NEW ISSUE **RATING:** Moody's "A1" S&P "A+"
BOOK-ENTRY ONLY (See "RATINGS")

In the opinion of Pacifica Law Group LLP, Bond Counsel, assuming compliance with certain covenants of the Authority and the University, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

$34,805,000
WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
Revenue and Refunding Revenue Bonds
(The University of Puget Sound Project), Series 2012A

Dated: Date of Delivery **Maturity: October 1, as shown on inside cover**

The Washington Higher Education Facilities Authority (the "Authority"), a public body corporate and politic and an agency of the State of Washington (the "State"), is issuing its Revenue and Refunding Revenue Bonds (The University of Puget Sound Project), Series 2012A (the "Bonds"), pursuant to an Indenture of Trust dated as of October 1, 2012 (the "Indenture"), between the Authority and U.S. Bank National Association (the "Trustee"). The Bonds are being issued only as fully registered bonds in Authorized Denominations of $5,000 or any integral multiple thereof within a single maturity, initially in book-entry only form registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive certificates representing their interests in the Bonds, except as described herein. For as long as the Bonds are held in book-entry only form by DTC, the principal of and premium, if any, and interest on the Bonds will be paid by the Trustee to DTC, which is obligated to make payments to its Participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. DTC acts as agent solely for its Participants and not for the beneficial owners of the Bonds or the Authority.

The Authority will lend the proceeds of the Bonds to

THE UNIVERSITY OF PUGET SOUND

(the "University") pursuant to a Loan Agreement dated as of October 1, 2012 (the "Loan Agreement"), among the Authority, the University and the Trustee for the purposes of (1) financing the construction and improvement of facilities located on the University's campus, (2) refunding on a current basis the Authority's outstanding Variable Rate Demand Refunding Revenue Bonds (The University of Puget Sound Project), Series 2006A, (3) capitalizing interest on the Bonds, and (4) paying the costs of issuing the Bonds (collectively, the "Project").

The Bonds will accrue interest from their dated date, payable semiannually on each April 1 and October 1, commencing April 1, 2013, to their respective dates of maturity or earlier redemption.

The Bonds are subject to acceleration of maturity and optional, extraordinary mandatory and mandatory sinking fund redemption prior to maturity at the redemption prices and under the circumstances described herein.

As security for the Bonds, the Authority has conveyed to the Trustee the Trust Estate, which includes the special funds established by the Indenture and the Authority's rights to receive loan payments from the University pursuant to the Loan Agreement. The obligations of the University under the Loan Agreement constitute a full-recourse obligation of the University to which the Pledged Revenues (as described herein) are pledged. Subject to the provisions of an intercreditor agreement, the Pledged Revenues also secure existing obligations of the University, and the University has reserved the right to incur additional debt and encumber the Pledged Revenues, all as described herein.

The Bonds are not and never shall become general obligations of the Authority, but are special, limited obligations payable by the Authority solely from the Revenues and the other security pledged in the Indenture for such purpose. The Bonds and the interest thereon do not and never shall constitute a debt or an indebtedness or an obligation of the Authority, the State of Washington, or any county, city or other municipal or political corporation or subdivision of the State of Washington, or a loan of the faith or credit or the taxing power of any of them, within the meaning of any constitutional or statutory provisions, nor shall the Bonds be construed to create any moral obligation on the part of the Authority, the State of Washington, or any county, city or other municipal or political corporation or subdivision of the State with respect to the payment of the Bonds. The Bonds shall not be payable from the general revenues of the Authority, and neither the Authority nor the State nor any political corporation, subdivision or agency thereof will be liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those specifically pledged therefor. The Authority has no taxing power.

The Bonds have *not* been designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3)(B) of the Code.

This cover page contains certain information for quick reference only and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, as to the validity of the Bonds, the exclusion of interest on the Bonds from gross income for federal income tax purposes and the approval of certain other matters for the Authority. Certain legal matters will be passed upon for the University by its counsel, Davis Wright Tremaine LLP, Seattle, Washington, and for the Underwriter by its counsel, Foster Pepper PLLC, Seattle, Washington. It is expected that the Bonds will be available for delivery in New York, New York, through the facilities of DTC, or to the Trustee on behalf of DTC by Fast Automated Securities Transfer (FAST), on or about October 1, 2012.

George K. Baum & Company

Dated September 12, 2012

$34,805,000
WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
Revenue and Refunding Revenue Bonds
(The University of Puget Sound Project), Series 2012A

Maturity Dates, Principal Amounts, Interest Rates, Yields, Prices and CUSIP Numbers

Due October 1	Principal Amount	Interest Rate	Yield	Price	CUSIP No.+
2018	$410,000	4.000%	1.660%	113.310%	939781P38
2019	425,000	4.000	2.000	113.003	939781P46
2020	450,000	5.000	2.210	120.355	939781P53
2021	480,000	5.000	2.470	120.304	939781P61
2022	510,000	5.000	2.640	120.623	939781P79
2023	535,000	5.000	2.770	119.361C	939781P87
2024	570,000	5.000	2.860	118.497C	939781P95
2025	610,000	5.000	2.940	117.736C	939781Q29
2026	640,000	3.000	3.250	97.205	939781Q37
2027*	545,000	3.125	3.310	97.826	939781Q86
2027*	115,000	5.000	3.050	116.698C	939781Q45
2028	685,000	3.250	3.390	98.282	939781Q94
2029	715,000	3.250	3.450	97.443	939781R28
2030	745,000	3.375	3.510	98.209	939781R36
2031	370,000	3.500	3.600	98.632	939781R44
2032	390,000	3.500	3.640	98.023	939781Q52

$5,560,000 Term Bonds due October 1, 2037
Interest Rate: 5.000% - Yield 3.630% - Price: 111.403%C- CUSIP No.+: 939781Q60

$21,050,000 Term Bonds due October 1, 2042
Interest Rate: 5.000% - Yield 3.690% - Price: 110.872%C- CUSIP No.+: 939781Q78

C Priced to call at par on the first optional redemption date of October 1, 2022.

* Bifurcated maturity.

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

1000 Second Avenue
Seattle, Washington 98104
(206) 464-7139

No dealer, broker, salesperson or other person has been authorized by the Authority, the University or the Underwriter to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any offer, solicitation or sale of the Bonds by any person in any jurisdiction in which such offer, solicitation or sale is not authorized or in which the person making such offer, solicitation or sale is not qualified to do so or to any person to whom it is unlawful to make such offer, solicitation or sale.

The information set forth herein has been obtained from the Authority, the University, DTC and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority, except with respect to the information under "INTRODUCTION – The Authority," "THE AUTHORITY" and "MATERIAL LITIGATION – The Authority," or the Underwriter. The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information set forth in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the University or any other parties described herein since the date as of which such information is presented.

Information on web site addresses set forth in this Official Statement is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor can any such information be relied upon in making investment decisions regarding the Bonds.

Statements in this Official Statement that are not historical information are forward-looking statements within the meaning of the federal securities laws. These forward-looking statements include the discussions of the University's expectations regarding the operation of the University and other matters. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. Although the University believes that its expectations regarding future events are based on reasonable assumptions within the scope of its knowledge, the University can give no assurance that its goals will be achieved or that its expectations regarding future developments will be realized. The forward-looking statements in this Official Statement—including those set forth in Appendix A—are subject to risks and uncertainties that could cause the actual results to differ materially from those expressed or implied by these statements.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

In connection with the offering of the Bonds, the Underwriter may over allot or effect transactions that stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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OFFICIAL STATEMENT

$34,805,000
WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
Revenue and Refunding Revenue Bonds
(The University of Puget Sound Project), Series 2012A

INTRODUCTION

The purpose of this Official Statement, including the cover page and the attached appendices, is to set forth certain information in connection with the sale by the Washington Higher Education Facilities Authority (the "Authority") of its Revenue and Refunding Revenue Bonds (The University of Puget Sound Project), Series 2012A, in the aggregate principal amount of $34,805,000 (the "Bonds").

Purpose

The Bonds are being issued under an Indenture of Trust (the "Indenture") dated as of October 1, 2012, between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), to make a loan (the "Loan") pursuant to a Loan Agreement (the "Loan Agreement") dated as of October 1, 2012, among the Authority, The University of Puget Sound, a Washington nonprofit corporation (the "University"), and the Trustee, the proceeds of which will be used (1) to finance the construction and improvement of facilities located on the University's campus (the "New Facilities"), (2) to refund on a current basis the Authority's outstanding Variable Rate Demand Refunding Revenue Bonds (The University of Puget Sound Project), Series 2006A (the "2006A Bonds" or the "Refunded Bonds"), which were issued to finance and refinance facilities on the University's campus located in Tacoma, Washington, (3) to capitalize interest on the Bonds, and (4) to pay the costs of issuing the Bonds (collectively, the "Project"). See "ESTIMATED SOURCES AND USES OF FUNDS."

The Authority

The Authority is a public body corporate and politic and an agency of the State of Washington (the "State"). The Authority is authorized to issue nonrecourse revenue bonds in order to make funds available to private, nonprofit higher education institutions in the State for the purpose of financing and refinancing the building, improvement, expansion and modernization of higher education facilities. See "THE AUTHORITY."

The University

Founded in 1888 in Tacoma, Washington, the University is an independent, residential, undergraduate liberal arts college, with select graduate programs designed to build effectively on a liberal arts foundation. As a community devoted to learning, the University maintains a strong commitment to teaching excellence, scholarly engagement, and meaningful 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. An education from the University, 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.

The University's highly qualified faculty delivers a rigorous program in the liberal arts and sciences, serving approximately 2,500 undergraduate student full time equivalents ("FTEs") pursuing more than 50 traditional and interdisciplinary areas of study and approximately 200 student FTEs enrolled in graduate programs in education, occupational therapy and physical therapy. The University draws students from 49 states and 13 countries; approximately 77 percent of the fall 2012 first-year class will come from outside Washington State. The majority of students are in the top 25 percent of their high school class, with average SAT scores for critical reading and math estimated to be 1269 for freshmen entering the University's fall 2012 class.

The University receives support from alumni, friends and other friends of the University, including foundations such as Mellon, Luce, Arthur Vining Davis, Rockefeller Brothers, Starr, Gates and the Murdock Trust. The University has a Phi Beta Kappa chapter, is classified as a Liberal Arts I college by the Carnegie Foundation for the Advancement of Teaching, and is a leading small college for Watson Foundation fellowships, Fulbright scholarships, and Peace Cops service.

See Appendix A – "SELECTED INFORMATION CONCERNING THE UNIVERSITY" and Appendix B – "AUDITED FINANCIAL STATEMENTS OF THE UNIVERSITY FOR THE YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010."

Security and Sources for Payment

The Bonds are special, limited obligations of the Authority, and are payable from and secured by a pledge of and lien on all Revenues, subject to disbursement and application in accordance with the Indenture. The Authority has conveyed to the Trustee as security for the Bonds the Trust Estate, including the special funds established by the Indenture and the Authority's rights to receive loan payments from the University pursuant to the Loan Agreement. The obligations of the University under the Loan Agreement constitute a full-recourse obligation of the University to which the Pledged Revenues (as described herein) are pledged. Subject to the provisions of an Intercreditor Agreement (defined below), the Pledged Revenues also secure certain existing obligations of the University, and the University has reserved the right to incur additional debt and encumber the Pledged Revenues, all as further described herein. See "SECURITY FOR THE BONDS."

The University's obligations under the Loan Agreement are evidenced by a promissory note (the "Note"). Under the Note and the Loan Agreement, the University is required to deliver to the Trustee, on or before the fifth Business Day immediately before each Interest Payment Date, an amount equal to the principal, mandatory sinking fund payments and interest, if any, becoming due on the Bonds on such Interest Payment Date, until such time as the principal of and interest on the Bonds is paid in full. The Trustee is required to deposit such funds in the Debt Service Fund, and to use such funds to pay debt service on the Bonds. See Appendix C – "CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – The Loan Agreement – Loan; Payments" and "– The Indenture – Establishment of Funds and Accounts."

In connection with the issuance of the Bonds and the 2012B Bonds (as hereinafter defined), U.S. Bank National Association, in its capacity as successor trustee under the Indenture of Trust pertaining to the 1998 Bonds (as hereinafter defined), U.S. Bank National Association, in its capacity as successor trustee under the Indenture of Trust pertaining to the 2001 Bonds (as hereinafter defined), trustee under the Indenture of Trust pertaining to the 2012B Bonds, the Trustee, the Collateral Agent and any other secured creditors named therein, will enter into a Second Amended and Restated Intercreditor Agreement dated as of October 1, 2012 (the "Intercreditor Agreement"). Pursuant to the Intercreditor Agreement, the pledge of the Pledged Revenues with respect to the University's obligations under the Loan Agreement is on parity with the pledge of the Pledged Revenues that secures the repayment of 1998 Bonds and 2001 Bonds and will secure the repayment of the 2012B Bonds, if issued. If the 2012B Bonds are not issued, as described in "PLAN OF FINANCE – The 2012B Bonds," the 2006B Bonds (as hereinafter defined) will remain outstanding and repayment thereof will continue to be secured by the Pledged Revenues. The Intercreditor Agreement contemplates that additional secured parties may become parties to such agreement and that additional indebtedness may, in the future, be secured by interests in the Pledged Revenues on parity with the Bonds. All parties to the Intercreditor Agreement will share in the Pledged Revenues on a pooled basis on the terms and conditions described in the Intercreditor Agreement. See "SECURITY FOR THE BONDS – Existing Obligations" and "– Intercreditor Agreement."

The Bonds are not and never shall become general obligations of the Authority but are special, limited obligations payable by the Authority solely and only from the Revenues and the other security pledged in the Indenture for such purpose. The Bonds and the interest thereon do not and never shall constitute a debt or an indebtedness or an obligation of the Authority, the State, or any county, city or other municipal or political corporation or subdivision of the State, or a loan of the faith or credit or the taxing power of any of them, within the meaning of any constitutional or statutory provisions, nor shall the Bonds be construed to create any moral obligation on the part of the Authority, the State, or any county, city or other municipal or political corporation or subdivision of the State with respect to the payment of the Bonds. The Bonds shall not be payable from the general revenues of the Authority, and neither the Authority nor the State nor any political corporation, subdivision or agency thereof will be liable thereon, nor in any event shall

the Bonds be payable out of any funds or properties other than those specifically pledged therefor. The Authority has no taxing power.

Additional Information

Included in this Official Statement is information concerning the Authority, the University, the sources of payment for the Bonds and the expected uses of proceeds of the Bonds, together with summaries of the terms of the Bonds and certain provisions of the Indenture, the Loan Agreement and certain documents related thereto. All references herein to agreements or documents are qualified in their entirety by the definitive forms thereof, copies of which are available for inspection at the corporate trust office of the Trustee at 1420 Fifth Avenue, 7th Floor, Seattle, Washington 98101, Attention: Corporate Trust Services.

THE BONDS

General

The Bonds will be dated as of their date of initial delivery, will be issued in denominations of $5,000 or any integral multiple thereof within a single maturity (each an "Authorized Denomination"), and will bear interest from their dated date (or the most recent date to which interest has been paid thereon) until the Bonds mature or are duly called for redemption prior to maturity. Interest on the Bonds will be payable semiannually on each April 1 and October 1, commencing April 1, 2013 (each, an "Interest Payment Date"). Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will bear interest at the rates, and will mature on the dates and in the amounts set forth on the inside front cover of this Official Statement.

Payments on the Bonds

The Bonds initially will be held in fully immobilized form by The Depository Trust Company ("DTC"), acting as depository pursuant to the terms and conditions set forth in the Letter of Representations between the Authority and DTC. For so long as the Bonds are registered in the name of Cede & Co., or its registered assigns, as nominee of DTC, payment of principal of, premium, if any, and interest on the Bonds will be made at the place and in the manner provided in the Letter of Representations. DTC is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds. See "THE BONDS – Book-Entry Only System" and Appendix F – "BOOK-ENTRY SYSTEM."

If the Bonds are no longer held in fully immobilized form, the principal of, premium, if any, and interest on each Bond will be payable upon the presentation and surrender of such Bond, when due, at the Principal Office of the Bond Registrar. Payment of interest on each Bond will be made to the Registered Owner thereof as specified on the records of the Bond Registrar on the Record Date with respect to such Interest Payment Date irrespective of the cancellation of such Bond upon any transfer or exchange thereof subsequent to such Record Date and prior to such Interest Payment Date, unless the Authority shall default in the payment of interest due on such Interest Payment Date. Each interest payment of each Bond will be paid (a) by check or draft mailed first-class mail to such Registered Owner on the Interest Payment Date at his address as it appears on the Bond Register on the Record Date or, (b) by wire transfer to an account designated in writing by such Registered Owner prior to the Record Date with an acknowledgement that the then-applicable wire fee of the Trustee will be deducted from the wire, or (c) by Automatic Clearinghouse Transfers at no cost to the Registered Owner in next day funds if such Registered Owner shall have requested in writing a payment by such method and shall have provided the Bond Registrar with an account number in a bank within the United States and other necessary information for such purposes prior to the Record Date. In the event of any default in the payment of interest, such defaulted interest will be payable to the Registered Owner of such Bond on a Special Record Date for the payment of such defaulted interest established by notice mailed by or on behalf of the Authority to Registered Owners.

Redemption Provisions

Optional Redemption. The Bonds maturing on or before October 1, 2022, are not subject to optional redemption prior to their maturity. The Bonds maturing on or after October 1, 2023, are subject to redemption on any day on or after October 1, 2022, at the option and direction of the University, in whole or in part, at a price of par plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The Bonds scheduled to mature in the years 2037 and 2042, are subject to mandatory sinking fund redemption at a price of par plus accrued interest to the date of redemption on October 1 in the years and amounts as follows:

Bonds Scheduled to Mature on October 1, 2037

Years	Principal Amounts
2033	$420,000
2034	465,000
2035	510,000
2036	550,000
2037[1]	3,615,000

[1] Stated Maturity.

Bonds Scheduled to Mature on October 1, 2042

Years	Principal Amounts
2038	$3,800,000
2039	3,995,000
2040	4,200,000
2041	4,415,000
2042[1]	4,640,000

[1] Stated Maturity.

In the event that Bonds scheduled to mature in the years 2037 and 2042 have been redeemed other than by mandatory sinking fund payments, the mandatory sinking fund redemptions will be reduced proportionately with any remaining amounts in Authorized Denominations.

Extraordinary Mandatory Redemption.

The Bonds are subject to extraordinary mandatory redemption prior to maturity in whole or in part, on September 1, 2015, unless such date is extended in accordance with the Loan Agreement, in an amount equal to the Loan proceeds (plus any interest earnings thereon) remaining in the Project Account at the close of business on August 15, 2015 (or the fifteenth day of the second month preceding the month in which any extension of such date set for redemption ends).

The Bonds are subject to redemption in whole or in part as soon as practicable following receipt by the Trustee of a written notice from the Authority, the University or Bond Counsel of a Determination of Taxability, or in order to prevent a Determination of Taxability (in the amount determined by Bond Counsel to be necessary to preserve the tax-exemption of interest on Bonds which will remain Outstanding thereafter, if any).

Notice of Redemption. For so long as the Bonds are held in book-entry form by DTC, its successor or any substitute depository appointed by the Authority, as applicable, notices of redemption will be given by the Trustee solely in accordance with the Letter of Representations. See "THE BONDS – Book-Entry System" and Appendix F – "BOOK-ENTRY SYSTEM." Notices of optional redemption may be given on a conditional basis if redemption is subject to receipt of proceeds of refunding bonds or other funds whose receipt cannot be confirmed prior to the giving of such notice.

If the Bonds are no longer held in fully immobilized form by DTC, the Trustee is required to give notice of redemption by first-class mail, postage prepaid, not less than 20 days and not more than 60 days prior to the date fixed for redemption, to the Authority and the Registered Owner of each Bond to be redeemed at the address of such Registered Owner as shown on the Bond Register. Neither the failure of a Bondowner to receive notice by mail, nor any defect in such notice, will affect the validity of the proceedings for redemption.

Effect of Redemption. Once a notice of redemption has been given, the Bonds or portions thereof designated for redemption will become due and payable on the date fixed for redemption and, unless the Authority defaults in the payment of the principal of or interest on such Bonds, or the redemption was conditioned upon receipt of funds which were not received or the issuance of refunding bonds which were not issued, such Bonds or portions thereof will cease to bear interest from and after the date fixed for redemption whether or not such Bonds are presented and surrendered for payment on such date. If any Bond or portion thereof called for redemption is not paid upon presentation and surrender thereof for redemption, such Bond or portion thereof will continue to bear interest at the rate set forth thereon until paid or until due provision is made for payment.

Partial Redemption. All or a portion of any Bond may be redeemed, but only in a principal amount equal to an Authorized Denomination. Within each maturity, the particular Bonds to be redeemed shall be selected randomly in accordance with DTC procedures then in effect. Upon surrender of any Bond for redemption in part, the Authority shall execute and the Bond Registrar shall authenticate and deliver to the owner thereof a new Bond or Bonds of Authorized Denominations of that same series, maturity and in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Purchase of Bonds. The Authority, at the direction of the University, may acquire Bonds in the open market from amounts on deposit in the Debt Service Fund or from other available funds of the University. All Bonds so purchased by the Authority are to be cancelled.

Book-Entry System

As to any Bond, the Registered Owner thereof will be deemed and regarded as the absolute owner thereof for all purposes. For so long as any Bonds are held in fully immobilized form, DTC, its successor or any substitute depository appointed by the Authority, as applicable, will be deemed to be the Registered Owner for all purposes under the Indenture and all references to Registered Owners, Bondowners, Owners or the like will mean DTC or its nominees and will not mean the owners of any beneficial interests in the Bonds.

The Bonds will initially be held in fully immobilized form by DTC acting as depository pursuant to the terms and conditions set forth in the Letter of Representations. **None of the Authority, the University or the Trustee will have any responsibility or obligation to DTC Participants or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of any records maintained by DTC or DTC Participants of any amount in respect of principal or redemption price of or interest on the Bonds, or any notice which is permitted or required to be given to Registered Owners under the Indenture** (except such notice as is required to be given by the Authority or the Trustee to DTC). See Appendix F – "BOOK-ENTRY SYSTEM."

SECURITY FOR THE BONDS

Security Under the Indenture

By means of the Indenture, the Authority will pledge the Trust Estate to the Trustee for purposes of securing the Authority's obligations under the Indenture. The "Trust Estate" includes: (1) the Authority's right, title and interest in the Loan and the Loan Documents (subject to the reservation of certain rights by the Authority); (2) all Revenues (subject to disbursement and application in accordance with the Indenture), which are defined in the Indenture to include (a) money held in the Funds and Accounts created under the Indenture (except the Cost of Issuance Fund and the Rebate Fund), together with investment earnings thereon, and (b) all income, revenues, proceeds, obligations, securities and other amounts received by the Trustee and derived from or in connection with the Loan or the Loan Documents (except amounts payable as fees of the Authority or the Trustee, the Rating Agency Surveillance Fee, the Rebate Amount, fees for the calculation of rebate and reimbursement or indemnification of the Authority and the Trustee); and (3) any and all other property pledged or assigned as and for additional security under the Indenture.

Security Under the Loan Agreement

Under the Note and the Loan Agreement, the University is required to deliver to the Trustee, on or before the fifth Business Day immediately before each Interest Payment Date, an amount equal to the principal of, premium, if any, and interest on the Bonds due on that Interest Payment Date. The Trustee is required to deposit such funds in the Debt Service Fund, and to use such funds to pay debt service on the Bonds. See Appendix C –

"CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – The Loan Agreement – Loan; Payments" and "– The Indenture – Establishment of Funds and Accounts."

The obligations of the University under the Loan Agreement constitute a full recourse obligation of the University to which the Pledged Revenues are pledged. The Pledged Revenues are comprised of the University's Unrestricted Revenues, Gains and Other Support. Under the Loan Agreement, "Unrestricted Revenues, Gains and Other Support" means "unrestricted revenues, gains and other support" of the University, as defined under GAAP and includes all accounts, chattel paper, instruments and general intangibles for money due or to become due (all as defined in Chapter 62A.9 of the UCC) as are now in existence or as may be hereafter acquired and the proceeds thereof that evidence the University's rights in such unrestricted revenues, gains and other support. The security interest in the Pledged Revenues granted by the University pursuant to the Loan Agreement is intended to be and remain a first lien, subject only to (i) Permitted Encumbrances, and (ii) parity, junior, or other liens or encumbrances on the Pledged Revenues.

Pursuant to the Loan Agreement, the University expressly retains and reserves the right to incur additional indebtedness from time to time and to encumber the Pledged Revenues, whether for the purpose of securing such additional indebtedness or for any other lawful or corporate purposes, with liens, security interests, or other encumbrances on a parity with, or subordinate to, the lien created by the Loan Agreement. In addition, nothing in the Loan Agreement is intended to restrict the University's right to grant security interests or liens in, or to otherwise encumber any of its assets other than Pledged Revenues, to incur additional indebtedness on an unsecured basis, or to secure any obligation or indebtedness, a pledge, lien, charge, or other encumbrance upon the Pledged Revenues senior to the pledge securing the repayment of the Bonds, so long as such pledge, lien, charge or encumbrance constitutes a Permitted Encumbrance.

Pursuant to the Loan Agreement, the University covenants not to create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Pledged Revenues senior to the pledge and assignment created under the Loan Agreement except for Permitted Encumbrances. See Appendix C – "CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – The Loan Agreement – Restrictions on Senior Liens."

The Bonds are not and never shall become general obligations of the Authority but are special, limited obligations payable by the Authority solely and only from the Revenues and the other security pledged in the Indenture for such purpose. The Bonds and the interest thereon do not and never shall constitute a debt or an indebtedness or an obligation of the Authority, the State, or any county, city or other municipal or political corporation or subdivision of the State, or a loan of the faith or credit or the taxing power of any of them, within the meaning of any constitutional or statutory provisions, nor shall the Bonds be construed to create any moral obligation on the part of the Authority, the State, or any county, city or other municipal or political corporation or subdivision of the State with respect to the payment of the Bonds. The Bonds shall not be payable from the general revenues of the Authority, and neither the Authority nor the State nor any political corporation, subdivision or agency thereof will be liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those specifically pledged therefor. The Authority has no Taxing power.

Intercreditor Agreement

Pursuant to the Intercreditor Agreement, the pledge of the Pledged Revenues with respect to the University's obligations under the Loan Agreement will be on parity with the pledge of the Pledged Revenues that secures the repayment of the Authority's Revenue and Refunding Revenue Bonds (The University of Puget Sound Project), Series 1998, issued pursuant to an Indenture of Trust dated as of April 21, 1998, and currently outstanding in an aggregate principal amount of $1,130,000 (the "1998 Bonds"), the Authority's Variable Rate Demand Revenue Bonds (The University of Puget Sound Project), Series 2001, issued pursuant to an Indenture of Trust dated as of January 1, 2001, and currently outstanding in an aggregate principal amount of $10,460,000 (the "2001 Bonds") and the Authority's Refunding Revenue Bonds (The University of Puget Sound Project), Series 2012B (the "2012B Bonds"), in an estimated principal amount of $29,195,000, expected to be issued concurrently with the issuance of the Bonds, the proceeds of which will be applied to refund on a current basis, and redeem, all of the outstanding Variable Rate Demand Refunding Revenue Bonds (The University of Puget Sound Project), Series 2006B, issued pursuant to an Indenture of Trust dated as of June 1, 2006, and currently outstanding in an aggregate principal amount of $29,505,000 (the "2006B Bonds"). See "PLAN OF FINANCE – The Series 2012B Bonds." If the 2012B Bonds are not issued, as described in "PLAN OF FINANCE," the 2006B Bonds will remain outstanding and repayment thereof will continue to be secured by the Pledged Revenues. **The Intercreditor Agreement contemplates that additional secured parties may become parties to such agreement and that additional indebtedness may, in the future, be secured by interests in the Pledged Revenues on parity with the Bonds.** All parties to the Intercreditor Agreement will share in the Collateral on a pooled basis on the terms and conditions described in the Intercreditor Agreement.

U.S. Bank National Association will serve as the initial collateral agent under the Intercreditor Agreement (the "Collateral Agent"). The Intercreditor Agreement provides that the Collateral Agent will act solely at and in accordance with the written direction of all the Secured Creditors, which includes the bond trustees for the 1998 Bonds, the 2001 Bonds, the 2012B Bonds, the Bonds, and other secured creditors that may be added from time to time in accordance with the Intercreditor Agreement. None of the Secured Creditors, including the Trustee, will have the right to direct the Collateral Agent to take any action required to be taken in accordance with the Intercreditor Agreement without the written consent of the other Secured Creditors. Each Secured Creditor, including the Trustee, agrees in the Intercreditor Agreement that it will have recourse to the Collateral (defined in the Intercreditor Agreement as the Pledged Revenues, and specifically excluding money held in funds and accounts as part of the trust estate created under the Trust Indentures relating to the 1998 Bonds, the 2001 Bonds, the 2012B Bonds and the Bonds) only through the Collateral Agent, and that it will have no independent recourse to the Collateral. The provisions of the Intercreditor Agreement may limit the availability of remedies with respect to the Collateral upon the occurrence of an Event of Default.

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ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each fiscal year ending June 30, the amounts required to be made available for the payment of the principal of and interest due on the Bonds and all bonds previously issued for the benefit of the University that will be outstanding after the issuance of the Bonds. The table gives effect to the refunding of the Refunded Bonds, the issuance of the 2012B Bonds, and the refunding of the 2006B Bonds, all as of the date of delivery of the Bonds. The issuance of the Bonds is not conditioned upon the sale and issuance of the 2012B Bonds, or the refunding of the 2006B Bonds.

