expenses related to the disruption of campus operations due to COVID-19; the College distributed $837 directly to students to date with another $938 to be distributed. The Act allowed Institutions to use the remaining emergency funds to cover costs associated with significant changes to the delivery of instruction due to COVID-19; the College used the remaining $2,138 to help offset room and board refunds to students, equipment needed to provide virtual instruction, and implementation of campus safety and protocols.

Note 16 – Risks and Uncertainties (continued)

For the 2020–2021 academic year, instruction was completely virtual in the fall, with optional hybrid of in-person and virtual or completely virtual instruction offered for students in the spring. As of June 30, 2021, while uncertainty over the progression of the virus and governmental emergency directive remains, regular in-person instruction and campus operations for all students and employees have resumed as of the start of the 2021–2022 academic year with precautions in place.

The College Administration has been closely monitoring the impact of COVID-19 on the College's operations, including the impact on its students and employees. The duration and intensity of the pandemic is uncertain but may influence student enrollment and housing decisions, donor decisions, investment performance, and may also negatively impact collections of College receivables. The College will take appropriate steps as necessary to minimize the financial impact.

MOSSADAMS

Report of Independent Auditors

To the Board of Trustees
Whitman College

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Whitman College, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, and cash flows for the years 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Whitman College as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Letter from the Chief Financial Officer and Controller and Consolidated Financial Statement Certification are also presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report November 5, 2021, on our consideration of Whitman College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Whitman College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Whitman College's internal control over financial reporting and compliance.

Moss Adams LLP

Yakima, Washington
November 5, 2021

We, the undersigned, certify that:

1. We have reviewed the consolidated financial statements of Whitman College (the College) for the years ended June 30, 2021 and 2020.

2. Based on our knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary for the consolidated financial statements not to be misleading to the reader.

3. Based on our knowledge, the consolidated financial statements fairly present, in all material respects, the financial condition, results of operations, and cash flows of the College as of, and for, the periods presented in this annual report.

4. The undersigned are responsible for establishing and maintaining controls and procedures designed to ensure that the consolidated financial statements of the College are materially correct and in conformity with accounting principles generally accepted in the United States of America. To that end we have:

   a. designed such controls and procedures, or caused such controls and procedures, to be designed under our direction to ensure that material information relating to the College is made known to us by others, particularly during the period in which this annual report is being prepared: and

   b. evaluated the effectiveness of the College's controls and procedures as of the end of the period covered by this report.

5. The undersigned have disclosed, based on our most recent evaluation of internal control over financial reporting, to the College's auditors and the College's Audit Committee of the Board of Trustees of Whitman College:

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect, adversely, the College's ability to record, process, summarize, and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the College's internal control over financial reporting.

Kathleen M. Murray

Kathleen M. Murray, President

Peter W. Harvey

Peter W. Harvey, Chief Financial Officer

Darlene Wilson

Darlene R. Wilson, CPA, Controller

November 5, 2021

Date

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Whitman College

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Whitman College which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Whitman College's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Whitman College's internal control. Accordingly, we do not express an opinion on the effectiveness of Whitman College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Whitman College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Yakima, Washington
November 5, 2021

Section 498(c)(1) of the Higher Education Act authorizes the secretary of the U.S. Department of Education ("ED") to establish ratios and other criteria for determining whether an institution has sufficient financial responsibility.

On September 23, 2019, Section 668.172 of the current regulation was revised. The September 23 regulation clarified the inputs needed to correctly calculate an institution's composite score and also requires the timely notification (within 10 days) and recalculation of the composite score if certain triggering events occur. These triggering events stem from:

- Major: Final federal or state administrative action or proceedings
- Discretionary (any 2):
  - Accrediting agency action
  - Violation of loan agreements
  - Licensing violations
  - High annual dropout rates
  - Cohort default rates > 30%

For the year ended June 30, 2021, Whitman College did not experience any triggering events.

Section 668.172 also established a methodology based on three ratios—primary reserve, equity, and net income—that measure different aspects of financial health and are combined into a composite score to measure financial responsibility. Several mathematical steps are required to combine an institution's ratio results into a composite score:

- Determine the value of each ratio;
- Calculate a strength factor score for each ratio using the appropriate algorithm;
- Calculate a weighted score for each ratio by multiplying the strength factor score by its corresponding weighted percentage; and
- Add the weighted scores to arrive at the composite score.

