PRINCETON UNIVERSITY

Report *of the* Treasurer

2019-20

Our Community in the Service of Humanity

Princeton University Highlights

Fiscal years ending June 30

FINANCIAL

(dollars in thousands)	**2020**	2019
Principal sources of revenues		
Tuition and fees (net)	**$ 133,287**	$ 132,129
Government grants and contracts	**336,660**	307,405
Private gifts, grants, and contracts	**167,524**	216,229
Investment earnings, including unrealized gains or losses	**1,386,133**	1,517,765
Principal purposes of expenditures		
Academic and research	**1,120,434**	1,102,912
Student services and support	**315,524**	316,839
General administration and operations	**231,515**	211,518
Summary of financial position		
Assets	**33,030,216**	32,074,190
Liabilities	**4,573,636**	4,001,244
Net assets	**28,456,580**	28,072,946
Net assets		
Without donor restrictions	**12,401,995**	12,220,192
With donor restrictions	**15,866,206**	15,655,987
Noncontrolling interests	**188,379**	196,767
Total	**$28,456,580**	$ 28,072,946

STUDENTS

Enrollment		
Undergraduate students	**5,328**	5,321
Graduate students	**2,997**	2,946
Degrees conferred		
Bachelor's degrees	**1,268**	1,297
Advanced and all other degrees	**920**	1,038
Annual tuition rate		
Undergraduate	**$ 51,870**	$ 49,450
Graduate	**51,870**	49,450

FACULTY

Full-time equivalent	**1,041**	1,031

Contents

"These times are not normal, nor are they a short diversion, such that we can simply wait for the pandemic to end. This crisis requires that we do rather than merely wait. We must persist through the crisis, pursuing our mission in the face of these unwanted but unavoidable circumstances with courage, grit, and creativity. I am confident that this extraordinary University, this fiercely devoted band of Tigers, is up to the challenge, and that we will eventually come through this unprecedented crisis stronger than ever."

– President Christopher L. Eisgruber, Letter to the University Community, May 2020

In the Nation's Service and the Service of Humanity.


INSIDE PACKAGES
COMPLY WITH
PRESCRIBED
SPECIFICATIONS
OVERPACK
Size M L XL
Color White Blue
TOPTA
We respect your trust
Product name: Disposable isolation gown
Material: 100% Polypropylene nonwoven (30g/m)
Applications: Protection in medical environment, disease prevention
Color: White / Blue
Size: On the package
Net weight: 90g/unit
Packaging specification: 1 unit/bag
Audience: Adult
Precaution: After use, remove and place in medical waste
Batch: 052020
MFG: 2020
EXP: 3 years
Reference No.: 043/CFS2020
Instructions for use and storage
• Dress outsize clothing
• Use only ONE time (absolutely not reused)
• Use gloves when removing
• Store in clean, dry place
DELIVER BY
3:00 PM
MADE IN VIETNAM


PRINCETON
UNIVERSITY

Courage, Grit and Creativity in a Time of Crisis

Letter From The Treasurer

It is often said that a person's character is revealed in times of crisis. I think the same can be said about a university's character. In 2020, our entire Princeton community, including students, faculty, and alumni around the globe, responded to the challenge of the COVID-19 pandemic by drawing closer to the ways in which we live our University's values of service and innovation.

As the opening pages of this report make clear, our focus during the 2019-2020 fiscal year was on supporting the health and safety of our community while advancing our teaching and research mission. Our students, faculty, and staff found inspiring ways to be of service through innovative research pursuits and the commitment of resources, both financial and personal, across our local and global communities. Our research teams mobilized in an effort to understand the health effects of the virus and the impacts of the resulting disruption across all segments of society. Our students, faced with an abrupt departure from campus, continued to find ways to support local food banks across the country, move advocacy activities online, and stay connected to not only one another, but to the heart of Princeton's motto, "In the nation's service and the service of humanity".

Princetonians brought their best selves—their hearts, intellects, and courageous and generous spirits—to bear in this difficult time.

To meet the challenge of moving classes online, we invested in additional resources, preceptors, and teaching assistants, and have turned the necessity of distance learning into a chance to form virtual classroom communities that made genuine connections. Students and faculty are going the extra mile to replicate online the warm, rigorous, and vibrant qualities of a Princeton undergraduate education.

To support the people and small businesses in our local communities, the University made an initial commitment of over $1 million, as well as matching grants, to establish the Princeton University Relief Fund (PURF) and Princeton Small Business Resiliency Fund (PSBRF) to ease the pandemic-related financial distress of individuals and business owners in our area. Princeton's support extends locally through blood drives, a virtual tutoring program for area students, and an emergency food and nutrition program.

To accelerate solutions to the challenges of the COVID-19 pandemic, we have awarded over half-a-million dollars in University funding for seven new faculty-led research initiatives. The selected projects include such things as research on asymptomatic transmission, immunity following infection, vaccines, new treatments, and contact tracing. Finally, but equally important, the University swiftly launched a comprehensive COVID-19 testing protocol for on-campus students, faculty, researchers and staff members, and has opened an on-campus COVID-19 testing laboratory that provides results within twenty-four hours.

During this global pandemic, we are more aware than ever that we are a strong and resilient institution with a mission to serve our community, nation, and world. We approach the challenges of the year ahead secure in the knowledge that we will continue our commitment to access and diversity, we will meet the needs of students and faculty, we will support our researchers in their impactful work, and we will continue to support the health of our campus and broader communities.

James S. Matteo

JAMES S. MATTEO
Vice President for Finance and Treasurer

In the Service of Humanity

Fiscal year 2020 concluded with the University, our community, and the world being faced with the rapid spread of the SARS-CoV-2 coronavirus. The resulting quarantines and closings, have upended much of our daily lives and reminded us in the starkest ways of not only our vulnerabilities, but of the great strengths and interconnectedness of the Princeton community.

Our Community: A Pandemic Response

Princeton's Executive Director of Environmental Health and Safety, Robin Izzo, recalled how her team mobilized by late January 2020 to monitor the growing public health crisis and its potential impact on the campus community. "We have an emergency management team and an international crisis management team, and we combined them to tackle this at the beginning."

Initially, their focus was on establishing safety protocols for students abroad returning to campus, as well as for a variety of "what if" scenarios. By the beginning of March 2020, the first cases had begun appearing in Mercer County. "Our strategy group met all weekend long to put together a recommendation to President Eisgruber for sending students home," explained Izzo. "I remember thinking 'we can do this.' It's the right thing to do to keep our students safe." The President and his cabinet agreed, and a few weeks later, New Jersey issued an executive order with a stay-at-home mandate.

Although the decision to pivot to online classes was not an easy one, Izzo says their mission to protect students, faculty and staff was very clear. "This virus is so real to me," she said. "My mother had COVID-19 and she passed away from it. During the pandemic, some people have said they feel powerless, like there is nothing they can do. I don't feel powerless. I can't stop the pandemic, but my team and I spend every day working to make things safer and support our community. That is something I can do, and I have so much passion for it."

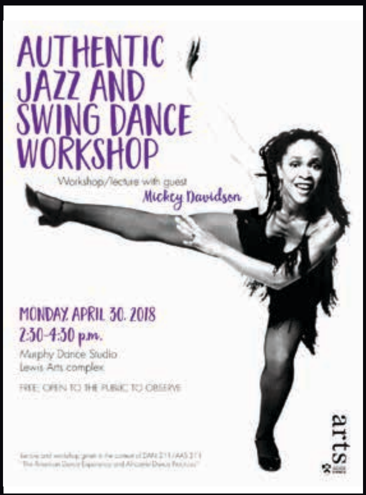
Reflecting on her role as incident commander during other public health emergencies, Izzo sees something special in the way the University community responded to this crisis. "One thing I am always so grateful for is how this campus community comes together when there is a crisis. People aren't just responding to the moment, they are reaching out and saying 'how can I help?' You always hear, 'it takes a village', well, it takes a campus, and we have a campus that meets any challenge with enthusiasm and a helping spirit." Thinking about the numerous offices, groups and people who came together to create Princeton's pandemic response, Izzo shared, "I could name hundreds of people who have been part of this response, solved problems, stepped into the unknown, and tried to make sense of the chaos of coronavirus."

"I can't stop the pandemic, but my team and I spend every day working to make things safer and support our community. That is something I can do, and I have so much passion for it."

Connecting Within Our Community

At a time when Princeton's campus was sparsely populated, students found ways to connect, build friendships, and weather the pandemic together. Unable to return to their home countries of Syria and Russia, Diana Dayoub '21 and Polina Zhilkina '22 found an unexpected friendship; Dayoub recently shared their story as part of the #TellUsTigers Instagram series.

"On a beautiful spring day, I crossed Polina on a walk and said hi shyly. I had seen her once before at a Princeton gathering for students from the United World College, an international high school we both attended, she in the Netherlands and I in Armenia. In June, I invited Polina for Syrian coffee on the porch of the 2 Dickinson co-op. Polina arrived, cautious of this unexpected invitation, and sipped the coffee I had made her. What followed was a two-hour conversation about the pandemic, our families and so much more. I didn't realize at the time that that was the beginning of a friendship that would alleviate the stress of a lonely summer. One night, on one of the benches at Poe Field, Polina told me that it's a strange world we live in that brought her from a small Russian town and me from a little suburb outside Damascus to Princeton University. This summer, we had every reason to radiate frustration, but I'm proud that we chose to enjoy long walks, speak at length in Italian (a language we both learned at Princeton) about how Princeton changed our lives, take pleasure in every morning coffee we sipped and treat ourselves on Saturday mornings to fresh chocolate croissants from Small World Coffee. What my friendship with Polina has taught me is that we might be in the middle of a global pandemic, our futures uncertain, our loved ones far away, but it's only ever good to enjoy the little moments we have because it's all we own."



Teaching and Learning Remotely While Fostering Community

Once the decision was made to send undergraduate students home, Princeton faculty began adapting their courses for online formats, including those with a focus on collaborative hands-on learning such as science labs and dance classes.

"I've been so impressed with how our faculty and staff have worked together on innovative solutions for virtual teaching challenges," said Dean of the College, Jill Dolan. "Although COVID-19 requires inventions born of necessity, our faculty are using technologies to amplify and enliven their typically rigorous and engaging pedagogy."

The emphasis for the new remote learning atmosphere has been on reimagining ways to connect with students despite the constraints. Princeton's teaching model has always been one in which students have a strong personal engagement with faculty and each other. To strengthen that core experience during this time of remote teaching, the University has invested in additional technology resources, preceptors and teaching assistants.

Additionally, the McGraw Center for Teaching and Learning has developed new and creative ways to support faculty who had to adapt to remote instruction. During the summer of 2020, the center's Educational and Classroom Technologies Group held dozens of workshops, attended by over 300 professors and instructors. They introduced faculty members to digital learning platforms such as Canvas and Blackboard; virtual academic tools such as the online polling software Mentimeter to gauge understanding of the material, and Perusall, which allows students to annotate the texts in advance of the class; and new pedagogical practices that rethink optimal ways to create energized and relevant online learning experiences.

Frederick Wherry, the Townsend Martin, Class of 1917 Professor of Sociology, approached the McGraw Center for ideas on the best platforms for presenting pre-recorded and live lectures, along with guest speakers and some publicly accessible material for a new course, "Sociology 102: Police Violence, #BlackLivesMatter, and the COVID-19 Pandemic."

"I sent along a syllabus and some ideas about how to execute the course," explained Wherry. "McGraw followed up with a team of people who took different elements of the course and helped me make it better. How to engage. How to collaborate. How to intensify interpersonal connection. They gave me a crash course and followed up."

For the lab component of "Introduction to Cellular and Molecular Biology" the staff at McGraw Center helped Heather Thieringer, a senior lecturer in molecular biology, and her colleagues develop science kits to be sent to Princeton students for at-home experiments. "It was quite a project to undertake," Thieringer said. "Both the McGraw Center and Environmental Health and Safety were extremely helpful as we went about developing the kits and determining what could easily and safely be done at home."