Fiscal Year Ending	Other Long Term Debt*			The Bonds			Total Debt
June 30	Principal	Interest t	Total±	Principal	Interest§	Total±	Service±
2013**	$905,000	$2,457,381	$3,362,381	--	$412,313	$412,313	$3,774,693
2014	945,000	2,333,059	3,278,059	--	1,242,750	1,242,750	4,520,809
2015	990,000	2,019,778	3,009,778	--	1,660,875	1,660,875	4,670,653
2016	1,040,000	1,744,192	2,784,192	--	1,660,875	1,660,875	4,445,067
2017	1,085,000	1,693,586	2,778,586	--	1,660,875	1,660,875	4,439,461
2018	1,125,000	1,642,437	2,767,437	--	1,660,875	1,660,875	4,428,312
2019	1,170,000	1,589,394	2,759,394	$410,000	1,652,675	2,062,675	4,822,069
2020	1,225,000	1,483,349	2,708,349	425,000	1,635,975	2,060,975	4,769,324
2021	1,270,000	1,417,433	2,687,433	450,000	1,616,225	2,066,225	4,753,658
2022	1,320,000	1,359,900	2,679,900	480,000	1,592,975	2,072,975	4,752,875
2023	1,370,000	1,300,264	2,670,264	510,000	1,568,225	2,078,225	4,748,489
2024	1,430,000	1,238,214	2,668,214	535,000	1,542,100	2,077,100	4,745,314
2025	1,485,000	1,173,822	2,658,822	570,000	1,514,475	2,084,475	4,743,297
2026	1,540,000	1,107,147	2,647,147	610,000	1,484,975	2,094,975	4,742,122
2027	1,600,000	1,038,058	2,638,058	640,000	1,460,125	2,100,125	4,738,183
2028	1,670,000	966,187	2,636,187	660,000	1,439,134	2,099,134	4,735,322
2029	1,740,000	891,425	2,631,425	685,000	1,416,613	2,101,613	4,733,038
2030	1,805,000	816,998	2,621,998	715,000	1,393,863	2,108,863	4,730,861
2031	1,875,000	740,918	2,615,918	745,000	1,369,672	2,114,672	4,730,590
2032	2,360,000	647,641	3,007,641	370,000	1,350,625	1,720,625	4,728,266
2033	2,455,000	537,027	2,992,027	390,000	1,337,325	1,727,325	4,719,352
2034	2,560,000	418,797	2,978,797	420,000	1,320,000	1,740,000	4,718,797
2035	2,665,000	295,666	2,960,666	465,000	1,297,875	1,762,875	4,723,541
2036	2,775,000	167,461	2,942,461	510,000	1,273,500	1,783,500	4,725,961
2037	2,895,000	33,772	2,928,772	550,000	1,247,000	1,797,000	4,725,772
2038	--	--	--	3,615,000	1,142,875	4,757,875	4,757,875
2039	--	--	--	3,800,000	957,500	4,757,500	4,757,500
2040	--	--	--	3,995,000	762,625	4,757,625	4,757,625
2041	--	--	--	4,200,000	557,750	4,757,750	4,757,750
2042	--	--	--	4,415,000	342,375	4,757,375	4,757,375
2043	--	--	--	4,640,000	116,000	4,756,000	4,756,000
Total±	**$41,300,000**	**$29,113,906**	**$70,413,906**	**$34,805,000**	**$39,691,044**	**$74,496,044**	**$144,909,949**

* Subject to change to reflect final principal amount of 2012B Bonds.

t The following annual interest rates were assumed for purposes of calculating interest on variable rate bonds: for the 2001 Bonds - 3.526%, representing the associated swap rate, plus estimated remarketing fees; and for the 2012B Bonds – 4.755%, representing the associated swap rate, plus an anticipated credit spread payable to the purchaser of the 2012B Bonds. Letter of Credit fees paid with respect to the 2006A Bonds and the 2006B Bonds prior to the date of delivery of the Bonds are included in the interest figure for FY 2013. Interest figures also include estimated net cash flow associated with the 2006A interest rate swap agreement, calculated based upon fixed rate payments by the University at a rate of 3.875% and floating rate payments by the counterparty of 67% of LIBOR (where 100% of LIBOR is assumed to be 0.30% through 6/30/2013, 0.50% from 7/1/2013 through 6/30/2014, 2.95% from 7/1/2014 through 6/30/2015, and 5.39% on and after 7/1/2015).

± Numbers may not add due to rounding.

§ Excludes interest on the Bonds to be paid from the Capitalized Interest Account. See "ESTIMATED SOURCES AND USES OF FUNDS".

** Represents debt service remaining to be paid as of the date of issuance of the Bonds.

Interest Rate Swaps

The University has previously entered into three interest rate swap agreements: (1) an interest rate swap agreement with Societe Generale relating to the 2001 Bonds, (2) an interest rate swap agreement with The Bank of New York Mellon relating to the 2006A Bonds, and (3) an interest rate swap agreement with The Bank of New York Mellon relating to the 2006B Bonds. Pursuant to the interest rate swap agreements, the University pays fixed rate of interest on a notional amount to be equal to the principal amount of the 2001 Bonds, 2006A Bonds or 2006B Bonds scheduled to be outstanding, as applicable, and receives from the applicable swap counterparty a variable interest rate on such notional amount, calculated based on the London Inter Bank Offered Rate ("LIBOR"). The purpose of the interest rate swap agreement is to provide the University with protection against rising interest rates. The interest rate swap agreement with respect to the 2001 Bonds will expire on October 1, 2031, the interest rate swap agreement with respect to the 2006A Bonds will expire on October 1, 2030, and the interest rate swap agreement with respect to the 2006B Bonds will expire on October 1, 2036. Each interest rate swap agreement is subject to earlier termination by the University or the applicable swap counterparty. If early termination occurs, the University may be required to make a cash termination payment or payments to the applicable swap counterparty that represent such swap counterparty's loss of the value of the interest rate swap. Neither the University nor the swap counterparties are currently required to post collateral pursuant to the interest rate swap agreements. The University expects to leave the interest rate swap agreements with respect to the 2006A Bonds 2006B Bonds in effect, notwithstanding the planned redemption of those bonds. The University regularly reviews the value of its outstanding interest rate swap agreements and may choose to terminate any or all of the swaps if the University believes such a termination is in its best interests. See Appendix A – "SELECTED INFORMATION CONCERNING THE UNIVERSITY – Swap Agreements."

The Authority

The information under this heading has been provided solely by the Authority and is believed to be reliable, but has not been verified independently by the Underwriter or the University. No representation whatsoever as to the accuracy, adequacy or completeness of such information is made by the Underwriter or the University.

The Washington Higher Education Facilities Authority was created in 1983 as a public body corporate and politic and an agency of the State. The Authority is authorized to issue nonrecourse revenue bonds in order to make funds available to private, nonprofit higher education institutions in the State for the purpose of financing and refinancing the building, improvement, expansion and modernization of higher education facilities.

The Authority is authorized to make loans to nonprofit entities, to pledge loans as security for the payment of the principal of and interest on its revenue bonds, and to enter into any agreements in connection therewith.

The Authority has six members and is composed of the persons holding the offices of Governor and Lieutenant Governor of the State and four public members, one of whom must be the president of a higher education institution at the time of appointment. The public members are appointed to four-year terms by the Governor, subject to confirmation by the State Senate, and are selected on the basis of their interest or expertise in the provision of and financing of higher education.

The Governor serves as Chair of the Authority. Pursuant to the Authority's authorizing legislation, the Governor may designate an employee of the Governor's office to attend and vote at meetings on behalf of the Governor. Marty Brown, Director of the State Office of Financial Management, has been so designated. The Authority's elected secretary presides in the Chair's absence. The current members of the Authority are as follows:

The Honorable Christine O. Gregoire, Chair	Governor, State of Washington
The Honorable Brad Owen	Lieutenant Governor, State of Washington
Manford Simcock	Public Member, Secretary of the Board
Ellen Taussig	Public Member, Treasurer of the Board
Dr. Roy Heynderickx	Public Member, President, Saint Martin's University
Tom Johnson	Public Member

The administration and overall operation of the Authority is the responsibility of its Executive Director, Kim Herman. Mr. Herman is also the Executive Director for the Washington State Housing Finance Commission (the "Housing Finance Commission"), a State agency that is empowered to issue nonrecourse revenue bonds to finance housing and nonprofit facilities in the State. The Authority contracts with the Housing Finance Commission for Mr. Herman's and his staff's services, including those of Paul Edwards, Deputy Director; Robert D. Cook, Senior Finance Director; and Carol Johnson, Affiliates Manager.

The Authority requires each higher education institution, as a condition of obtaining financing through the Authority, to covenant that the savings it realizes from the lower interest cost resulting from such financing, as compared to conventional financing, will be passed on to its students in the form of reductions in tuition and fees or foregone increases in tuition and fees or grants-in-aid and/or scholarships. The University will so covenant in the Loan Agreement.

Each series of bonds or other obligations of the Authority issued for the benefit of a particular higher education institution is secured by a separate trust indenture or financing agreement (in the case of private placements). Consequently, each series of obligations of the Authority (with the exception of additional bonds with respect to that series) is separate and distinct as to security and source of payment. The Authority may authorize other series of bonds or other obligations for the financing of projects for other private nonprofit higher education institutions in the State.

As of August 7, 2012, the Authority had issued obligations aggregating $1,630,685,958 in original principal amount. As of August 7, 2012, the Authority had bonds outstanding in the principal amount of $674,999,765.

THE TRUSTEE

The information under this heading has been provided solely by the Trustee and is believed to be reliable, but has not been verified independently by the Authority or the Underwriter. No representation whatsoever as to the accuracy, adequacy or completeness of such information is made by the Authority, the Underwriter or the University.

The Authority has appointed U.S. Bank National Association as Trustee under the Indenture. The Trustee is a national banking association organized and existing under the laws of the United States of America, having all of the powers of a bank, including fiduciary powers, and is a member of the Federal Deposit Insurance Corporation and the Federal Reserve System. The mailing address of the Trustee is U.S. Bank National Association, 1420 Fifth Avenue, Seventh Floor, Seattle, Washington 98101, Attention: Corporate Trust Services.

The Trustee is to carry out such duties as are assigned to it under the Indenture, the Loan Agreement and the Intercreditor Agreement. Except for the contents of this section, the Trustee has not reviewed or participated in the preparation of this Official Statement and assumes no responsibility for the nature, contents, accuracy or completeness of the information set forth in this Official Statement or for the recitals contained in the Indenture or the Bonds (except for the certificate of authentication on each Bond), or for the validity, sufficiency, or legal effect of any of such documents.

Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application by the Authority of any of the Bonds authenticated or delivered pursuant to the Indenture or for the use or application of the proceeds of such Bonds by the Authority or the University. The Trustee has not evaluated the risks, benefits, or propriety of any investment in the Bonds and makes no representation, and has reached no conclusions, regarding the value or condition of any assets or revenues pledged or assigned as security for the Bonds, the technical or financial feasibility of the expected uses of proceeds of the Bonds or the investment quality of the Bonds, about all of which the Trustee expresses no opinion and expressly disclaims the expertise to evaluate.

Additional information about the Trustee may be found at its website at http://www.usbank.com/corporatetrust. Neither the information on U.S. Bank's website, nor any links from that website, is part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information by relied upon to make investment decisions regarding the Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Bonds are as follows:

Source of Funds:	
Par Amount of Bonds	$34,805,000
Net Original Issue Premium	3,577,135
Total	$38,382,135
Uses of Funds:	
Deposit to Refunding Account	$19,615,000
Deposit to Project Account	17,160,000
Deposit to Capitalized Interest Account[(1)]	835,205
Deposit to Holdback Account	340,000
Underwriter's Discount	115,146
Deposit to Costs of Issuance Fund[(2)]	316,784
Total	$38,382,135

(1) Interest on the portion of the Bonds allocable to the New Facilities is expected to be capitalized through October 1, 2013.

(2) Includes the initial fees of the Authority and Trustee, financial advisor fees, certain fees of the rating agencies and legal fees. Also includes a rounding amount.

PLAN OF FINANCE

The Bonds are being issued to make the Loan to the University, the proceeds of which will be used (1) to finance the construction and improvement of the New Facilities, (2) to refund the Refunded Bonds, (3) to capitalize interest on the Bonds, and (4) to pay costs of issuing the Bonds.

New Facilities

The University will use proceeds of the Bonds to finance all or a portion of the costs of the construction, improvement and equipping of a residence hall and related improvements, and other capital projects to upgrade campus facilities. All improvements will be located on the main campus of the University located at 1500 North Warner Street, Tacoma, Washington.

Refunding

On the date of delivery of the Bonds, proceeds of the Bonds allocable to the refunding of the Refunded Bonds are to be deposited into the Refunding Account and immediately disbursed to U.S. Bank National Association as trustee for the Refunded Bonds, in order to reimburse Wells Fargo Bank, National Association, for the principal and interest draw on the letter of credit used to pay the redemption price of the Refunded Bonds on October 1, 2012.

The Refunded Bonds were issued to finance or refinance all or a portion of the costs of the renovation, construction and equipping of the following facilities on the University's campus: (a) construction, equipping and furnishing a New Academic Building (the "NAB"), consisting of three stories, to provide the University's humanities programs with classroom space, faculty offices, study areas, and lecture halls, located on the University campus directly northwest of the Warner Gymnasium; (b) expanding the parking lot between Thompson Hall and the NAB; (c) renovating the Collins Memorial Liability, including the conversion of space for information resource activities and a substantial upgrade of electrical, plumbing and heating systems; (d) renovating McIntyre Hall, including an upgrade of windows, heating and ventilation and reconfiguration of classrooms and offices; (e) renovating the Wheelock Student Center, including kitchen and servery upgrades to accommodate more students; (f) renovating Baker Stadium, Jones Hall and Howarth Hall, including space reconfiguration and renovation of major systems; and (g) making general improvements to the campus including landscaping, parking and street improvements to the central campus, moving the baseball field to a new location near the northeast corner of North 9th Street and Union Avenue, modifying the entrance, extending parking west of the Fieldhouse, and providing new parking near Washington Avenue.

The 2012B Bonds

It is anticipated that simultaneously with the issuance of the Bonds, the Authority will issue its Refunding Revenue Bonds (The University of Puget Sound Project), Series 2012B (the "2012B Bonds"), an additional series of tax-exempt bonds for the benefit of the University. The 2012B Bonds are expected to be issued pursuant to an Indenture of Trust (the "2012B Indenture"), which will establish a trust estate for the 2012B Bonds. The trust estate will include special funds established by the 2012B Indenture and the Authority's right to receive loan payments from the University under the terms of a Loan Agreement (the "2012B Loan Agreement") pertaining to the 2012B Bonds. If the 2012B Bonds are issued, the obligations of the University to make loan payments under the 2012B Loan Agreement sufficient to pay the debt service on the 2012B Bonds as it comes due will be on parity with the lien on Pledged Revenues with obligations of the University under the Loan Agreement.

The 2012B Bonds are anticipated to be issued and sold through a private placement to Wells Fargo Municipal Capital Strategies, LLC, a wholly owned subsidiary of Wells Fargo Bank, National Association, in an approximate principal amount of $29,195,000 and to bear interest at a floating variable rate equal to a percentage of one-month LIBOR, plus a credit spread, for the first seven years. The 2012B Bonds are expected to be subject to mandatory tender after seven years and may be remarketed or retired at such time. The proceeds of the 2012B Bonds, if issued, will be provided to the University to provide funds to refund, on a current basis, pay and redeem all of the outstanding 2006B Bonds.

The issuance and sale of the Bonds are not contingent upon the issuance and sale of the 2012B Bonds, or on the redemption of the 2006B Bonds. No assurance can be given that the issuance and sale of the 2012B Bonds or the redemption of the 2006B Bonds will proceed as described herein. The 2012B Bonds are not offered to investors pursuant to this Official Statement.

CERTAIN BONDOWNERS' RISKS

The following is a discussion of certain risks that could affect payments to be made with respect to the Bonds. This discussion is not, and is not intended to be, exhaustive and should be read in conjunction with all other parts of this Official Statement and should not be considered to be a complete description of all risks that could affect such payments. Prospective purchasers of the Bonds should analyze carefully the information contained in this Official Statement, including the appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described in this Official Statement.

General

An investment in the Bonds involves certain risks, including the risk of nonpayment of interest or principal due to Bondowners and the risk that the Bonds will be redeemed prior to maturity. The enforceability of the University's obligations pursuant to the Loan Agreement may be limited by the laws of the State and the United States with respect to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by the availability of equitable remedies. The Bonds are special, limited obligations of the Authority payable solely out of Revenues and other amounts pledged by the University under the Loan Agreement and held by the Trustee in certain funds and accounts established pursuant to the Indenture. See "SECURITY FOR THE BONDS." No representation or assurance can be given that the University will realize revenues in amounts sufficient to make the payments under the Loan Agreement with respect to the Bonds and also pay its other expenses and obligations. The realization of future revenues is dependent upon, among other things, the capabilities of the management of the University and future changes in economic, legal, legislative, regulatory and other conditions that are unpredictable and cannot be determined at this time. The risk of nonpayment or that the Bonds will be redeemed prior to maturity is affected by the following factors, among others, which should be considered by prospective investors, along with other information presented in this Official Statement, in judging the suitability of an investment in the Bonds. The Bonds may not be a suitable investment for all prospective purchasers. Prospective purchasers should consult their investment advisors before making any decisions as to the purchase of the Bonds.

Special Obligations

The Bonds are not and never shall become general obligations of the Authority but are special, limited obligations payable by the Authority solely and only from the Revenues and the other security pledged in the Indenture for such purpose. The Bonds and the interest thereon do not and never shall constitute a debt or an indebtedness or an obligation of the Authority, the State, or any county, city or other municipal or political corporation or subdivision of the State, or a loan of the faith or credit or the taxing power of any of them, within the meaning of any constitutional or statutory provisions, nor shall the Bonds be construed to create any moral obligation on the part of the Authority, the State, or any county, city or other municipal or political corporation or subdivision of the State with respect to the payment of the Bonds. The Bonds shall not be payable from the general revenues of the Authority, and neither the Authority nor the State nor any political corporation, subdivision or agency thereof will be liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those specifically pledged therefor. The Authority has no taxing power.

Early Redemption

Purchasers of Bonds, including those who purchase Bonds at a price in excess of their principal amount or who hold such a Bond trading at a price in excess of par, should consider the fact that the Bonds are subject to redemption at a price equal to their principal amount plus accrued interest in the event such Bonds are redeemed prior to maturity upon optional redemption, mandatory sinking fund redemption or extraordinary redemption. See the description herein under the heading "THE BONDS – Redemption Provisions."

Adequacy of Revenues

The future financial condition of the University and the University's ability to perform its obligations under the Loan Agreement are subject, among other things, to the capabilities of University management and future economic and other conditions which are unpredictable. In addition to the obligations of the University under the Loan Agreement, the University may incur additional indebtedness on a parity lien with such Bonds, on a subordinated basis or, upon compliance with certain conditions, on a senior basis. See "SECURITY FOR THE BONDS." These factors may adversely affect the University's revenues and the performance by the University of its obligations under the Loan Agreement. The future financial condition of the University could be adversely affected by, among other things, detrimental State or federal legislation, detrimental State or federal regulatory actions, increased competition from other educational institutions, including State institutions of higher education, decreased demand for higher education services because of higher costs or other reasons, demographic changes, increased costs beyond the ability of the University to control or to increase revenue to offset such increased costs, natural disasters, reduced availability of student financial aid and tax law changes.

The ability of the University to generate sufficient revenues to meet its obligations under the Loan Agreement depends on a number of factors, including: (1) the University's ability to achieve enrollment, tuition and fundraising at levels sufficient to consistently enjoy operating surpluses and (2) the University's ability to continue to provide financial aid to its students at sufficient levels in attractive combinations of scholarships, grants, loans and workstudy (if applicable). These factors are in turn affected by numerous future economic and other conditions which could include possible adverse effects such as the loss by the University of its accreditations; destruction or loss of a substantial portion of the University's facilities; litigation; competition; discontinuation of favorable governmental policies and programs with respect to post-secondary education; changes in direction of demographic trends determining the number of college-aged persons in the general population; changes in prospective levels of regional and national economic prosperity; the occurrence of natural, national or international calamities; changes in the competitive appeal and perceived quality of the University's curriculum; changes in the demand for post-high school education and for certain degrees; the ability and energy of the faculty and administration; a reduction in the amounts received by the University through fundraising efforts; or a reduction in the value of the University's assets. There can be no assurance that the University's income and receipts will not decrease.

Enrollment

The University believes that the strength of its academic programs, faculty and facilities will cause the demand for its educational programs to remain stable; however, no assurance can be given that demand for its educational programs will remain constant. A number of economic, demographic and other circumstances not controllable or presently foreseeable by the University could materially adversely affect its future enrollment and expenses of operation. Declining enrollment would decrease the University's income and adversely impact its ability to meet its obligations under the Loan Agreement, as would any significant increase in its operating costs or its inability to decrease operating costs in the face of declining enrollments. No assurances can be given regarding the University's projected future enrollment or its ability to adequately control its operating costs and expenses.

Tuition

A significant portion of the University's operating revenue is provided through tuition and related fees. Although the University has in the past been able to raise tuition and related fees without adversely affecting enrollment, there can be no assurance that it will continue to be able to do so in the future, or that the increase will be in amounts sufficient to offset expenses. Future tuition increases and any adverse change in enrollment could adversely affect the University's financial position and its results of operations.

Financial Aid

A significant percentage of the University's students receive financial support in the form of federally supported loans and scholarships and grants from the University. There can be no assurance that the amount of federally supported loans or other financial aid will remain stable or increase in the future. If the amount of those loans or other financial aid decreases in the future, there can be no assurance that the University will be able to increase the amount of financial aid provided by it. Changes in the availability of financial aid could likely adversely affect the University's enrollment, and could therefore adversely affect the University's financial position and its results of operations.

Gifts, Grants and Bequests

The University is continuously involved in fund raising activities of various types. Given actual and possible reductions in federal educational and student assistance programs and the increasing cost of operating a quality college, an inability by the University to raise substantial amounts of money from alumni and alumnae and other private sources would have a depressing effect on the University's programs with possible adverse consequences for enrollment and results from operations.

Damage or Destruction

Although the University will be required to obtain certain insurance as set forth in the Loan Agreement, there can be no assurance that the University will not suffer uninsured losses.

Investment Performance and Earnings

The University's various investment accounts include fixed income securities, equity holdings and alternative investments. The past performance and gains in such investments cannot be used as a basis to predict future results. The results in subsequent fiscal years will depend upon the state of general economic conditions and market results of both fixed income and equity securities, which may be held by the University from time to time for its investment purposes.

Other Factors Affecting the Financial Performance of the University

One or more of the following factors or events, or the occurrence of other unanticipated factors or events, could adversely affect the University's operations and financial performance to an extent that cannot be determined at this time:

(1) *Changes in Management*. Changes in key management personnel could affect the capability of the management of the University.

(2) *Future Economic Conditions*. Increased unemployment, adverse economic conditions, changes in the demographics of the service area of the University and the cost and availability of energy, an inability to control expenses in periods of inflation, and difficulty in increasing charges and other fees while maintaining the quality of educational services could all affect the financial performance of the University.

(3) *Competition*. Increased competition from other institutions of higher education could adversely affect the enrollment at or revenues of the University, which could force the University to offer discounted rates, or which could adversely affect the ability of the University to attract faculty or other staff.

(4) *Organized Labor Efforts*. Efforts to organize employees of the University into collective bargaining units could result in adverse labor actions or increased labor costs.

(5) *Environmental Matters*. Legislative, regulatory, administrative or enforcement action involving environmental controls could adversely affect the operation of the facilities of the University. For example, if property of the University is determined to be contaminated by hazardous materials, the University could be liable for significant clean-up costs even if it were not responsible for the contamination.

(6) *Natural Disasters*. The occurrence of natural disasters could damage the facilities of the University, interrupt services or otherwise impair the operations and ability of the University to produce revenues.

Possible Limitations on Enforceability of Obligations and Remedies

General. The enforceability of the University's obligations pursuant to the Loan Agreement may be limited by the laws of the State and the United States with respect to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by the availability of equitable remedies. The opinions of Bond Counsel and counsel to the University will so state. The practical realization of any rights upon any default will depend upon the exercise of various remedies specified in the Loan Agreement and the Indenture. These remedies, in certain respects, may require judicial action which is often subject to discretion and delay. Under existing law, certain of the remedies specified in the Loan Agreement and the Indenture may not be readily available or may be limited. A court may decide not to order the specific performance of these covenants.

Security Interest in Pledged Revenues. The effectiveness of the Loan Agreement and the security interest in the Pledged Revenues granted therein may be limited by a number of factors, including but not limited to: (1) commingling of Pledged Revenues with other money of the University not so pledged; (2) statutory liens; (3) rights arising in favor of the United States of America or any agency thereof; (4) constructive trusts and equitable or other rights impressed or conferred by a federal or State court in the exercise of its equitable jurisdiction; (5) federal bankruptcy laws that may affect the enforceability of the Loan Agreement or the security interest in the Pledged Revenues received by the University within 90 days preceding and after any effectual institution of bankruptcy proceedings by or against the University; (6) rights of third parties in Pledged Revenues converted to cash and not in the possession of the Trustee; (7) claims that might arise under Washington law with respect to the attachment, perfection, and priority interest in Pledged Revenues, including whether appropriate financing or continuation statements are or have been filed in accordance with the Washington Uniform Commercial Code from time to time in effect; and (8) delay and/or unwillingness of a court to compel the University to transfer or assign its Pledged Revenues to the Trustee. In addition, federal bankruptcy law permits adoption of a reorganization plan even though it has not been accepted by the Registered Owners of a majority in aggregate principal amount of Bonds, if the Registered Owners are provided with the benefit of their original lien or the "indubitable equivalent." Further, if the bankruptcy court concluded that such Registered Owners had "adequate protection," it could (1) substitute other security for the security provided by the Indenture and Loan Agreement for the benefit of the

Registered Owners, and (2) subordinate the lien of the Registered Owners (a) to claims by persons supplying goods and services to the debtor after bankruptcy and (b) to the administrative expenses of the bankruptcy proceeding. In the event of the bankruptcy of the University, the amount realized by the Registered Owners might depend on the bankruptcy court's interpretation of the "indubitable equivalent" and "adequate protection" under the then-existing circumstances.

In addition, the University may incur additional obligations to which its Pledged Revenues and other Collateral are pledged in accordance with the terms of the Loan Agreement, the Indenture and the Intercreditor Agreement. See "SECURITY FOR THE BONDS."

Amendments to Indenture and Loan Documents

The Indenture and Loan Agreement may be amended with or without the consent of Bondowners. See Appendix C – "CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – The Indenture – Indenture Amendments Requiring Consent of Bondowners," "– Indenture Amendments Not Requiring Consent of Bondowners," "– Amendments to Loan Documents Not Requiring Consent of Bondowners" and "– Amendments to Loan Documents Requiring Consent of Bondowners."

Exemption of Interest from Federal Income Taxes

The University. The possible modification or repeal of certain existing federal income or State tax laws or other loss by the University of the present advantages of certain provisions of the federal income or State tax laws could materially and adversely affect the status of the University. The University has obtained a letter from the Internal Revenue Service (the "IRS") determining it is an exempt organization under Section 501(c)(3) of the Code. As an exempt organization, the University is subject to a number of requirements affecting its operation. The failure of the University to remain qualified as an exempt organization would affect the funds available to University for payments under the Indenture and the Loan Agreement. Also, loss of exempt status as a Section 501(c)(3) organization may adversely affect the status of the Bonds for federal income tax purposes. Failure of the University to comply with certain requirements of the Code, or adoption of amendments to the Code to restrict the use of tax-exempt bonds for facilities such as the Project Facilities, could cause interest on the Bonds to be included in the gross income of Bondholders or former Bondholders for federal income tax purposes retroactive to the date of issuance of the Bonds.

The Bonds. The exemption of interest on the Bonds from federal income taxes is dependent upon continuing compliance by the Authority and the University with the requirements of the Code. If there is a failure to continuously comply with the covenants of the Code, interest on the Bonds could become includible for federal income tax purposes in the gross incomes of the Owners thereof, which includibility in gross income could be retroactive to the date of issuance of the Bonds. Loss of the exclusion of the interest on the Bonds from gross income for federal income tax purposes will give rise to extraordinary mandatory redemption of the Bonds as described in "THE BONDS – Redemption Provisions – *Extraordinary Mandatory Redemption*."

If interest on the Bonds becomes so includible in the Owners' gross incomes, the effect will be to reduce the yield on an Owner's Bonds as a result of the federal and, in certain cases, State and local, income tax liability incurred in connection with the receipt of interest on the Bonds. There is no provision for any adjustment to the interest rate borne by the Bonds in the event of any such loss of tax-exempt status, nor is any provision made for the payment of any penalties or premium in such event. As a result, the Owners of the Bonds may be forced to bear the adverse economic consequences of any such loss of tax-exempt status and may not have adequate remedies against the Authority to recover any losses or damages so sustained.

Secondary Market and Prices

It has been the practice of the Underwriter to maintain a secondary market in municipal securities it sells, and the Underwriter currently intends to engage in secondary market trading of the Bonds, subject to applicable securities laws. The Underwriter, however, is not obligated to engage in secondary trading or to repurchase any of the Bonds at the request of the owners thereof. No assurance can be given that a market will exist for the resale of the Bonds. Because of general market conditions or because of adverse history or economic prospects connected with a particular issue or issuer, secondary marketing activity in connection with a particular issue may be suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price. **There can be no guarantee that there will be a secondary market for the Bonds, or if a secondary market exists, that the Bonds can be sold for any particular price.**

No Seasoned Funds

There is no requirement in the Indenture that seasoned funds be provided by the University in connection with the optional redemption of Bonds. If any such payments are made to Bondowners with funds that are not seasoned funds at a time when the University is insolvent, which determination may occur up to one year after the payment is made, then Bondowners may be required by a bankruptcy court to refund those payments to the bankruptcy court.

Ratings

The lowering or withdrawal of one or both of the ratings initially assigned to the Bonds could adversely affect the market price and the market for the Bonds. See "RATINGS."

Risks Related to Outstanding Variable Rate Obligations and Direct Placements

The Authority has previously issued the 2001 Bonds and 2006B Bonds on behalf of the University. The 2001 Bonds and 2006B Bonds are variable rate demand obligations, the current maximum rate of interest on which is 12 percent per annum and 10 percent per annum, respectively. Owners of 2001 Bonds and 2006B Bonds have the right to tender their 2001 Bonds or 2006B Bonds, as applicable, on seven days' notice and receive 100% of the principal amount thereof plus accrued interest. Liquidity support for the 2001 Bonds is currently provided by the University pursuant to its obligations to pay the purchase price of tendered 2001 Bonds under the related loan agreement, and liquidity and credit support for the 2006B Bonds is currently provided by Wells Fargo Bank, N.A. pursuant to the terms of an irrevocable direct pay letter of credit. The Pledged Revenues are pledged to the obligations of the University with respect to the 2001 Bonds and the 2006B Bonds, including the payment of the purchase price of tendered 2001 Bonds, and the payment of principal and interest on the 2001 Bonds and the 2006B Bonds, on a parity basis with the pledge of the Pledged Revenues with respect to the Bonds.

It is possible that current interest rates on the 2001 Bonds could be substantially higher than current rates, or that the University would be required to make substantial payments for tendered 2001 Bonds. The effect on the University of any such increase in the interest rate or a requirement that the purchase price be paid for all or a substantial portion of the 2001 Bonds could be material.

If the 2006B Bonds are not redeemed as described in "PLAN OF FINANCE," the University will continue to be subject to the risk that the letter of credit supporting the 2006B Bonds will not be renewed or that the fees for extending or replacing such letter of credit or the interest rates associated with such 2006B Bonds could be substantially higher than current fees and rates. If the University is not able to extend or replace such letters of credit, or if certain events occur under the agreement relating to the letter of credit, the University could be required to repay the principal of the 2006B Bonds over a shorter period than the regularly scheduled amortization, or , in certain circumstances, could be required to repay such principal immediately. The effect on the University of any such increase in the fees and rates or a requirement that principal be repaid immediately or over a shorter period of time than the regulatory scheduled amortization could be material.

If issued, the 2012B Bonds will initially be issued as variable rate bonds, the interest rate on which is calculated in accordance with a LIBOR index-based formula, will be subject to mandatory tender after seven years unless such period is extended, and may be subject to mandatory tender or acceleration or the imposition of default interest rates on certain dates or upon the occurrence of certain events. The effect on the University of any such increase in the interest rate or a requirement that the principal be paid immediately could be material.

Swap Agreement Interest Rate Risk

The University previously entered into interest rate swap agreements relating to the 2001 Bonds, the 2006A Bonds and the 2006B Bonds. See "INTEREST RATE SWAPS" for information regarding the interest rate swaps. There are a number of risks associated with swaps that could affect the value of the interest rate swap agreements and the ability of the University to meet its obligations with respect to the interest rate swap agreements and the Bonds. These risks include, among others: counterparty risk – the failure of a counterparty to make required payments; credit risk – the occurrence of an event modifying the credit rating of the University or its counterparty; termination risk – the need to terminate the transaction in a market that dictates a termination payment by the University; and tax risk – the risk created by potential tax events that could affect swap payments. Swap agreements are subject to periodic "mark-to-market" valuations. The interest rate swap agreements (and any similar future agreements) may, at any time, have a positive or negative value to the University. If the University chooses to terminate a swap agreement or if a swap agreement is terminated by the counterparty, the University may be required to pay a termination payment to the counterparty, and such payment may adversely affect the University's financial condition.