Institutions receiving a composite score of 1.5 or greater are considered financially responsible. An institution that fails the financial responsibility standards may continue to participate in Title IV programs under provisional certifications for three years. To continue to participate in Title IV programs under provisional certification, an institution will be required to provide surety to the ED of 10 percent or more of its previous year's Title IV funding, as determined by the ED.

(in thousands)

The following are the results of the College's composite score calculations:

Primary Reserve Ratio Calculation	Reference		As of and for the Year Ended June 30, 2021	
Net assets with donor restrictions	SOFP	+	$ 617,417	
Net assets without donor restrictions	SOFP	+	390,321	
Total net assets			1,007,738	
Less:				
Net assets held in perpetuity	Note 10		(206,075)	
Annuities, term endowments & life income funds with donor restrictions	Note 10	-	(16,437)	
Intangible assets	n/a	-	-	
Property, plant, and equipment (PPE)	SOFP	-	(168,608)	
Right-of-use assets	n/a		-	
Unsecured related-party receivables	Note 2	-	(9,769)	
Add:				
All long term debt and operating lease liabilities (not to exceed total PPE)	Note 7	+	67,815	
Post-employment and defined pension liabilities	Note 5	+	6,239	
Total expendable net assets				$ 680,903
Total operating expenses	SOA		77,285	
Add:				
Unrealized and realized losses on split-interest agreements	SOA		67	
Net loss on interest rate exchange agreements	n/a		-	
Losses on sale of property, plant, and equipment	n/a		-	
Total expenses without donor restrictions and losses without donor restrictions				$ 77,352
Primary reserve ratio				**8.803**

(in thousands)

Equity Ratio Calculation	Reference		As of and for the Year Ended June 30, 2021	
Net assets with and without donor restrictions	SOFP	+	$ 1,007,738	
Less:				
Intangible assets	n/a	-	-	
Unsecured related-party receivables	Note 2	-	(9,769)	
Modified net assets				$ 997,969
Total assets	SOFP	+	$ 1,131,586	
Less:				
Unsecured related-party receivables	Note 2	-	(9,769)	
Intangible assets	n/a	-	-	
Modified assets				$ 1,121,817
Equity ratio				**0.890**

Net Income Ratio Calculation	Reference	As of and for the Year Ended June 30, 2021	
Change in net assets without donor restrictions	SOA		$ 92,556
Total operating revenues, gains, and other support without donor restrictions	SOA	$ 74,343	
Add:			
Gains (losses) on other investments	SOA	92,652	
Non-operating gifts released from restrictions	SOA	6,740	
Non-operating gifts	SOA	519	
Change in split-interest agreements	n/a	-	
Other income, net	SOA	1,722	
Net gain on interest rate exchange agreements	SOA	4,203	
Gain on disposal of property, plant, and equipment	n/a	-	
Less:			
Endowment appropriations for operations	Note 10	(10,271)	
Total non-operating revenues, gains, and other support without donor restrictions			$ 169,908
Net income ratio			**0.545**

(in thousands)

Step 1: Calculate the strength factor score for each ratio by using the following algorithms:

Primary Reserve strength factor score = 10 x the primary reserve ratio result
Equity strength factor score = 6 x the equity ratio result
Negative net income ratio result: Net Income strength factor = 1 + (25 x net income ratio result)
Positive net income ratio result: Net income strength factor = 1 + (50 x net income ratio result)
Zero result for net income ratio: Net income strength factor = 1

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for the ratio is 3.

If the strength factor score for any ratio is less than or equal to -1, the strength factor score for the ratio is -1.

Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores

Primary Reserve weighted score = 40% x the primary reserve strength factor score
Equity weighted score = 40% x the equity strength factor score
Net Income weighted score = 20% x the net income strength factor score
Composite Score = the sum of all weighted scores
Round the composite score to one digit after the decimal point to determine the final score

	As of and for the Year Ended June 30, 2021			
RATIO	**Ratio**	**Strength Factor**	**Weight**	**Composite Scores**
Primary Reserve Ratio	8.80	3.00	40%	1.20
Equity Ratio	0.89	3.00	40%	1.20
Net Income Ratio	0.54	3.00	20%	0.60
Composite Score				3.00