Among other items, students' kits contained all the components necessary to do two experiments that allow them to investigate transcription and translation in a cell-free system. "Students will be able to monitor and record the production of RNA and protein using a LED viewer that uses just a 9-volt battery," Thieringer said. "We will be assessing student experiments via Zoom and asking students to make videos of their results which they will share with their lab section."

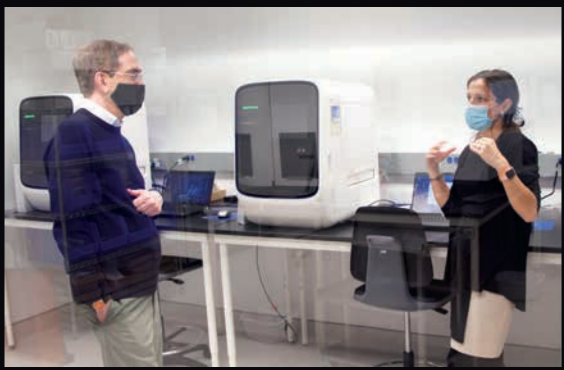
For Dyane Harvey-Salaam, a lecturer in dance and the Lewis Center for the Arts, the McGraw Center has helped her transform her class "The American Experience and Dance Practices of the African Diaspora" into an online studio.

Harvey-Salaam described one approach, "We've learned to use Zoom breakout rooms so we have the opportunity to get to know each other. It has helped forge a strong camaraderie among students, or 'village members' as I call them."

"Teaching this class virtually is a work-in-progress," she explained. "For instance, in the early days of the pandemic last spring, we worked with two musicians — drummers — and we discovered that Zoom microphones only amplify one sound at a time. So we began a practice of alternating musicians. Returning to that model this term was logical."

One of Harvey-Salaam's favorite moments was during guest lecturer Mickey Davidson's workshop on Swing Dance. "The students were inspired by the same application of our musical formula, this time with piano and drum set, and their reaction was palpable even through the virtual medium."

"Our faculty are teaching with, not against, the digital tools and online platforms that constitute our new virtual classrooms," said Kate Stanton, associate dean and director of the McGraw Center. "They are putting the emphasis on creating community — including new forms of community — among students through collaborative assignments and classroom activities."



Testing, Tracing, and Supporting Princetonians

From the beginning of the COVID-19 crisis, Princeton leadership moved quickly to mobilize resources and expertise to support the health and safety of the campus community. At the beginning of the pandemic, new public health information and guidelines emerged daily, as the University worked to evaluate emergency plans, stock supplies, create screening tools and clinical protocols, and educate and train the staff.

Tanesha Brown, nurse manager at University Health Services has been on the front lines of the effort. "I am part of the University's coronavirus preparedness team, which includes a physician who specializes in infectious disease and representatives from many departments across campus," said Brown. "We are in constant communication with the Princeton Department of Health and Penn Medicine Princeton Medical Center. Public health issues affect every single department on this campus. Even as the information changes, we stay our course. We prepare more."

'Staying the course' includes symptomatic and asymptomatic testing and contact tracing, triaging concerned students who are staying on campus, and supporting Princetonians who are away from campus.

"Any student, staff member, or faculty member who is on campus for more than eight hours per week must participate in our asymptomatic testing program, and the results have been encouraging," said Brown, noting the University's numbers are consistent with reports from many other American campuses that have instituted and followed responsible public health guidance.

With new information about the virus emerging and public health guidelines evolving, Brown noted that there's a constant stream of meetings, emails and phone calls. "What I love about this team is how organized and collaborative we are," she said. "Our shared mission is to help keep campus safe."

"Public health issues affect every single department on this campus. Even as the information changes, we stay our course. We prepare more."

A massive international team led by Princeton's Cristian Galbiati worked to design, test and finalize the Mechanical Ventilator Milano (MVM), a low-cost ventilator designed to ease device shortages caused by COVID-19. With FDA approval secured, production has begun and the first 20 ventilators are already on their way to hospitals.

3-D rendering courtesy of Elemaster and MVM

Aiming to Accelerate Research-driven Solutions

President Eisgruber has called the COVID-19 pandemic "a durable and damaging public health crisis that will number among American history's greatest upheavals." Princeton researchers from a variety of fields are bringing their vast knowledge and ingenuity to bear on the situation, and to support their efforts, in April 2020, Princeton awarded over half-a-million dollars in funding to seven faculty-led research initiatives with the aim of accelerating solutions to the challenges of the COVID-19 pandemic. The selected projects address crucial questions in biomedical, health-related and fundamental science, as well as policy, social, and economic topics, such as the economic implications of social distancing and strategies for reducing pandemic-associated domestic violence.

"Many members of the Princeton faculty have reached out with requests for opportunities to use their knowledge, ideas and skills to assist in combating the COVID-19 pandemic. The quality of the proposals received is a testament to the creativity of our faculty and to their dedication to the common good in this challenging time," said Dean for Research Pablo G. Debenedetti, the Class of 1950 Professor in Engineering and Applied Science.

Several Princeton studies were selected to receive funding through the National Science Foundation's Rapid Response Research (RAPID) program, which provides support for scientific efforts to respond to emergencies and unexpected events. Howard Stone, the Donald R. Dixon '69 and Elizabeth W. Dixon Professor of Mechanical and Aerospace Engineering, is exploring the movement of aerosol particles during simulations of human breathing and speaking, to better understand viral transmission and improve social distancing guidelines.

Other Princeton research groups are investigating questions related to asymptomatic carriers—those who test positive but have no symptoms—and superspreaders who spread the virus more efficiently than the average person. In one such study, a team led by graduate student Chadi M. Saad-Roy found that symptomless transmission is an evolutionary strategy used by the virus to spread through the population. (Saad-Roy's co-authors are Princeton professors Ned S. Wingreen, the Howard A. Prior Professor of the Life Sciences; Simon A. Levin, the James S. McDonnell Distinguished University Professor in Ecology and Evolutionary Biology, and the Director of Princeton's Center for BioComplexity; and Bryan T. Grenfell, the Kathryn Briger and Sarah Fenton Professor of Ecology and Evolutionary Biology and Public Affairs, Princeton School of Public and International Affairs.)

In another project—the largest contact tracing study to date—a team from Princeton's High Meadows Environmental Institute (formerly the Princeton Environmental Institute) worked with Johns Hopkins University, University of California, Berkeley, and public health officials in Southeast India, to study more than a half-million people in India who had been exposed to the novel coronavirus SARS-CoV-2. Led by Ramanan Laxminarayan, a senior research scholar and lecturer at Princeton and Director of the Center for Disease Dynamics, Economics & Policy in Washington D.C., the study demonstrates the astounding extent to which SARS-CoV-2 hinges on "superspreading," in which a small percentage of the infected population passes the virus on to more people. Eight percent of infected individuals accounted for 60% of new infections, while 71% of infected individuals did not infect any of their contacts. Additionally, children and young adults were found to be potentially much more important to transmitting the virus than previously realized. "Our study presents the largest empirical demonstration of superspreading that we are aware of in any infectious disease," Laxminarayan said.

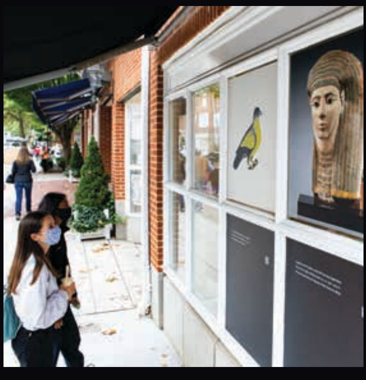
Princeton's COVID-19 related research ranges from conducting long-range basic science to creating urgently needed medical equipment in record time. In March of 2020, Princeton physicist Cristiano Galbiati found himself quarantined with his relatives in Milan, and soon learned that area hospitals were running low on ventilators. He realized that the skills he and his colleagues in dark matter physics used to design sophisticated gas handling systems were the same ones needed to build a prototype for a new kind of ventilator.

With patients in dire need, Galbiati rapidly convinced an international research group to pivot from their direct dark matter detection project called DarkSide-20k and work together to create a mechanical ventilator with minimal components. In just six weeks, from March 19 to May 1, Galbiati's team brought a ventilator they call the Mechanical Ventilator Milano, or MVM, from concept to FDA approval.

"Princeton's research culture was essential to the whole enterprise," said Galbiati. "The University has provided strong support for over 15 years for the DarkSide project," said Galbiati. "And when we needed to launch this urgent initiative, they supported us because it was needed and they knew we could do it. To me, that is very much in the Princeton spirit."


23


ART
FOR THE
STREETS



Serving Our Local Communities and Families

That same Princeton spirit extends past the FitzRandolph Gate to the people and small businesses in the town of Princeton, across Mercer County and beyond. In a range of ways, the University has been working to assist the local community since the onset of the pandemic, including direct support to organizations fighting food insecurity, donations of personal protective equipment (PPE) to state and local partners, hosting blood drives, providing perishable food items to local food kitchens, and more.

Students involved in volunteer service and social and community activism have shifted most of their activities online, refocused them to be more directly relevant to people's needs during a pandemic, and adopted new safety measures for in-person activities.

Ares Alivisatos '21, grew up in Princeton and has continued to serve his hometown as an emergency medical technician (EMT) with Princeton First Aid and Rescue Squad despite the current COVID-19 crisis. "The biggest thing that's been different is trying to figure out how we can stay as safe as possible so we can continue providing this service," said Alivisatos.

The University's John H. Pace, Jr. '39 Center for Civic Engagement is reaching out to the community in a variety of ways. To address food insecurity in local communities during the summer of 2020, the Pace Center partnered with Princeton University's Campus Dining and Office of Community and Regional Affairs to establish the Summer Food and Nutrition Program. Approximately 9,500 meals per week were distributed to an estimated 2,000 people in surrounding communities.

The Pace Center also helped launch the Princeton Online Tutoring Network, pairing student, staff, or faculty volunteers with underrepresented students in the local community to provide free tutoring.

On a larger institutional level, with an initial $1 million commitment, the University established the Princeton University Relief Fund (PURF) to support community organizations in the greater Princeton area that are working to ease financial distress related to COVID-19.

To support small businesses more directly, the University made an initial contribution of $250,000 to launch Princeton Small Business Resiliency Fund (PSBRF) in June, with the help of Mayor of Princeton Liz Lampert and Council Member Michelle Pirone Lambros in coordination with the Princeton Mercer Regional Chamber of Commerce Foundation.

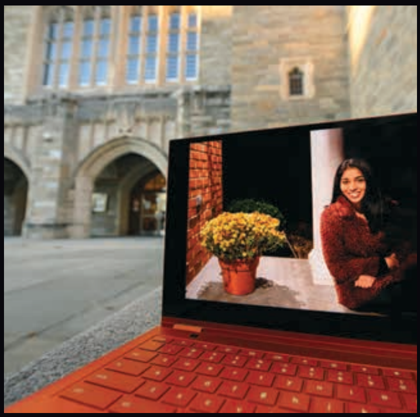
With the University's additional challenge pledge of a dollar-for-dollar match of up to the next $100,000 donated, PSBRF was able to surpass its fundraising goal, for a total of more than $450,000. The grants are meant to defray the costs of a range of required items and enhancements made necessary by COVID-19, such as purchasing PPE and deep cleaning supplies, making renovations to facilitate social distancing, adapting their website to promote business activity, and purchasing a cashless payment system.

"Princeton University has been a vital partner in supporting the local business community during the COVID economic crisis, especially through its major contribution to Princeton's Small Business Resiliency Fund," said Princeton Mayor Liz Lempert. "The University and entire Princeton community benefit from a vibrant, healthy downtown, and there is a greater yearning than ever for the sense of community connection it provides."