Index Rate Risk

The University's obligations under the interest rate swap agreement described in "INTEREST RATE SWAPS" are calculated based on the LIBOR index rate and, if issued, the 2012B Bonds will initially be bear interest at rates based on the LIBOR index rate. Recent information has called into question the integrity of the process for determining LIBOR and the full implications of such information are unknown at this time. No assurance can be given that LIBOR for a given date accurately reflects the London interbank rate or the rate applicable to actual loans in U.S. dollars for the applicable period, or that the manner in which the interest settlement rate of the British Banker's Association for U.S. dollar deposits will not change. The effect on the University of any increase in the LIBOR index rate, including increases as a result of changes in the manner in which such rate is determined, could be material.

TAX MATTERS

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the Bonds and the facilities financed with proceeds of the Bonds and certain other matters. The Authority and the University have covenanted to comply with all applicable requirements.

Bond Counsel's opinion is subject to the condition that the Authority and the University comply with the above-referenced covenants and, in addition, will rely on representations by the Authority, the University and their advisors with respect to matters solely within the knowledge of the Authority, the University and their advisors, respectively, which Bond Counsel has not independently verified. If the Authority or the University fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing taxability occurs. Bond Counsel has further relied on the opinion of Davis Wright Tremaine LLP, counsel to the University, to the effect that the University is exempt from federal income tax pursuant to Section 501(a) of the Code by virtue of being an organization described in Section 501(c)(3) of the Code and that, to such counsel's knowledge, the facilities financed with the proceeds of the Bonds are not being used in an unrelated trade or business of the University within the meaning of Section 513(a) of the Code.

Except as expressly stated above, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and compliance with covenants of the Authority and University. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Bonds. Owners of the Bonds are advised that, if the IRS does audit the Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the Authority as the taxpayer, and the owners of the Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

***Not* Qualified Tax-Exempt Obligations**

The Authority has *not* designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

Premium

An amount equal to the excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on that Bond. A purchaser of a Bond must amortize any premium over that Bond's term using constant yield principles, based on the Bond's yield to maturity. As premium is amortized, the purchaser's basis in the Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium property allocable to the purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and the state and local tax consequences of owning such Bonds.

Original Issue Discount

The initial public offering price of certain Bonds (the "Original Issue Discount Bonds"), is less than the stated redemption price at maturity. In such case, the difference between (i) the stated amount payable at the maturity of an Original Issue Discount Bonds and (ii) the initial public offering price of that Original Issue Discount Bond constitutes original issue discount with respect to that Original Issue Discount Bond in the hands of the owner who purchased that Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds. The initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to an Original Issue Discount Bond equal to that portion of the amount of the original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by the initial owner.

In the event of the redemption, sale or other taxable disposition of an Original Issue Discount Bond prior to its stated maturity, however, the amount realized by the initial owner in excess of the basis of the Original Issue Discount Bond in the hands of its initial owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by the initial owner) is includable in gross income. Purchasers of Original Issue Discount Bonds should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and the state and local tax consequences of owning Original Issue Discount Bonds.

Proposed Tax Legislation; Miscellaneous

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. For example, proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal tax purposes of interest on obligations such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

FINANCIAL ADVISORS

The Authority has retained Springsted Incorporated, Public Sector Advisors, of Saint Paul, Minnesota, as financial advisor (the "Authority's Financial Advisor") in connection with the issuance of the Bonds. Prager & Co., New York, New York (the "University's Financial Advisor" and, together with the Authority's Financial Advisor, the "Financial Advisors"), serves as financial advisor to the University in connection with the issuance of the Bonds.

In connection with the Official Statement, the Financial Advisors have relied upon University officials and other sources that have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisors have not been engaged, nor have they undertaken, to independently verify the accuracy of such information. The Financial Advisors are not public accounting firms and have not been engaged by the Authority or the University to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisors are independent advisory firms and are not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Bonds.

UNDERWRITING

The Bonds are being purchased for reoffering by George K. Baum & Company, as underwriter (the "Underwriter"). The purchase contract entered into among the Underwriter, the Authority and the University provides that the Underwriter will purchase all of the Bonds, if any are purchased, at a price of $38,266,988.69 (which represents the principal amount of the Bonds, plus a net original issue premium of $3,577,135.10, less an underwriter's discount of $115,146.41). The Underwriter intends to offer the Bonds to the public initially at the offering prices (or prices corresponding to yields) set forth on the inside front cover of this Official Statement, which offering prices may subsequently change without any requirement of prior notice. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices.

INDEPENDENT AUDITOR'S REPORT

The financial statements of the University as of and for the years ended June 30, 2011 and June 30, 2010, included in Appendix B to this Official Statement have been audited by KPMG LLP, independent auditors, as stated in their report appearing therein. KPMG LLP, the University's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

CONFLICTS OF INTEREST

Some or all of the fees of the Underwriter, the Financial Advisors, Underwriter's counsel and Bond Counsel are contingent upon the issuance and sale of the Bonds. From time to time, Bond Counsel serves as counsel to the Underwriter in connection with transactions other than the issuance of the Bonds. None of the members or other officers of the Authority have interests in the issuance of the Bonds that are prohibited by applicable law.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, have assigned the Bonds ratings of "A1" with a stable outlook and "A+" with a stable outlook, respectively. Such ratings reflect only the views of the applicable rating agency at the time the rating is given, and the Authority makes no representation as to the appropriateness of the ratings. An explanation of the significance of such rating may be obtained only from the applicable rating agency. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward, suspended or withdrawn entirely by the applicable rating agency, if, in its judgment, circumstances so warrant. Any such downward revision, suspension or withdrawal may have an adverse effect on the market price of the Bonds.

MATERIAL LITIGATION

The Authority

There is no pending litigation currently restraining or enjoining the issuance, sale or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings under which they are to be issued. Neither the creation, organization or existence, nor the title of the present members or other officers of the Authority to their respective offices, is being contested. There is no litigation pending which in any manner questions the right of the Authority to issue the Bonds and apply the proceeds in accordance with the provisions of the Act, the Indenture and the Loan Agreement.

The University

There is no controversy or litigation of any nature now pending or, to the knowledge of the University, threatened, against the University restraining or enjoining the issuance, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds or any proceedings of the University in connection with the issuance, sale or delivery thereof, the pledge or application of money or security provided for the repayment of the Bonds, or the existence or powers of the University. There is no litigation of any nature pending, or to the knowledge of the University, threatened, which, if decided adversely to the University, could materially adversely affect the operations or financial condition of the University.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds by the Authority are subject to the approving legal opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel is included as Appendix D of this Official Statement. Bond Counsel has reviewed this Official Statement only to confirm that the portions of it describing the Bonds and the authority to issue them conform to the Bonds and the applicable laws under which they are issued.

Certain legal matters will be passed upon by Davis Wright Tremaine LLP, Seattle, Washington, as counsel to the University and by Foster Pepper PLLC, Seattle, Washington, Counsel to the Underwriter. Any opinion of Underwriter's counsel will be rendered solely to the Underwriter, will be limited in scope, and cannot be relied upon by investors.

CONTINUING DISCLOSURE

The University, as an "obligated person" within the meaning of paragraph (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 CFR 240.15c2-12) (the "Rule"), will undertake in the Loan Agreement to provide the following information as described below:

(1) Annual Financial Information;

(2) Audited Financial Statements, if any; and

(3) Listed Event Notices.

The University shall while any Bonds are Outstanding provide the Annual Financial Information to U.S. Bank National Association, as agent of the University and Authority (the "Agent"), on or before January 1 of each year (the "Submission Date"), beginning in 2013, and the Agent shall provide to the MSRB, such Annual Financial Information on or before January 15 beginning in 2013 (the "Report Date") while any Bonds are Outstanding or, if not received by the Agent by the Submission Date, then within five Business Days of its receipt by the Agent. The University shall include with each submission of Annual Financial Information to the Agent a written representation addressed to the Agent to the effect that the Annual Financial Information is the Annual Financial Information required by this undertaking and that it complies with the applicable requirements of the Loan Agreement. The University may adjust the Submission Date and the Report Date if the University changes its Fiscal Year by providing written notice of the change of Fiscal Year and the new Submission Date and Report Date to the Agent and the MSRB; provided that the new Report Date shall be no later than seven months after the end of the new Fiscal Year and the new Submission Date shall be no later than 30 days prior to the Report Date, and provided further that the period between the final Report Date relating to the former Fiscal Year and the initial Report Date relating to the new Fiscal Year shall not exceed one year in duration. It shall be sufficient if the University provides to the Agent and the Agent provides to the MSRB the Annual Financial Information by specific reference to documents available to the public on the MSRB's internet website or filed with the Securities and Exchange Commission.

If not provided as part of the Annual Financial Information, the University shall provide the Audited Financial Statements to the Agent when and if available while any Bonds are Outstanding and the Agent shall then promptly provide the MSRB with such Audited Financial Statements.

Whenever the University obtains knowledge of the occurrence of a potential Listed Event, the University shall, within five Business Days of obtaining such knowledge and in any event no more than eight Business Days after the occurrence of such event, determine if such event is in fact a Listed Event that is required by the Rule to be disclosed and provide the Agent with notice and instructions regarding disclosure of that event.

Within five Business Days of obtaining such knowledge the Trustee is to notify the University whenever, in the course of performing its duties as Trustee under the Indenture, it identifies an occurrence which may require the University to provide a Listed Event Notice pursuant to the Loan Agreement; provided that failure of the Trustee to so notify the University shall not constitute a breach by the Trustee of any of its duties and responsibilities under the Indenture or the Loan Agreement.

If the University has determined that a Listed Event is required to be disclosed then the University shall prepare a Listed Event Notice and provide the same to the Agent along with instructions to file such Notice. If the University determines that an event is not required to be disclosed as a Listed Event then the University shall so notify the Agent in writing and instruct the Agent not to report the occurrence. If the Agent has been provided with a written notice describing a Listed Event or a potential Listed Event, and is instructed by the University to report the occurrence of such Listed Event, the Agent shall, within two Business Days of its receipt of such written notice and in any event no more than ten Business Days after the occurrence of the Listed Event, file the notice with the MSRB and send a copy to the University and the Authority.

If by five Business Days prior to the Submission Date specified in Section 815(c)(1) the Agent has not received a copy of the Annual Financial Information, the Agent is to contact the University to determine if the University is in compliance with the undertaking to provide continuing disclosure. If the Agent is unable to verify that the Annual Financial Information has been provided to the MSRB by the Submission Date, the Agent shall, without further notice, the Agent shall, without further direction or instruction from the University, provide in a timely manner to the MSRB notice in substantially the form attached to the Loan Agreement, of any failure while any Bonds are Outstanding by the Agent to provide to the MSRB Annual Financial Information on or before the Report Date (whether caused by failure of the University to provide such information to the Agent, by the Submission Date or for any other reason). For the purposes of determining whether information received from the University is Annual Financial Information, the Agent shall be entitled conclusively to rely on the University's written representation made pursuant to the Loan Agreement.

If the University provides to the Agent information relating to the University or the Bonds, which information is not designated as a Listed Event Notice, and directs the Agent to provide such information to information repositories, the Agent will provide such information in a timely manner to the Authority and the MSRB.

The following are the definitions of the capitalized terms used under this heading and not otherwise defined in this Official Statement.

"Agent" means U.S. Bank National Association, its successors and assigns, acting as Agent for the University and the Authority.

"Annual Financial Information" means the financial information (which shall be based on financial statements prepared in accordance with generally accepted accounting principles ("GAAP")) or operating data with respect to the University, provided at least annually, of the type included in Appendix A to this Official Statement under the headings identified in Appendix E.

"Audited Financial Statements" means the University's annual financial statements, prepared in accordance with GAAP, which financial statements have been audited by a firm of independent certified public accountants.

"Listed Event" means any of the following events, if material, with respect to the Bonds:

(a) Principal and interest payment delinquencies;

(b) Non-payment related defaults, if material;

(c) Unscheduled draws on debt service reserves reflecting financial difficulty;

(d) Unscheduled draws on credit enhancements reflecting financial difficulty;

(e) Substitution of credit or liquidity providers, or their failure to perform;

(f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(g) Modifications to rights of Bondholders, if material;

(h) Bond calls, if material, and tender offers;

(i) Defeasances;

(j) Release, substitution, or sale of the property securing repayment of the Bonds, if material;

(k) Rating changes;

(l) Bankruptcy, insolvency, receivership or similar event of the University. For purposes of this (l), any such event will be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the University in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the University, or the entry of an order confirmation a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the University;

(m) The consummation of a merger, consolidation, or acquisition involving the University, or the sale of all or substantially all of the assets of the University, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

"Listed Event Notice" means written or electronic notice of a Listed Event.

The continuing obligation of the University to provide Annual Financial Information, Audited Financial Statements and Listed Event Notices and the Agent's obligations described above will terminate immediately once the Bonds are no longer Outstanding. The provisions described above will be null and void in the event that the University delivers to the Agent and the Authority an opinion of Bond Counsel to the effect that those portions of the Rule which require such provisions are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; provided that the Agent must provide notice of such delivery and the cancellation of the provisions summarized above to the MSRB.

The provisions described above may be amended or waived pursuant to certain conditions set forth in the Loan Agreement, provided that (i) if the amendment or waiver relates to the provisions regarding the University's undertaking to provide Annual Financial Information, Audited Financial Statements and Listed Event Notices, or the definition of "Audited Financial Statements," it may only be made in connection with a change in circumstances that arises from a change in legal requirements, law, or the identity, nature or status of an obligations person with respect to the Bonds, or the type of business conducted; (ii) the undertaking, as amended or taking into account such waiver would have complied with the rule at the time or original issuance of the Bonds, after taking to account any amendments or interpretations of the Rule, as well as any change in circumstances; and (iii) the amendment or waiver is either (a) approved by the Registered Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Loan Agreement with the consent of the Registered Owners, or (b) does not, in the opinion of nationally recognized Bond Counsel, materially impair the interests of the Registered Owners or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of the Loan Agreement relating to the University's continuing disclosure obligation, the University is to describe the amendment or waiver in the next Annual Financial Information and include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the University. In addition, if the amendment or waiver relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change is to be given in the same manner as for a Material Event, and (ii) the Annual Financial Information for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Any failure by the University to perform in accordance with the above provisions will not constitute a "Loan Agreement Default." Neither the Authority nor the Agent has any power or duty to enforce the above provisions; however, the holders of the Bonds within the meaning of the Rule may enforce these provisions.

The University has not failed to comply with its continuing disclosure obligations with respect to any of its obligations.

The Authority will comply with any ongoing disclosure requirements with respect to the Bonds that may be imposed upon it in the future by the Securities Exchange Commission or any other regulatory body.

MISCELLANEOUS

All of the summaries or descriptions of provisions of the Indenture, the Loan Agreement and other documents are made subject to all of the provisions of law and such documents, and these summaries do not purport to be complete statements of such provisions. Reference is hereby made to such documents for further information in connection therewith. Copies of the aforementioned documents may be obtained from the Trustee in Seattle, Washington.

Appendices A and B contain certain information with respect to the University. The information contained in such appendices has been furnished by the University, and the Authority makes no representations or warranties whatsoever with respect to the information contained in such appendices.

The agreements of the Authority with the Bondowners are fully set forth in the Indenture. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Any statements herein involving matters of opinion or estimates, whether or not expressly so stated, are intended merely as such and not as representations of fact. This Official Statement has been approved by the Authority and the University.

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY

By: /s/ Kim Herman
Executive Director

THE UNIVERSITY OF PUGET SOUND

By: /s/ Sherry B. Mondou
Vice President for Finance and Administration

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APPENDIX A

SELECTED INFORMATION CONCERNING THE UNIVERSITY

APPENDIX A

SELECTED INFORMATION CONCERNING THE UNIVERSITY

The information in this Appendix A has been provided solely by the University and is believed to be reliable, but has not been verified independently by the Authority or the Underwriter. Neither the Authority nor the Underwriter makes any representations whatsoever for the accuracy, adequacy or completeness of such information.

General

Founded in 1888, The University of Puget Sound (the "University") in Tacoma, Washington, is a private educational institution organized and existing under the laws of the State of Washington as a nonprofit corporation and 501(c)(3) organization.

The University is an independent, residential, undergraduate liberal arts college with selected graduate programs that are intended to build effectively on a liberal arts foundation. As a community devoted to learning, the University maintains a strong commitment to teaching excellence, scholarly engagement, and meaningful 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. An education from the University, 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.

A highly qualified faculty delivers a rigorous program in the liberal arts and sciences, serving approximately 2,500 undergraduate student FTEs pursuing more than 50 traditional and interdisciplinary areas of study and approximately 200 student FTEs enrolled in graduate programs in education, occupational therapy, and physical therapy. The University draws students from 49 states and 13 countries; approximately 77 percent of the fall 2012 first-year class will come from outside Washington State. The majority of students are in the top 25 percent of their high school class, with average SAT scores for critical reading and math estimated to be 1269 for freshmen entering fall 2012.

The University receives support from alumni, parents and other friends of the University, including prestigious foundations such as Mellon, Luce, Arthur Vining Davis, Rockefeller Brothers, Starr, Gates, and the Murdock Trust. The University has a Phi Beta Kappa chapter, is classified as a Liberal Arts I college by the Carnegie Foundation for the Advancement of Teaching, and is leading small college for Watson Foundation fellowships, Fulbright scholarships, and Peace Corps service.

Strategic Plan

The University established the following strategic goals in 2006 in support of its residential liberal arts mission:

- Innovate: Enhance and distinguish the Puget Sound experience
- Inspire: Build an inspiring physical campus for learning
- Engage: Forge lifelong relationships
- Invest: Strengthen financial position

Success towards these goals to date include:

- Curricular innovation, including new programs in global studies, biochemistry, molecular & cellular biology, neuroscience, and Asian languages & cultures, and numerous recognitions for faculty and students.

- Campus named by Princeton Review as one of America's most beautiful. Implemented many components of the University's 20-year *Tapestry of Learning* campus master plan, including renovation of and substantial addition to the science center, construction of a new health sciences building, construction of 12'-wide granite commencement walk through the north-south spine of campus, and construction of a new primary entrance to campus.
- Established alumni and parent councils and substantially increased alumni engagement and the volunteer structure.
- Increased annual giving to the Puget Sound Fund by 82% since 2005 and launched a $125 million campaign with $85.3 million committed as of June 30, 2012.

In step with these goals and considering the economic climate and competitive environment, the University is focused on the recruitment of best-fit students and their success to graduation, enhancement of national reputation and brand, and innovation in managing costs in an efficient and effective manner.

Governance

The University is governed by an independent Board of Trustees consisting of as many as 39 members. Trustees are elected by the Board and serve three-year, renewable terms. Trustee officers include a Chair, one or more Vice Chairs, a Treasurer, and a President. Non-trustee officers of the corporation include Academic Vice President & Dean of the University, Vice President for Finance and Administration, Vice President for University Relations, Vice President for Student Affairs & Dean of Students, Vice President for Enrollment, Secretary of the Corporation, Associate Vice President for Accounting & Budget Services and Controller, and Associate Vice President for Treasury. Each officer of the corporation is chosen annually by the Board of Trustees.

Committees of the Board include the following standing committees:

- Executive Committee
- Academic and Student Affairs Committee
- Development and Alumni Relations Committee
- Finance and Facilities Committee and its three subcommittees:
    - Facilities Subcommittee
    - Investment Subcommittee
    - Real Estate Subcommittee
- Audit Committee
- Compensation Committee
- Committee on Trusteeship
- Honorary Degree Committee

The Board typically meets three times a year in February, May and October, and committees meet more or less often as needed.

Board of Trustees (as of July 2012)

<u>Trustee Officers</u>
Class year is indicated for trustees who are alumni of the University. "P" indicates that the trustee is a parent of a University graduate.

Richard M. Brooks '82, Chair
Robert C. Pohlad P'07, Vice Chair
Ronald R. Thomas, President
George E. Matelich '78, Treasurer

Administration – The President's Cabinet

Office of the President. The President is the chief executive officer of the corporation and exercises the usual executive powers pertaining to the office of President, subject to the control of the Board of Trustees and its Executive Committee and as outlined in the bylaws of the University. In accordance with the bylaws, the President is a voting trustee and ex officio member of all committees. Ronald R. Thomas, Pd.D. was elected president on February 6, 2003, and assumed his responsibilities as University's thirteenth president on July 16, 2003.

President Thomas brings to the University a record of leadership in higher education and expertise in strategic and master planning. Prior to his arrival at the University, he was a faculty member at the University of Chicago, Harvard University and Trinity College in Hartford, Connecticut. At Trinity, he also served as college vice president and as acting president, leading the implementation of Trinity's master plan and its nationally recognized engagement with the community. He has been widely honored for his achievements, including being named a Mellon Faculty Fellow in the Humanities at Harvard, receiving Trinity's Dean Arthur A. Hughes Award for distinguished teaching achievement, and being granted an honorary doctorate from Trinity in recognition of his contributions to higher education as "an insightful scholar, masterful teacher [and] skillful administrator." A past member of the board of directors for the American Council on Education and the Chronicle of Higher Education and New York Times Higher Education Cabinet, he is the former chair of the board of the Independent Colleges of Washington and served on the President's Council for NCAA Division III. Dr. Thomas is a current member of the executive committee of the Annapolis Group, a consortium comprised of approximately 130 leading national independent liberal arts colleges.

Office of the Academic Vice President and Dean of the University. The Academic Vice President is the chief academic officer, responsible for leadership of 230 faculty members in 37 curricular departments and interdisciplinary programs and management of a team of 110 staff members in academic support programs, library, and Division III athletics. Regular duties include tenure-line faculty hiring and evaluation, chairing the University's Budget Task Force, implementation of the Civic Scholarship Initiative, and work with the Faculty Advancement Committee, Faculty Senate, Professional Standards Committee, strategic and master planning. Reporting to the

Academic Vice President are the Director of Institutional Research, the Chief Diversity Officer, the Director of Library, the Director of Athletics, and three Associate Academic Deans, one of whom also serves as Dean of Graduate Studies.

The Academic Vice President and Dean of the University is Dr. Kristine M. Bartanen, who is a tenured faculty member in the Communication Studies Department. Dr. Bartanen has served in her current role since 2004. She served as Vice President for Student Affairs and Dean of Students 1999-2004; Associate Academic Dean, with responsibilities that included management of the University's academic budget, curriculum, and short-term hiring, from 1995-1999; chaired the Communication and Theatre Arts Department from 1986 to 1993; and served as Director of Forensics and professor of communication from 1978-1995. Dr. Bartanen holds Ph.D. and M.A. degrees from the University of Iowa and a B.A. degree magna cum laude from Pacific University-Oregon. She has published scholarly papers on political argumentation, particularly judicial rhetoric; has held a number of leadership roles in Pi Kappa Delta forensic honorary and other national and regional forensics organizations; and has presented frequently to such groups as Council of Independent Colleges, Annapolis Deans, and Association of American Colleges and Universities.

Office of the Vice President for Finance and Administration. The Vice President for Finance and Administration is the chief financial and administrative officer responsible for developing and implementing plans, policies and strategies to nurture the University's financial position, inspiring physical environment, effective and efficient services and systems, sustainable practices, community engagement, and sound administrative practices. This position supervises seven associate vice presidents responsible for 250 staff in the areas of Accounting and Budget Services, Treasury and Procurement, Student Financial Services, Technology Services, Human Resources and student Career and Employment Services, Business Services and Risk Management, and Facilities Services. The Vice President for Finance and Administration provides support to board committees concerned with finance, facilities, investments, gifts of real estate, audit, executive compensation, and debt issuance. The position serves as general manager of the Associated Students of the University of Puget Sound (ASUPS), and also serves on a variety of campus committees, including master plan implementation team and the Budget Task Force.

The Vice President for Finance and Administration is Ms. Sherry B. Mondou who joined the college in 1991, serving in her current position since 2004. She served as Associate Vice President for Finance from 1999-2004 and as Controller from 1991-1999. Prior to joining the University, Ms. Mondou held financial management positions with three publicly traded companies after beginning her career with Peat Marwick Mitchell & Co (now KPMG). Ms. Mondou earned a bachelor of arts degree in business administration with an accounting concentration from the University of Washington. She participated in the Harvard Institute for Management and Leadership in Education in 2004. She is a member of Washington Society of Certified Public Accountants, National Association of College and University Business Officers, and Pacific Consortium of West Coast Small College Business Officers. She is a member of the Board of Trustees of Charles Wright Academy.

Office of the Vice President for University Relations. The mission of the Office of University Relations is to engage alumni, parents, friends, corporations, foundations, and others in the life of the University and to build and foster a culture of philanthropy that results in the receipt of charitable contributions in support of the mission of the University. The office consists of seven functional areas including alumni and parent relations, annual giving, capital and planned giving, corporate and foundation relation, donor relations, information services, and research.

Mr. David R. Beers has served as vice president for University relations since September 2005. During his seven years at the University, Mr. Beers has focused on creating and building the University's Alumni and Parents Councils and on successfully completing the University's $125 million comprehensive campaign. Prior to his arrival at the University, Mr. Beers held positions at Colby College, Colby-Sawyer College, Worcester Academy, and Worcester Polytechnic Institute.

Office of the Vice President for Student Affairs and Dean of Students. The Vice President for Student Affairs and Dean of Students is responsible for most of the co-curricular and extra-curricular programs of the institution, in this manner complementing the academic and learning mission of the college. Reporting to the senior student affairs officer are the departments of Residence Life, Student Activities; Counseling, Health and Wellness, Greek Life, Judicial Affairs, Multicultural Student Services, Off-Campus Student Services; Spirituality, Service and Justice, Community Involvement and Action Center, Wheelock Student Center, and Outdoor Programs. The division is focused on forging strong and seamless connections with the classroom experience, enhancing student success and retention, fully developing the residential experience, creating a welcoming climate for diverse student populations, and establishing a comprehensive student learning outcomes assessment model.

The Vice President for Student Affairs and Dean of Students is Mr. Mike Segawa who joined the University in February, 2004 as the Associate Dean of Students. He was appointed to his current position in November, 2006. Prior to his arrival, Mr. Segawa served as Director of Housing at The Evergreen State College from 1995-2004 and in residential life at the University of Washington from 1983-1995, the last nine years as the senior residential life officer. Mr. Segawa has been an active leader in national student affairs associations, most recently serving as the president of NASPA: Student Affairs Administrators in Higher Education from 2009-2010. He was a member of the NASPA national board for nine years and served as a regional vice president, national conference chair twice, and twice co-authored chapters for association books. He earned his Master's in Education degree from Colorado State University in 1981 and a bachelor in arts with a major in political science from the University of California, Irvine in 1979 where he was elected to Phi Beta Kappa.

Office of the Vice President for Enrollment. The Vice President for Enrollment is the chief enrollment officer of the University responsible for freshman and transfer admission policy and operations. The Vice President, with the President's Cabinet, the Associate Vice President for Student Financial Services and the Director of Admission, develops and implements financial aid policy. The Vice President also serves on the campus-wide Retention Committee. In cooperation with the Office of Communications, the Vice President for Enrollment develops print and electronic messaging for prospective students, their parents and other key constituencies.

The Vice President for Enrollment is Dr. George H. Mills, Jr. who joined the University's admission staff in 1970 and has served as the senior admission officer for the University since 1978, the past 17 years as vice president. Early in his career Dr. Mills served as director of academic advising, career planning and placement. In recent years he also served as interim director of alumni relations. Dr. Mills will soon transition from his current role to join the University's campaign fundraising effort, assisting with the cultivation and stewardship of alumni and others capable of making significant contributions to the campaign. The University is conducting a national search for a VP for Enrollment and an appointment is expected in the fall of 2012. Dr. Mills will continue in his current role until such appointment is made.

During Dr. Mills's tenure as chief admission officer, SAT scores of the entering freshman class have increased by 25%, the acceptance rate has improved from 85% in the mid-1980's to 52% in the fall of 2011. The percentage of students from outside Washington has doubled to 80% and the number of students of color has increased from just over 5% to more than 20%. In the last 10 years alone, freshman applications have increased from just over 4,000 to more than 7,000. Dr. Mills holds bachelor of science degrees in biology and chemistry and an M.S. in biology, both from the University of Puget Sound. His Ph.D., from the University of Washington, is in higher education history and administration. Dr. Mills has served on the Board of Trustees of the College Board, the Annie Wright School, the Charles Wright Academy, and currently serves on the Board of Trustees of the Institute for Educational Advancement.

Secretary of the Board of Trustees. The Secretary of the Board of Trustees maintains all records of the board of trustees, including meeting minutes and resolutions, provides notice of meetings in accordance with the provisions of the bylaws or as required by law, and performs other duties of the secretary as required by the bylaws including other duties as may be assigned by the Board of Trustees. This position also serves as director of the office of the president, reporting directly to the President, and in such capacity facilities the work of the president's cabinet and oversees the work of the staff of the office of the president.

Ms. Mary Elizabeth Collins was elected Secretary in 2005 following service in increasingly responsible positions within the Office of University Relations from 1992 until that time, serving as Director of Corporation and Foundation Relations and capital giving officer immediately prior to her election. Ms. Collins holds a bachelor of arts degree in Asian studies from the University of Puget Sound (1984).

Office of Communications. The Executive Director of Communications is responsible for providing strategic communications and marketing services to enhance the image and reputation of the University with key stakeholders. The Office of Communications works to build recognition for the University as an outstanding national liberal arts college in the Pacific Northwest; to foster goodwill with alumni, students, parents, the media, the community, and friends of the University; and to anticipate and respond to challenges to institutional reputation promptly, positively, and transparently. The staff includes specialists in editorial services, graphic design, photography, online communications, public events, and media relations, and produces *Arches*, the quarterly alumni magazine.

Ms. Gayle McIntosh has served as executive director of communications since 2003, working closely with other offices on institutional branding and identity, admission marketing campaigns, alumni and parent communications, and the $125 million capital campaign. Ms. McIntosh is accredited by the Public Relations Society of America, and previously served as director of communications for KCTS (PBS) Television in Seattle and editor-in chief and manager of foundation relations for KETC (PBS) Television in St. Louis, Missouri. Her educational background includes a bachelor of arts degree in mass communication from the University of Central Missouri and graduate studies in the liberal arts at Washington University in St. Louis.

University Accreditation and Memberships

The University is accredited by the Northwest Commission on Colleges and Universities, an institutional accrediting body recognized by the U.S. Department of Education and by the Council for Higher Education Accreditation. In addition to institutional accreditation, the following programs have specialized accreditation or status: The Bachelor of Science Degree in the Department of Chemistry is approved by the American Chemical Society; the School of Education is approved by the Washington State Office of the Superintendent of Public Instruction; the School of Music is accredited by the National Association of Schools of Music; the Occupational Therapy Program is accredited by the Accreditation Council for Occupational Therapy Education, and the Physical Therapy Program is accredited by the Commission on Accreditation in Physical Therapy Education.

Campus Facilities

The University's Tudor Gothic buildings are set amid 97 acres of native fir groves, lawns and landscaping. Located in Tacoma's residential North End, the campus is 35 miles south of Seattle and within convenient traveling distance to Portland, Oregon and Vancouver, British Columbia. The Puget Sound region offers diverse cultural, artistic and social opportunities, as well as numerous outdoor recreational activities on Puget Sound's waterways and in the nearby Cascade and Olympic Mountain ranges. The University's physical plant consists of approximately 118 buildings with 1.4 million square feet. Since 1998, the University has invested $218.4 million in major capital projects, including the following:

Recently Completed Projects	Fiscal Year	Cost ($ millions)	% Debt	% Gift and University Funded
Harned Hall (new science building)	2007	$25.4	0%	100%
Thompson Hall (renovated science building)	2009	$39.7	73%	27%
Facilities Services Complex	2009	$5.8	0%	100%
Weyerhaeuser Hall (health sciences building)	2012	$21.1	0%	100%
Commencement Walk	2012	$3.1	0%	100%

Consistent with the University's 20-year master plan, the major projects shown below are planned for the next five years. Aside from financing the new 135-bed residence hall with Bond proceeds, the University has no additional debt plans at this time.

Project	Estimated Completion Date	Estimated Cost (in thousands)	% Debt Financed	% Gift and University Funded
135-bed residence hall (finance with 2012 bonds)	2013	$18,300	96%	4%
Aquatics/Athletics Facility (fund with campaign gifts)	2017	$17,500	0%	100%

Academic Departments and Programs

African American Studies
Art
Asian Languages & Cultures
Asian Studies
Biochemistry & Molecular Biology
Biology
Business & Leadership
Chemistry
Classics
Communication Studies
Comparative Sociology
Computer Science
Economics
Engineering, Dual Degree
English
Environmental Policy & Decision Making
Exercise Science
Foreign Languages & Literature
Gender Studies
Geology
Global Development Studies
History
Honors
Humanities
International Political Economy
Latin American Studies
Mathematics & Computer Science
Music
Natural Science
Neuroscience
Philosophy
Physics
Politics & Government
Psychology
Religion
Science, Technology & Society
Theatre Arts

The number of degrees awarded during each of the past five years is reflected in the table below:

Academic Year	Bachelor	Masters
2007-08	611	85
2008-09	598	70
2009-10	582	81
2010-11	563	77
2011-12	605	85

Faculty

	Fall 2009	Fall 2010	Fall 2011	Fall 2012
Number of FTE Faculty	249	254	257	255
Number of Full-time Faculty	232	235	240	239
Number of Tenured Faculty	116	122	130	130
% FT faculty who are tenured	50%	52%	54%	54%

Faculty and Staff

The University's workforce has remained stable from year to year, comprised of approximately 700 faculty and staff, 1,100 student-staff, and other temporary positions as needed. Turnover among regular faculty and staff is low and the University is able to fill vacant positions. Faculty and staff participate in governance and budgeting processes. Full-time faculty and staff members receive competitive compensation packages that include health insurance, health reimbursement account contributions, 403(b) retirement contributions, education benefits, paid time off, long-term disability income protection, life insurance and other benefits. See note 8 of the financial statements attached hereto as Appendix B for a description of the defined contribution plan.

The employees of the University are not represented by a union and are not covered by a collective bargaining agreement. The University believes that relations with employees are healthy.

Enrollment and Student Demand

The University is distinguished by an academically talented student body drawn from nearly every state in the nation and a number of foreign countries. The University estimates that approximately 77% of the fall 2012 freshman class to come from high schools outside the state of Washington. The University estimates that the average SAT scores of the freshmen entering fall 2012 will be approximately 1269 for critical reading and math sections.

Fall semester enrollment data for the past four years and an estimate for fall 2012 is provided below:

	Fall 2008	Fall 2009	Fall 2010	Fall 2011	Fall 2012 **Estimated**
FTE Equivalent Enrollments	2,777	2,820	2,784	2,849	2,769
Undergraduate	2,549	2,587	2,559	2,631	2,549
Graduate	223	229	221	217	216
FTE non-matriculants	5	4	4	1	4
Percent Undergraduate	91.8%	91.7%	91.9%	92.3%	92.1%
Freshman Applications	5,580	5,561	6,593	7,195	6,872
Freshman Acceptances	3,646	3,526	3,449	3,730	3,692
Acceptance Rate (%)	65.3%	63.4%	52.3%	51.8%	53.7%
Freshman Matriculants	676	721	625	686	630
Matriculation Rate (%)	18.5%	20.4%	18.1%	18.4%	17.1%
Freshman SAT Scores	1,261	1,258	1,258	1,260	1269
Transfer Applications	287	256	312	305	319
Transfer Acceptances	173	148	154	142	152
Acceptance Rate (%)	60.3%	57.8%	49.4%	46.6%	47.6%
Transfer Matriculations	71	58	69	55	62
Matriculation Rate (%)	41.0%	39.2%	44.8%	38.7%	40.8%
Graduate Applications	547	765	816	674	830
Graduate Acceptances	267	268	359	249	268
Acceptance Rate (%)	48.8%	35.0%	44.0%	36.9%	32.3%
Graduate Matriculations	121	127	115	111	113
Matriculation Rate (%)	45.3%	47.4%	32.0%	44.6%	42.2%

Estimated Geographic Distribution of Fall 2012 Entering Freshmen

State	% of Total
California	29.8
Washington	22.3
Oregon	14.0
Colorado	6.0
Hawaii	4.2
Minnesota	2.6
Idaho	2.3
Alaska	2.0
Nevada	2.0
Utah	1.9
Arizona	1.4
Montana	1.4
All Other States	9.3
Foreign Countries/Territories	.8
Total	100.0

Undergraduate Student Retention

	Percent of Entering Freshmen Returning			Percent of Graduates	
Fall Semester	2nd Year	3rd Year	4th Year	4 Years	by 5th Year
2006	85.8%	78.3%	77.0%	68.3%	75.7%
2007	85.4%	76.7%	78.1%	67.7%	N/A
2008	85.9%	78.1%	78.3%	N/A	N/A
2009	86.0%	80.6%	N/A	N/A	N/A
2010	88.0%	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A

N/A = Not yet Available

Tuition and Fees; Room and Board

The University meets the cost of its operations primarily through tuition, fees, room and board charges, gifts, grants and endowment income. Approximately 87% of the University's annual operating revenues are obtained through tuition, fees, room and board.

	Tuition and Fees Per Full-Time Student Per Year	Room & Board Per Student Per Year
2007-08	$31,895	$8,265
2008-09	$33,975	$8,760
2009-10	$35,635	$9,190
2010-11	$37,225	$9,650
2011-12	$38,720	$10,020

In 2011-12, approximately 61% of the University's full-time undergraduate students resided on campus, with the remainder typically living within one mile of the campus in the surrounding residential neighborhood. All residence hall students are required to purchase a meal plan. Consistent with the University's residential liberal arts mission and consistent with policies at comparable colleges, beginning fall 2012 new students will be required to live on campus for two years and the University's management anticipates that significant numbers of upper division students will continue to choose to live on campus through graduation. With the addition of a 135-bed residence hall in August 2013, the University will have the capacity to house 70% of undergraduate students on campus.

2011-12 Undergraduate Cost Comparison of Northwest Comparison Institutions

Institution	Tuition and Fees
Lewis & Clark College	$38,500
Reed College	$42,800
Whitman College	$40,496
Willamette University	$39,012
Median	**$39,754**
University of Puget Sound	**$38,720**

The University's 2011-12 tuition and fees are 2.6% below the $39,754 median for the comparable Northwest comparison institutions and approximately 3.9% below the $40,279 median for national comparison institutions.

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Financial Aid and Scholarships

The University awards financial assistance to students in the form of scholarships, grants, loans and on-campus employment. Approximately 96% of its students receive some form of financial assistance. During fiscal year 2011-12 the University awarded over $72 million in institutional, federal and state aid based on such qualifications as academic performance, special talent, and financial need.

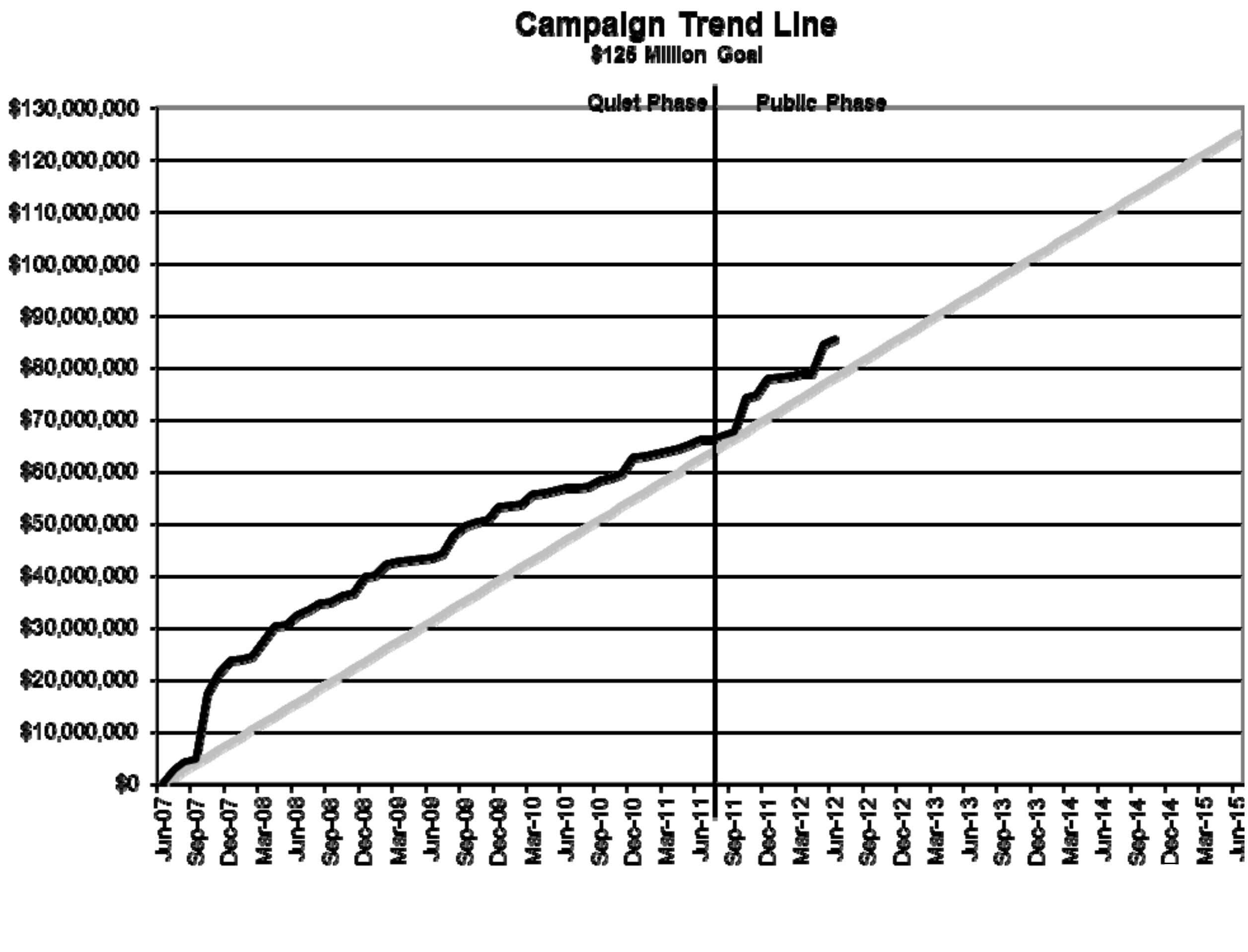
The following table shows summary information concerning financial aid for the past five years.

	Source of Financial Aid (Dollars in thousands)				
Fiscal Year	2007-08	2008-09	2009-10	2010-11	2011-12
Student Tuition and Fee Revenue	$86,537	$92,650	$99,194	$102,174	$107,232
Institutional Financial Aid					
Tuition-Funded Scholarships and Grants	23,021	25,098	29,354	31,457	34,827
Endowment-Funded Scholarships and Grants	4,341	4,950	5,184	5,442	5,294
Gift-Funded Scholarships and Grants	269	389	666	501	542
Perkins Loans	2,579	2,174	1,582	1,427	1,484
Total Institutional Aid	$30,210	$32,611	$36,786	$38,827	$42,147
Federal & State Pass-Through Financial Aid					
Federal Funding					
Pell and Similar Grants	1,862	1,988	2,903	3,411	2,917
Direct Loans	15,978	17,925	21,428	21,261	22,904
Total Federal Funding	$17,840	$19,913	$24,331	$24,672	$25,821
State Funding					
Washington State Need Grant	839	850	841	884	791
Washington Educational Opportunity Grant	13	8	4	3	0
Washington Scholars	38	74	68	85	71
Other Washington Grants	27	58	79	26	11
Total State Funding	$917	$990	$992	$998	$873
Total Pass-Through Financial Aid	$18,757	$20,903	$25,323	$25,670	$26,694
Student Work-Study					
Federal Work-Study	$946	$1,132	$1,253	$1,423	$1,286
State Work-Study	$995	$1,091	$1,046	$752	$481
Campus Work-Study	$1,634	$1,819	$1,812	$1,694	$1,534
Total Student Work-Study	$3,575	$4,042	$4,111	$3,869	$3,301
Total Aid	$52,542	$57,556	$66,220	$68,366	$72,142
As % of Tuition and Fee Revenue	60.72%	62.12%	66.76%	66.91%	67.28%

Comprehensive Campaign

The University is in the public phase of an eight-year $125 million comprehensive campaign scheduled to conclude June 30, 2015. Campaign objectives and progress as of June 30, 2012, are shown below.

Campaign Objective		**Committed as of June 30, 2012**	**Cash in Hand as of June 30, 2012**
	(Dollars in thousands)		
Endowment in support of student financial aid, faculty scholarship, and student engagement.	$63,000	$41,983	$34,347
Facilities, including center for health sciences (completed), aquatics center and athletics improvements	$35,500	$22,262	$18,303
Current Operations and other	$26,500	$21,108	$18,711
Total	**$125,000** **100%**	**$85,353** **68.3%**	**$71,361** **57.1%**



Financial Information

Audited Financial Statements: The annual financial report of the University for the year ended June 30, 2011, is included as Appendix B.

Summary Financial Information**:** Set forth below is certain financial information relating the University for fiscal years 2009, 2010, and 2011.

Statement of Financial Position			
	(Dollars in thousands)		
	2009	**2010**	**2011**
ASSETS:			
Cash and cash equivalents	$ 29,410	$ 17,617	$ 24,513
Short-term investments	13,670	33,873	19,099
Investment income receivable	88	96	56
Receivables, net	4,920	1,453	2,301
Contributions receivable, net	17,679	14,554	9,323
Inventories	685	757	712
Prepaid expenses and other assets	3,028	3,561	4,364
Student loans receivable, net	16,417	16,156	15,398
Beneficial interest in outside trusts	1,140	1,626	2,035
Assets held under split-interest agreements	7,087	7,172	6,390
Endowment investments	195,505	217,691	251,291
Intangibles, net	384	595	891
Assets restricted for investment in campus facilities	5,000	7,469	132
Campus facilities, net	150,777	152,088	173,315
Total assets	$ 445,790	$ 474,708	$ 509,820
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable	$ 3,932	$ 6,620	$ 6,990
Accrued payroll and other liabilities	9,451	9,851	10,712
Advance deposits from students	1,947	2,543	2,916
Liabilities under split-interest agreements	3,064	2,785	2,576
Government advances for student loans	13,899	13,515	13,122
Asset retirement obligation	5,355	1,571	1,563
Unrealized loss on interest rate swap agreements	8,561	10,961	9,091
Long-term debt	65,380	63,882	62,345
Total liabilities	111,589	111,728	$ 109,315
Net Assets:			
Unrestricted:			
Available for operations	960	970	979
Invested in or designated for campus facilities	98,740	100,628	99,622
Endowment	74,056	80,374	91,364
Designated for other specific purposes	8,438	10,873	16,410
Total unrestricted	182,194	192,845	208,375
Temporarily restricted	58,052	71,373	90,565
Permanently restricted	93,955	98,762	101,565
Total net assets	334,201	362,980	400,505
Total liabilities and net assets	$ 445,790	$ 474,708	$ 509,820

Statement of Activities

	(Dollars in thousands)		
		Totals	
	2009	**2010**	**2011**
Operating:			
Revenues and gains:			
Student tuition and fees	$ 92,650	$ 99,194	$ 102,174
Less student financial aid	(31,186)	(35,810)	(38,021)
Net tuition and fees	61,464	63,384	64,153
Student room and board	16,110	16,596	17,032
Other auxiliary enterprises	4,086	4,251	3,584
Governmental grants and contracts	2,089	2,070	2,229
Contributions	2,915	3,579	3,714
Endowment income and gains distributed	10,952	11,435	11,182
Interest income	1,003	640	561
Gain on reevaluation of asset retirement obligations	-	3,305	-
Other sources	1,306	1,360	2,249
Total operating revenues and gains	99,925	106,620	104,704
Expenses:			
Educational and general:			
Instruction	44,435	43,880	44,988
Academic support	9,052	8,985	8,875
Student services	16,196	17,364	17,181
Institutional support	12,012	12,282	13,397
Total educational and general expenses	81,695	82,511	84,441
Auxiliary enterprises	18,300	18,339	18,632
Total operating expenses	99,995	100,850	103,073
Net assets released from restrictions	-	-	-
Increase (decrease) in net assets from operating activities	(70)	5,770	1,631
Nonoperating:			
Contributions	8,305	9,504	6,156
Change in allowance for uncollectible promises	(9)	(121)	(2,139)
Net gains (losses) and income on endowment investments,			28,473
net of distributions	(55,711)	14,767	-
Gain on insurance recovery	231	278	-
Actuarial adjustments and other changes	(5,828)	(1,419)	3,404
Net assets released from restrictions	-	-	-
Increase (decrease) in net assets from nonoperating activities	(53,012)	23,009	35,894
Increase (decrease) in net assets	(53,082)	28,779	37,525
Net assets at beginning of the year	387,283	334,201	362,980
Net assets at end of the year	$ 334,201	$ 362,980	$ 400,505

Set forth below is certain estimated financial information relating to the University for the year ending June 30, 2012. This unaudited information has been extracted from unaudited records of the University and not prepared in accordance with generally accepted accounting principles.

Operating Activities - DRAFT - UNAUDITED

	(Dollars in Thousands)
	Totals
	Estimated FY 2012
Revenues and gains:	
Student tuition and fees	$ 108,072
Less student financial aid	(41,277)
Net tuition and fees	66,795
Student room and board	17,962
Other auxiliary enterprises	3,863
Governmental grants and contracts	2,228
Contributions	3,835
Endowment income and gains distributed	10,933
Interest income	501
Other sources	1,240
Total operating revenues and gains	107,357
Expenses:	
Educational and general	$ 86,588
Auxiliary enterprises	19,596
Total operating expenses	106,184
Increase in net assets from operating activities	1,173

Operating Budget Process and Results

Since 1977, the University has benefited from the engagement of faculty, staff, and students in a participative budgeting process. The University's annual budgeting process begins with the important work of the Budget Task Force, a group chaired by the Academic Vice President that includes two students, two faculty, two staff and the Vice President for Finance and Administration, and whose charge is to recommend to the President a balanced budget that advances the University's mission, strategic plan, and long-term health. The President meets with the Budget Task Force early in their process to provide important context and a sense of priorities. Campus members are invited to comment on the budget assumptions prior to the president advancing a recommendation to the Board of Trustees for its approval.

The University has a long history of budgeting conservatively and producing balanced unrestricted operating budgets, typically with a surplus. The operating budget includes a 1% enrollment contingency and assumes full employment for the entire year (without regard to vacancy savings), which provides some budgetary protection against unexpected variations in revenues and expenses. This conservative budgeting has helped the University weather difficult economic periods without disruption of programs. In each of the past four years, total annual enrollment has exceeded 2700 student FTEs, while the budget is based on total annual enrollment of 2650 FTE, or 2624 FTE net of the 1% enrollment contingency. The 2011-12 unrestricted operating budget surplus is estimated at $4.5 million. Total annual 2012-13 enrollment (average of fall and spring) is projected to be above 2700 FTE.

The University is larger than most residential liberal arts colleges, enabling a breadth of offerings attractive to students and enabling economies of scale. The University strives for continuous improvement and successfully cut $2.4 million in targeted expenditures from its operating budget in the past two years due to efficiencies achieved.

Investments

The purpose of the University's endowment is to provide ongoing financial support for operations that will remain stable (or grow) in real or inflation-adjusted terms, as adjusted for new additions to the Endowment. The endowment investment policy and spending policy is established by the Finance and Facilities Committee of the Board and its execution is overseen by its Investment Subcommittee. The primary investment objective of the endowment is to provide a sustainable maximum level of return consistent with prudent risk levels. The specific investment objective is to attain an annual total real return of at least 5% over the long term. It is recognized that support for current operations must be consistent with the long-term growth of the endowment. While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term spending needs with preservation of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the endowment. The endowment spending rate is 5% of the endowment market value averaged over a 36-month period.

The endowment is invested in a diversified portfolio. 99% of the endowment is pooled for investment purposes and the asset allocation as May 31, 2012, is as follows:

ENDOWMENT ASSET ALLOCATION May 31, 2012		
Global Equity		**50.3%**
U.S.	21.5%	
International	12.7%	
Hedged Equity	8.4%	
Private Equity	7.7%	
Global Fixed Income		**27.6%**
Interest Rate Sensitive Strategies	23.8%	
Private Debt	3.8%	
Real Assets		**14.1%**
Timber	2.9%	
Private Energy	4.7%	
Real Estate	5.2%	
Commodities	1.3%	
Absolute Return Hedge Funds		**7.3%**
Cash		**.7%**
Total Pooled Endowment		**100.0%**

The endowment returned 18.1% and 12.4 % for the year ended June 30, 2011, and 2010, respectively.

The University's endowment was valued at $255.6 million as of May 31, 2012. Following is a five-year history of the ending market value of the University's Endowment, Split-Interest Agreements and Outside Trusts:

Year Ended June 30	Endowment	Split-Interest Agreements & Outside Trusts	Total
	(Dollars in thousands)		
2007	$259,302	$11,183	$270,485
2008	$244,480	$10,410	$254,890
2009	$195,505	$8,227	$203,732
2010	$217,691	$8,798	$226,489
2011	$251,291	$8,425	$259,716

Following is a five-year history of annual endowment distributions:

Year Ended June 30	Annual Distribution per Policy 5% of 36-mo. average market value	Spending as a % of beginning of year endowment market value
(Dollars in thousands)		
2007	$ 9,712	4.4%
2008	$10,721	4.1%
2009	$10,952	4.5%
2010	$11,435	5.9%
2011	$11,182	5.2%

Liquidity

Set forth below is information regarding the University's liquidity as of March 31, 2012.

Endowment:		
Daily to weekly	56%	$148,116,000
Monthly	10%	$ 26,449,000
Annual	9%	$ 23,804,000
Greater than annual	25%	$ 66,123,000
Total	100%	$264,492,000
Cash and Short-term investments:		
Daily to weekly	100%	$ 41,658,000

The University has a $5 million line of credit with no outstanding balance as of August 1, 2012.

Outstanding Indebtedness

The following table sets forth the estimated total outstanding indebtedness after the issuance of the Bonds and the refunding of the 2006 Bonds.

Total Anticipated Outstanding Indebtedness as of October 1, 2012

Indebtedness	Final Maturity	Interest Rate	Principal Outstanding (Dollars in thousands)
Washington Higher Education Facilities Authority (WHEFA) Series 1998	2014	Fixed	$775
WHEFA Series 2001	2031	Variable	$10,460
WHEFA, Series 2012A	2042	Fixed	$34,805
WHEFA, Series 2012B	2036	Variable	$29,195
Capital Lease Obligations	2014	Fixed	$59

The 2012B Bonds are anticipated to be issued and sold through a private placement to Wells Fargo Municipal Capital Strategies, LLC, in an approximate principal amount of $29,195,000 and to bear interest at a variable rate equal to a percentage of LIBOR, plus a credit spread, for the first seven years. The 2012B Bonds are expected to be subject to mandatory tender after seven years and may be remarketed or retired at such time. The proceeds of the 2012B Bonds, if issued, will be provided to the University to provide funds to refund, on a current basis, pay and redeem all of the outstanding 2006B Bonds.

The issuance and sale of the Bonds are not contingent upon the issuance and sale of the 2012B Bonds. No assurance can be given that the issuance and sale of the 2012B Bonds or the redemption of the 2006B Bonds will proceed as described herein.

Swap Agreements

See note 6 of the financial statements attached hereto as Appendix B for a description of interest rate swap agreements. As of July 31, 2012, the mark-to-market early termination cost to the University would be as shown below. The University intends to keep the swap agreements in place and may consider early termination of one or more of its swaps when mark-to-market values are at or near zero. The University is not required to post collateral for its swaps unless its credit rating drops below Baa2/BBB on the 2001 swap and Baa3/BBB- on the 2006A and 2006B swaps.

	Swap Counterparty	(Dollars in Thousands)
WHEFA 2001 Swap	Societe Generale, New York Branch	$ 2,665
WHEFA 2006A Swap	The Bank of New York Mellon	$ 5,103
WHEFA 2006B Swap	The Bank of New York Mellon	$10,138

Litigation

There is no litigation now pending, or, to the knowledge of the University, threatened, which restrains or enjoins the issuance or delivery of the Bonds or the use of the proceeds of the Bonds or which questions or contests the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization, or existence of the University, nor the title of the present officers of the University to their respective offices, is being contested or questioned.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE UNIVERSITY FOR THE YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010

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University of Puget Sound
2011 Financial Report

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.

UNIVERSITY *of* PUGET SOUND

OFFICE OF FINANCE AND ADMINISTRATION

1500 N. Warner St. #1083
Tacoma, WA 98416-1083
Telephone: 253.879.3204
Fax: 253.879.3398

University of Puget Sound
2011 Financial Report
JUNE 30, 2011

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Report of the President

Ronald R. Thomas

The record of achievement during the first five years of *Defining Moments: The Strategic Plan for University of Puget Sound* has been impressive. We have built an inspiring and beautiful campus infrastructure with the completion of an impressive new science center, a new facilities center, a renovated field house and residence halls, and, most recently, the spectacular new William T. and Gail T. Weyerhaeuser Center for Health Sciences and the campus-transforming Commencement Walk, the anchor element of our 2023 campus master plan. The campus is now fully unified from one end to the other (figure 1), creating meeting places and event lawns from the library to the field house, and offering inspiring views of Mt. Rainier along the way.

These new additions to campus are designed with a singular purpose: to enhance the comprehensive learning experience we offer at Puget Sound. To that end, we have also strengthened a strong liberal arts curriculum with new interdisciplinary programs in neuroscience, microbiology, biochemistry, global development, and environmental policy, along with other new curricular and cocurricular programs to enrich the residential character of the college. We have put in place plans for a new residence hall that will more fully integrate living and learning on our campus, and a new aquatics and athletics center (figure 2) to balance the development of a vigorous mind with a strong and healthy body.

We also have expanded our reach in student recruitment and strengthened academic quality, diversity, selectivity, student outcomes, and national recognition. We have grown annual freshman applications from 4,700 to 7,200 since 2006, becoming more selective as our admit rate has improved from 71% to 52% and the ethnic diversity of the entering

FIGURE 1 **Recently completed Commencement Walk approaching the new center for health sciences, Weyerhaeuser Hall**

class increased from 18% to 22%. Our students, taught and mentored by an exceptional faculty and staff, have won more than 40 national fellowships in the last five years, earning for Puget Sound recognition as a national leader in producing Fulbright Scholars, Peace Corps volunteers, and students who go on to earn doctoral degrees. The faculty as well has been recognized for excellence in many ways, including designations of Washington State Professor of the Year by The Carnegie Foundation for the Advancement of Teaching in 2007, 2008, and 2010, bringing Puget Sound's total to six—more than any other college or university.

We have established a vital agenda in civic engagement, environmental leadership, and global concerns; developed and are now implementing an integrated technology strategy; built an effective alumni and parent constituent engagement program; developed an effective communications office; and put in place a productive and fully staffed fundraising operation. The Puget Sound Fund has grown 67% since 2005 (figure 3), as we doubled the previous highest annual gift commitment benchmark with a new $30.7 million record and launched a capital campaign with a goal 2.5 times greater than the goal of the previous capital campaign—already securing the largest gifts in the university's history in every category, even before the public announcement of the campaign in October 2011.

All this has been accomplished in the midst of the worst recession in a century. It has been a defining moment for Puget Sound, to be sure.

This progress has positioned us well to face a very different economic environment in 2011–12 from that in 2005–06, when we approved and began to implement the *Defining Moments* plan. The ongoing recession of 2008 has raised the stakes for achieving our fundamental strategic goal: to firmly establish a financial platform that will sustain and advance our accomplishments and distinguish our position in the first rank of national liberal arts colleges. In this new environment, the key immediate challenges now before us are:

- To recognize and deal with the effects that the recession has imposed upon our primary markets: diminishing personal wealth, housing values, employment rates, and state and federal assistance to education. At the same time, we should expect endowment earnings to be moderate, interest on operating cash to remain low, price sensitivity to increase, and philanthropic giving to grow more discerning. We offer a rich and comprehensive educational experience at Puget Sound, and we serve a student market undergoing demographic changes that call for us to focus our recruitment and retention efforts

FIGURE 2 **Planned new aquatics and athletics center**

on those likely to succeed at Puget Sound while we seek equilibrium in pricing and discounting (figure 4).

- To make an especially compelling and confident case to prospective students and their families that connects the character and quality of a Puget Sound education with the record of achievement our graduates are establishing in graduate and professional schools, in the professions, and in public service. This has never been more important as we compete for students in a market focused on prestige and outcomes.

These challenges present us with some important and timely opportunities as we shape our priorities over the next five years in implementing our strategic plan. It is clear that we must continue our long-term strategic efforts of building a culture of philanthropy and a robust volunteer network of engaged alumni, parents, and friends as we continue to enhance the quality of the educational experience we provide. Our success here will sustain the university in providing a first-rate residential liberal arts education for generations to come.

In addition, we will focus on achieving a set of targeted and interrelated objectives over the next five years to secure our primary revenue source by focusing on student recruitment, marketing, and communications to increase our national presence, broaden and deepen Puget Sound's name recognition and reputation, expand application and yield numbers among targeted populations and markets, and increase student success to graduation. We will:

1. Develop and execute an institutional branding strategy, raising the profile of Puget Sound in a select group of residential liberal arts colleges with an impressive record of success and an extraordinary value for the investment.
2. Further strengthen the selectivity of our freshman class, focusing on enrolling those who are most qualified to succeed and prepared to fully engage with the aspirational character and values of a rigorous and comprehensive residential liberal arts college experience.
3. Raise the overall level of academic preparation, reduce unmet financial need, and strengthen graduation rates by at least 10% (figure 5).
4. Solidify the residential character of our educational experience, increasing on-campus capacity, integrating residential life with curricular and cocurricular programs, and taking fuller advantage of our urban location for active learning and internship opportunities for all students (figure 6).