"It has been impressive to see how the community has come together during the pandemic and the University is pleased to be able to support these efforts. Our faculty, staff and students value the vibrant business community in Princeton, and we want our favorite shops and restaurants to be there when this is all over. Working with Mayor Lempert, Councilmember Pirone-Lambros and the Chamber of Commerce Foundation has been a real team effort, and the result has been that we provided vital funding to our local businesses at a critical time," said University Director of Community and Regional Affairs Kristin Appelget.

One of the small business recipients of PSBRF is Jammin' Crepes, a Nassau Street eatery popular with students and local residents. Recognized by the State of New Jersey as a Sustainable Business, Jammin' Crepes helps support small family farms and entrepreneurship in Central New Jersey by sourcing many of their seasonal ingredients from local growers and suppliers. "We are so grateful for the support from the Resiliency Fund, the Princeton community and the University. Their efforts to support our small businesses in these challenging times speak to how it truly takes a village to keep us all strong," Jammin' Crepes co-owner Kathy Klockenbrink said. "The support of the community to preserve a broad range of businesses speaks to the recognition that the impact of the virus is felt from the storefronts to the local suppliers that we rely on for our products. Thank you all for your belief in our mission and special community. We will get through this together and only be stronger."

Financial Review



Financial Statement Overview

LETTER FROM THE CONTROLLER

Despite the economic challenges brought on by the COVID-19 pandemic, fiscal year 2020 was a financially sound year for Princeton University, with respect to its operating performance as well as the strength of its financial resources. Net assets for the year ended June 30, 2020 increased by $384 million, or 1.4 percent, primarily due to strong operating results. The return of 5.6 percent from the managed investment portfolio was average among peers; however, Princeton's ranking over the long-term among large university endowments falls in the top decile. The University's Endowment spending rate of 5.53 percent was set in accordance with its board-approved spending framework, so as to fund ongoing operating needs as well as various new strategic initiatives in the coming years in the areas of expanded enrollment and aid, emerging academic fields and innovation. The strength of the Endowment also enables the University to support unplanned needs during extraordinary times, such as increased financial aid and costs of COVID-19 testing and safety. An operating surplus of $377 million, or 17.3 percent of total operating revenues in 2020, was achieved primarily through the prudent management of operating expenses and stewardship of financial resources, as well as from timing differences between higher endowment payouts in recent years and new spending on strategic initiatives.

Revenues of $133 million from tuition and fees, net of scholarships and fellowships, were generally flat in fiscal year 2020, reflecting a 4.9 percent increase in tuition offset by an 8.0 percent increase in financial aid essential to support a more socioeconomically diverse student body. Revenues of $63 million from auxiliary sales and services, which include student room and board charges, net of financial aid, declined 18.9 percent due to refunds issued as a result of shutting down the campus in March 2020 in response to the COVID-19 pandemic.

Revenues of $266 million from government and private sponsors increased 8.3 percent from fiscal year 2019 to 2020, reflecting the competitiveness of Princeton's faculty in attracting research awards, including many new COVID-related awards. The components of sponsored research revenues can be seen in Table 1. The sharp increase in private research revenues in fiscal 2019 was attributable to the adoption of ASU 2018-08, accounting for contributions received, resulting in the accelerated recognition of revenue from unconditional privately sponsored grants in the amount of $62 million.

Revenues from long-term gifts and pledges of $189 million were consistent with Princeton's long history of successful fundraising. Unrestricted Annual Giving and spendable restricted gifts, which are vital to the University's annual operations and financial aid capacity, raised $109 million, a testament to the unwavering generosity of loyal alumni.

Total operating revenues of $2.2 billion in fiscal year 2020 grew 1.3 percent.

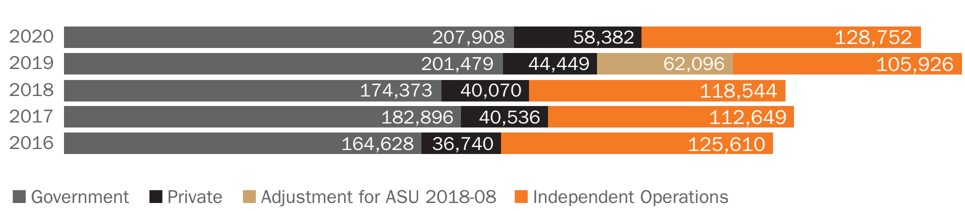
Total operating expenses of $1.8 billion in fiscal year 2020 increased by 3.2 percent. Salaries, wages and benefits growth of 6.2 percent was offset by an 8.0 percent reduction in space and occupancy costs as well as an 8.0 percent reduction in interest expense as a result of the repayment of $500 million in liquidity debt over fiscal years 2019 and 2018. The campus shut-down in March 2020 in response to the COVID-19 pandemic also resulted in notable cost savings from prohibited travel and conferences, and unfilled staff vacancies.

Fiscal year 2020 saw the adoption of three new significant Accounting Standards Updates (ASU) for

Table 1

COMPONENTS OF SPONSORED RESEARCH REVENUES

($ in thousands)



the University's financial statements. ASU 2016-02 establishes a right-of-use (ROU) model that requires lessees to recognize a ROU asset on a discounted basis and a lease liability, for substantially all leases, as well as the requirement of additional disclosures regarding leasing arrangements. Implementation of ASU 2016-02 resulted in approximately $45 million of ROU assets and $45 million of lease liabilities recorded on the Consolidated Statement of Financial Position for fiscal 2020. Implementation of ASUs 2016-15 and 2016-18 resulted in changes to the presentation of cash in the Consolidated Statements of Cash Flows for fiscal 2020 and 2019, as described further in the Cash Flow section of this letter.

The University successfully pursued its regular practice of using debt for capital expenditure and property renewal purposes. Princeton's bonds and notes continue to attract high demand as a safe haven for conservative investors. In connection with a $500 million issuance of taxable bonds, Princeton again received the highest attainable credit and liquidity ratings from both Moody's Investors Service and Standard & Poor's agencies, affirming the University's stellar credit standing.

ACCOUNTING PRINCIPLES

Princeton University's financial statements, which follow herein, are presented in accordance with generally accepted accounting principles set forth by the Financial Accounting Standards Board (FASB) as supplemented by the American Institute of Certified Public Accountants (AICPA) audit and accounting guide for not-for-profit entities. In addition to general accounting guidance, the statements reflect the impact of specific reporting requirements of not-for-profit organizations prescribed by FASB Accounting Standards Codification (ASC) Topic 958, Not-for-Profit Entities. Compliance with AICPA guidance includes consolidating wholly owned subsidiaries and significant trusts in which the University is a beneficiary, as well as reporting tuition discounts, primarily fellowships and scholarships, as reductions of tuition and fee revenue. The financial statements are fully comparable, including prior-year data on the Consolidated Statements of Activities.

FINANCIAL REPORTS

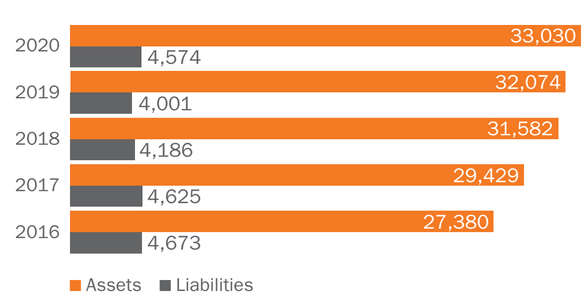
The principal objectives of the accounting standards are to provide consistency among the financial statements of not-for-profit organizations and to make them comparable to those of the for-profit sector. The standards require not-for-profit organizations to provide, for their external financial reports, a statement of financial position, a statement of activities, and a statement of cash flows. The organization's resources are classified among two categories of net assets, that is, gross assets less liabilities, based solely on the existence or absence of donor-imposed restrictions. Amounts for each of the two classes of net assets — net assets with donor restrictions and net assets without donor restrictions — are displayed in a statement of financial position, and the changes in each category are displayed in a statement of activities.

Net assets with donor restrictions consist of resources that may not be spent, mainly true Endowment funds. They generally are the result of gifts and bequests with donor stipulations that they be invested to provide a permanent source of income. They also may include gifts-in-kind, such as works of art or real property. Net assets with donor restrictions also include those that, again by donor stipulation, must be invested only for a certain period of time or that may be used in a future period for a specified purpose. Net assets with donor restrictions also include the accumulated income and gains on Endowment funds, absent explicit donor stipulations to the contrary, until appropriated for expenditure. Net assets without donor restrictions may be expended for any purpose and result from gifts, grants, other institutional resources, and income and gains on those funds.

Statement of Financial Position

The Consolidated Statement of Financial Position is a snapshot of the University's resources and obligations at the close of the fiscal year and is comparable to the document commonly referred to as the balance sheet. Assets on the statement, which totaled $33.0 billion as of June 30, 2020 (see Table 2), are presented in decreasing order of liquidity, from cash to property, the least liquid asset.

Table 2
ASSETS AND LIABILITIES
($ in millions)



Financial Statement Overview

LETTER FROM THE CONTROLLER

(Continued)

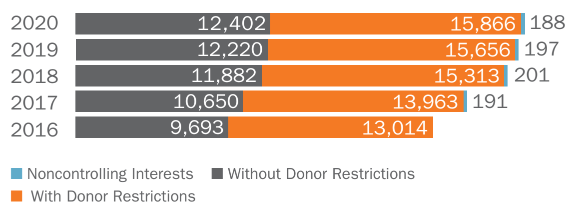
As of June 30, 2020, managed and other investments totaling $27.5 billion accounted for 83 percent of total assets, and increased 2.6 percent from the prior year primarily due to additions of endowment gifts and proceeds from the 2020 bond issuance (see Table 3). Property (net of accumulated depreciation) totaling $4.3 billion accounted for an additional 13 percent of total assets. Other significant assets were contributions receivable, which totaled $348 million, and educational and mortgage loans receivable, which totaled $450 million.

Table 3
MANAGED AND OTHER INVESTMENTS
($ in millions)

Liabilities, which totaled $4.6 billion as of June 30, 2020 (see Table 2), are presented in order of anticipated time of liquidation. Indebtedness to third parties totaling $3.4 billion, which primarily includes loans to finance the construction, renovation, and maintenance of University facilities and bonds issued for working capital and general corporate purposes, accounted for 74 percent of total liabilities as of June 30, 2020. Also included are the liabilities under unitrust agreements totaling $86 million, which represent the estimated amounts payable to donors under the University's planned giving programs. The accounting rules require donees to record a liability for the present value of the expected lifetime payments to donors, and to recognize the net amount received as a contribution in the year of receipt.

Net assets, which totaled $28.5 billion as of June 30, 2020, are calculated as total assets less total liabilities and are classified into two categories — net assets with donor restrictions and net assets without donor restrictions (see Table 4). Net assets without donor restrictions, which totaled $12.4 billion as of June 30, 2020, include gifts and other institutional resources that are not subject to explicit donor-imposed restrictions. In accordance with the accounting rules, certain net assets without donor restrictions have been partially earmarked, or designated, according to their intended use by the University. Net assets with donor restrictions, which totaled $15.9 billion, include: promises to give that are receivable in future years as well as donor-restricted contributions whose purpose has not yet been fulfilled, the accumulated income and gains on true Endowment assets that have been reinvested, Endowment gifts that cannot be spent, and funds held in perpetual trust by others. Non-controlling interests of $0.2 billion pertain to the share of controlled and consolidated investment funds that are not owned by the University.

Table 4
NET ASSETS
($ in millions)



Statement of Activities

The Consolidated Statement of Activities is a summary of the income and expenses for the year, classified according to the existence or absence of the restrictions described above. Sources such as tuition, most sponsored research, and auxiliary activities normally are shown as income without donor restrictions, whereas income from certain gifts or sponsored agreements may be includible in either of the two classes of income, depending upon the donor's specifications. Gifts to Endowment, for example, are designated as with donor restrictions. Income from donor-restricted sources is reclassified to income without donor restrictions when the circumstances of the restriction have been fulfilled. All expenditures are made from net assets without donor restrictions, since funds cannot be spent until all restrictions on their use have been released.