FIGURE 3 **Puget Sound Fund Growth, 1991–2011**

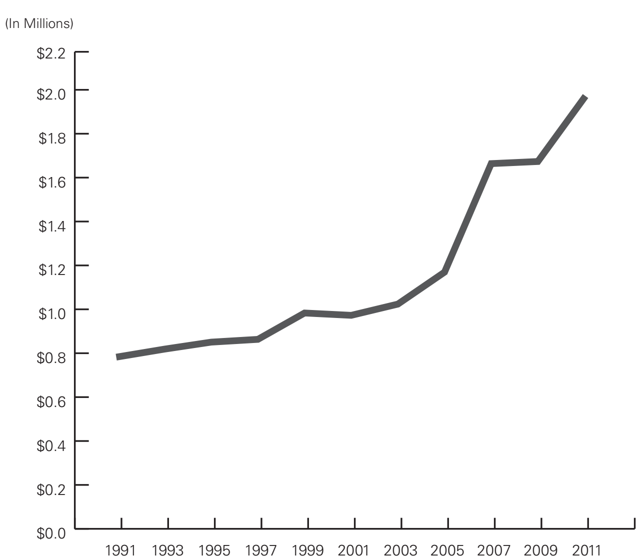
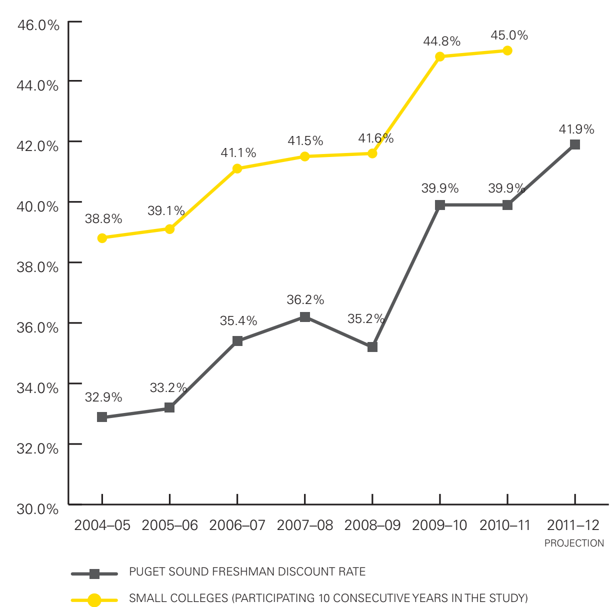


FIGURE 4 **NACUBO Tuition Discounting Study**



5. Operate at the highest level of cost effectiveness, reduce costs where possible, and find and enroll the students we can afford and that can afford the investment.

6. Deploy the human asset we have developed in the alumni and parent networks to manage their talents in enhancing our marketing, communications, recruitment, and student support efforts.

The work we have done over the past five years enables us to set these objectives today with the confidence that we can meet them. The ambitious One [of a Kind] capital campaign we launched publicly with such momentum this year will be the principal vehicle for firmly establishing significant growth in donations and volunteer engagement now and, most significantly, into the future. At the same time, we will secure and enhance net tuition revenues and bolster our institutional brand.

The last five years have proved Puget Sound to be a resourceful and resilient organization prepared to meet new challenges and advance upon clearly identified strategic goals. As we move into the next five years, our path remains clear, our determination absolute, and our commitment unwavering. As a one-of-a-kind community of individuals driven by a purpose greater than ourselves and devoted to a future that will be even better than the present, Puget Sound will continue to advance on the ambitious goals we have set for ourselves.

FIGURE 5 **Graduation Rates at Comparison Institutions 2005 and 2006 Entering Freshman Cohorts**

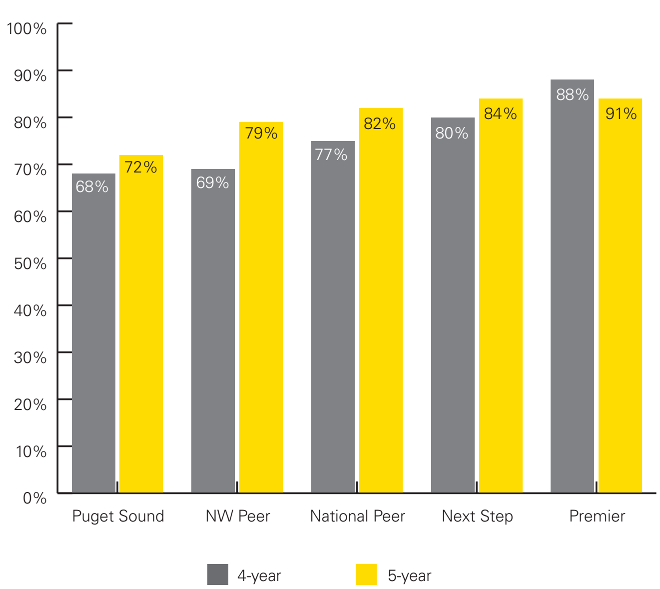
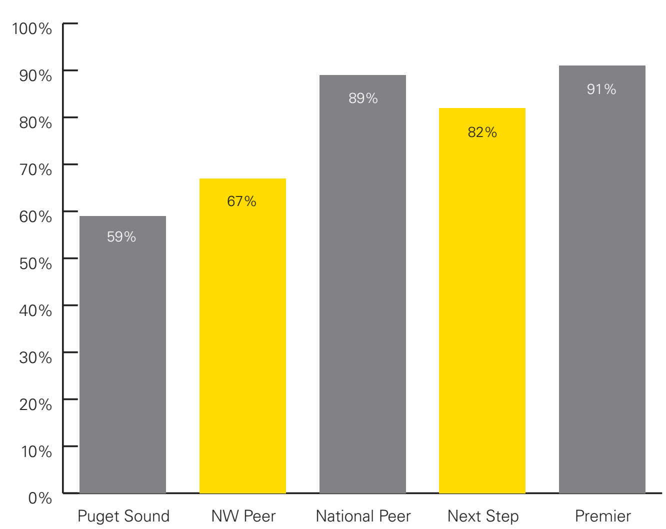


FIGURE 6 **2009–10 Residential Housing Undergraduates Who Live On Campus**



Report of the Vice President for Finance and Administration

Sherry B. Mondou

At a time when bleak economic outlooks and skepticism about the value of college education frequent headlines, I was intrigued by a recently published article in *Harvard Magazine:* "Bulllish on Private Colleges." While the authors, higher education scholars Richard P. Chait and Zachary First, acknowledged the need for change, they remind us of the adaptability and resiliency demonstrated by private higher education over many years. The methods used to implement change may not always resemble those of many businesses, yet change does come about in ways consistent with institutional culture and mission and in ways that enable colleges to endure.

A great deal of work and investment is required to broadly educate students and to prepare them as communicators, critical and creative thinkers, synthesizers and analyzers of information, collaborators, and lifelong learners, and there has never been a greater need for such well-prepared young leaders. Change in how we do that is indeed good and necessary, and so is preservation of what is good and effective. Puget Sound graduates must themselves be well prepared to change and adapt as they move through numerous careers in their lifetimes, perhaps careers we can't even conceive of today, just as their alma mater is prepared to change and adapt to most effectively implement its residential liberal arts mission and prepare leaders for many generations to come.

Resilience over the 123 years since our founding has made Puget Sound the financially strong organization we are today. I am pleased to present the enclosed financial statements for the fiscal year ending June 30, 2011, along with the following commentary.

STATEMENT OF FINANCIAL POSITION

Assets

Puget Sound has a strong asset base totaling $509.8 million at June 30, 2011, up 7.4% over the prior year. The university's most significant assets as reflected in its Statement

FIGURE 7 **Sources of Endowment Growth**

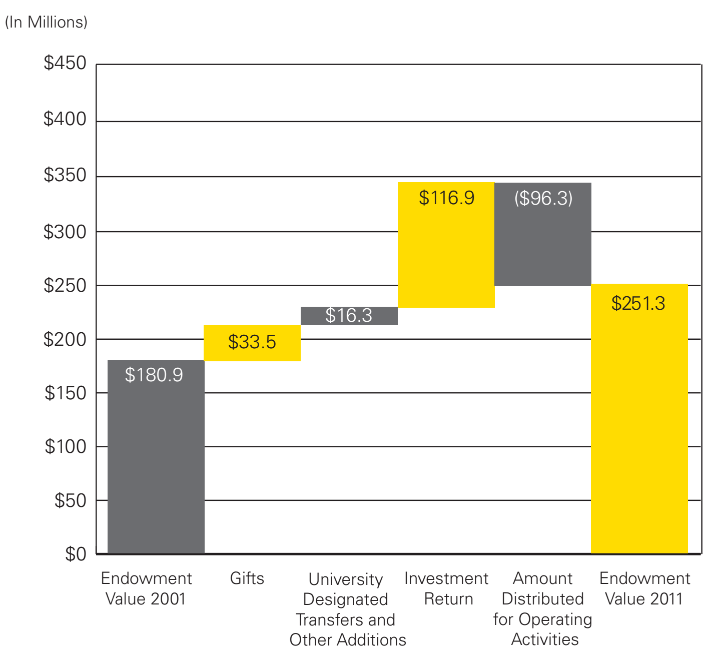
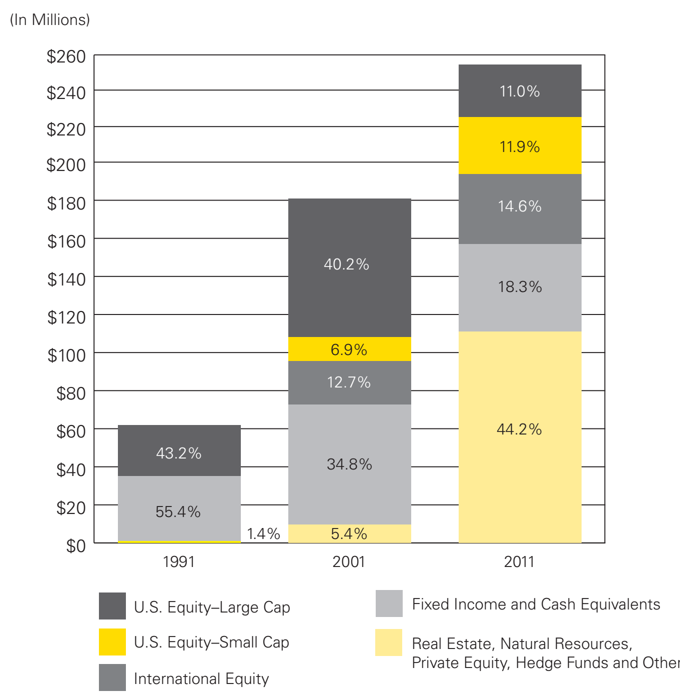


FIGURE 8 **Endowment Value and Diversification**



of Financial Position include its operating cash, endowment, and campus facilities.

- Cash and short-term investments provide the necessary liquidity to meet operational needs, construction payments, and debt service requirements. The university invests its cash in a short-term investment portfolio designed to match investment maturities with anticipated cash outflows. Aggregate cash and short-term investment balances of $43.6 million decreased $7.9 million in 2010–11 as designated capital reserves were utilized as planned to supplement gift support in the development of our physical campus.
- Puget Sound's endowment, which totaled $251.3 million as of June 30, 2011, and is nearly half of the university's total assets, increased 15.4% from the prior year. The growth in endowment sprung from earnings of $39.7 million, a return of 18.1%, plus gifts and other additions totaling $5.1 million, less $11.2 million distributed for student financial aid, faculty compensation, and other mission-based programs. Figure 7 shows major changes to the endowment over the last decade, while figure 8 shows how the endowment has diversified over the decade.
- Puget Sound's campus provides an inspiring physical environment for living and learning, a key component of a residential liberal arts education. Princeton Review identified Puget Sound as one of America's most beautiful campuses. This asset, carried at a net cost of $173.3 million, is a source of inspiration at Puget Sound. Guided by the *Tapestry of Learning* master plan, the university invested $31.9 million in its campus facilities in 2010–11, which included the completion of the newly constructed William T. and Gail T. Weyerhaeuser Center for Health Sciences and Commencement Walk, unifying and transforming our 97-acre campus. Over the past decade Puget Sound invested $132.7 million in its campus facilities (figure 9), resulting in average age of plant of 6.9 years versus 12.8 years at peer institutions. The university has also increased its annual planned major maintenance budget by $3.3 million or 341% in the past decade to protect its investment and to come closer to fully funding annual depreciation expense in the annual operating budget. These investments position Puget Sound well for the future.

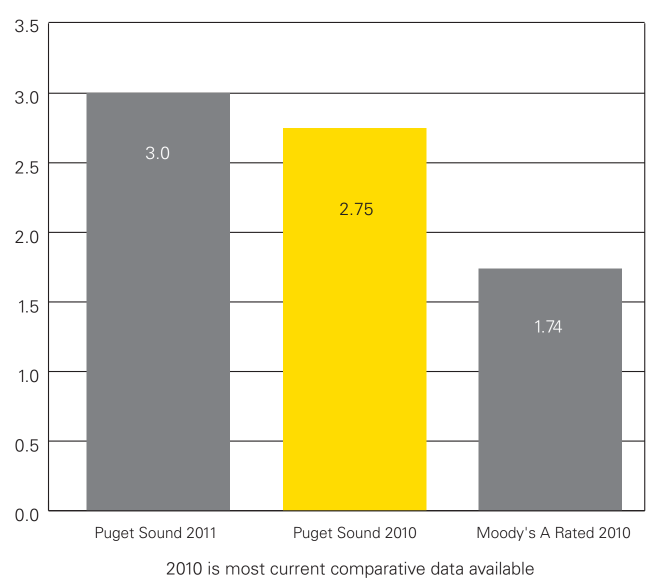
Liabilities

Puget Sound's liabilities totaled $109.3 million at June 30, 2011, 2.2% less than the prior year.

Long-term debt declined $1.5 million to $62.3 million as scheduled principal payments were made. Puget Sound has long-term ratings of A1 and A+ from Moody's and S&P, respectively. Its Expendable Resources-to-Debt Ratio was 3.00 at June 30, 2011, as compared to the median for A-rated institutions of 1.74 (figure 10).

FIGURE 9 **Funding Sources of Campus Facilities Additions**

FIGURE 10 **Expendable Resources-to-Debt Ratio**



The majority of Puget Sound's long-term debt is currently in the form of variable rate bonds synthetically fixed with interest rate swap agreements, achieving all-in long-term, largely fixed rates ranging from 3.63% to 4.34%. During this low interest rate environment, the swap agreements show a negative mark-to-market adjustment reflected as a deferred unrealized loss on interest rate swap agreements in the liability section of the Statement of Financial Position. The deferred unrealized loss was $9.1 million as of June 30, 2011, down from its $15.9 million peak in December 2008. This valuation adjustment will amortize to zero at the swap maturity date and in the meantime will rise and fall as interest rates fall and rise. The university's swap counterparties, Bank of New York and Societe General, are currently rated Aaa/AA and Aa3/A+, respectively.

As the university executes plans to construct a strategically valuable new residential facility in the coming year that will be financed with a modest issuance of tax exempt fixed rate bonds (and that will be self-supporting within the housing program), it will also consider restructuring a portion of the existing debt portfolio to reduce interest rate risk and liquidity risk.

Net Assets

Net assets totaled $400.5 million at June 30, 2011, up $37.5 million or 10.3% for the year due largely to growth in the endowment.

STATEMENT OF ACTIVITIES

Operations

Puget Sound has balanced its operating budgets for at least the last 40 years, including periods within the Great Recession and in the years of slow recovery since. The increase in net assets from operating activities was $1.6 million in 2010–11, representing a 1.6% operating margin. The 2010–11 positive operating results enabled Puget Sound to make strategic infrastructure investments, primarily in an enterprise resource planning solution (ERP) to be implemented over the next two years. As Puget Sound moves through its ERP implementation—a project we are calling Optimize Puget Sound—we will seek to become an even more effective and efficient organization.

Operating revenues and gains were up 1.3% when excluding the prior year gain associated with an adjustment to asset retirement obligations. Net tuition and fees, Puget Sound's primary revenue source, increased 1.2% in 2010–11. The 4.49% tuition rate increase was offset by 22 fewer student FTEs and an increase of 6.2% in student financial aid to help meet the growing financial need of our students in this challenging economic environment. Room and board revenues increased 2.6%. Together, net tuition and fees and student room and board accounted for 77% of all revenues (figure 11). Over time, and with the success of current and future capital campaigns, Puget Sound seeks to increase the proportion of

FIGURE 11 **Operating Revenues**

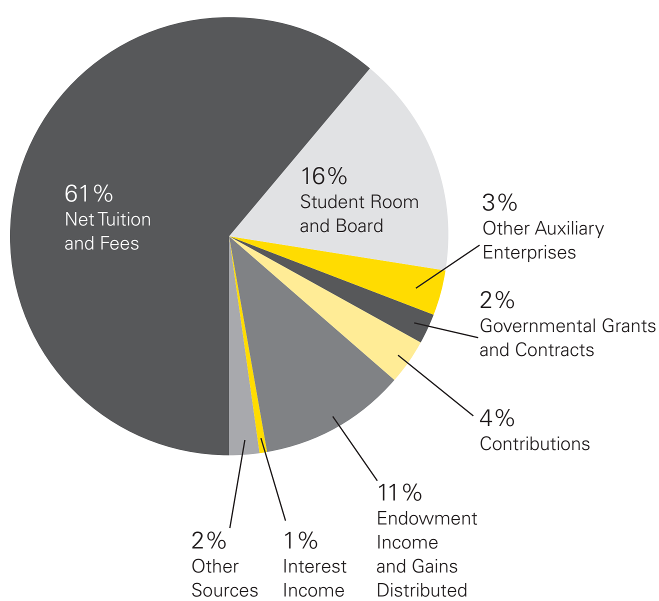
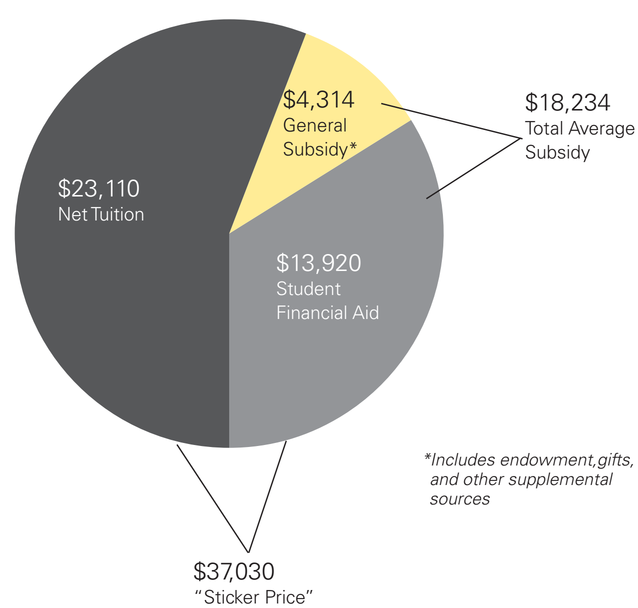


FIGURE 12 **Keeping Tuition Affordable**

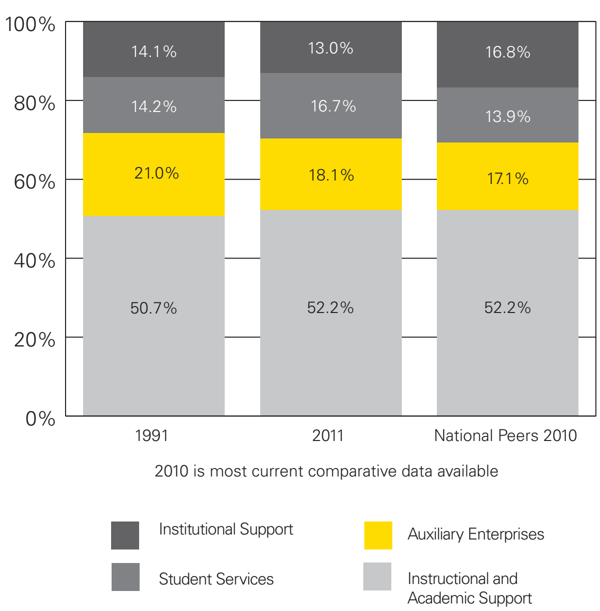


operations funded by gifts and endowment distributions.

The annual endowment distribution decreased 2.2% in 2010–11 as lower values worked their way through the 36-month spending policy described more fully in note 4. Interest income on cash and short-term investments declined 12.3%, on top of the prior year's decrease of 36%, as short-term rates continued their decline. Governmental grants and contracts increased $0.2 million or 7.7%, largely from increased federal support for faculty research, offset by a $95,000 or 23% decrease in state support for the work-study program. We've seen additional decreases in state support for our students since June 30, 2011, and both federal and state support is at risk as federal and state budget deficits are addressed. Donor contributions supporting current operations increased 3.8% as the Puget Sound Fund reached an all-time high in 2010–11. These sources of funding are critically important as they help subsidize the cost of a Puget Sound education for all students, keeping net tuition more affordable for families (figure 12).

Operating expenses increased 2.2% in 2010–11. Eighty-seven percent of the university's expenses supported instruction, academic support, student services, and auxiliary enterprises. Thirteen percent supported institutional support as compared to the median of 16.8% for peer institutions (figure 13). Puget Sound continuously seeks ways to become more efficient and effective in delivering high value at an affordable price.

FIGURE 13 **Allocating Resources**



Nonoperating Activities

Net assets from nonoperating activities increased $12.9 million or 56% in 2010–11, largely due to endowment returns in excess of endowment distribution for operations.

CLOSING REMARKS

Executing a residential liberal arts mission to develop leaders of the next generation, focusing intently on accomplishing strategic objectives, and finding strength from 123 years of resiliency and adaptation will fuel and focus Puget Sound to preserve and strengthen the financial foundation to serve students for generations to come. We are not complacent, and we seek continuous and sustainable improvement that will position us to continue to operate successfully in an ever-changing environment. Chait and First said it well when they wrote "However unglamorous a strategy, subtle adjustments and sensible experiments *at a steady pace*, consistent with an institution's self-identity, have and will position private colleges to do well over the long run." Puget Sound is doing just that.

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KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

The Board of Trustees
University of Puget Sound

We have audited the accompanying consolidated statement of financial position of the University of Puget Sound (the University) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior period summarized comparative information has been derived from the University's 2010 financial statements, and in our report dated December 10, 2010, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purposes of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in the schedule of changes in endowment investments for the year ended June 30, 2011, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

December 15, 2011

University of Puget Sound
Consolidated Statement of Financial Position

As of June 30, 2011 (With Comparative Financial Information as of June 30, 2010) (Dollars in Thousands)

	2011	2010
ASSETS:		
Cash and cash equivalents (Note 1)	$ 24,513	$ 17,617
Short-term investments	19,099	33,873
Investment income receivable (Note 1)	56	96
Receivables, net	2,301	1,453
Contributions receivable, net (Note 2)	9,323	14,554
Inventories (Note 1)	712	757
Prepaid expenses and other assets	4,364	3,561
Student loans receivable, net	15,398	16,156
Beneficial interest in outside trusts (Note 1)	2,035	1,626
Assets held under split-interest agreements (Note 1)	6,390	7,172
Endowment investments (Notes 1, 3 and 4)	251,291	217,691
Intangibles, net (Notes 1 and 5)	891	595
Assets restricted for investment in campus facilities	132	7,469
Campus facilities, net (Note 5)	173,315	152,088
Total assets	$509,820	$474,708
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	$ 6,990	$ 6,620
Accrued payroll and other liabilities (Note 8)	10,712	9,851
Advance deposits from students (Note 1)	2,916	2,543
Liabilities under split-interest agreements (Note 1)	2,576	2,785
Government advances for student loans (Note 1)	13,122	13,515
Asset retirement obligation (Notes 1 and 5)	1,563	1,571
Unrealized loss on interest rate swap agreements (Notes 1 and 6)	9,091	10,961
Long-term debt (Note 6)	62,345	63,882
Total liabilities	109,315	111,728
Net Assets:		
Unrestricted:		
Available for operations	979	970
Invested in or designated for campus facilities	99,622	100,628
Endowment (Note 4)	91,364	80,374
Designated for other specific purposes	16,410	10,873
Total unrestricted	208,375	192,845
Temporarily restricted (Note 7)	90,565	71,373
Permanently restricted (Note 7)	101,565	98,762
Total net assets	400,505	362,980
Total liabilities and net assets	$509,820	$474,708

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

University of Puget Sound
Consolidated Statement of Activities

For the Year Ended June 30, 2011 (With Summarized Financial Information for the Year Ended June 30, 2010) (Dollars in Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2011	Totals 2010
Operating:					
Revenues and gains:					
Student tuition and fees	$102,174			$102,174	$ 99,194
Less student financial aid	(38,021)			(38,021)	(35,810)
Net tuition and fees	64,153			64,153	63,384
Student room and board	17,032			17,032	16,596
Other auxiliary enterprises	3,584			3,584	4,251
Governmental grants and contracts	868	$ 1,361		2,229	2,070
Contributions (Note 1)	2,264	1,450		3,714	3,579
Endowment income and gains distributed (Note 4)	3,574	7,608		11,182	11,435
Interest income	530	31		561	640
Gain on reevaluation of asset retirement obligations (Note 5)	-	-		-	3,305
Other sources	1,316	933		2,249	1,360
Total operating revenues and gains	93,321	11,383		104,704	106,620
Expenses:					
Educational and general:					
Instruction	44,988			44,988	43,880
Academic support	8,875			8,875	8,985
Student services	17,181			17,181	17,364
Institutional support	13,397			13,397	12,282
Total educational and general expenses	84,441			84,441	82,511
Auxiliary enterprises	18,632			18,632	18,339
Total operating expenses	103,073			103,073	100,850
Net assets released from restrictions	10,799	(10,799)		-	-
Increase in net assets from operating activities	1,047	584		1,631	5,770
Nonoperating:					
Contributions (Note 1)	-	3,065	$ 3,091	6,156	9,504
Change in allowance for uncollectible promises (Note 2)	-	(268)	(1,871)	(2,139)	(121)
Net gains and income on endowment investments, net of distributions (Note 4)	10,090	17,355	1,028	28,473	14,767
Gain on insurance recovery	-	-	-	-	278
Actuarial adjustments and other changes	2,264	585	555	3,404	(1,419)
Net assets released from restrictions	2,129	(2,129)	-	-	-
Increase in net assets from nonoperating activities	14,483	18,608	2,803	35,894	23,009
Increase in net assets	15,530	19,192	2,803	37,525	28,779
Net assets at beginning of the year	192,845	71,373	98,762	362,980	334,201
Net assets at end of the year	$208,375	$90,565	$101,565	$400,505	$362,980

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

University of Puget Sound
Consolidated Statement of Cash Flows

For the Year Ended June 30, 2011 (With Comparative Financial Information for the Year Ended June 30, 2010) (Dollars in Thousands)

	2011	2010
Cash flows from operating activities:		
Change in net assets	$37,525	$28,779
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,883	10,327
Contributions restricted for long-term investment	(9,462)	(11,801)
Gifts of investments, property, and outside trusts	(34)	(396)
Gains on endowment investments and split-interest agreements	(36,929)	(24,907)
Actuarial adjustments of liabilities under split-interest agreements	(664)	(528)
Loss on disposition of fixed assets	59	346
Amortization of tax-exempt bond premium, discount, and issuance costs	39	40
Accretion, settlement, and adjustments to asset retirement obligations	(8)	(3,784)
Changes in:		
Accounts receivable	(848)	2,911
Investment income receivable	40	(8)
Contributions receivable	5,231	3,125
Inventories, prepaid expenses, and other assets	(795)	(643)
Accounts payable	(344)	397
Accrued payroll and other liabilities	861	400
Advance deposits from students	373	596
Unrealized loss on interest rate swap agreements	(1,870)	2,400
Net cash provided by operating activities	4,057	7,254
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	62,821	89,163
Purchases of investments	(58,580)	(86,286)
Net sales (purchases) of short-term investments	14,774	(20,204)
Net use (receipt) of assets restricted for investment in campus facilities	7,337	(2,469)
Purchases of campus facilities and intangibles	(31,717)	(9,856)
Insurance recovery on campus facilities	-	556
Disbursements of loans to students	(1,427)	(1,582)
Repayments of loans from students	1,681	1,364
Net cash used for investing activities	(5,111)	(29,314)
Cash flows from financing activities:		
Contributions restricted for long-term investment	9,462	11,801
Investment income subject to split-interest agreements	295	318
New liabilities under split-interest agreements	61	39
Payments to split-interest agreement beneficiaries	(440)	(475)
Repayments of long-term debt	(1,539)	(1,511)
Receipts of government advances for student loans	111	95
Net cash provided by financing activities	7,950	10,267
Net increase (decrease) in cash and cash equivalents	6,896	(11,793)
Cash and cash equivalents at beginning of the year	17,617	29,410
Cash and cash equivalents at end of the year	$24,513	$ 17,617
Supplemental cash flow information:		
Interest paid (net of capitalized interest of $241 and $44 in 2011 and 2010, respectively)	$ 2,441	$ 2,721
Noncash investing and financing activities:		
Purchases of equipment and building construction on account	$ 5,127	$ 4,413
Gifts of investments, property, and outside trusts	$ 34	$ 396
Student loan cancellations	$ 504	$ 479

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, 2011 (With Comparative Financial Information for the Year Ended June 30, 2010) (Dollars in Thousands)

	2011	2010
Endowment investments, beginning of the year	$217,691	$195,505
Gifts	4,660	6,802
Other transfers and additions	467	617
Return on endowment investments:		
Ordinary income	5,567	4,194
Less investment expenses	(2,313)	(2,415)
Realized net gains (losses)	3,544	(1,402)
Change in cumulative unrealized gains	32,857	25,825
Total return on endowment investments	39,655	26,202
Amount distributed for operating activities	(11,182)	(11,435)
Net change in endowment investments	33,600	22,186
Endowment investments, end of the year	$251,291	$217,691
Total return on pooled endowment	18.1%	12.4%

Pooled investments and the allocation of income and gains are accounted for under the unit method.

Pooled endowment investment unit values are summarized as follows:

	2011	2010
Market value, end of year	$ 56.5772	$48.4929
Market value, beginning of period	48.4929	43.4538
Gain	$ 8.0843	$ 5.0391
Ordinary income	$ 0.7056	$ 0.3609
Distributed for operations	$ 2.5814	$ 2.6331

See accompanying Independent Auditors' Report

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The University of 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 that build 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.

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 and in accordance with accounting principles generally accepted 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 financial statements focus on the university as a whole.

The university's activities and net assets are classified in the financial statements as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. These classifications are described below:

Unrestricted net assets - resources not subject to donor-imposed restrictions.

Temporarily restricted net assets - resources that can be expended subject to donor-imposed restrictions as to use or timing.

Permanently restricted net assets - resources that a donor has required the university to retain in perpetuity. Generally, the donor of these assets permits the university to use all or a part of the income and gains earned on the gifted assets.

The Statement of Activities presents expenses by functional classification in accordance with the overall educational mission of the university. Depreciation and amortization expense is allocated directly to functional classifications based on the nature 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 operating and maintaining campus facilities is allocated to the functional areas based on occupancy square footage. The cost of supporting information technology systems is allocated to the functional areas based on estimated utilization of system resources and support. 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, retirement plan actuarial adjustments, interest rate swap agreement changes in fair value, and endowment income and 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 Statement of Activities includes comparative summarized information for the year ended June 30, 2010. 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 financial statements for the year ended June 30, 2010, from which the summarized information was derived. In addition, the notes to the financial statements exclude comparative information for certain disclosures. Certain reclassifications of prior year amounts have been made to conform to the 2010 classification. Such reclassifications had no effect on previously reported net assets, changes in net assets, or net cash flows.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 $11,307 and $5,536, respectively, at June 30, 2011 and 2010.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Receivables

Investment income receivable includes earnings on cash and cash equivalents, short-term investments, investment property, and endowment investments.

A reasonable estimate of the fair value of student loans receivable, which are federally sponsored student loans with U.S. government-mandated interest rates and repayment terms, could not be made because the notes are not saleable and can only be assigned to the U.S. government or its designees.

The university participates in the Federal Perkins revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. The outstanding loan balance was $16 million and $16.3 million at June 30, 2011 and 2010, 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 Statement of Financial Position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

Contributions

Contributions received, including unconditional promises to give, are recognized as revenues when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of expected future cash flows. 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. Total contributions of $9,870 and $13,083 are recognized in the Statement of Activities for the years ended June 30, 2011 and 2010, respectively, and include both operating and nonoperating contributions.

Fundraising expenses of $3,376 and $2,899 are included in "Institutional support" in the Statement of Activities for the years ended June 30, 2011 and 2010, 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.

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.

Investments

Investments are stated at fair value according to U.S. GAAP (see Note 3), which requires that the valuation of investments reported at fair value be made in the context of market conditions as of the valuation date. Whenever available, quotations from organized securities exchanges are used as the basis for fair value. For investments not traded on organized exchanges, fair value estimates are provided by investment managers. For applicable investments, manager-reported net asset value (NAV) is used as a practical expedient to estimate fair value. Valuations provided by fund managers consider variables such as the financial performance and sales of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit price. The university reviews valuations and assumptions provided by fund managers for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of the fair value.

The university employs procedures to ensure appropriate oversight of its investments including ongoing monitoring of investment managers and review of periodic fair value and other information received from them.

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. 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, such as interest rate, market, and credit. To minimize such 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 performance thereof. Due to inherent risks and potential volatility in investment valuations, the amounts reported in the Statement of Financial Position and Statement 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 or the university is notified of its existence, the university recognizes its beneficial interest in the outside trust as a contribution at fair value, which 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 either temporarily or permanently restricted net assets 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 rate used at June 30, 2011, was 2.80%.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Amounts held as Trustee or Agent Under Split-Interest Agreements

The university has legal title, either in the university's name or as trustee, to charitable remainder and lead trusts. No significant financial benefit can be realized until the contractual obligations are released. The university also receives contributions in exchange for charitable gift annuity contracts. Actuarial methods are used to record these annuities and trusts using discount rates ranging from 2.00% 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 unrestricted, temporarily restricted, or permanently restricted net assets 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 $946 as of June 30, 2011, and $1,031 as of June 30, 2010. The amount included in the liability under split-interest agreements to meet future payments under gift annuity contracts was $473 as of June 30, 2011, and $531 as of June 30, 2010.

Intangible Assets and Campus Facilities

Intangible assets include software, website development costs, and electronic information resources, and are recorded at cost. These assets have finite useful lives and are amortized on a straight-line basis over their estimated useful lives, ranging from three to seven years.

Campus facilities, including land, buildings, equipment, and library resources, are recorded at cost or, if received as a gift, at fair value on the date of donation. In the absence of donor-imposed restrictions on the use of assets, gifts of long-lived assets are reported as unrestricted contributions. 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 years for land improvements, 25 to 40 years for buildings, 20 years for building improvements, four to seven years for equipment, and three 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 Statement of Activities.

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 the obligation is measured based on the present value of estimated future retirement costs. Asset retirement costs are depreciated on a straight-line basis over the useful life of the associated asset. Subsequent to the initial recognition, period-to-period changes in the carrying amount of the liability are recorded due to the passage of time and revisions to either the timing or amount of the original estimated cash flows. The liability is removed when the related obligation is settled.

Advance Deposits From Students

Payments from students received by the end of the current fiscal year that are for a term in the subsequent fiscal year have been deferred for inclusion in unrestricted operating revenues in that subsequent year.

Federal Income Taxes

The university has been recognized by the Internal Revenue Service as exempt from federal taxes pursuant to section 501(c)(3) of the Internal Revenue Code except to the extent of unrelated business taxable income. Donations to the university are generally tax deductible. 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, 2011. In general the university is no longer subject to U.S. federal and state income tax examinations by tax authorities before its fiscal year ended June 30, 2005.

June 30, 2011 (Dollars in Thousands)

NOTE 2 – CONTRIBUTIONS RECEIVABLE

	June 30, 2011	June 30, 2010
Unconditional promises expected to be collected in:		
Less than one year	$6,556	$ 7,037
One to five years	5,991	8,824
More than five years	293	573
	12,840	16,434
Less allowance for uncollectable promises	(2,599)	(510)
Less discount to present value (discount rates of 0.51% to 5.21%)	(918)	(1,370)
Contributions receivable, net	$9,323	$14,554
Contributions receivable are intended for the following uses:		
Endowment	$2,871	$ 6,297
Construction and improvement of campus facilities	4,398	6,257
Student financial aid	1,798	1,630
Other programs and activities, including unrestricted promises for future periods	256	370
	$9,323	$14,554

At June 30, 2011, the university had received conditional promises to give in the amount of $1,015. Receipt is conditioned upon the university meeting certain fundraising goals. The promises will be recognized when the conditions are substantially met.

NOTE 3 – FAIR VALUE MEASUREMENTS

The university discloses the fair value of assets and liabilities providing it is practicable to do so. 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 established 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. For the university, this level generally includes mutual funds, listed equities, and other securities where quoted prices may be easily obtained.

Level 2 — inputs other than quoted prices included within Level 1 that are observable market-based inputs or unobservable inputs that are corroborated by observable market data. Assets and liabilities the university generally classifies as Level 2 include units held in commingled pools and common trust funds and investments that may be priced using model-based valuation, including the university's interest rate swap agreements.

Level 3 — inputs are unobservable, because there is little or no market activity, and reflect an entity's own determination about the assumptions that market participants would use in pricing the assets or liabilities. For the university, assets and liabilities in Level 3 include units in hedge funds, beneficial interests in outside trusts, interests in perpetual trusts, limited partnership interests, other private investments, and the university's asset retirement obligations.

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.

June 30, 2011 (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, 2011:

	Total	Level 1	Level 2	Level 3	Redemption Restrictions Level 2 & 3	Unfunded Commitments
Pooled endowment investments:						
Global equity:						
US	$ 57,225	$ 18,169	$39,056	$ -	Daily, 1-5 days' notice	
International	36,736	11,663	25,073	-	Daily and monthly, 1-44 days' notice	
Directional hedged equity	25,988	-	11,152	14,836	Monthly, quarterly, semi-annual and annual, 6-100 days' notice	
Private equity	19,935	-	-	19,935	Illiquid	$11,195
Global fixed income/credit:						
Interest rate sensitive strategies	43,689	43,689	-	-		
Private debt	10,068	-	-	10,068	Illiquid	$ 1,766
Real assets:						
Private energy	9,279	-	-	9,279	Illiquid	$ 6,706
Timber	6,438	-	-	6,438	Illiquid	$ 1,924
Real estate	11,776	-	-	11,776	Illiquid	$ 7,267
Commodities	6,632	6,632	-	-		
Absolute return hedge funds:		-	-	-		
In liquidation	1,767	-	-	1,767	In liquidation	
Other	17,298			17,298	Quarterly/Semi-annual 60-100 days' notice	
Cash and short-term investments	1,612	1,612	-	-		
Nonpooled endowment investments						
Equity mutual funds	339	339	-	-		
Fixed income mutual funds	422	422	-	-		
Real estate	134	-	-	134	Illiquid	
Private equity	30	-	-	30	Illiquid	
Cash and short-term investments	37	37	-	-		
Perpetual trusts	1,886	-	-	1,886		
Total endowment investments	251,291	82,563	75,281	93,447		
Other assets						
Cash and cash equivalents held in split-interest agreements	189	189	-	-		
Marketable securities	21,670	21,670	-	-		
Mutual funds	3,762	3,762	-	-		
Beneficial interest in outside trusts	2,035	-	-	2,035	Illiquid	
Real estate	1,481	-	-	1,481	Illiquid	
Total other assets	29,137	25,621	-	3,516		
Total	$280,428	$108,184	$75,281	$96,963		
Liabilities						
Asset retirement obligation	1,563	-	-	1,563		
Unrealized loss on interest rate swap agreements	9,091	-	9,091	-		
Total	$ 10,654	$ -	$ 9,091	$ 1,563		

June 30, 2011 (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, 2010:

	Total	Level 1	Level 2	Level 3	Redemption Restrictions Level 2 & 3	Unfunded Commitments
Pooled endowment investments						
Global equity:						
U.S.	$ 43,824	$ 13,320	$30,504	$ -	Daily, 1-5 days' notice	
International	28,074	9,114	18,960	-	Daily and monthly, 1-44 days' notice	
Directional hedged equity	22,682	-	8,269	14,413	Monthly, quarterly and annually, 6-100 days' notice	
Private equity	17,491	-	-	17,491	Illiquid	$14,696
Global fixed income/credit:						
Interest rate sensitive strategies	45,045	45,045	-	-		
Private debt	8,542	-	-	8,542	Illiquid	$ 2,400
Real assets:						
Private energy	5,596	-	-	5,596	Illiquid	$ 6,559
Timber	5,889	-	-	5,889	Illiquid	$ 3,010
Real estate	8,316	-	-	8,316	Illiquid	$ 4,273
Commodities	4,940	4,940	-	-		
Absolute return hedge funds:						
In liquidation	3,882	-	-	3,882	In liquidation	
Other	20,263	-	-	20,263	Quarterly/Semi-annually, 60-100 days' notice	
Cash and short-term investments	567	567	-	-		
Nonpooled endowment investments						
Equity mutual funds	261	261	-	-		
Fixed income mutual funds	409	409	-	-		
Real estate	134	-	-	134	Illiquid	
Private equity	60	-	-	60	Illiquid	
Cash and short-term investments	41	41	-	-		
Perpetual trusts	1,675	-	-	1,675	Illiquid	
Total endowment investments	217,691	73,697	57,733	86,261		
Other assets						
Cash and cash equivalents held in split-interest agreements	95	95	-	-		
Marketable securities	43,946	43,946	-	-		
Mutual funds	3,423	3,423	-	-		
Beneficial interest in outside trusts	1,626	-	-	1,626	Illiquid	
Real estate	1,430	-	-	1,430	Illiquid	
Total other assets	50,520	47,464	-	3,056		
Total	$268,211	$121,161	$57,733	$89,317		
Liabilities						
Asset retirement obligation	1,571	-	-	1,571		
Unrealized loss on interest rate swap agreements	10,961	-	10,961	-		
Total	$ 12,532	$ -	$10,961	$ 1,571		

June 30, 2011 (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 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. Perpetual trusts are managed by outside trustees and are not subject to the university's investment policies.

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 variables such as comparable sales, income streams discounted for risk levels, and other pertinent information. In addition, actual market exchanges of units of the investment fund at or near fiscal year-end provide observable market inputs of the exit price. Based on its review of assumptions and valuations provided by fund managers, the university believes the carrying amount of these financial instruments are reasonable estimates of fair value. The fair value of endowment investments with liquidity of 90 days or greater was $92,760 at June 30, 2011, and $85,318 at June 30, 2010.

Global equities include marketable securities held in mutual funds and commingled pools, enhanced indexing, and directional hedge funds that are benchmarked against equity indices. The fair value of assets held through commingled pools and common trusts, units of which are not publicly traded, was $57,224 at June 30, 2011, and $44,337 at June 30, 2010. The university utilizes enhanced indexing strategies to gain exposure to the S&P 500 through the use of futures contracts, allowing a portion of the large-cap domestic and international equity allocations to be invested in fixed-income securities to enhance the index returns. The fair value of investments that employed enhanced indexing strategies was $6,904 at June 30, 2011, and $5,127 at June 30, 2010. Directional hedged equities generally utilize both long and short positions in corporate securities and derivatives to provide favorable 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 where appropriate, adjusting for cash flows since the valuation date. Unfunded commitments to private capital may be called at any time during the fund investment periods, which generally range from three to seven years.

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.

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

	June 30, 2011		June 30, 2010	
	Assets	Liabilities	Assets	Liabilities
Balance, beginning of the year	$89,317	$1,571	$82,422	$ -
Total realized and unrealized gains	10,269	-	8,391	-
Purchases	14,597	-	11,332	-
Settlements	-	(8)	-	-
Sales	(17,220)	-	(13,579)	-
Net transfers	-	-	751	1,571
Balance, end of the year	$96,963	$1,563	$89,317	$1,571

	June 30, 2011	June 30, 2010
Unrealized gains related to Level 3 assets held at the end of the year included in "Net gains and income on endowment investments, net of distributions" in the Statement of Activities	$9,009	$11,729

NOTE 4 – ENDOWMENT INVESTMENTS AND NET ASSETS

At June 30, 2011, the university's endowment consisted of approximately 520 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. In the rare cases when a donor has prohibited a gift from being pooled for investments purposes, such endowments (referred to as non-pooled endowments) are separately invested and managed.

June 30, 2011 (Dollars in Thousands)

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

Endowment Investment and Spending Policies, *Continued*

The purpose of the university's pooled endowment is to provide 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 overall, long-term investment goal of the pooled endowment is to achieve an annualized total return (net of fees and expenses), through appreciation and income, of at least 5% plus the rate of inflation (as measured by the broad, domestic Consumer Price Index), thus protecting the assets against inflation. 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. Maintaining adequate liquidity to meet operating and debt service requirements, to support desired credit ratings, and to provide a source of funds for rebalancing is also considered when making investment decisions regarding asset allocation or changes in managers.

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 of 5.00% of a trailing 36-month average market value for the years ended June 30, 2011 and 2010. Individual donor-restricted endowments with a market value below their permanently restricted value distribute only the current year's income, such as interest and dividends. If such endowments support financial aid, the spending shortfall may be covered by quasi-endowment for financial aid in order to achieve the approved and committed total tuition discount rate. For a few donor-restricted endowment funds, the university honors and adheres to donor-stipulated spending limitations.

At June 30, 2011, nearly 99% of the university's endowment investments were pooled. Endowment investment activity is summarized as follows:

	June 30, 2011	June 30, 2010
Balance, beginning of the year	$217,691	$195,505
Gifts	4,660	6,802
Transfers and other additions	467	617
Return on investments:		
Ordinary income	5,567	4,194
Less investment expenses	(2,313)	(2,415)
Realized gains (losses)	3,544	(1,402)
Change in cumulative unrealized gains (losses)	32,857	25,825
Total return on investments	39,655	26,202
Amount distributed for operating activities	(11,182)	(11,435)
Total return, net of distributions	28,473	14,767
Balance, end of year	$251,291	$217,691

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 permanently restricted net assets: (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 that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the university in a manner consistent with the standard of prudence prescribed by UPMIFA. Temporarily restricted board-designated quasi-endowment funds were established with expendable restricted bequests and gifts.

June 30, 2011 (Dollars in Thousands)

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

As of June 30, 2011, endowment net assets consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
True endowments	$ (9)	$63,333	$94,788	$158,112
Term endowments	-	473	-	473
Total donor-restricted endowment funds	(9)	63,806	94,788	158,585
Board-designated quasi-endowment funds	91,373	1,333	-	92,706
Total endowment investments	91,364	65,139	94,788	251,291
Unconditional promises to endowment	-	162	2,871	3,033
Total endowment net assets	$91,364	$65,301	$97,659	$254,324

As of June 30, 2010, endowment net assets consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
True endowments	$ (441)	$46,898	$88,698	$135,155
Term endowments	-	424	-	424
Total donor-restricted endowment funds	(441)	47,322	88,698	135,579
Board-designated quasi-endowment funds	80,815	1,297	-	82,112
Total endowment investments	80,374	48,619	88,698	217,691
Unconditional promises to endowment	-	24	6,297	6,321
Total endowment net assets	$80,374	$48,643	$94,995	$224,012

Changes to endowment net assets for the year ended June 30, 2011, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2010:				
Endowment investments	$80,374	$48,619	$88,698	$217,691
Unconditional promises to endowment	-	24	6,297	6,321
Total endowment net assets	80,374	48,643	94,995	224,012
Contributions:				
Gifts added to endowment investments	-	75	4,585	4,660
Change in unconditional promises, net	-	138	(3,426)	(3,288)
Total contributions	-	213	1,159	1,372
Transfers and other additions	2	(12)	477	467
Net assets released from restrictions	898	(898)	-	-
Return on investments:				
Ordinary income, net of investment expenses	656	2,551	47	3,254
Realized gains (losses)	1,653	1,818	73	3,544
Change in cumulative unrealized gains	11,355	20,594	908	32,857
Total return on investments	13,664	24,963	1,028	39,655
Amount distributed for operating activities	(3,574)	(7,608)	-	(11,182)
Total return, net of operating distribution	10,090	17,355	1,028	28,473
Endowment net assets, June 30, 2011:				
Endowment investments	91,364	65,139	94,788	251,291
Unconditional promises to endowment	-	162	2,871	3,033
Total endowment net assets	$91,364	$65,301	$97,659	$254,324

June 30, 2011 (Dollars in Thousands)

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

Changes to endowment net assets for the year ended June 30, 2010, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2009:				
Endowment investments	$74,056	$40,785	$80,664	$195,505
Unconditional promises to endowment	-	-	10,033	10,033
Total endowment net assets	74,056	40,785	90,697	205,538
Contributions:				
Gifts added to endowment investments	-	16	6,786	6,802
Change in unconditional promises, net	-	24	(3,736)	(3,712)
Total contributions	-	40	3,050	3,090
Transfers and other additions	2	(8)	623	617
Net assets released from restrictions	404	(404)	-	-
Return on investments:				
Ordinary income, net of investment expenses	192	1,570	17	1,779
Realized gains (losses)	679	(2,008)	(73)	(1,402)
Change in cumulative unrealized gains	9,417	15,727	681	25,825
Total return on investments	10,288	15,289	625	26,202
Amount distributed for operating activities	(4,376)	(7,059)	-	(11,435)
Total return, net of operating distribution	5,912	8,230	625	14,767
Endowment net assets, June 30, 2010:				
Endowment investments	80,374	48,619	88,698	217,691
Unconditional promises to endowment	-	24	6,297	6,321
Total endowment net assets	$80,374	$48,643	$94,995	$224,012

NOTE 5 – INTANGIBLE ASSETS AND CAMPUS FACILITIES

Intangible Assets

Intangible assets include software, electronic information resources, and website development costs. The weighted average amortization period for intangible assets is four years.

	June 30, 2011	June 30, 2010
Amortized intangible assets:		
Gross carrying amount	$3,172	$2,757
Accumulated amortization	(2,281)	(2,162)
Net carrying amount	$ 891	$ 595

Aggregate amortization expense:

2011	$253

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

2012	$329
2013	284
2014	162
2015	56
2016	37
Thereafter	23
Total	$891

June 30, 2011 (Dollars in Thousands)

NOTE 5 – INTANGIBLE ASSETS AND CAMPUS FACILITIES, *Continued*

Campus Facilities

Campus facilities consisted of the following:

	June 30, 2011	June 30, 2010
Land and improvements	$ 21,432	$ 19,942
Building and improvements	189,072	176,638
Equipment	15,608	15,031
Library resources	1,876	2,377
Collections	540	535
Construction in progress	23,210	8,312
	251,738	222,835
Accumulated depreciation	(78,423)	(70,747)
Campus facilities, net	$173,315	$152,088

Asset Retirement Obligation

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.

During the fiscal year ended June 30, 2010, the university performed a survey of all campus facilities for asbestos. Based on this survey, the fair value of estimated future cash flows for abatement resulted in a downward adjustment to the university's asset retirement obligation, which resulted in a gain of $3,305.

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

	June 30, 2011	June 30, 2010
Asset retirement obligation, beginning of the year	$1,571	$5,355
Obligations settled	(89)	(205)
Accretion expense	67	64
Revisions in estimated cash flows	14	(3,643)
Asset retirement obligation, end of the year	$1,563	$1,571

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

	2011 Average Interest Rate	Final Maturity Date	June 30, 2011	June 30, 2010
WHEFA Revenue Bonds, 2006A	4.34%	2030	$20,280	$20,810
WHEFA Revenue Bonds, 2006B	4.32%	2036	30,000	30,000
WHEFA Revenue Bonds, 2001	3.63%	2031	10,490	10,520
WHEFA Revenue Bonds, 1998	5.16%	2014	1,466	2,364
Capital lease obligations	7.08%	2011-2014	109	188
Total			$62,345	$63,882

June 30, 2011 (Dollars in Thousands)

NOTE 6 – LONG-TERM DEBT, *Continued*

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

2012	$ 1,580
2013	1,653
2014	1,676
2015	1,740
2016	1,820
Thereafter	53,880
	62,349
Unamortized net discount	(4)
Total	$62,345

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 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 bond agreement contains a covenant that the university will comply with certain liquidity requirements. The WHEFA 2006A and 2006B bonds are supported by irrevocable letters of credit issued by a bank. The reimbursement agreements in the letters of credit require the university to maintain certain financial ratios and other measures as defined in the contracts. The university's unrestricted revenues are pledged as collateral on the WHEFA tax-exempt bond obligations. The university's underlying long-term rating is "A1" by Moody's Investors Service, Inc., and "A+" by Standard & Poor's Rating Services.

During 2006 the university entered into a loan agreement with WHEFA whereby WHEFA issued tax-exempt Variable Rate Demand Refunding Bonds in the amount of $21,930 at a premium of $431 (Series 2006A) and Variable Rate Demand Revenue Bonds in the amount of $30,000 (Series 2006B). The proceeds from the Series 2006B Revenue Bonds were used to fund the renovation and improvement of campus facilities and the proceeds from the Series 2006A Refunding Bonds were used to advance refund outstanding WHEFA 1998 bonds. Pursuant to the loan agreements, both the WHEFA 2006A and 2006B variable rate bonds bear interest at a rate that is determined weekly, with the maximum annual rate capped initially at 10.00%. The university maintains irrevocable letters of credit equal to the principal amount plus 37 days accrued interest on the outstanding Series 2006A and 2006B bonds. These direct pay letters of credit are scheduled to expire on June 30, 2012. Prior to their expiration, the university will enter into substitute letters of credit and/or consider other alternative liquidity facilities. The Series 2006A and Series 2006B bonds may be tendered with seven days' notice and to the extent the tendered bonds do not remarket, a liquidity draw against the letter of credit may occur. Any draws under the letter of credit must be reimbursed to the bank 360 days after the bank pays such drawing. Interest on such amount is at prime for the first three months, prime plus one percentage point for the next three months, and prime plus four percentage points thereafter. Additionally, pursuant to the terms of the Reimbursement Agreement, if certain material adverse changes were to occur, such changes could result in all obligations becoming immediately due.

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, with the maximum annual rate capped at 12.00%.

During 1998 the university entered into a loan agreement with WHEFA whereby WHEFA issued $34,870 of tax-exempt Revenue and Refunding Revenue Bonds, Series 1998, with various fixed rates, at a net discount of $54. The proceeds were used in part to advance refund outstanding WHEFA revenue bonds, and the balance was used to finance the construction and renovation of campus facilities. As of June 30, 2010, the WHEFA 1998 bonds that remain outstanding are those that were used to advance refund other WHEFA revenue bonds and therefore were not eligible for advance refunding with proceeds from the WHEFA 2006A bonds.

For the year ended June 30, 2011, the university incurred total interest costs related to long-term debt of $2,667, of which $241 was capitalized.

The fair value of long-term debt was estimated to be $62,352 and $63,893 at June 30, 2011 and 2010, respectively, based on quoted market prices for publicly traded debt with similar characteristics.

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, 2011, the bank's prime rate was 3.25%. This line of credit has not been drawn on but is available for operating expenses or to provide liquidity for the Series 2001 bonds should the need arise.

Interest Rate Swap Agreements

During 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. Over the remaining life of the bonds, the university expects the average interest rate to be the fixed swap rate plus related fees. 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 30-day London Interbank Offer Rate (LIBOR). Additional key terms of the agreements are as follows:

June 30, 2011 (Dollars in Thousands)

NOTE 6 – LONG-TERM DEBT, *Continued*

	Trade Date	Effective Date	Swap Fixed Rate	Final Maturity Date	Outstanding Notional Amount
WHEFA 2006A Swap	5/25/06	4/1/08	3.875%	10/1/30	$20,280
WHEFA 2006B Swap	5/25/06	6/30/06	3.855%	10/1/36	$30,000
WHEFA 2001 Swap	8/9/05	9/1/05	3.426%	10/1/31	$10,490

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 and is recognized as either an unrealized gain or loss, as appropriate. Amounts reported in the Statement of Financial Position as of June 30, 2011 and 2010, included an "Unrealized loss on interest rate swap agreements" of $9,091 and $10,961, respectively. The net changes in the fair value of the interest rate swap agreements for the years ended June 30, 2011 and 2010, was a net unrealized gain of $1,870 and loss of $2,400, respectively, recognized within "Actuarial adjustments and other changes" in the Statement 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.

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 investment grade.

NOTE 7 – RESTRICTIONS ON NET ASSETS

Restrictions on net assets consisted of the following:

	June 30, 2011	June 30, 2010
Temporarily restricted:		
Time restrictions:		
Unappropriated earnings from donor-restricted endowments	$ 63,333	$46,897
Term endowment	473	424
Total donor-restricted endowments	63,806	47,321
Unconditional promises to give	6,452	8,257
Split-interest agreements	1,885	2,223
Cash surrender value of life insurance policies	445	421
Total time restrictions	72,588	58,222
Purpose restrictions:		
Construction of campus facilities	16,231	11,714
Educational programs and activities	1,746	1,437
Total purpose restrictions	17,977	13,151
Total temporarily restricted	$ 90,565	$71,373
Permanently restricted:		
Endowment funds	$97,659	$94,995
Split-interest agreements	3,901	3,762
Loan funds	5	5
Total permanently restricted	$101,565	$98,762

June 30, 2011 (Dollars in Thousands)

NOTE 8 – 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 12 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 $4,373 and $4,282 for the years ended June 30, 2011 and 2010, 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 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 unrestricted net assets.

Amounts recognized in the Statement of Financial Position as of June 30, 2011 and 2010, and in the Statement of Activities for the years then ended are as follows:

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2011	2010	2011	2010
Projected and accumulated post-retirement benefit obligations:				
Beginning of the year	$ 4,808	$ 4,156	$ 1,614	$ 1,801
Benefits paid	(311)	(315)	(124)	(146)
Amounts recognized in the Statement of Activities:				
Components of net benefit expense recognized as operating expense:				
Service cost	258	210	51	38
Interest cost	229	246	75	105
Amortization of transition obligation	-	-	41	41
Amortization of actuarial loss	226	211	26	43
Total net benefit expense	713	667	193	227
(Gain) loss recognized within actuarial and other changes	(265)	300	(75)	(268)
End of the year	$ 4,945	$ 4,808	$ 1,608	$ 1,614
Post-retirement benefit liability recognized within accrued payroll and other liabilities in the Statement of Financial Position:				
Current portion	$ 301	$ 306	$ 139	$ 141
Noncurrent portion	4,644	4,502	1,469	1,473
Total	$ 4,945	$ 4,808	$ 1,608	$ 1,614
Plan funded status	$(4,945)	$(4,808)	$(1,608)	$(1,614)

June 30, 2011 (Dollars in Thousands)

NOTE 8 – RETIREMENT PLANS, *Continued*

Defined Benefit Plans, *Continued*

The weighted-average assumptions used to determine plan benefit obligations as of June 30, 2011 and 2010, and the net benefit expense for the years then ended, included:

	Faculty Early Retirement and Career Change Plan		Post-Retirement Medical Plan	
	2011	2010	2011	2010
Benefit obligation (post-retirement benefit liability):				
Discount rate	5.01%	4.91%	4.92%	4.85%
Rate of compensation increase	5.04%	5.04%	N/A	N/A
Health care trend rates	N/A	N/A	7.00%	7.00%
Net benefit expense:				
Discount rate	4.91%	6.18%	4.85%	6.14%
Rate of compensation increase	5.04%	5.04%	N/A	N/A
Health care trend rates	N/A	N/A	7.00%	7.00%

Health care trend rates are expected to decline by 0.50% per year to an ultimate trend rate of 5.00%.

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter, were estimated based on the same assumptions used to measure the benefit obligations and are as follows:

	Faculty Early Retirement and Career Change Plan	Post-Retirement Medical Plan
2012	$ 301	$139
2013	$ 319	$138
2014	$ 342	$136
2015	$ 374	$144
2016	$ 367	$145
2017–2021	$2,120	$700

Estimated university contributions to the plans that are expected to be paid during the next fiscal year include $319 for the faculty early retirement and career change plan and $138 for the post-retirement medical plan.

Amounts recognized as changes in unrestricted net assets that are expected to be recognized as amortization components of net benefit expense in the next fiscal year include a net loss of $225 for the faculty early retirement and career change plan and a net loss of $27 and a net transition obligation of $40 for the post-retirement medical plan.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The university has allocated a portion of its pooled endowment to investments in natural resources, private equity and real estate asset classes. At June 30, 2011, an outstanding commitment of $28,858 remains to be invested in these asset classes.

As of June 30, 2011, the university had outstanding commitments in the amount of $3,591 related to the 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 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, 2011, related to the university's federally funded student financial aid, research and development, and other programs.

NOTE 10 – SUBSEQUENT EVENTS

The university evaluated subsequent events through December 15, 2011, the date these financial statements were issued, and concluded there were no events requiring recording or disclosure.

University of Puget Sound
Board of Trustees and Officers

As of November 2011

UNIVERSITY of PUGET SOUND

1500 N. Warner St. #1083
Tacoma, WA 98416-1083
www.pugetsound.edu

APPENDIX C

CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS

The following statements are brief summaries of certain provisions of the principal documents executed in connection with the issuance of the Bonds that have not been described elsewhere in this Official Statement. The summary does not purport to be complete and reference is made to the actual documents available from the Trustee for a full and complete statement of the provisions thereof.

CERTAIN DEFINITIONS

The following are definitions set forth in the Indenture or the Loan Agreement and used in this Official Statement. Such terms as are not defined herein shall have the meanings assigned to them in the Loan Documents.

"*Acceleration Date*" means the date specified in a Declaration of Acceleration pursuant to the Indenture.

"*Account*" means any one or more of the separate special trust accounts created by the Indenture, and shall include any subaccount or subaccounts included in such account.

"*Act*" means Laws of 1983, Ch. 169, codified at chapter 28B.07 RCW, as amended.

"*Act of Bankruptcy*" means notice to the Trustee of a filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceeding) by or against the University, under any applicable bankruptcy, insolvency or similar in effect on the date of issuance or thereafter.

"*Authority*" means the Washington Higher Education Facilities Authority, a public body corporate and politic and an agency of the State of Washington, the issuer of the Bonds, and its successors and assigns.

"*Authority Fee*" means, with respect to the Bonds, 0.10% per annum of the Outstanding principal amount of the Bonds on July 1 (after taking into account any principal payment made or to be made on such July 1) or such lesser amount as may be determined by the Authority from time to time, payable in annual installments on each July 1 in advance; provided, that the first payment (for accrual to the next annual payment date) shall be made on Bond Closing for the Bonds.

"*Authority Tax Certificate*" means the No Arbitrage Certificate dated as of the Bond Closing for the Bonds executed by the Authority and the exhibits thereto.

"*Authorized Denomination*" means $5,000 or any integral multiple thereof within a single maturity.

"*Bond Closing*" means the date upon which there is an exchange of the Bonds for the proceeds representing the purchase of the Bonds by the initial purchasers thereof.