The Consolidated Statement of Activities is presented in two sections, operating and nonoperating, which reflect the principles of the University's operating budget. Items of income reported in the operating section, which totaled $2.173 billion for the year ended June 30, 2020, include all receipts without donor restrictions as well as the Endowment earnings made available for spending under the spending rule. The major components of operating revenues and their relative proportions are shown in Figure 1.

Figure 1
OPERATING REVENUES
Fiscal Year 2020

- Support from Investments (66%)
- Net Tuition and Fees (6%)
- Government Grants and Contracts (15%)
- Private Gifts, Grants and Contracts (8%)
- Net Auxiliary Sales and Services (3%)
- Other Sources (2%)

Figure 2
OPERATING EXPENSES BY NATURAL CLASSIFICATION
Fiscal Year 2020

- Salaries and Wages (45%)
- Employee Benefits (13%)
- Supplies, Services & Other (18%)
- Space and Occupancy (4%)
- Student Stipends & Prizes (4%)
- Depreciation (10%)
- Interest (6%)

Figure 3
OPERATING EXPENSES BY FUNCTIONAL CATEGORY
Fiscal Year 2020

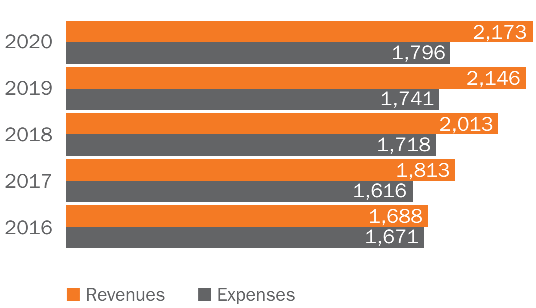
- Academic & Research (62%)
- Student Services & Support (18%)
- General Administration and Institutional Support (13%)
- Independent Operations (7%)

Virtually all expenses, which totaled $1.796 billion, are considered to be associated with operating activity and are reported on the Consolidated Statement of Activities by natural classification. The major components of operating expenses by natural category and their relative proportions are shown in Figure 2.

Operating expenses by functional classification are reported in the footnotes to the financial statements. The major components of operating expenses by functional classification and their relative proportions are shown in Figure 3.

For the year ended June 30, 2020, the University produced a surplus from operating activities in the amount of $377 million, calculated as total operating revenues less total operating expenses, as illustrated in Table 5.

Table 5
OPERATING ACTIVITIES
$ in Millions



Major items of income that are considered nonoperating, which amounted to a net gain of $15 million for the year ended June 30, 2020, include unrealized appreciation on investments and Endowment income earned in the current year to be used in the current and succeeding years, in accordance with operating budget policy. The distribution of investment income for spending under the University's spending policy is shown as a transfer from nonoperating activities to operating revenue. Unrestricted gift income from Annual Giving and expendable gifts restricted for departmental use are shown as operating income, whereas income from promises to give (pledges) is considered a nonoperating source of income.

The Consolidated Statement of Activities concludes with a reconciliation of the change in each class of net assets for the year to the balance of net assets shown on the Consolidated Statement of Financial Position. The total change in net assets for the year ended June 30, 2020 for all classes of net assets was an increase of $384 million.

Financial Statement Overview

LETTER FROM THE CONTROLLER

(Continued)

Statement of Cash Flows

The Consolidated Statement of Cash Flows is intended to be the bridge from the change in net assets for the year to the change in the cash balance from one year-end to the next. The cash balance on the Consolidated Statement of Cash Flows now includes true cash and restricted cash included in the cash, managed investments, and other investments lines on the Consolidated Statement of Financial Position, as a result of the adoption of ASUs 2016-15 and 2016-18. Several items shown as expenses in the Consolidated Statement of Activities, such as depreciation, do not require an outlay of cash, whereas the purchase of capital assets, which does require an outlay of cash, is added directly to assets on the Consolidated Statement of Financial Position and is reflected on the Consolidated Statement of Activities only in the form of depreciation expense. Other items that affect cash balances but are not required to be included in the Consolidated Statement of Activities include the purchase and sale of investments, proceeds from borrowing and the repayment of loan principal, and the net change in accounts receivable and payable.

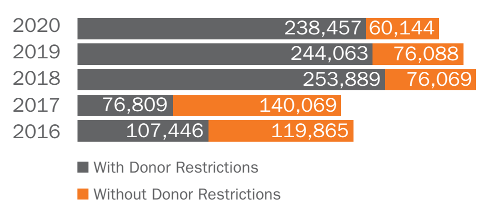
The reconciling items on the Consolidated Statement of Cash Flows are grouped into three categories. Operating activities, which used $777 million in net cash for the year ended June 30, 2020, are those items of income and expense that occur during the normal course of providing services as an educational institution. Cash flows from operating activities also include investment earnings distributions of interest and dividends. Investing activities, which provided $913 million in net cash, include the acquisition and disposal of capital assets such as buildings and equipment and the purchase and sale of investments. Financing activities, which provided $495 million in net cash, include the proceeds from long-term borrowing to finance capital additions, renewal, and replacement, and the repayment of principal on such indebtedness, as well as the disbursement of funds for new educational and mortgage loans and the collection of principal payments on such loans. Also included are contributions restricted for long-term purposes, such as endowments.

CONTRIBUTIONS

In accordance with FASB ASC 958-310, Not-for-Profit Entities — Receivables, donors' unconditional promises to give are required to be recorded by donees as revenue and as amounts receivable in the year received. Where collection is not expected within one year, the amount recorded is determined on a present-value basis. Conditional promises to give are recognized when they become unconditional, that is, when the conditions imposed by the donor have been substantially met.

Contributions must be classified among those with donor restrictions or without donor restrictions, as dictated solely by the donor. For the year ended June 30, 2020, contributions classified as with donor restrictions totaled $238 million, and those classified as without donor restrictions totaled $60 million. The classification of contributions is essential for the proper presentation of revenue in the Consolidated Statement of Activities and of net assets in the Consolidated Statement of Financial Position, as previously discussed.

Table 6
PRIVATE GIFTS
($ in thousands)



ENDOWMENT MANAGEMENT

A significant portion of the operating budget is financed from Endowment earnings (see Figure 1). Consequently, the University's investment portfolio is managed for a total return and accounted for under a consistently applied formula.

Most invested funds participate in the Primary Pool, which is operated on a pooled investment basis. Long-term growth of principal and increased future earnings are the University's investment objectives for these funds.

Funds participating in the Primary Pool are assigned units on a market-value basis and appreciate or depreciate based on the change in unit market value. After deducting investment management fees, the earnings are allocated quarterly on the basis of units owned by participating funds.

The University follows an Endowment spending rule that provides for an annual increase in the amount of Primary Pool earnings allocated for spending, provided that the resulting spending rate, expressed as a percentage of the market value, remains within a policy band as further discussed in the Report on Investments, which follows. For the Primary Pool's year ended June 30, 2020, the interest and dividends per unit (net of service charges) were $70.14. The unit earnings allocated for spending were $676.42 in fiscal year 2020 and $650.40 in fiscal year 2019. The market value of a unit was $12,233.00 at June 30, 2020 and $12,233.51 at June 30, 2019.

The University also maintains a group of separately invested funds. Included therein are funds established from gifts of investments restricted from sale by donors, funds held in trust by others, and the University's investments in strategic real estate.

CONCLUSION

Princeton hopes that the readers of these financial statements find the presentations and explanations helpful in interpreting the financial state of the University. Princeton is blessed with extraordinary financial resources and is responsible for protecting and preserving them over a very long time horizon. This long-term view allows Princeton to weather any near-term economic, financial or operational challenge. The University is committed to utilizing its financial resources in a thoughtful, prudent, and consistent manner in support of its current educational and research programs, while preserving their value for future generations.

Kenneth Molinaro
Controller

Report on Investments

PRINCETON UNIVERSITY INVESTMENT COMPANY

As of June 30, 2020, Princeton's Endowment stood at $26.6 billion, an increase of approximately $440 million from the previous year.[1] The vast majority of the Endowment, $26.1 billion, is actively managed by the Princeton University Investment Company ("PRINCO").[2] While PRINCO maintains its own Board of Directors (the "Directors"), it is a University office operating under the final authority of the University's Board of Trustees (the "Trustees").

The purpose of the Endowment is to provide steady support for the University's current and future operating needs while preserving real value for future generations. This mission requires an expected long-term return that exceeds the sum of the annual rate of spending and University inflation. To pursue this goal, PRINCO maintains an equity-biased portfolio and seeks to partner with best-in-class investment management firms across diverse asset categories.

Against a backdrop of extremely volatile markets, the portion of the Endowment actively managed by PRINCO generated a 5.6 percent investment return during fiscal 2020, outperforming its primary benchmark by 3.1 percent.

Of course, the evaluation of our investment program should focus on the long term, and our long-term results are strong from both absolute and relative perspectives. The Endowment's annualized return over the past 10 years is 10.6 percent, which equates to a real return of 8.2 percent when adjusted for the Higher Education Price Index (HEPI), a measure of University inflation. As discussed further below, the 10.6 percent annualized nominal gain compares well to the Policy Portfolio Index's 8.6 percent increase, but trails slightly behind the 65/35 benchmark's 10.7 percent annualized return. Compared to all other yardsticks, performance was strong.

SPENDING

Each year, the Trustees decide upon an amount to be spent from the Endowment for the following fiscal year.[3] In their deliberations, the Trustees use a spending framework that is designed to enable sizable amounts to be spent in a reasonably stable fashion, while allowing for reinvestment sufficient to preserve purchasing power in perpetuity. For much of the last decade, the framework targeted annual spending between 4.00 percent and 5.75 percent of the Endowment's beginning value. In 2015, the Trustees decided that, considering the continued strength of Princeton's investment program, higher long-term average spending rates could be supported. Indeed, they found that a higher average rate of spending was necessary in order to achieve intergenerational equity, *i.e.*, to balance the interests of current and future students and faculty. Moreover, a higher average spending rate would likely help optimize the mix of the University's three important types of capital—financial, physical, and human. The Trustees agreed that an important step toward the goal of higher long-term average spending was to raise the upper boundary of the spending target range to 6.25 percent. Notably, this marked the second time that the Trustees have raised the upper boundary of the spending range in recent memory, having previously moved the boundary from 5.00 percent to 5.75 percent in 2006.

In fiscal 2020, the Endowment spending distribution, in aggregate, equaled $1.4 billion, an increase of approximately $65 million from the prior year. Spending per Endowment unit equated to 5.5 percent of market value at the start of fiscal 2020.

ASSET ALLOCATION

Asset allocation involves deciding what share of the portfolio should be placed within each of the various broad asset categories. The decisions attempt to balance the relative merits of equities versus fixed income, domestic versus foreign investments, and publicly traded versus non-marketable assets.

1 Excluded from Princeton's traditional definition of "Endowment" are working capital, planned giving investments, and proceeds from debt.

2 The pool actively managed by PRINCO excludes University mortgages, loans, and other assets held primarily for strategic University purposes. "Endowment net assets," as reported in the notes to the Consolidated Financial Statements in the amount of $25.9 billion as of June 30, 2020, further excludes agency funds in custody for others.

3 Excluded from these decisions are funds devoted to certain strategic purposes, such as subsidizing faculty and staff housing.

Princeton's long-term asset allocation decisions are embodied by a Policy Portfolio that describes the asset categories in which Princeton will invest, a set of target weights that indicate how the portfolio will be positioned in "normal" market conditions, and a range of weightings within which exposures can be adjusted mid-term in response to significant market disequilibria or other unusual circumstances. Figure 1 depicts the Policy Portfolio targets.