"*Bond Counsel*" means an attorney at law or a firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, who is or are selected by the Authority and is or are duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

"*Bond Register*" means the registration books required to be maintained pursuant to the Indenture.

"*Bond Registrar*" means the party so appointed pursuant to the Indenture, initially U.S. Bank National Association.

"*Bondowner*" or "*Owner*" or "*Registered Owner*" means the person or persons in whose name or names a Bond shall be registered on books of the Bond Registrar kept for that purpose in accordance with the terms of the Indenture.

"Bonds" means the Authority's Revenue and Refunding Revenue Bonds (The University of Puget Sound Project), Series 2012A.

"Business Day" means any day other than (i) a Saturday or a Sunday, or (ii) a day on which commercial banks in the city (or cities) in which are located the Principal Office(s) of the Trustee, Bond Registrar or any other paying agents are authorized or required by law or executive order to close.

"Code" means the Internal Revenue Code of 1986, as amended, together with corresponding and applicable final, temporary or proposed regulations and revenue rulings issued or amended with respect thereto by the United States Treasury Department or Internal Revenue Service, to the extent applicable to the Bonds. All references in the Indenture to sections, paragraphs or other subdivisions of the Code or the regulations promulgated thereunder shall be deemed to be references to correlative provisions of any predecessor or successor code or regulations promulgated thereunder.

"*Cost of Issuance Fund*" means such Fund created by the Indenture.

"*Counsel*" means an attorney at law or a firm of attorneys (who may be an employee of or counsel to the Authority, the University, or the Trustee) duly admitted to the practice of law before the highest court of any state of the United States of America or of the District of Columbia.

"Debt Service" means the scheduled amount of interest and amortization of principal payable on the Bonds during the period of computation.

"Debt Service Fund" means such Fund created by the Indenture.

"Declaration of Acceleration" means the written notice of the acceleration of the principal of the Bonds and the interest accrued thereon, given by the Trustee as provided in the Indenture.

"Default" or *"Event of Default"* means an occurrence or event specified in and defined by the Indenture.

"Determination of Taxability" means and shall be deemed to have occurred on the first to occur of the following:

(i) on that date when the University files any statement, supplemental statement or other tax schedule, return or document which discloses that an Event of Taxability shall have occurred;

(ii) on the date when the Bondowner or any former Bondowner notifies the Authority and the University that it has received a written opinion from Bond Counsel to the effect that an Event of Taxability has occurred, which notice shall be accompanied by a copy of such opinion of Bond Counsel, unless, within 180 days after receipt by the University of such notification and copy of such opinion from such Bondowner or such former Bondowner, the University shall deliver to such Bondowner, or such former Bondowner, a ruling or determination letter issued to or on behalf of the Authority or the University by the Commissioner or any District Director of the Internal Revenue Service (or any other governmental official exercising the same or a substantially similar function from time to time) to the effect that, after taking into consideration such facts as form the basis for the opinion that an Event of Taxability has occurred, an Event of Taxability shall not have occurred.

(iii) on the date when the Authority or the University shall be advised in writing by the Commissioner or any District Director of the Internal Revenue Service (or any other government official or agent exercising the same or a substantially similar function from time to time) that, based upon any review or audit or upon any other ground whatsoever, an Event of Taxability has occurred; or

(iv) on that date when the Authority or the University shall receive notice from the Bondowner or any former Bondowner that the Internal Revenue Service (or any other government official or agency exercising the same or a substantially similar function from time to time) has assessed as includable in the gross income of such Bondowner or such former Bondowner the interest on the Bonds due to the occurrence of an Event of Taxability;

provided, however, no Determination of Taxability shall occur under subparagraph (iii) or (iv) hereunder unless the University has been afforded the opportunity, at its expense, to contest any such assessment, and, further, no Determination of Taxability shall occur until such contest, if made, has been finally determined; *provided further, however*, that upon demand from the Bondowner or former Bondowner, the Authority shall promptly reimburse, but solely from payments made by the University, such Bondowner or former Bondowner for any payments, including any taxes, interest, penalties or other charges, such Bondowner (or former Bondowner) shall be obligated to make as a result of the Determination of Taxability.

"DTC" means The Depository Trust Company, New York, New York.

"Event of Taxability" means a change in law or fact or the interpretation thereof, or the occurrence or existence of any fact, event or circumstance (including, without limitation, the taking of any action by the University, or the failure to take any action by the University, or the making by the University of any misrepresentation herein or in any certificate required to be given in connection with the issuance, sale or delivery of the Bonds) which has the effect of causing interest paid or payable on the Bonds to be includable, in whole or in part, in the gross income of the Bondowner or any former Bondowner for federal income tax purposes.

"*Exempt Person*" means a state or local governmental unit or an organization exempt from federal income taxation under Section 501(a) of the Code by reason of being described in Section 501(c)(3) of the Code.

"*Fiscal Year*" means the fiscal year of the University, initially the period from July 1 through June 30 of each year.

"Fund" means any one or more of the separate special trust funds created by the Indenture.

"GAAP" means the generally accepted accounting principles applicable to colleges and universities.

"*Government Obligations*" means noncallable, direct, general obligations of the United States of America (including the obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or any obligations unconditionally guaranteed as to the full and timely payment of principal and interest by the full faith and credit of the United States of America. Obligations guaranteed as to payment of interest only are Government Obligations only with respect to such interest payments.

"*Holdback Account*" means the Account of such name created within the Project Fund by the Indenture.

"Indenture Act" means the Trust Indenture Act of 1939 (Act of August 3, 1939, 53 Stat. 1149, 15 U.S.C., Secs. 77aaa-77bbbb), as amended.

"Intercreditor Agreement" means the Second Amended and Restated Intercreditor Agreement dated as of October 1, 2012, as such agreement may be amended from time to time.

"Interest Payment Date" means (a) April 1 and October 1 of each year, commencing April 1, 2013, and (b) any other date upon which interest on the Bonds is due and payable, whether by maturity, acceleration, prior redemption, or otherwise.

"Issuance Costs" means all costs and expenses of issuance of the Bonds, including, but not limited to:

(a) underwriter's discount or fee;

(b) counsel fees and expenses, including bond counsel, underwriter's counsel, Authority's counsel and University's counsel, as well as any other specialized counsel fees incurred in connection with the issuance of the Bonds;

(c) financial advisor fees and expenses incurred in connection with the issuance of the Bonds;

(d) initial fees and expenses of the Trustee, including Trustee counsel fees and expenses, in connection with the issuance of the Bonds;

(e) costs of printing the preliminary official statement and the official statement with respect to the Bonds;

(f) publication or copying costs associated with the financing proceedings relating to the Bonds; and

(g) initial fees and expenses, if any, of the Authority and Rating Agency relating to the Bonds.

"*Issue Price*" means "issue price as defined in Section 1.148-8(c) of the Regulations and, generally, is the aggregate initial offering price to the public (excluding bond houses, brokers and other intermediaries acting in the capacity of wholesalers or underwriters) at which a substantial amount of each maturity of Bonds is sold.

"*Letter of Representations*" means the Blanket Issuer Letter of Representations, signed by the Authority and accepted by DTC with respect to the immobilization of Authority bonds, including the Bonds.

"*Loan*" means the loan by the Authority to the University pursuant to the Loan Agreement to provide permanent financing for the Project.

"*Loan Agreement*" means the Loan Agreement among the Authority, the Trustee and the University dated as of October 1, 2012, as it may be supplemented or amended from time to time.

"*Loan Agreement Default*" means an occurrence or event specified in and defined by the Loan Agreement.

"*Loan Documents*" means the Loan Agreement, the Tax Certificates and the Note.

"*Moody's*" means Moody's Investors Services, and its successors and assigns.

"*1998 Bonds*" means Authority's Revenue and Refunding Revenue Bonds (The University of Puget Sound Project), Series 1998 issued pursuant to an Indenture of Trust dated as of April 1, 1998.

"*New Facilities*" mean the facilities constructed, equipped and/or improved with proceeds of the Bonds, as further described in the Loan Agreement.

"*Note*" means the promissory note executed by the University in favor of the Authority and assigned to the Trustee to evidence the Loan.

"*Outstanding*" *or* "*Bonds Outstanding*" in connection with the Bonds means, as of the time in question, all Bonds authenticated and delivered under the Indenture, except:

(a) Bonds theretofore cancelled or required to be cancelled under the Indenture;

(b) Bonds which are deemed to have been paid in accordance with the defeasance provisions of the Indenture; and

(c) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the Indenture.

In determining whether the Registered Owners of a requisite aggregate principal amount of Outstanding Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the Indenture, Bonds which are known by the Trustee to be owned by the University, the Authority, or any other obligor on the Bonds, or any affiliate of any one of said entities (for the purpose of this definition an "affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person) shall be disregarded and deemed not to be Outstanding under the Indenture for the purpose of any such determination. For purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. Bonds (in certificated form) so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the University, the Authority, or any other obligor on the Bonds, or any affiliate of the foregoing. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of Counsel shall be full protection to the Trustee.

"Paying Agent" means the Trustee, its successors and assigns, unless the Trustee shall designate another entity as Paying Agent, with the consent of the Authority.

"Permitted Investments" means any of the following, to the extent permitted by law for the money held under the Indenture then proposed to be invested therein:

(a) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(1) U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership

(2) Farmers Home Administration (FmHA)
Certificates of beneficial ownership

(3) Federal Financing Bank

(4) Federal Housing Administration Debentures (FHA)

(5) General Services Administration
Participation certificates

(6) Government National Mortgage Association (GNMA or "Ginnie Mae")
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations

(7) U.S. Maritime Administration
Guaranteed Title XI financing

(8) U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(1) Federal Home Loan Bank System
Senior debt obligations

(2) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
Participation Certificates
Senior debt obligations

(3) Federal National Mortgage Association (FNMA or "Fannie Mae")
Mortgage-backed securities and senior debt obligations

(4) Student Loan Marketing Association (SLMA or "Sallie Mae")
Senior debt obligations

(5) Resolution Funding Corp. (REFCORP) obligations

(6) Farm Credit System
Consolidated systemwide bonds and notes

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G, AAA-m, or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2 (including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other services).

(e) Interest-bearing negotiable certificates of deposit, interest-bearing time deposits, interest-bearing savings accounts or money market deposit accounts issued by or held in any commercial bank, savings and loan association or trust company (including the Trustee and any of its affiliates) whose unsecured short-term obligations are rated in Prime-1 or better by Moody's or A-1 or better by S&P or interest-bearing negotiable certificates of deposit, interest-bearing time deposits, interest-bearing savings accounts or money market deposit accounts issued by or held in any commercial bank, savings and loan association or trust company (including the Trustee and any of its affiliates) which are fully insured by FDIC or collateralized pursuant to the Office of the Comptroller of Currency requirements.

(f) Investment agreements, including guaranteed investment contracts and forward purchase agreements.

(g) Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P (including any issued by the Trustee or any of its affiliates).

(h) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

(i) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

(j) Other forms of investments (including repurchase agreements and any investment agreement).

"Person" means any natural person, firm, partnership, association, corporation, limited liability company, trust or public body.

"*Pledged Revenues*" means Unrestricted Gross Revenues, Gains and Other Support which have been pledged by the University pursuant to the Loan Agreement as security for the payment of amounts owed under the Loan and the Loan Agreement.

"Principal Office" (i) when used with respect to the Trustee, means the agency office of the Trustee located in Seattle, Washington, at the address designated pursuant to the Indenture, (ii) when used with respect to the Trustee in its capacity as Bond Registrar, as applicable, and with respect to payments on the Bonds and any exchange, transfer or surrender of the Bonds, means c/o U.S. Bank National Association, 60 Livingston Avenue, St.

Paul, Minnesota 55107 or such other or additional offices as may be specified to the Authority and the University with respect to either the Trustee or Bond Registrar; and (iii) when used with respect to any paying agent, means the office of such paying agent as designated by notice given by the Trustee to the Bondowners.

"*Project Account*" means the Account of such name within the Project Fund created by the Indenture.

"*Project Costs*" means, to the extent authorized by the Code and the Act, any and all costs, including financing costs, incurred by the University with respect to the acquisition, design, construction, renovation, improvement, furnishing equipment and financing (provided that refinancing is owed to persons who are not related to the University within the meaning of Section 144(a)(3) of the Code), as the case may be, of the New Facilities, including, without limitation, any bond insurance premium, costs for site preparation, the planning of facilities and improvements, the acquisition of real property, interests in real property and tangible personal property, the removal or demolition of existing structures, acquisition, refinancing, rehabilitation or construction of other facilities and improvements, and all other work in connection therewith, and all costs of Bond financing, including without limitation, the cost of consulting, accounting and legal services, payment of principal of and interest on a construction loan, other expenses necessary or incident to determining the feasibility of the Project, contractors' and University's overhead and supervisors' fees and costs directly allocable to the Project, insurance premiums, costs of surveys and appraisals, administrative and other expenses necessary or incident to the development and the financing thereof (including reimbursement, if any, to any municipality, county or entity for expenditures made, with the approval of the Authority, for the Project), costs of refunding the Refunded Bonds and refinancing the Refunded Project Facilities and all other costs approved by Bond Counsel, but excluding in all cases Issuance Costs.

"*Project Facilities*" means the New Facilities and the Refunded Project Facilities.

"*Project Fund*" means such Fund created by the Indenture.

"*Rating Agency*" means Moody's and S&P, or their respective successors and assigns or, if either such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized rating agency designated by the Authority, which maintains a rating on any of the Bonds.

"*Rating Agency Surveillance Fee*" means the annual fee, if any, of the Rating Agency to maintain a rating on any of the Bonds.

"*Reasonably Required Reserve or Replacement Fund*" means any fund described in Section 148(d) of the Code, provided that the amount thereof allocable to the Bonds that is invested at a Yield materially higher than the Yield on the Bonds does not exceed 10% of the proceeds of the Bonds, within the meaning of Section 148(d) of the Code.

"*Rebate Amount*" means the amount, if any, determined to be payable with respect to the Bonds by the Authority to the United States of America pursuant to Section 148 of the Code, calculated in accordance with the Tax Certificates.

"*Rebate Fund*" means the Fund of that name established pursuant to the Indenture.

"*Record Date*" means, except for payment of defaulted interest, the opening of business on the fifteenth day of the month preceding a scheduled Interest Payment Date. With respect to any payment of defaulted interest, a Special Record Date shall be established by the Trustee in accordance with the Indenture.

"*Refunded Bonds*" means the 2006A Bonds.

"*Refunded Project Facilities*" mean the facilities originally financed or refinanced with proceeds of the Refunded Bonds, as further described in the Loan Agreement.

"*Refunding Account*" means the Account of such name created within the Project Fund by the Indenture.

"*Registered Owner*" or "*Bondowner*" or "*Owner*" means the person or persons in whose name or names a Bond shall be registered on the books of the Bond Registrar kept for that purpose in accordance with the terms of the Indenture.

"*Regulations*" means the applicable proposed, temporary or final Income Tax Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

"*Reserve or Replacement Fund*" means any fund described in Section 1.103-13(g) of the Regulations or any amounts replaced by proceeds of the Bonds within the meaning of Section 148(a)(2) of the Code or any fund described in Section 1.148-8(d)(10) of the Regulations, including a Reasonably Required Replacement Reserve Fund.

"*Resolution*" means Resolution No. 12-05, duly adopted and approved by the Authority on September 6, 2012, authorizing, *inter alia*, the issuance and sale of the Bonds and the execution of the Indenture.

"*Revenues*" means the amounts pledged under the Indenture to the payment of the principal of, redemption premium, if any, and interest on the Bonds, including the following: (a) money held in the Funds and Accounts (excluding the Cost of Issuance Fund and the Rebate Fund), together with investment earnings thereon received by the Trustee which the Trustee is authorized to receive, hold and apply pursuant to the terms of the Indenture; and (b) all income, revenues, proceeds, obligations, securities and other amounts received by the Trustee and derived from or in connection with the Loan or the Loan Documents, but excluding amounts payable as the Authority Fee, the Rating Agency Surveillance Fee, the Trustee Fee, the Rebate Amount or the fee for the calculation of the Rebate Amount and the indemnification or reimbursement of the Authority and the Trustee.

"*S&P*" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, a New York corporation, and its successors and assigns.

"*Sale Proceeds*" means any amounts actually or constructively received from the sale (or other disposition) of any Bond, including amounts used to pay underwriter's discount or compensation and accrued interest other than pre-issuance accrued interest. Sale Proceeds also includes amounts derived from the sale of a right that is associated with any Bond and that is described in Section 1.148-4 of the Regulations.

"*Special Record Date*" means, with respect to the payment of any defaulted interest on the Bonds, a date fixed by the Trustee pursuant to the Indenture.

"*State*" means the State of Washington.

"*Supplemental Indenture*" means any agreement hereafter authorized and entered into between the Authority and the Trustee which amends, modifies or supplements and forms a part of the Indenture.

"*2001 Bonds*" means the Authority's Variable Rate Demand Revenue Bonds (The University of Puget Sound Project), Series 2001, issued pursuant to an Indenture of Trust dated as of January 1, 2001.

"*2006A Bonds*" means the Authority's Variable Rate Demand Refunding Revenue Bonds (The University of Puget Sound Project), Series 2006A issued pursuant to an Indenture of Trust dated as of August 1, 2012.

"*2012B Bonds*" means the Authority's Refunding Revenue Bonds (The University of Puget Sound Project), Series 2012B, expected to be issued pursuant to an Indenture of Trust dated as of October 1, 2012.

"*Tax Certificates*" means the University Tax Certificate and the Authority Tax Certificate.

"*Transferred Proceeds*" means, with respect to the portion of the Bonds that is a refunding issue, proceeds that have ceased to be proceeds of a refunded issue and are transferred proceeds of the refunding issue by reason of Section 1.148-9 of the Regulations.

"*Trust Estate*" means the property conveyed to the Trustee pursuant to the Granting Clauses of the Indenture.

"*Trustee*" means U.S. Bank National Association, or any successor trustee or co-trustee appointed in accordance with the terms of the Indenture.

"*Trustee Fee*" means, with respect to the Bonds, an amount payable on an annual basis on each October 1 in advance (except that the first payment accrued through the next annual payment date shall be made on Bond Closing) in accordance with the letter agreement dated July 11, 2012, between the Trustee and the University as amended from time to time, with respect to the payment of all fees and expenses.

"*Underwriter*" means George K. Baum & Company, as underwriter for the Bonds.

"*University*" means The University of Puget Sound, a Washington nonprofit corporation and an organization described under Section 501(c)(3) of the Code, and its successors and assigns.

"*University Representative*" means the person or persons at the time designated by the University to act on behalf of the University by written certificate furnished to the Authority and the Trustee containing the specimen signature(s) of such person or persons.

"*University Tax Certificate*" means the Certificate Regarding Section 501(c)(3) Status and Use of Proceeds executed by the University of even date with the Bonds.

"*Unrestricted Revenues, Gains and Other Support*" means "unrestricted revenues, gains and other support" of the University, as defined under GAAP and includes all accounts, chattel paper, instruments and general intangibles for money due or to become due (all as defined in Chapter 62A.9 of the UCC) as are now in existence or as may be hereafter acquired and the proceeds thereof that evidence the University's rights in such unrestricted revenues, gains and other support.

"*Yield*" means yield as determined in accordance with Section 148(h) of the Code, and generally, is the yield that, when used in computing the present worth of all payments of principal and interest to be paid on an obligation produces an amount equal to the Issue Price of such obligation.

THE INDENTURE

General

The Indenture sets forth the terms of the Bonds, the nature and extent of the security, the various rights of the Bondholders, the rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Certain provisions of the Indenture are summarized below. Other provisions are described in this Official Statement under the captions "THE BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Establishment of Funds and Accounts

The Indenture creates a Project Fund, a Cost of Issuance Fund and a Debt Service Fund and, if necessary, a Rebate Fund, all of which are to be held by the Trustee.

On the date of issuance and delivery of the Bonds, the Trustee will deposit a portion of the proceeds received from the sale of the Bonds, together with money, if any, received from the University, sufficient to pay Issuance Costs for the Bonds into the Cost of Issuance Fund, and will deposit the remainder of the Bond proceeds into the accounts held in the Project Fund.

Refunding Account of the Project Fund. Proceeds of the Bonds deposited into the Refunding Account will be transferred by the Trustee immediately upon receipt, without the necessity of a funding requisition to U.S. Bank National Association, as trustee for the Refunded Bonds, in order to reimburse Wells Fargo Bank, National Association for the principal and interest draw on the letter of credit used to pay the redemption price of the

Refunded Bonds on October 1, 2012. Upon completion of such disbursement, the Trustee will close the Refunding Account.

Project Account, Capitalized Interest Account and Holdback Accounts of the Project Fund. Amounts in the Project Account shall be held by the Trustee in trust and shall be applied or disbursed in accordance with the Indenture and the Loan Agreement; provided that the Trustee may conclusively rely upon any Funding Requisition, without independent investigation or inquiry into the purposes for which such Funding Requisition is made and each payment from the Project Account pursuant to a Funding Requisition shall be presumed properly made. Amounts, if any, remaining in the Project Account on August 15, 2015, shall be transferred to the Debt Service Fund on September 1, 2013 (unless those dates are extended pursuant to the Loan Agreement) and used to redeem Bonds in accordance with the Indenture). Unless there has been an extension of the prepayment date as provided in the Loan Agreement, no Funding Requisition will be honored after August 15, 2015.

Amounts on deposit in the Capitalized Interest Account within the Project Fund shall be transferred, beginning on April 1, 2013, on or before each Interest Payment Date to the Debt Service Fund to pay a portion of the interest due on the Bonds through October 1, 2013.

A portion of the proceeds of the Bonds in an amount set forth in the Indenture shall be retained in the Holdback Account of the Project Fund until receipt of confirmation from the Authority that, based solely on the information provided by the Trustee with respect to the dates on which Bond proceeds have been disbursed, a spending exception from arbitrage rebate has been met with respect to the proceeds of the Bonds used to finance capital projects. Following such confirmation, amounts in the Holdback Account shall be transferred to the Project Account and may be requisitioned and disbursed. If a spending exception from arbitrage rebate cannot be met, upon direction from the Authority, the Trustee shall transfer the amount necessary to pay any Rebate Amount from the Holdback Account to the Rebate Fund. Any excess funds on deposit in the Holdback Account shall thereafter be transferred to the Project Account and may be requisitioned and disbursed. Following the disbursements of all amounts in the Holdback Account, such Holdback Account shall be closed.

The Trustee shall invest the amount initially deposited in the Project Account, the Holdback Account and the Capitalized Interest Account in Permitted Investments as directed by the University.

Cost of Issuance Fund. Money on deposit in the Cost of Issuance Fund will be applied to pay Issuance Costs. Any money remaining in the Cost of Issuance on the 180th day following Bond Closing is to be transferred to the Project Account of the Project Fund and the Cost of Issuance Fund will be closed. The Cost of Issuance Fund may be reopened if required upon the issuance of Additional Bonds and closed again by the 90th day thereafter.

Debt Service Fund. The Trustee shall deposit into the Debt Service Fund funds in an amount sufficient to pay the principal of, and premium, if any, and interest becoming due and payable on the Bonds on the next Interest Payment Date, at scheduled maturity, upon acceleration or by prior redemption, from the following sources and in the following order of priority: (i) money, if any, representing accrued interest at Bond Closing; (ii) money received with respect to principal and interest from the University under the Note including amounts on deposit with the Trustee pursuant to the Loan Agreement or available for transfer to the Debt Service Fund under the Indenture; (iii) investment earnings on the money therein; and (iv) any other Revenues collected by the Trustee and available to pay principal of or interest on the Bonds. Money on deposit in the Debt Service Fund is to be applied solely to pay principal of, premium, if any and interest becoming due and payable. On each scheduled Interest Payment Date on the Bonds and on each date on which any principal or premium becomes payable on the Bonds, the Trustee shall remit or cause to be remitted in accordance with the Indenture to the Bondowner as of the Record Date for such interest, principal and/or premium payment, as applicable, an amount from the Debt Service Fund sufficient to pay the interest, and the amount of principal of and premium, if any, on the Bonds becoming due and payable on such date.

Rebate Fund. If the Trustee receives amounts determined in accordance with the Tax Certificates or the provisions of the Indenture relating to Rebate Amounts, the Trustee is to establish a Rebate Fund and deposit such amounts therein. The Trustee is to withdraw such amounts to pay the Rebate Amount required to be paid to the United States of America in accordance with the Tax Certificates.

Additional Bonds; Additional Indebtedness

Without the consent of or notice to the Bondowners, the Authority may issue additional bonds ("Additional Bonds") having a parity of lien on the Trust Estate at the request of the University with prior written confirmation from the Rating Agency that the rating on the Bonds will not be reduced or withdrawn solely as a result of the issuance of any such Additional Bonds. If Additional Bonds are issued pursuant to the Indenture, all references in the Indenture to the Bonds will be deemed to refer to the Bonds and any Additional Bonds. The Authority is not precluded from issuing additional bonds having a subordinate lien on the Trust Estate or separately secured under a different indenture, regardless of the effect of such issuance on the rating of the Bonds.

Nothing in the Indenture is intended to prevent the University from incurring additional indebtedness or granting a security interest or lien, or otherwise encumbering, the Pledged Revenues on a parity basis with the security interest in the Pledged Revenues granted to the Authority under the Loan Agreement. In the event that the University at any time notifies the Authority and the Trustee that the University intends to grant a security interest or lien, or to otherwise encumber the Pledged Revenues granted to the Authority under the Loan Agreement, the Trustee is to cooperate by entering into one or more intercreditor agreements as may be necessary or desirable, to evidence the requested parity of lien, so long as such parity of lien is permitted under the Loan Agreement.

Authority Covenants

The Authority has covenanted:

In General: That it will observe and perform all the covenants, conditions and requirements of the Indenture.

No Extension: That it will not directly or indirectly extend or assent to the extension of maturity of any Bonds or the time of payment of any interest thereon without the consent of the Owners of all Outstanding Bonds.

Other Liens: That it will not create, or knowingly permit the creation of, any pledge, lien, charge or other encumbrance upon the Trust Estate or the Loan Documents while any of the Bonds are Outstanding, except as permitted under the Loan Documents and in the Intercreditor Agreement and the pledge and assignment created by the Indenture. The Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Tax Covenants

The Authority will not use or knowingly permit the use of any proceeds of the Bonds or any other funds of the Authority, directly or indirectly, in any manner, and will not take or permit to be taken any other action or actions, which would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Code. So long as any of the Bonds remain Outstanding, money on deposit with the Trustee under the Indenture, whether derived from proceeds of the sale of the Bonds or from any other source, will not knowingly be used in a manner which will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and any regulations proposed or promulgated thereunder; provided, however, that the Authority and the Trustee will rely upon certain certificates of the University as to arbitrage. The Authority will pay, or cause to be paid, from amounts provided by the University, the Rebate Amount, if any, to the United States of America at the times and in the amounts necessary to meet the requirements of the Code to maintain the federal income tax exemption for interest payments on the Bonds, in accordance with the Tax Certificates. Within 30 days after the end of every fifth Bond year, and within 55 days after the date on which no Bonds are Outstanding, the University will cause the Rebate Analyst to deliver to the Trustee and the Authority a certificate stating whether any rebate payment is required to be made, as set forth in the Tax Certificates, and the University will deliver to the Trustee any amount so required to be paid. The Trustee will provide notice to the University, with a copy of the Authority, 30 days prior to the due date of any such certificate that such certificate is due and will provide notice to the Authority if such certificate is not received within 10 days after the due date. During the period in which amounts are on deposit in the Project Fund, the Trustee will report to the Authority and the University on a semiannual basis, commencing six months after the Bond Closing, the amount of the disbursements made by the Trustee from the Project Fund in order to provide documentation of an exemption from the requirement to pay the Rebate Amount.

Defaults; Events of Default

If any of the following events occurs, it is defined as and declared to be and to constitute a Default and an Event of Default:

(1) Failure to make payment of interest upon any Bond when the same has become due and payable;

(2) Failure to make due and punctual payment of the principal of or premium, if any, on any Bond, whether at the stated maturity thereof, upon proceedings for redemption thereof, or upon the maturity thereof by declaration of acceleration;

(3) Any material representation or warranty made by the Authority in the Indenture or the Bonds is determined by the Trustee to have been untrue when made or any failure by the Authority to observe and perform any covenant, condition or agreement on its part to be observed and performed under the Indenture or the Bonds, other than as referred to in (1) or (2) above, continues for a period of 60 days after written notice specifying such breach or failure and requesting that it be remedied, is given to the Authority, the University, and the Bondowners by the Trustee, or to the Authority, the University and the Trustee by the Registered Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, unless (i) the Trustee agrees in writing to an extension of such time prior to its expiration or (ii) if the breach or failure is such that it cannot be corrected within the applicable period, corrective action is instituted by the Authority within the applicable period and is being diligently pursued; and

(4) The occurrence of any Loan Agreement Default.

Acceleration of Maturity

If any Event of Default shall have occurred and be continuing after the applicable cure period, if any, the principal of all Outstanding Bonds, and the interest accrued thereon, may be subject to acceleration as follows: (1) the Trustee, in its sole discretion, may declare the principal of all Outstanding Bonds and the interest accrued thereon to be due and payable immediately after the occurrence of any Event of Default; or (2) the Trustee shall declare the principal of all Outstanding Bonds and the interest accrued thereon to be due and payable immediately after the occurrence of any Event of Default at the written request of the Owners of not less than 51% in aggregate principal amount of Outstanding Bonds.

Any acceleration of the Bonds and the interest accrued thereon by the Trustee as described in the preceding paragraph will be made by giving to the Authority and the University, a Declaration of Acceleration, which Declaration of Acceleration will state that the principal of all Outstanding Bonds will become due and payable on the Acceleration Date (which will not be later than 30 days after the date of the Declaration of Acceleration), together with all interest accrued on such Outstanding Bonds to such Acceleration Date.

Upon giving of any Declaration of Acceleration to the Authority and the University, the Trustee will give written notice of such Declaration of Acceleration and its consequences to the Owners in the same manner and the same effect as a notice of redemption, except that (1) the notice of acceleration will be mailed no more than two Business Days after the date upon which the Trustee gives the Declaration of Acceleration, and (2) interest will cease to accrue on the Bonds after the Acceleration Date (which is to be disclosed in the notice), if amounts are available on such date for the payment of principal of and interest to such date on the Bonds.

Any acceleration of the Bonds is subject to the condition that if, at any time after such Declaration of Acceleration and before the Acceleration Date, the Authority or the University deposits with the Trustee a sum sufficient to pay all the overdue principal of and interest on the Bonds, with interest on such overdue principal and the rate(s) borne by the respective Bonds, and the reasonable charges and expenses of the Trustee (including those of its Counsel), and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds which become due and payable solely by reason of such declaration) have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then the Owners of not less than a majority in aggregate principal amount of Outstanding Bonds may rescind and annual such declaration and its consequences and waive such default on behalf of all the Owners, by written notice to the Authority, the University and the Trustee; provided that no such rescission and annulment will extend to or affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

Enforcement of Covenants and Conditions

Upon the occurrence of any Event of Default described in (3) under "Defaults; Events of Default" above which has not been waived as permitted by the Indenture, and subject to the indemnification provisions of the Indenture, the Trustee may, at its discretion or shall, upon the written request of the Owners of not less than a majority in aggregate principal amount of Outstanding Bonds, commence and prosecute appropriate legal or equitable proceedings, to compel the Authority to perform such obligations, or take action as authorized in the Indenture.