Figure 1
PRINCETON UNIVERSITY POLICY PORTFOLIO[4]
Fiscal Year 2021

Readily manifest is PRINCO's bias toward equities or equity-like assets—94 percent of the portfolio is allocated toward these investments. Also striking is the relatively small portion (only 13 percent) of the portfolio dedicated to the Developed Markets category, about 60 percent of which is U.S. equities. Large portions of the portfolio are allocated to other high expected-return categories. Independent Return, Private Equity, and Real Assets bear further description. Independent Return is broadly defined as consisting of investment vehicles that seek high absolute returns that are typically independent of broad market trends. Private Equity and Real Assets include investments in private companies, venture capital opportunities, real estate, and natural resources. These areas can offer attractive opportunities for skilled, patient investors.

The Policy Portfolio is diversified among asset categories for a number of reasons. Most importantly, PRINCO seeks return premia, in both risk-adjusted and absolute terms. In each equity asset category, Princeton has competitive advantages that create superior return potential. A broader opportunity set means that the portfolio may be capable of producing high returns more often and in a greater variety of environments. The multi-asset class approach also offers diversification benefits that help to control risk in most environments.

PRINCO has historically reviewed the Policy Portfolio annually. However, given the typical and anticipated frequency of changes to the Policy Portfolio, we have moved to a regime where we will review it biannually unless there is a compelling reason to do so more frequently. PRINCO reviewed the Policy Portfolio in fiscal 2019, and, therefore, we did not do so in fiscal 2020. Thus, no changes were made to the Policy Portfolio during the period.

Table 1 gives a historical perspective of how the Policy Portfolio has evolved over the past two decades. Clearly evident is the long-standing practice of aggressive positioning. In the first decade shown, non-traditional investments grew as a share of the portfolio, reflecting a deliberately paced expansion after extensive consideration over multiple years. In the last decade, changes have largely reflected incremental adjustments to various asset categories, with a particular focus on optimizing the Endowment's liquidity profile.

Table 1
PRINCETON UNIVERSITY ENDOWMENT POLICY PORTFOLIO TARGETS[5]
Every Five Years Since 2001

Asset Class	2001	2006	2011	2016	2021
Developed Markets	27.5%	23.5%	14.0%	16.0%	13.0%
Emerging Markets	7.5%	8.5%	9.0%	10.0%	9.0%
Independent Return	25.0%	25.0%	25.0%	25.0%	24.0%
Private Equity	15.0%	15.0%	23.0%	25.0%	30.0%
Real Assets	10.0%	18.0%	23.0%	19.0%	18.0%
Total Equity	**85.0%**	**90.0%**	**94.0%**	**95.0%**	**94.0%**
Fixed Income and Cash	15.0%	10.0%	6.0%	5.0%	6.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Diversification into international investments is an important part of our multi-asset class approach. PRINCO believes such investments have the potential to increase long-term expected returns while helping to manage portfolio risk. Relative to the U.S., international

4 Policy targets and ranges represent those adopted as of May 2019, which went into effect for benchmarking purposes on July 1, 2019.

5 Policy Portfolio targets are pro forma based on current asset class definitions.

markets tend to be less efficient, providing meaningful opportunities to add value through active management.

A distinctive element of PRINCO's approach to international investments is an emphasis on "foreign local" managers. These managers are based outside the U.S. and invest locally in their respective geographies. Over time, we have gained more exposure to such managers both in marketable and non-marketable categories. Indeed, we have formally articulated efforts in this regard through our "Grand Unifying Theme." This theme, while very important, is not immediately apparent in the Policy Portfolio, as it cuts across several asset categories. Notably, measured on the basis of current market value and uncalled commitments, about 35 percent of the Endowment was, on June 30, 2020, in the hands of managers based outside of the U.S.

Table 2

ASSET ALLOCATION

June 30, 2020

Allocation	FY20 Policy Target	Actual
Developed Markets	13.0%	6.8%
Emerging Markets	9.0%	7.4%
Independent Return	24.0%	23.0%
Private Equity	30.0%	39.3%
Real Assets	18.0%	14.0%
Fixed Income and Cash	6.0%	9.5%

Table 2 compares PRINCO's long-term Policy Portfolio asset allocation targets with the actual weights as of June 30, 2020. Within relatively small and predetermined ranges, PRINCO's Staff and Directors will intentionally overweight or underweight more or less compelling asset categories. These deliberate allocation overlays occur most frequently in the marketable asset categories. Within Private Equity and Real Assets, deviations from Policy Portfolio targets can occur without deliberate intent, due to funding and market dynamics. When the Policy Portfolio targets for Private Equity and Real Assets were established, and when they are reviewed, it is with the understanding that allocation deviations in these categories are neither easily nor cheaply controlled with great precision, and therefore will often need to be offset by allocation adjustments in other categories.

That said, the large overweight in Private Equity is unintentional and is due to two key factors. Firstly, with the benefit of hindsight, we recognize that our commitments to Private Equity funds during fiscal years 2006 through 2008 were too high. Since that time, we have reduced our commitment pace to a sustainable steady-state rate and expect to glide gradually over multiple years back to the target allocation. Indeed, this decline would be happening at a faster pace if not for the second factor—the asset category's very strong performance. Private Equity was the Endowment's best performing asset category in fiscal 2020 and has generated a 13.4 percent annualized return over the past five years relative to a 4.9 percent annualized return for the Endowment excluding Private Equity. Additionally, venture capital managers have been holding investments (which have performed exceptionally well) for extended periods, contributing to increased exposure. Looking ahead, we are cautiously optimistic that the Private Equity portfolio will generate meaningful liquidity in the next several years. It will, however, take substantial time for exposure to decline to the Policy target level.

In the spring of 2020, PRINCO intentionally increased exposure to Fixed Income and Cash (or "FIC") to be significantly above its Policy target. The decision to increase exposure to FIC reflected increased uncertainty and pessimism regarding cash flows from the Private Equity program. It is always difficult to forecast cash flows from non-marketable programs, but it became markedly more difficult to do so given the uncertainty created by the COVID-19 crisis. Thus, in order to meet University spending requirements, we foresaw potentially having to raise more funds from our marketable managers than is typical. This led us to focus on preserving value in the marketable portfolios by reducing beta exposure and increasing FIC. As equity markets have recovered, and the prospects for cash flows from the Private Equity program have become somewhat less uncertain, we are currently in the process of reevaluating the magnitude of the FIC adjustment.

We increased FIC in spring 2020 primarily through the use of "plain vanilla" index futures. Using index shorts (as opposed to making redemptions from marketable managers) preserved the potential to benefit from manager *alpha*, and enabled us to hold off from (and in an upside scenario largely avoid) making redemptions from managers in the midst of significant volatility and uncertainty.

The remainder of PRINCO's FIC exposure comes from holding shorter-than-market duration bonds. We have maintained this anti-duration "tilt" in recent years due to a combination of exceptionally low yields offered by U.S. government bonds, increased price risk, and decreased "insurance" functionality.[6] We plan to gradually unwind this tilt over the next 12 to 18 months and took initial steps to do so near the end of the fiscal year.

Zooming out, it is important to note that a critical element of PRINCO's approach revolves around improving diversity within our ecosystem. Our ultimate goal is to have our manager roster "look like America," as we believe diverse and inclusive teams have an advantage at solving complex problems like those involved within investment management. Stated simply, improved diversity will help us generate better returns.

In addition to focusing on our roster of external managers, PRINCO has undertaken a number of actions to improve diversity within our office and within the investment industry overall. We now describe this step-function increase in intentionality as our "Grand Unifying Theme 2.0" (GUT 2.0). Under GUT 2.0, we ask ourselves when considering every major decision—*e.g.*, hiring an external manager, designing and recruiting for an intern program, considering internal staff hiring decisions, selecting PRINCO Board members—are we proceeding down a path that will help improve diversity within our ecosystem? If the answer is "no," then we ask whether we can modify the presumed path. Sometimes the answer remains "no," but countervailing considerations indicate that we should proceed anyway.

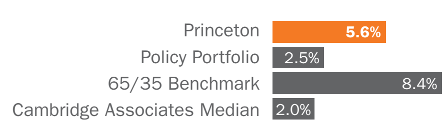
Although we are in early innings, our new mindset has produced some promising results. For example, of the seven U.S.-based manager relationships we initiated in the past two years, five of them, accounting for 60 percent of assets deployed among these new relationships, qualify as diverse. Notably, three of the firms are at least 50 percent owned by African Americans, representing more than a quarter of the assets deployed with new relationships during the period.

PERFORMANCE

In the midst of an extremely volatile market environment, the Endowment generated a modest fiscal 2020 investment return of 5.6 percent.[7] Based upon preliminary estimates of the Higher Education Price Index (HEPI), our fiscal 2020 performance translates into a real gain of approximately 3.4 percent, falling short of the Endowment's spending objective.

PRINCO has traditionally used two benchmarks to provide context for our results. Our primary benchmark, the Policy Portfolio Index (or "PPI"), consists of a blend of individual asset category benchmarks weighted by long-term allocation targets. As shown in Figure 2, in fiscal 2020, performance exceeded the 2.5 percent return of the PPI. Our results and the PPI both substantially lagged the 8.4 percent return of our secondary benchmark—a 65/35 blend of the S&P 500 and the Barclays Government/Credit Bond Index—illustrating that diversification, particularly towards assets outside of the U.S. and into non-traditional asset classes such as Independent Return and Real Assets, created strong headwinds this year.[8] Notably, our performance in fiscal 2020 compares very well to that of other college and university endowments, for which the median return was 2.0 percent.[9]

Figure 2
FISCAL YEAR 2020 PERFORMANCE



6 A key reason for holding high-quality fixed income is that it provides "insurance" against deflation and extended equity market declines. In particular, we expect yields to decline and bond prices to rise in many crisis scenarios. However, given current low yields, there is less room for further declines, reducing the insurance functionality.

7 Reported results exclude the returns on certain short-term assets and other assets, such as faculty and staff mortgages, held primarily for strategic University purposes. The total asset base upon which performance is calculated equaled $26.1 billion at fiscal year-end.

8 The 65% S&P 500/35% Barclays Government/Credit Index portfolio represents what an investor would earn from a 65/35 investment in these equity and fixed income market indices, rebalanced annually. Since its inception in 1987, PRINCO has used this benchmark to represent the returns that might have been earned by institutional investors pursuing more traditional investment approaches.

9 The median college and university endowment return is based on data compiled by Cambridge Associates for over 140 college and university endowments.

Report on Investments

PRINCETON UNIVERSITY INVESTMENT COMPANY

(Continued)

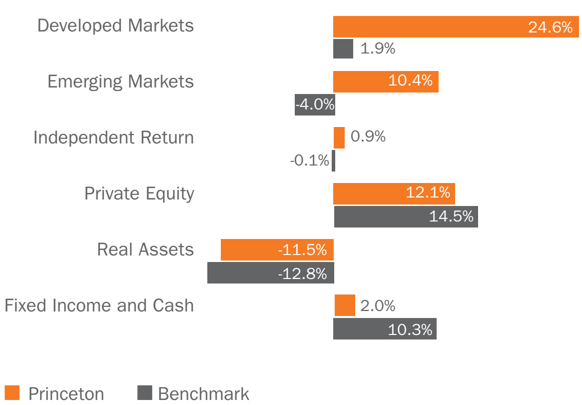
Our equity asset classes had returns that ranged from strikingly positive to quite negative: 24.6 percent for the public equity category of Developed Markets (formerly Domestic Equity and International Equity-Developed), 12.1 percent for Private Equity, 10.4 percent for Emerging Markets, 0.9 percent for Independent Return, and *negative* 11.5 percent for Real Assets. Relative performance in equity categories was generally strong. Developed Markets and Emerging Markets beat their benchmarks by 22.7 percent and 14.3 percent, respectively. Real Assets and Independent Return produced more modest outperformance, beating benchmarks by 1.3 percent and 1.0 percent respectively. Private Equity underperformed by about 2.4 percent. Fixed Income lagged significantly, underperforming by 8.3 percent, due to the defensive, short duration posture we adopted many years ago.