Upon the occurrence of an Event of Default which has not been waived as permitted by the Indenture, the Trustee may at its discretion or shall, at the written request of the Owners of not less than a majority in aggregate principal amount of Outstanding Bonds, proceed forthwith by suit(s) at law or in equity or by any other appropriate remedy to enforce payment of the Bonds; to enforce application to such payment of the funds, revenues and income appropriated thereto by the Indenture, the Intercreditor Agreement, and by the Bonds; to enforce the assigned rights of the Authority under the Loan Agreement and the Note; the enforce the security interests granted in the Loan Agreement, the Intercreditor Agreement and the Note in accordance with the applicable laws of the State; to pursue all remedies of a secured creditor under the applicable laws of the State; and to enforce any such other appropriate legal or equitable remedy as the Trustee, being advised by Counsel, deems most effectual to protect and enforce any of its rights or any of the rights of the Owners of the Bonds. Notwithstanding the foregoing, the Trustee need not proceed upon any such written request by the Owners of the Outstanding Bonds, unless such Owners have offered the Trustee security and indemnity satisfactory to it against fees, costs, expenses and liabilities to be incurred therein or thereby.

Limitation on Rights and Remedies of Bondowners

No Bondowner will have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder unless (1) an Event of Default has occurred of which the Trustee has been notified, (2) the Registered Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee, have offered the Trustee reasonable opportunity either to proceed to exercise the powers therein granted or to institute such action, suit or proceeding in its own name, and have offered to the Trustee indemnity satisfactory to the Trustee as provided in the Indenture, and (3) the Trustee shall for a period of 60 days thereafter fail or refuse to exercise the powers therein granted, or to institute such action, suit or proceeding in its own name as Trustee; and such notification, request and offer of opportunity and indemnity are declared in every case to be conditions precedent to the execution of the powers and trusts of the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy thereunder. No one or more Bondowners will have any right in any manner whatsoever to enforce any right under the Indenture except in the manner therein provided, and all proceedings at law or in equity are to be instituted, had and maintained in the manner therein provided and for the equal and ratable benefit of the Owners of all Bonds then Outstanding. Nothing in the Indenture, however, affects or impairs the right of any Bondowner to enforce the payment of the principal of, and premium, if any, and interest on, any Bonds at and after the maturity thereof.

Termination of Proceedings

In case the Trustee or the Owners of the Bonds shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adverse to the Trustee or the Owners of the Bonds, then the Authority, the University, the Trustee and the Bondowners will be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee will continue as if no such proceedings had been taken.

Waivers of Events of Default

The Trustee may, in its discretion, waive any Event of Default under the Indenture and rescind its consequences and shall do so upon the written request of the Bondowners of not less than a majority in aggregate principal amount of all Bonds then Outstanding; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal of any Outstanding Bonds when due (whether at maturity or by redemption or as a result of acceleration) or (b) any Event of Default in the payment when due of the interest on any such Bonds, unless prior to such waiver and rescission all arrears of interest and all arrears of principal when due, as the case may be, together, in either case, with the money due and owing to the Trustee, including reasonable attorneys' fees paid or incurred, shall have been paid or provided for, and the Bondowners of all Bonds then Outstanding approve such waiver. Notwithstanding any provisions of the Indenture to the contrary, any declaration made at the request of the Bondowners of 51% or more in aggregate principal amount of the Bonds then Outstanding shall not be waived except as it may be annulled pursuant the Indenture. In the case of any such waiver and rescission, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the Registered Owners will be restored to their former positions and rights under the Indenture, respectively, but no such waiver and rescission will extend to any subsequent or other default, or impair any right consequent thereon. All waivers under the Indenture must be in writing.

Removal of the Trustee; Resignation

Prior to an Event of Default, the Authority may, and upon direction of the University shall, remove the Trustee at any time with or without cause. If an Event of Default has occurred and is then continuing, the Authority may remove the Trustee only (i) for cause or, (ii) if requested to do so by an instrument or concurrent instruments in writing signed by the Bondowners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (iii) if at any time the Trustee ceases to be eligible in accordance with the Indenture, or becomes incapable of acting, or is adjudged bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation; in each case by giving written notice of such removal to the Trustee, the University and the Authority, as applicable, and the Authority thereupon is required to appoint a successor Trustee by an instrument in writing. The Trustee may at any time resign by giving 60 days' written notice of such resignation to the Authority and the University, by registered or certified mail or by overnight courier service. Upon receiving such notice of resignation, the Authority is required to promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of the Trustee and appointment of a successor Trustee will only become effective upon acceptance of appointment by the successor Trustee.

Indenture Amendments Requiring Consent of Bondowners

The Indenture and the rights and obligations of the Authority, the Bondowners and the Trustee may be modified or amended at any time by a Supplemental Indenture which will become effective when signed by the parties to the Indenture and the written consents of the Registered Owners of 51% or more of the aggregate principal amount of Bonds Outstanding have been filed with the Trustee; provided, that if such modification or amendment will, by its terms, not take effect so long as any Bonds remain Outstanding, the consent of the Registered Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds. No such modification or amendment may (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Registered Owner of each Bond so affected, or (b) reduce the aforesaid percentage of the aggregate principal amount of Bonds then Outstanding the consent of the Registered Owners of which is required to effect any such modification or amendment, or (c) permit the creation of any lien on the Revenues and other assets pledged under the Indenture, or deprive the Bondowners of the lien created by the Indenture upon such Revenues and other assets (except as previously provided in the Indenture of the Loan Agreement), without the consent of the Bondowners of all of the Bonds then Outstanding.

Indenture Amendments Not Requiring Consent of Bondowners

The Indenture and the rights and obligations of the Authority, the Bondowners and the Trustee may also be modified or amended at any time by a Supplemental Indenture, without the consent of any Bondowners, and, when signed by the parties to the Indenture which amendment will become effective upon execution (or such later date as may be specified in such Supplemental Indenture), but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds, or, except as provided in the Indenture, to surrender any right or power therein reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge, assignment or surrender will materially adversely affect the interests of the Bondowners;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable and not inconsistent with the Indenture, and which will not materially adversely affect the interests of the Bondowners;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Indenture Act or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially adversely affect the interests of the Bondowners;

(4) to modify, amend or supplement the Indenture in any other way which will not materially adversely affect the interests of the Bondowners;

(5) to provide for the delivery of Bonds in fully certificated form;

(6) to comply with state or federal securities laws;

(7) to modify, amend or supplement the Indenture in any other way necessary to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes and to prevent a Determination of Taxability; or

(8) to provide for the issuance of Additional Bonds or additional indebtedness as described in the Indenture.

Amendments to Loan Documents Not Requiring Consent of Bondowners

Subject to the provisions of the Indenture requiring delivery of an opinion of Bond Counsel, but without the consent of or notice to any of the Bondowners, the Trustee and the respective parties thereto may enter into any amendment, change or modification of the Loan Documents in connection with (a) carrying out the provisions of the Loan Documents, the Intercreditor Agreement or the Indenture, (b) curing any ambiguity or formal defect or omission, (c) adding any additional rights acquired in accordance with the provisions of the Loan Documents, (d) modifying the provisions of the Loan Agreement regarding continuing disclosure obligations of the University deemed necessary or advisable, in the opinion of Bond Counsel, in order to comply with the requirements of federal or state securities laws; (e) modifying the Loan Documents as contemplated by the Loan Agreement to reflect changes in generally accepted accounting principles applicable to the University; or (f) any other change therein which is not to the material prejudice of the Trust Estate or the Bondowners of the Bonds, it being understood that in making a determination under (e) or (f) above, the Trustee may rely on the advice of Counsel or the University's accountants or financial advisors. The Authority and the Trustee, without the consent of or notice to any of the Bondowners are required to enter into any amendment, change or modification of the Loan Documents as may be necessary, in the opinion of Bond Counsel to comply fully with all applicable rules, rulings, policies, procedures, regulations or other official statements promulgated by the Department of the Treasury or the Internal Revenue Service pertaining to obligations issued under Section 145 of the Code.

Amendments to Loan Documents Requiring Consent of Bondowners

Except for the amendment, changes or modifications as provided above in "Amendments to Loan Documents Not Requiring Consent of Bondowners," and subject to the provisions of the Indenture requiring delivery of an opinion of Bond Counsel, neither the Authority nor the University may enter into any other amendment, change or modification of the Loan Documents without mailing of notice and the written approval or consent of the Bondowners of not less than 51% or more of the aggregate principal amount of Bonds then Outstanding; provided, however, that nothing in this paragraph or above in "Amendments to Loan Documents Not Requiring Consent of Bondowners" will permit or be construed as permitting (a) an extension of the time of the payment of any amounts payable under the Loan Agreement or the Note, or (b) a reduction in the amount of any payment or in the total amount due under the Note without the consent of the Bondowners of all Bonds then Outstanding. If at any time the Authority and the University shall request the consent of the Trustee to any such proposed amendment, change or modification of the Loan Documents, the Trustee shall, at the request of the Authority and being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be given to Bondowners in the name manner as provided with respect to redemption of Bonds; provided, that the Trustee shall not be required to consent to any amendment that affects its rights or responsibilities hereunder or under the Loan Documents. Such notice (which shall be prepared by either the University or the Authority) shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instruments modifying the same are on file with the Trustee for inspection by all Bondowners. If, within 60 days, or such longer period as shall be prescribed by the Authority, following the mailing of such notice, the owners of 51% or more of the aggregate principal amount of the Bonds then Outstanding at the time of the execution of any such amendment, change or modification shall have consented to and approved the execution thereof as provided in the Indenture, no Bondowner shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the University, the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof, or the Trustee from consenting thereto. The Authority shall have the right to extent from time to time the period within which such consent and approval may be obtained from Bondowners. Upon the execution of any such amendment, change or modification as described under this subheading, the Loan Documents shall be and be deemed to be modified, changed and amended.

Defeasance

If the Authority pays or causes to be paid, or makes provisions for payment of the principal of, premium, if any, and interest due or to become due on the Bonds at the times and in the manner stipulated therein, and pays or causes to be paid to the Trustee all money due or to become due according to the provisions of the Indenture, the Indenture and the lien, rights, estate and interests created thereby will cease, terminate and become null and void (except as to any rights of registration, transfer or exchange of Bonds provided for in the Indenture).

THE LOAN AGREEMENT

Loan; Payments

Under the Loan Agreement, the Authority agrees to make the Loan to the University in an amount equal to the aggregate principal amount of the Bonds and the University agrees to repay the Loan in the amounts and at the times necessary to pay amounts due on the Bonds.

The University will pay, in accordance with the Note, in the repayment of the Loan, to the Trustee until the principal of, premium (if any) and interest on the Bonds has been paid or provision for payment has been made in accordance with the Indenture, the following amounts:

(1) On or before 4:00 p.m. Seattle time on the fifth Business Day immediately before each Interest Payment Date, the principal and mandatory sinking fund payments, if any, becoming due on the Bonds on such Interest Payment Date until such time as the principal amount of Bonds is paid in full; provided, that such amounts are to take into account amounts on deposit in or to be transferred to the Debt Service Fund representing investment earning and funds held under the Indenture; and

(2) On or before 4:00 p.m. Seattle time on the fifth Business Day immediately before each Interest Payment Date, the interest becoming due on the Bonds on such Interest Payment Date until such time as all principal of and interest on the Outstanding Bonds is paid in full; provided, that such amounts are to take into account amounts on deposit in or to be transferred to the Debt Service Fund representing investment earnings on funds held under the Indenture.

Prepayment

The Loan is subject to optional and mandatory prepayment under the Loan Agreement upon the same terms and in the same amounts as the Bonds are subject to optional and mandatory redemption.

Tax Covenants

The University and Authority covenant that they will not take, or omit to take, any action if such action or omission will adversely affect the exclusion from gross income for federal income tax purposes of interest paid on the Bonds, and, in the event of such action or omission, will use all reasonable efforts to cure the effect of such action or omission.

Annual Budget

The University agrees that it will prudently prepare and adopt an annual budget for each Fiscal Year which will budget funds of the University sufficient to pay all operating and maintenance expenses of the University reasonably anticipated for such Fiscal Year and the debt service on all of its then outstanding indebtedness projected to be due in such Fiscal Year.

Maintenance, Operation and Use of the Project Facilities

(1) The University will use its best efforts to cause its campus to be maintained in good condition and repair, will maintain, operate and use the Project Facilities, during the useful life thereof, as an integral part of the University's business as a post-secondary education institution and will honor all valid restrictions on the uses to which such facilities may be subject so long as the Project Facilities are owned by the University and will not alienate, sell, convey or transfer Project Facilities unless it provides to the Trustee and the Authority an Opinion of Bond Counsel to the effect that such alienation, sale, conveyance or transfer will not cause interest on the Bonds to be included in the gross income of the Owners thereof for federal income tax purposes.

(2) The University will not use the Project Facilities, during the useful life thereof (irrespective of whether the Bonds are at the time Outstanding), for sectarian instruction or as a place of religious worship or primarily in connection with any part of the program of any school or department of divinity.

Restrictions on Senior Liens

The University may not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Pledged Revenues senior to the pledge and assignment created hereunder except for the following permitted encumbrances (the "Permitted Encumbrances"):

(1) liens arising by reason of good faith deposits in the ordinary course of business by the University in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the University to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds and deposits as security for the payment of taxes or assessments or other similar charges;

(2) any lien arising by reason of deposits with, or the giving of any form of security (i) to any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by the transaction of any business or the exercise of any privilege or license, (ii) to enable the University to maintain self-insurance or to participate in any fund established to cover any insurance risks or in connection with workers compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits required for companies participating in such arrangements, or (iii) to any swap counterparty to collateralize its termination or other payment obligations thereunder;

(3) liens for taxes and special assessments not then delinquent or which are being contested;

(4) liens resulting from governmental regulations on the use of the University's facilities or other real or personal property;

(5) any lien on bond proceeds or monies deposited with a bond trustee in a debt service or reserve fund for bonds under any lease, sublease, sale, loan or similar agreement entered into in connection with the issuance of and providing for or securing the payment of bonds;

(6) any lien arising by reason of any leases to or from any Person of any real or personal property of the University made in the ordinary course of business, any leases existing on any real or personal property acquired at the time of its acquisition, and any leases of any real or personal property at fair market rental value;

(7) any liens relating to property received by the University through gifts, grants, or bequests, to the extent that such liens impose or relate to restrictions on the ownership, use or disposition of such gifts, grants or bequests of property or the revenues therefrom of income thereon;

(8) any lien arising by reason of any escrow established to pay debt service with respect to indebtedness (and any lien arising by reason of any escrow established to pay debt service with respect to bonds);

(9) any lien in favor of the Trustee or any other trustee on the proceeds of indebtedness prior to the application of such proceeds;

(10) any purchase money security interest or construction mortgage lien on or in Project Facilities acquired or improved after the date of execution of the Loan Agreement, or mortgages or liens, existing in such Project Facilities at the time of acquisition thereof or renewals of any such liens or mortgages but only if no such lien extends or will extend to or cover any property other than the Project Facilities then being acquired or constructed or on which improvements are being so constructed and fixed improvements then or thereafter erected thereon and related insurance coverage and insurance proceeds;

(11) liens on donations, gifts and other charitable contributions, and on pledges thereof, to the extent that such liens secure indebtedness or are the evidence of restrictions on the use of such donation, gifts or charitable contributions;

(12) the liens, charges or encumbrances existing on the date of execution and delivery of the Agreement which are set forth in Exhibit D to the Loan Agreement;

(13) liens on moneys deposited by students or others as security for or as prepayment for the cost of tuition, housing, or other related expenses;

(14) liens, security interests or other encumbrances existing on the date of execution and delivery of the Loan Agreement relating to additional indebtedness (including the 1998 Bonds, the 2001 Bonds and the 2012B Bonds); and

(15) liens, charges and encumbrances on any proceeds of the foregoing.

The University expressly retains and reserves the right to incur additional indebtedness from time to time and to encumber the Pledged Revenues, whether for the purpose of securing such additional indebtedness or for any other lawful corporate purpose, with liens, security interests, or other encumbrances on a parity with, or subordinate to, the lien created under the Loan Agreement and under the Indenture. In addition, nothing in the Loan Agreement shall be deemed to restrict the University's right (i) to grant security interests or liens in, or to otherwise encumber any of its assets other than Pledged Revenues, (ii) to incur additional indebtedness on an unsecured basis, or, (iii) subject to the limitations described above, to secure any obligation or indebtedness a pledge, lien, charge, or other encumbrance upon the Pledged Revenues senior to the pledge and assignment created in the Loan Agreement, so long as such pledge, lien, charge, or encumbrance constitutes a Permitted Encumbrance under the Loan Agreement.

Maintenance of Corporate Existence; Consolidation, Merger, Sale or Transfer Under Certain Conditions

(1) The University has covenanted and agreed that, so long as any of the Bonds are Outstanding, it will maintain its existence as a nonprofit corporation qualified to do business in the State and will not dissolve, sell or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another corporation. Notwithstanding the foregoing, the University may, without violating the covenants summarized under this heading, consolidate with or merge into another corporation, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entirety and thereafter dissolve, if:

(A) The surviving, resulting or transferee corporation, as the case may be:

(i) qualifies under the Act as a "Participant;"

(ii) assumes in writing, if such corporation is not the University, all of the obligations of the University under the Loan Agreement;

(iii) is not, after such transaction, otherwise in default under any provisions of the Loan Agreement; and

(iv) is an organization described in 501(c)(3) of the Code, or a corresponding provision of the federal income tax laws then in effect;

(B) The Authority and the Trustee have received a certificate of the University to the effect that the covenants under the Loan Agreement will be met after such consolidation, merger, sale or transfer, and

(C) The Trustee and the Authority have received an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not cause interest on the Bonds to be included in gross income for federal income tax purposes under Section 103 of the Code.

(2) If a merger, consolidation, sale or other transfer is effected, as provided in the Loan Agreement and summarized under this heading, the provisions summarized under this heading shall continue to be in full force and effect, and no further merger, consolidation, sale or transfer may be effected except in accordance with the provisions of the Loan Agreement.

Insurance

So long as any Bonds remain Outstanding, the University will maintain or cause to be maintained with respect to its campus, with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried by private universities and universities located in the State of a nature similar to that of the University, which insurance will include property damage, fire and extended coverage, public liability and property damage liability insurance. The University will at all times also maintain worker's compensation coverage as required by the laws of the State. The University does not currently, nor does it plan to, insure its facilities against the risk of damage from earthquake.

The Authority may request that the University provide to the Authority summaries or other evidence of its insurance coverage. The Authority and the Trustee make no representations as to and shall have no responsibility for the sufficiency of the insurance.

Loan Agreement Defaults

Each of the following is a "Loan Agreement Default":

(1) Monetary Defaults. Subject to the provisions of the Loan Agreement regarding notice and default and opportunity to cure, failure by the University to make any required monetary payments to the Trustee or the Authority pursuant to the Loan Agreement, or fees or costs required to be paid to the Trustee under

the Loan Documents or to make any payments under the Note, including a failure to repay any amounts that have been previously paid but are recovered, attached or enjoined pursuant to any insolvency, receivership, liquidation or similar proceedings, and such failure continues during and after the period specified in the Loan Agreement.

(2) Nonmonetary Defaults.

(A) Receipt by the Trustee of a written notice from the Authority or the University of any failure on the part of the University to perform or observe the duties, provisions or obligations required of it pursuant to the Loan Agreement, other than as set forth in (1) above, if such failure continues for a period of more than 60 days after written notice thereof has been delivered to the University, and the Authority by the Trustee unless the Authority with respect to a nonmonetary default identified in this section has determined that such default is curable and the University is then taking steps reasonably calculated to cure such default.

(B) Receipt by the Trustee of written notice from the Authority or the University of the inaccuracy of any material representation or warranty made by or on behalf of the University in the Loan Agreement or any related instrument or certificates.

(C) A Declaration of Acceleration is made pursuant to the Indenture.

(D) The occurrence of any Act of Bankruptcy of the University.

Notice of Default; Opportunity to Cure

If an event that would constitute a Loan Agreement Default under (1) of "Events of Default" occurs, the Trustee will within one Business Day of such event provide prompt telephone notice confirmed in writing (which may be by facsimile transmission) to the University and demand a cure thereof (provided, that failure by the Trustee to send such written notice with respect to a failure to make principal and interest payments will not constitute a waiver of or prevent the occurrence of a Loan Agreement Default), and if such event is not cured within two Business Days of the scheduled payment date in the case of principal and interest payments, or within five Business Days of the University's receipt of the written default notice (in all other cases under (1) of "Events of Default"), then such event will constitute a Loan Agreement Default.

Remedies

Upon the occurrence of any Loan Agreement Default, that has not been cured within any applicable cure period, any one or more of the following steps may be taken:

(1) Acceleration. The Trustee, as assignee of the Authority (but not the Authority) may, or at the written request of the Authority, shall declare the principal of the Loan (if not then due and payable) to be due and payable immediately, and upon any such declaration the principal of the Loan and the Note will become and be immediately due and payable, together with all interest accrued thereon to the date of such acceleration, anything in the Loan Agreement to the contrary notwithstanding. However, if at any time after the Loan has been declared immediately due and payable and before any judgment or decree for the payment of money due has been obtained or entered, such Loan Agreement Default shall be made good or be secured to the satisfaction of the Trustee or provision made therefor in a manner satisfactory to the Trustee, then and in every such case, the Trustee, by written notice to the University and the Authority may waive such Loan Agreement Default, and may rescind and annul such declaration and its consequences, but no such waiver, rescission or annulment will extend to or affect any subsequent Loan Agreement Default or impair any right incident thereto; provided, however, that it is understood and agreed that a Declaration of Acceleration made pursuant to the Indenture shall constitute an acceleration of the Loan without further action by the Trustee, and that such automatic acceleration of the Loan may only be waived or cured by waiver or cure of the Declaration of Acceleration pursuant to the Indenture. Notwithstanding the foregoing, the rights and remedies of the Authority and the Trustee under the Loan Agreement upon the occurrence of a Loan Agreement Default will be governed by and subject to the Intercreditor Agreement so long as it shall be in full force and effect.

Notwithstanding the foregoing, the rights and remedies of the Authority and the Trustee under the Loan Agreement upon the occurrence of a Loan Agreement Default shall be governed by and subject to the Intercreditor Agreement so long as it shall be in full force and effect.

(2) Additional Remedies.

(A) The Authority and/or the Trustee, as assignee of the Authority, may have access to and inspect, examine and make copies of the books and records (except student personnel or health records or other documents or agreements subject to contractual or court-ordered confidentiality or non-disclosure provisions, and any other materials made private or confidential by federal or State law or regulation) and any and all accounts, data and income tax and other tax revenues of the University.

(B) The Trustee, as assignee of the Authority (but not the Authority), shall, at the direction of the Authority, or may, with the written consent of the Authority, pursue all remedies of a secured credit under the applicable laws of the State.

(C) The Trustee, in its own right and as assignee of the Authority, may proceed to protect and enforce its rights in equity or at law, either in mandamus or for the specific performance of any covenant or agreement contained in the Loan Agreement, or for the enforcement of any other appropriate legal or equitable remedy, as the Trustee, being advised by counsel, may deem most effectual to protect and enforce any of its rights or interests under the Loan Agreement.

(D) The Trustee, as assignee of the Authority (but not the Authority) may proceed to enforce its rights in equity or at law, either in mandamus or for the specific performance of any covenant or agreement contained in the Note, or for the enforcement of any other appropriate legal or equitable remedy as the Trustee, being advised by counsel, may deem most effectual to protect and enforce any of its rights or interests under the Note.

(E) The Authority may proceed to protect and enforce its rights in equity or at law, either in mandamus or for the specific performance of any covenant or agreement contained in the Loan Agreement or in the other Loan Documents, or for the enforcement of any other appropriate legal or equitable remedy, as the Authority, being advised by counsel, may deem most effectual to protect and enforce any of its concurrent or reserved rights or interests under the Loan Agreement and under the Note with respect to:

(i) tax exemption of the Bonds;

(ii) the payment of the Authority Fees or Trustee Fees;

(iii) indemnifications and reimbursements due to the Authority; and

(iv) receipts of reports and notices.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Washington Higher Education Facilities Authority
Seattle, Washington

U.S. Bank National Association, as Trustee
Seattle, Washington

George K. Baum & Company
Denver, Colorado

Re: Washington Higher Education Facilities Authority
Revenue and Refunding Revenue Bonds (The University of Puget Sound Project),
Series 2012A- $34,805,000

Ladies and Gentlemen:

We have examined the Constitution and laws of the State of Washington (the "State") and a certified transcript of the proceedings taken by the Washington Higher Education Facilities Authority (the "Authority") in the matter of the issuance by the Authority of its Revenue and Refunding Revenue Bonds (The University of Puget Sound Project), Series 2012A in the aggregate principal amount of $34,805,000 (the "Bonds") for the purpose of making a loan (the "Loan") to The University of Puget Sound, a Washington nonprofit corporation (the "University"), in accordance with a Loan Agreement dated as of October 1, 2012 (the "Loan Agreement"), among the Authority, the University and U.S. Bank National Association (the "Trustee"). The Loan is being made for the purpose of providing funds (1) to finance the construction and improvement of facilities located on the University's campus, as described in Exhibit A of the Loan Agreement, (2) to refund on a current basis the Authority's outstanding Variable Rate Demand Refunding Revenue Bonds (The University of Puget Sound Project), Series 2006A (the "Refunded Bonds"), which were issued to finance and refinance facilities on the University's campus located in Tacoma, Washington, (3) to capitalize interest on the Bonds, and (4) to pay the costs of issuing the Bonds (collectively, the "Project"). The Authority has executed a No Arbitrage Certificate and the University has executed a Certificate Regarding Section 501(c)(3) Status and Use of Proceeds, each of even date herewith (together, the "Tax Certificates") regarding, among other things, the use and investment of the proceeds of the Bonds.

The Bonds have been authorized pursuant to Chapter 169, Laws of Washington, 1983 (chapter 28B.07 RCW), as amended (the "Act"), a resolution of the Authority adopted September 6, 2012 (the "Resolution"), and an Indenture of Trust dated as of October 1, 2012 (the "Indenture"), between the Authority and the Trustee. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Indenture.

The Bonds are dated October 1, 2012, are fully registered, and mature on the dates and bear interest from their date at the rates per annum set forth in the Bonds and the Indenture. Interest on the Bonds is payable on April 1 and October 1 of each year commencing April 1, 2013, and shall be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to their stated maturity as provided in the Indenture.

The Bonds are special limited obligations of the Authority. The principal of, redemption premium, if any, and interest on the Bonds are payable solely from and secured by a pledge of certain moneys, securities and earnings held in the funds and accounts created under the Indenture and pledged to the Bonds.

We have examined executed counterparts of the Loan Agreement, the Indenture, the Tax Certificates and such other documents, rules, regulations or other matters as we have deemed relevant in arriving at the opinion stated below. We have also relied on the opinion of Davis Wright Tremaine LLP, counsel to the University, to the effect that the University is exempt from tax pursuant to Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code") by virtue of being an organization described in Section 501(c)(3) of the Code and that the facilities being financed and refinanced with the proceeds of the Bonds are not being used in an unrelated trade or business of the University within the meaning of Section 513(a) of the Code.

Based on the foregoing, it is our opinion that, under existing law:

1. The Bonds have been duly authorized, executed and delivered, constitute legal, valid and binding special obligations of the Authority in accordance with their terms and are entitled to the benefits and security provided by the Indenture.

2. The Indenture creates the valid pledge of and lien on the Revenues, other money and securities, funds, accounts, guarantees, insurance and other items held by the Trustee under the Indenture, which it purports to create to secure and/or support the principal of, redemption premium, if any, and interest on the Bonds, subject in all cases to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Bonds are not a debt of the State or of any political subdivision of the State or any municipal corporation or other subdivision of the State. Neither the State nor any municipal corporation or other political subdivision of the State, other than the Authority, is liable on the Bonds. The Bonds are not a debt, indebtedness or the borrowing of money within the meaning of any limitation or restriction on the issuance of bonds contained in the Constitution of the State.

4. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining adjusted current earnings. The opinion set forth in this paragraph is subject to the condition that the Authority and the University comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority and the University have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

The Authority has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

With respect to the opinions expressed herein, the enforceability of rights and obligations under the Bonds, the Indenture, the Resolution, the Tax Certificates and the Loan Agreement and against the assets pledged by the Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

PACIFICA LAW GROUP LLP

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY
REVENUE AND REFUNDING REVENUE BONDS
(THE UNIVERSITY OF PUGET SOUND PROJECT), SERIES 2012A

Report For Period Ending _______________

Please answer each of the following questions:

(a) Has there been a change in the name and titles of officers since the last annual report? (Check one)
Yes ☐ No ☐ If yes, please indicate name and title.

____

(b) Has there been a change in accreditation since the last annual report? See description below contained in the September 12, 2012 Official Statement (the "Official Statement"). Refer to your annual reports for updates filed by The University of Puget Sound (the "University"). (Check one)
Yes ☐ No ☐ If yes, please describe.

The University is accredited by the Northwest Commission on Colleges and Universities, an institutional accrediting body recognized by the U.S. Department of Education and by the Council for Higher Education Accreditation. In addition to institutional accreditation, the following programs have specialized accreditation or status: The Bachelor of Science Degree in the Department of Chemistry is approved by the American Chemical Society; the School of Education is approved by the Washington State Office of the Superintendent of Public Instruction; the School of Music is accredited by the National Association of Schools of Music; the Occupational Therapy Program is accredited by the Accreditation Council for Occupational Therapy Education, and the Physical Therapy Program is accredited by the Commission on Accreditation in Physical Therapy Education

(c) Please describe any new litigation, or a material result in litigation since the date of the last report.
____
____
____
____

(d) Please describe any significant sale, destruction or loss of real property or other material assets since the date of the last report.

(e) Please update, for the most recent academic or fiscal year, as appropriate, the information provided under the following headings in Appendix A of the Official Statement:

Academic Departments and Programs

Faculty

Enrollment and Student Demand

Undergraduate Student Retention

Tuition and Fees; Room and Board

Financial Aid and Scholarships

Comprehensive Campaign

Financial Information

Investments

Liquidity

Outstanding Indebtedness

Swap Agreements

(f) Please attach a copy of your most recent financial statements.

(g) Please review Section 8.15(d)(4) of the Loan Agreement dated as of October 1, 2012 by and among the University, the Washington Higher Education Facilities Authority and U.S. Bank National Association and either confirm that to the University's knowledge no Listed Event has occurred or describe any Listed Event that has occurred since the date of the last report.

The University hereby certifies that the financial and operating information contained herein is the information required by Section 8.15(d)(2) of the Loan Agreement.

THE UNIVERSITY OF PUGET SOUND, a
Washington nonprofit corporation

By ________________________________
Authorized Officer

APPENDIX F

BOOK-ENTRY SYSTEM

The information set forth below concerning the book-entry only system has been provided by DTC and has not been independently confirmed or verified by the Authority, the University or the Underwriter. No representation is made by the Authority, the University or the Underwriter as to the accuracy or adequacy of such information or as to the absence of any material adverse change in such information subsequent to the date hereof, or that the information set forth below or incorporated herein by reference is correct as of any time subsequent to the date hereof. Neither the information on DTC's website, nor any links to other websites residing on DTC's website, is part of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Bonds.

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity Bonds, and will be deposited with DTC.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts

such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

10. The Authority may decide to discontinue use of the system of book entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.