Of course, the evaluation of our investment program should focus on the long term, and our long-term results are strong (see Figure 4). The Endowment's annualized return over the past 10 years is 10.6 percent, equating to a HEPI-adjusted real return of 8.2 percent, which enabled us to very meaningfully grow purchasing power after spending. The 10.6 percent annualized nominal gain compares well to the Policy Portfolio Index's 8.6 percent increase, but trails slightly behind the 65/35 benchmark's 10.7 percent annualized return. (The headwinds created by international diversification this year prevailed over much of the ten-year period.) Our performance was also strong compared to the 7.5 percent median return for college and university endowments. For added perspective, Princeton's Endowment would be about $9.0 billion smaller if our results over the past 10 years had equaled those of the median college and university endowment, assuming unchanged levels of spending.

Figure 3

PRINCETON ASSET CLASS RETURNS VS. BENCHMARKS

Fiscal Year 2020



Benchmarks used:

Developed Markets: Blend of Wilshire 5000 and MSCI World ex-U.S. IMI Indices

Emerging Markets: MSCI Emerging Markets IMI Index

Independent Return: HFRI Fund Weighted Composite Index + 50 basis points per annum

Private Equity: Customized Cambridge Associates benchmark

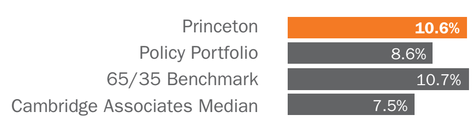
Real Assets: Blend of Cambridge Associates Real Estate benchmark, an energy component, and a timber component

Fixed Income and Cash: Barclays Government Bond Index

Figure 4

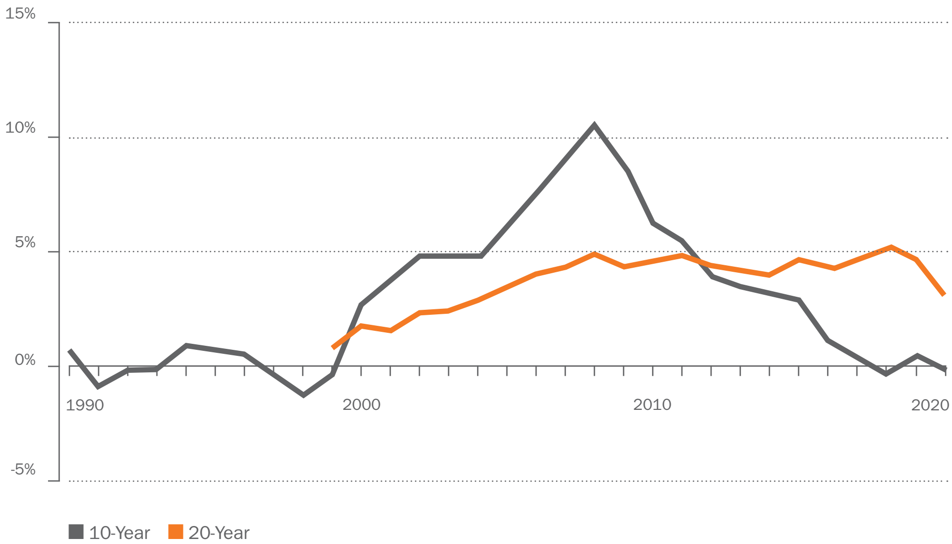
10-YEAR ANNUALIZED PERFORMANCE

Ending June 30, 2020



Examining performance over rolling periods enables an additional long-term perspective. Figure 5 compares PRINCO's investment performance over rolling 10- and 20-year periods to that of the 65/35 benchmark. As the figure highlights, even with a decade-long view, the comparison has endpoint sensitivity (i.e., there is surprisingly high variability from year-to-year.) As such, and consistent with our long-term approach, it is informative to also evaluate returns over 20-year periods. The Endowment has consistently outperformed the 65/35 benchmark using this longer timeframe, and the difference has been steadily widening. During the recent 10-year period, diversification away from traditional U.S. stocks and bonds has been costly. Notably, U.S. equities benefited significantly in recent years from equity valuations expanding to lofty levels, while fixed income benefited from bond yields dropping to extremely low levels. It seems unlikely that the 65/35 benchmark will benefit to the same degree from such tailwinds in the decade ahead.

Figure 5
PRINCETON ROLLING RETURNS MINUS 65/35 BENCHMARK ROLLING RETURNS



Over the past 10 years, Princeton outperformed within asset categories by an average annualized margin of 3.2 percent, with four of six asset categories outperforming their respective benchmarks (see Figure 6, next page). Particularly notable is the fact that, even over this relatively lengthy period, the easily benchmarked Developed and Emerging Markets categories registered very strong absolute returns and significant outperformance.[10] In aggregate, these categories gained 14.1 percent annualized over the past 10 years, surpassing a policy-weighted benchmark by 6.9 percent annualized.

Independent Return's ten-year results have been modest in absolute terms, with solid outperformance. This has been a particularly challenging period for managers in this category as interest rates have fallen to historically low levels and stock-pickers have faced significant headwinds on short positions during a sustained bull market.

Private Equity was the Endowment's strongest performing category over this period and modestly outperformed. Venture capital investments drove these strong results. Real Assets has produced disappointing absolute and relative results. Natural resources investments faced severe headwinds caused by declining commodity prices. Moreover, this asset class is especially difficult to benchmark, and much (albeit far from all) of this underperformance relates to differences between the composition of the Endowment's real estate and energy programs and those of their benchmarks. Additionally, eight years ago we finished a major revamping of the Real Assets program. Decisions made then and since have resulted in outperformance, but it has been hidden behind a continuing drag created by many older investments.

Fixed Income and Cash nominal results were below expectations, as yields and inflation have been at historically low levels for much of this period. The asset category trailed the benchmark's return, due to our holding shorter-than-market duration bonds for most of the period.

To conclude, we remind ourselves and the readers of this report that our investment philosophy has been built on the humble acceptance of the difficulty of predicting the future. It would be foolish, if not sinful, to avoid an intense scrutiny of this moment, and how today's challenges—whether on the fronts of public health, racial justice, public discourse, or the economy and financial markets—are a consequence of our history. While we must examine the moment, we must do so with the humility that we, individually and collectively, will not fully understand it.

10 We describe these categories as "easily benchmarked" because for each there exists an easily investable index alternative that closely parallels our investment approach. No such alternatives exist for the other equity asset categories.

Report on Investments

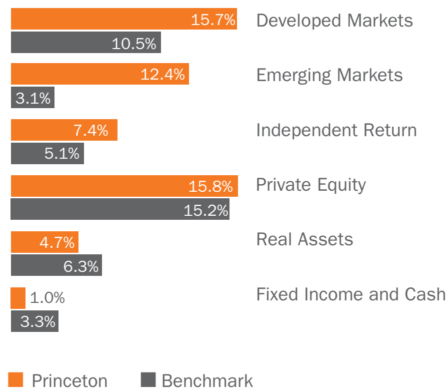
PRINCETON UNIVERSITY INVESTMENT COMPANY

(Continued)

Figure 6

PRINCETON ASSET CLASS RETURNS VS. BENCHMARKS

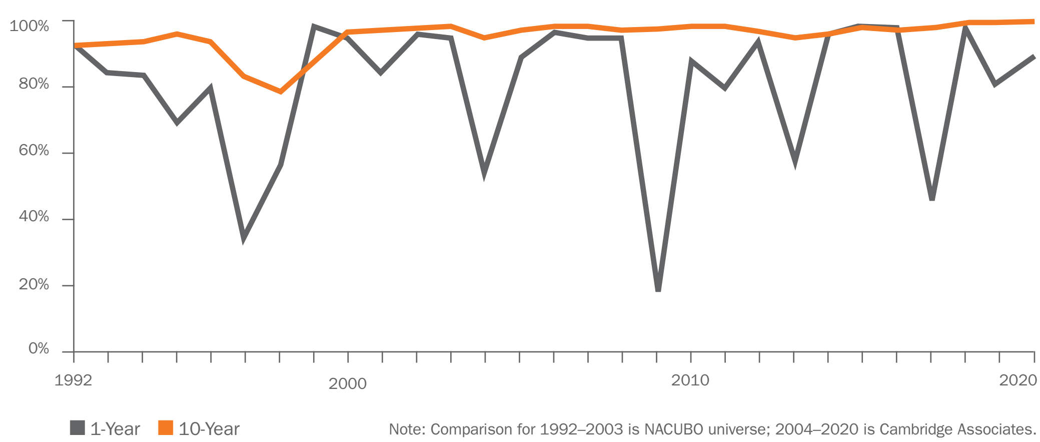
Ten Years Ending June 30, 2020



Benchmarks used:
Developed Markets: Blend of Wilshire 5000 and MSCI World ex-U.S. IMI Indices
Emerging Markets: MSCI Emerging Markets Index prior to 6/30/10; MSCI Emerging Markets IMI Index thereafter
Independent Return: 40% Wilshire 5000 Index + 60% 91-day T-Bill + 550 basis points per annum prior to 6/30/10; 40% MSCI All Country World Index + 60% (91-day T-Bill + 650 basis points per annum) through 6/30/12; HFRI Fund Weighted Composite Index + 50 basis points per annum thereafter
Private Equity: Customized Cambridge Associates benchmark
Real Assets: Blend of levered NCREIF Property Index, an energy component, and a timber component prior to 6/30/10; levered NCREIF Property Index replaced with Cambridge Associates Real Estate benchmark thereafter
Fixed Income and Cash: Barclays Government Bond Index

Figure 7

PRINCETON ANNUALIZED FISCAL YEAR RETURN PERCENTILE RANK OVER ROLLING PERIODS



Note: Comparison for 1992–2003 is NACUBO universe; 2004–2020 is Cambridge Associates.

Our focus on partnership and on partnering with top-shelf experts in a variety of niches creates a robustness that translates into good odds of success across a broad span of environments, even ones as novel (no pun intended) as the one we have been in. Our approach served us reasonably well in fiscal 2020. It is true that a few more investors than typical did better than us this year. Oh well, a year is quite short in the context of a mission horizon focused on perpetuity. Indeed, Figure 7 illustrates why we try not to be overly concerned about relative performance in any given year. Doing reasonably well more often than not, with occasional stellar moments, even if with a few, but not many, off years, compounds to excellence over the long term.

Andrew Golden
President
Princeton University Investment Company

pwc

Report of Independent Auditors

To the Trustees of Princeton University:

We have audited the accompanying consolidated financial statements of Princeton University and its subsidiaries (the "University", which as described in Note 2 is legally known as The Trustees of Princeton University), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Princeton University and its subsidiaries as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

November 24, 2020

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, New York 10017
T: (646) 471 3000, F: (813) 286 6000, www.pwc.com/us

Consolidated Statements of Financial Position

Princeton University

June 30, 2020 and 2019

(dollars in thousands)	2020	2019
Assets		
Cash	$ 105,648	$ 22,633
Accounts receivable	157,125	122,776
Receivables associated with investments	20,232	71,804
Educational and mortgage loans receivable	449,759	446,784
Contributions receivable	348,453	306,325
Managed investments at market value	26,250,932	25,811,952
Funds held in trust by others	112,091	114,969
Other investments	1,260,344	1,000,246
Property, net of accumulated depreciation	4,267,022	4,156,896
Other assets	58,610	19,805
Total assets	$ 33,030,216	$ 32,074,190
Liabilities		
Accounts payable	$ 56,957	$ 42,796
Liabilities associated with investments	20,136	63,361
Deposits, advance receipts, and accrued liabilities	241,186	135,910
Deposits held in custody for others	130,614	138,517
Liability under planned giving agreements	86,255	92,048
Indebtedness to third parties	3,396,518	3,027,186
Accrued postretirement benefits	641,970	501,426
Total liabilities	$ 4,573,636	$ 4,001,244
Net assets		
Without donor restrictions controlled by the University	$ 12,401,995	$ 12,220,192
Without donor restrictions attributable to noncontrolling interests	188,379	196,767
Total net assets without donor restrictions	**12,590,374**	**12,416,959**
Total net assets with donor restrictions	**15,866,206**	**15,655,987**
Total net assets	**$ 28,456,580**	**$ 28,072,946**
Total liabilities and net assets	**$ 33,030,216**	**$ 32,074,190**

See notes to consolidated financial statements.

Consolidated Statements of Activities

Princeton University

Year ended June 30, 2020

(dollars in thousands)	Without Donor Restrictions	With Donor Restrictions	2020 Total
Revenues			
Tuition and fees, net of financial aid	$ 133,287	-	$ 133,287
Government grants and contracts	336,660	-	336,660
Private gifts, grants, and contracts	71,216	$ 96,308	167,524
Auxiliary sales and services, net of financial aid	62,601	-	62,601
Other operating revenues	33,359	-	33,359
Investment earnings distributed	630,639	809,006	1,439,645
Total operating revenues	**1,267,762**	**905,314**	**2,173,076**
Net assets released from restrictions	869,936	(869,936)	-
Total revenues and other sources	**2,137,698**	**35,378**	**2,173,076**
Operating expenses			
Salaries and wages	801,441	-	801,441
Employee benefits	226,194	-	226,194
Supplies, services, and other	325,050	-	325,050
Space and occupancy	69,307	-	69,307
Student stipends and prizes	70,084	-	70,084
Depreciation	188,890	-	188,890
Interest on indebtedness	115,259	-	115,259
Total operating expenses	**1,796,225**	**-**	**1,796,225**
Results of operations	**341,473**	**35,378**	**376,851**
Nonoperating activities			
Adjustments to planned giving agreements	-	(4,180)	(4,180)
Increase in value of assets held in trust by others	-	(2,314)	(2,314)
Private gifts, noncurrent	7,729	181,731	189,460
Net realized and unrealized appreciation on investments	574,654	811,479	1,386,133
Distribution of investment earnings	(630,639)	(809,006)	(1,439,645)
Net periodic benefit cost other than service cost	(15,025)	-	(15,025)
Other postretirement benefit changes	(94,842)	-	(94,842)
Reclassifications, transfers, and other nonoperating	(1,547)	(2,869)	(4,416)
Increase (decrease) from nonoperating activities	**(159,670)**	**174,841**	**15,171**
Increase in net assets - University	**181,803**	**210,219**	**392,022**
Change in noncontrolling interests	(8,388)	-	(8,388)
Total increase in net assets	**173,415**	**210,219**	**383,634**
Net assets at the beginning of the year	12,416,959	15,655,987	28,072,946
Net assets at the end of the year	**$ 12,590,374**	**$ 15,866,206**	**$ 28,456,580**

See notes to consolidated financial statements.

Consolidated Statements of Activities

Princeton University

Year ended June 30, 2019

(dollars in thousands)	Without Donor Restrictions	With Donor Restrictions	2019 Total
Revenues			
Tuition and fees, net of financial aid	$ 132,129	-	$ 132,129
Government grants and contracts	307,405	-	307,405
Private gifts, grants, and contracts	78,140	$ 138,089	216,229
Auxiliary sales and services, net of financial aid	77,155	-	77,155
Other operating revenues	44,620	-	44,620
Investment earnings distributed	602,549	766,150	1,368,699
Total operating revenues	**1,241,998**	**904,239**	**2,146,237**
Net assets released from restrictions	817,690	(817,690)	-
Total revenues and other sources	**2,059,688**	**86,549**	**2,146,237**
Operating expenses			
Salaries and wages	754,530	-	754,530
Employee benefits	213,126	-	213,126
Supplies, services, and other	323,520	-	323,520
Space and occupancy	74,810	-	74,810
Student stipends and prizes	71,651	-	71,651
Depreciation	177,932	-	177,932
Interest on indebtedness	125,132	-	125,132
Total operating expenses	**1,740,701**	**-**	**1,740,701**
Results of operations	**318,987**	**86,549**	**405,536**
Nonoperating activities			
Adjustments to planned giving agreements	-	4,132	4,132
Increase in value of assets held in trust by others	-	1,899	1,899
Private gifts, noncurrent	18,673	191,794	210,467
Net realized and unrealized appreciation on investments	699,343	818,422	1,517,765
Distribution of investment earnings	(602,549)	(766,150)	(1,368,699)
Net periodic benefit cost other than service cost	(6,457)	-	(6,457)
Other postretirement benefit changes	(83,055)	-	(83,055)
Reclassifications, transfers, and other nonoperating	(6,443)	6,443	-
Increase from nonoperating activities	**19,512**	**256,540**	**276,052**
Increase in net assets - University	**338,499**	**343,089**	**681,588**
Change in noncontrolling interests	(4,195)	-	(4,195)
Total increase in net assets	**334,304**	**343,089**	**677,393**
Net assets at the beginning of the year	12,082,655	15,312,898	27,395,553
Net assets at the end of the year	**$ 12,416,959**	**$ 15,655,987**	**$ 28,072,946**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Princeton University

Years ended June 30, 2020 and 2019

(dollars in thousands)	**2020**	**2019**
Cash flows from operating activities		
Change in net assets	$ 383,634	$ 677,393
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	188,890	177,932
Amortization of bond issuance costs and premiums	(13,280)	(12,921)
Property gifts-in-kind	(345)	(1,310)
Adjustments to planned giving agreements	4,180	(4,132)
Net realized and unrealized gains on investments	(1,386,133)	(1,517,765)
Loss on disposal of fixed assets	21,009	31,824
Decrease (Increase) in value of assets held in trust by others	2,878	(1,899)
Contributions received for long-term investment	(122,835)	(135,976)
Change in noncontrolling interests	8,388	4,195
Changes in operating assets and liabilities:		
Receivables	(79,452)	(77,264)
Other assets	(38,805)	(5,157)
Accounts payable	16,724	3,966
Deposits, advance receipts, and accrued liabilities	105,276	(31,751)
Deposits held in custody for others	(7,902)	2,601
Accrued postretirement benefits	140,544	113,340
Net cash and restricted cash used in operating activities	**(777,229)**	**(776,924)**
Cash flows from investing activities		
Purchases of property, plant, and equipment	(323,130)	(235,775)
Proceeds from disposal of property, plant, and equipment	887	9,170
Purchases of investments	(14,250,827)	(12,220,415)
Proceeds from maturities/sales of investments	15,485,623	13,307,870
Net cash and restricted cash provided by investing activities	**912,553**	**860,850**
Cash flows from financing activities		
Issuance of indebtedness to third parties	480,133	47,150
Payment of debt principal	(97,521)	(328,286)
Contributions received for long-term investment	122,835	135,976
Transactions on planned giving agreements	(9,973)	1,438
Net cash and restricted cash provided by (used in) financing activities	**495,474**	**(143,722)**
Net increase (decrease) in cash and restricted cash	**630,798**	**(59,796)**
Cash and restricted cash at the beginning of the year	**314,249**	**374,045**
Cash and restricted cash at the end of the year	**$ 945,047**	**$ 314,249**
Supplemental disclosures		
Interest paid	$ 129,118	$ 139,952
Supplemental information on cash and restricted cash		
Cash as shown in the Statements of Financial Position	$ 105,648	$ 22,633
Cash and restricted cash included in Managed Investments (see Note 4)	380,561	215,569
Cash included in Other Investments (see Note 3)	458,838	76,047
Total cash and restricted cash as shown on the Consolidated Statements of Cash Flows	$ 945,047	$ 314,249

Notes to Consolidated Financial Statements

Princeton University

Years ended June 30, 2020 and 2019

1. NATURE OF OPERATIONS

Princeton University (the "University") is a private, not-for-profit, nonsectarian institution of higher learning. When originally chartered in 1746 as the College of New Jersey, it became the fourth college in British North America. It was renamed Princeton University in 1896. First located in Elizabeth, and briefly in Newark, the school moved to Princeton in 1756.

The student body numbers approximately 5,328 undergraduates and 2,997 graduate students in more than 90 departments and programs. The University offers instruction in the liberal arts and sciences and in professional programs of the School of Architecture, the School of Engineering and Applied Science, and the Princeton School of Public and International Affairs. The faculty numbers approximately 1,290, including visitors and part-time appointments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Princeton University (now legally known as "The Trustees of Princeton University") are prepared on the accrual basis and include the accounts of its wholly owned subsidiaries, foundation, and investments controlled by the University. Financial information conforms to the statements of accounting principles of the Financial Accounting Standards Board (FASB) and to the American Institute of Certified Public Accountants *Audit and Accounting Guide for Not-for-Profit Entities*. Relevant pronouncements include FASB Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*.

External consolidated financial statements of not-for-profit organizations require the preparation of a consolidated statement of financial position, a consolidated statement of activities, and a consolidated statement of cash flows. The classification of the organization's net assets and its revenues and expenses into two categories according to the existence or absence of donor-imposed restrictions — net assets with donor restrictions and net assets without donor restrictions — is also required. Changes, including reclassification and transfers, in each category are reflected in the Consolidated Statements of Activities, certain of which are further categorized as nonoperating. Such nonoperating activities primarily reflect transactions of a long-term investment or capital nature, contributions receivable in future periods, contributions subject to donor-imposed restrictions, gains and losses on investments in excess of the University's spending rule, postretirement benefit changes, and other nonrecurring activities.

Cash and cash equivalents are recorded at fair value and include several depository accounts, checking accounts, institutional money market funds, and similar temporary investments with maturities of three months or less at the date of purchase. The University has elected to classify cash equivalents that are part of the University's investments as short-term investments.

Unconditional promises to give are recognized as revenues in the year made, not in the year in which the cash is received. The amounts are discounted based on timing of expected collections. Amounts received from donors to planned giving programs are shown in part as a liability for the present value of annuity payments to the donor; the balance is shown as a gift of net assets with donor restrictions.

Other significant accounting policies are described elsewhere in these notes.

The preparation of the University's consolidated financial statements in conformity with generally accepted accounting principles (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 dates of the Consolidated Statements of Financial Position, and the reported amounts of revenues and expenses included in the Consolidated Statements of Activities. Actual results could differ from such estimates.

Notes to Consolidated Financial Statements

Princeton University

Years ended June 30, 2020 and 2019

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU implements a single framework for revenue recognition, ensuring that revenue is recognized in a manner which reflects the consideration to which the entity expects to be entitled in exchange for goods and services. The University adopted ASU 2014-09 in 2019 using a full retrospective method of application. The adoption of ASU 2014-09 resulted in changes to the presentation and disclosure of revenue primarily related to tuition, fees, and auxiliary services as described below.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides additional guidance for evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance, and for determining whether a contribution is conditional or unconditional. The University adopted ASU 2018-08 in 2019 using a modified prospective basis of application. The amendments in this ASU were applied only to the portion of revenue or expense that had not yet been recognized before the effective date in accordance with prior guidance, and no prior-period results were restated.

The adoption of ASU 2018-08 resulted in changes to the recognition of revenue from certain nongovernment sponsors of grants, primarily private foundations. Incremental revenue in the amount of $62 million from private grants that were determined to be unconditional was immediately recognized in the 2019 Consolidated Statement of Activities. Grants from government and certain private sponsors were determined to be conditional, and, consequently, the policy of recognizing revenue over time as qualified expenditures are incurred or milestones are met is unchanged. New disclosures about sponsored grants and contracts are included below.

Revenue from Tuition, Fees, and Auxiliary Services

Revenue from tuition, fees, and auxiliary services, which consist primarily of student room and board, are presented at transaction prices, which typically are determined based on standard published rates for the services provided, less any institutional financial aid awarded by the University to qualifying students. For the years ended June 30, 2020 and 2019, revenue from tuition, fees, and auxiliary services was as follows:

2020 *(dollars in thousands)*	**At published rates**	**Institutional aid**	**Total net**
Tuition and fees	$ 416,793	$ (283,506)	$ 133,287
Room, board, and other	82,736	(20,135)	62,601
Total	**$ 499,529**	**$ (303,641)**	**$ 195,888**

2019 *(dollars in thousands)*	**At published rates**	**Institutional aid**	**Total net**
Tuition and fees	$ 394,183	$ (262,054)	$ 132,129
Room, board, and other	99,745	(22,590)	77,155
Total	**$ 493,928**	**$ (284,644)**	**$ 209,284**

Of the $196 million in net total tuition, fees, and auxiliary revenue recognized in fiscal year 2020, $157 million was from undergraduate students, $23 million was from graduate students, and $16 million was from other sources. Of the $209 million in net total tuition, fees, and auxiliary revenue recognized in fiscal year 2019, $169 million was from undergraduate students, $22 million was from graduate students, and $18 million was from other sources.

Tuition, fees, and auxiliary revenues are recognized and associated performance obligations are satisfied over time during the course of the fiscal year in which the student services are provided.

Revenue from Sponsored Grants and Contracts

The University receives sponsored program funding in the form of grants and contracts from governments, foundations, industry, and other private sources generally for research activities. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or it may be a nonreciprocal transaction in which the resources provided are for the benefit of the University, the funding organization's mission, or the public at large.

Grants and contracts that are reciprocal in nature include certain private grants and the contract with the U.S. Department of Energy to operate the Princeton Plasma Physics Laboratory. Revenue from exchange agreements generally is recognized over time as performance obligations are satisfied, which in most cases occur as related costs are incurred.

Revenue from nonexchange transactions (contributions/gifts and certain grants) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenue from conditional nonexchange transactions is recognized when the barrier is satisfied, which is generally as costs are incurred or certain milestones are achieved. Conditions on grants, such as Federal government grants, typically include limitations on how research activities must be conducted, such as compliance with OMB cost principles. In addition, the University has elected the simultaneous release option for conditional contributions that are subject to purpose restrictions. Under this option, net assets without donor restrictions include the donor-restricted contributions for which the purpose restrictions are met in the same reporting period as the revenue is recognized. Revenue from nonexchange agreements that are considered unconditional, such as most foundation grants, generally is recognized as revenue with donor restrictions when the grant funds are awarded, and is released into net assets without donor restrictions when the purpose has been met.

As of June 30, 2020, the University has unrecorded conditional grant agreements of $398 million from government sponsors and $91 million from nongovernment sponsors. Indirect costs recovered on federally sponsored programs generally are based on predetermined reimbursement rates, which are stated as a percentage and distributed based on the modified total direct costs incurred. The University negotiates its federal indirect rate with its cognizant federal agency. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsors.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. The ASU establishes a right-of-use (ROU) model that requires lessees to recognize a ROU asset on a discounted basis and a lease liability, for substantially all leases, as well as additional disclosures regarding leasing arrangements. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements,* which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented, or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted. The University adopted Topic 842 on July 1, 2019 (the effective date). Prior period amounts have not been adjusted in connection with the adoption of this standard. Additional information on the adoption, including qualitative and quantitative disclosures, is included in Note 10, Leases.

The FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments (Topic 230)* in August 2016, and ASU 2016-18, *Restricted Cash (Topic 230)* in November 2016. ASU 2016-15 includes guidance on the presentation of eight specific cash flow areas in an effort to reduce diversity in practice regarding how certain transactions are classified within the statement of cash flows. The University implemented ASU 2016-15 on July 1, 2019, and the adoption of this standard did not have a material impact to the University's Consolidated Statements of Cash Flows. ASU 2016-18 addresses the presentation, disclosure, and cash flow classification of restricted cash and requires that the statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities also would be required to reconcile these amounts on the balance sheet to the statement of cash flows and disclose the nature of the restrictions. The guidance is effective for the University for fiscal years beginning after December 15, 2018. The University implemented ASU 2016-18 on July 1, 2019 on a retrospective basis and included all applicable cash balances within the Consolidated Statements of Cash Flows.

In August 2018, the FASB issued Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permissible. This ASU removes certain disclosures, modifies certain disclosures, and adds additional disclosures related to fair value measurement. The University is evaluating the impact of the new standard on the University consolidated financial statements.

In March 2019, the FASB issued ASU 2019-03, *Updating the Definitions of Collections, Not-for-Profit Entities (Topic 958)*. This ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permissible. This ASU modifies the term "Collections," which in turn may change collection recognition policies, and also adds certain disclosure requirements. The University is evaluating the impact of the new standard on the University consolidated financial statements.

3. INVESTMENTS

Managed Investments

All managed investments are reported at fair value. The fair value of marketable equity, debt, and certain derivative securities (which include both domestic and foreign issues) generally is based upon a combination of published current market prices and exchange rates. The fair value of restricted securities and other investments for which published market prices are not available is based on estimated values using discounted cash flow analysis and other industry standard methodologies. Where applicable, independent appraisers and engineers assist in the valuation. The fair value of limited partnerships and similar investment vehicles is based on the net asset value of such investments and generally is estimated by external investment managers, including general partners or valuation committees. These valuations necessarily involve assumptions and methods that are reviewed, evaluated, and adjusted, if necessary, by the University. Changes in assumptions could have a significant effect on the fair values of these investments. Actual results could differ from these estimates and could have a material impact on the consolidated financial statements. These investments generally are less liquid than other investments, and the values reported may differ from the values that would have been reported had a ready market for these securities existed. Securities transactions are reported on a trade-date basis. Realized gains and losses are calculated using the specific identification cost method.

A summary of managed investments by asset category at fair value at June 30, 2020 and 2019 is presented below. The managed investment categories are presented on a "manager-mandate" basis, that is, all of the assets and market value of the underlying funds and accounts are included in the asset class that is the primary focus of the fund or account. (Many funds and accounts have contractual flexibility to invest across more than one asset class.)

(dollars in millions)	2020	2019
Managed investments:		
Developed markets	$ 2,934.2	$ 2,501.5
Emerging markets	2,454.3	2,500.1
Independent return	6,491.1	6,567.1
Private equity	10,048.6	9,459.3
Real assets	3,188.7	3,672.1
Fixed income	753.4	896.3
Cash and other	380.6	215.6
Gross managed investments[1]	**$ 26,250.9**	**$ 25,812.0**
Receivables (liabilities) associated with investments — net	0.1	8.4
Noncontrolling interests	(188.4)	(196.8)
Net managed investments	$ 26,062.6	$ 25,623.6

[1]Includes derivative financial instruments at fair value

The Princeton University Investment Company (PRINCO) manages investments for a foundation that the University controls, the Stanley J. Seeger Hellenic Fund, and deposits held in custody for others. The investment balances managed by PRINCO for these entities as of June 30, included in the University's consolidated financial statements, are as follows:

(dollars in millions)	2020	2019
Princeton University	$ 25,896.0	$ 25,455.2
Stanley J. Seeger Hellenic Fund	50.0	49.0
Deposits held in custody for others	116.6	119.4
Net managed investments	**$ 26,062.6**	**$ 25,623.6**

The composition of net investment return from managed and other investments for the years ended June 30 was as follows:

(dollars in millions)	2020	2019
Net realized and unrealized gains	$ 1,201.5	$ 1,324.7
Interest, dividends, and other income	184.6	193.1
Total	**$ 1,386.1**	**$ 1,517.8**

Princeton University investments, together with the Stanley J. Seeger Hellenic Fund and deposits held in custody for others, are invested in a single unitized pool. The market value of each unit was $12,233.00 and $12,233.51 at June 30, 2020 and 2019, respectively. The average value of a unit during the years ending June 30, 2020 and 2019 was $12,069.03 and $11,921.94, respectively.

Notes to Consolidated Financial Statements

Princeton University

Years ended June 30, 2020 and 2019

The average invested market balance in the unitized pool during the years ending June 30, 2020 and 2019 was $25.381 billion and $24.887 billion, respectively.

The University follows a spending rule for its unitized investments, including funds functioning as endowment, that provides for regular increases in spending while preserving the long-term purchasing power of the endowment. Earnings available for spending are shown in operating revenue, and the balance is shown as nonoperating revenue. Amounts distributed per unit under that rule were $676.42 and $650.40 for fiscal years 2020 and 2019, respectively.

The University invests in various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Derivative Financial Instruments

As part of its investment strategy, the University enters into transactions utilizing a variety of financial instruments and strategies, including futures, swaps, options, short sales, and forward foreign currency contracts. These financial instruments and strategies allow the University to fine-tune the asset allocation of the investment portfolio. In the case of forward currency exchange contracts, options, and swap contracts, these instruments are traded through securities and commodities exchanges. These financial instruments are executed with creditworthy banks and brokerage firms, are subject to an enforceable master netting arrangement or similar agreement, and are presented at fair value on a net basis on the Consolidated Statements of Financial Position.

Investment-related derivative exposures at June 30 are as follows:

2020 *(dollars in millions)*	Long Notional[1]	Short Notional[1]	Net Derivative Assets (Liabilities)	Gains (Losses)[2]
Index futures	-	$ (993.7)	$ (12.9)	$ (92.3)
Equity swaps	$ 207.2	(399.9)	9.5	(28.6)
Forward contracts	-	-	-	-
Total	$ 207.2	$ (1,393.6)	$ (3.4)	$ (120.9)

2019 *(dollars in millions)*	Long Notional[1]	Short Notional[1]	Net Derivative Assets (Liabilities)	Gains (Losses)[2]
Index futures	-	$ (366.3)	$ (6.0)	$ (38.3)
Equity swaps	$ 170.9	(23.7)	8.5	36.1
Forward contracts	-	-	-	(11.9)
Total	$ 170.9	$ (390.0)	$ 2.5	$ (14.1)

[1] Notional amounts are representative of the volume and activity of each derivative type during the years ended June 30, 2020 and 2019

[2] Gains and losses on derivatives are recorded under "Net realized and unrealized appreciation on investments" in the Consolidated Statements of Activities

Notes to Consolidated Financial Statements

Princeton University

Years ended June 30, 2020 and 2019

Investment-related derivative assets, liabilities, and collateral by counterparty at June 30 are as follows:

2020 *(dollars in millions)*	# of Contracts	Fair Value Gross Derivative Assets	Fair Value Gross Derivative Liabilities	Collateral (Held) Pledged	Net
Counterparty A	1	-	$ (12.9)	$ 77.2	$ 64.3
Counterparty B	6	$ 11.7	(4.5)	-	7.2
Counterparty C	1	2.3	-	(3.8)	(1.5)
Total	8	$ 14.0	$ (17.4)	$ 73.4	$ 70.0

2019 *(dollars in millions)*	# of Contracts	Fair Value Gross Derivative Assets	Fair Value Gross Derivative Liabilities	Collateral (Held) Pledged	Net
Counterparty A	1	-	$ (6.0)	$ 21.9	$ 15.9
Counterparty B	3	$ 9.9	-	-	9.9
Counterparty C	1	-	(1.5)	-	(1.5)
Total	5	$ 9.9	$ (7.5)	$ 21.9	$ 24.3

Funds Held in Trust by Others

The University is the income beneficiary of various trusts that are held and controlled by independent trustees. In addition, the University is the income beneficiary of entities that qualify as supporting organizations under Section 509(a)(3) of the U.S. Internal Revenue Code. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the University is notified of its existence. Funds held in trust by others, stated at fair value, amounted to $112.1 million in 2020 and $115.0 million in 2019.

Other Investments

Other investments include working capital (consisting primarily of U.S. Treasury bonds), a small number of funds that must be separately invested due to donor or legal restrictions, planned giving investments, proceeds from debt, and local real estate holdings expected to be liquidated strategically over several years. A summary of other investments at fair value at June 30, 2020 and 2019 is as follows:

(dollars in millions)	2020	2019
Working capital	$ 511.5	$ 658.4
Planned giving investments	161.4	175.9
Proceeds from debt	483.8	66.5
Strategic real estate investments	32.7	32.7
Other	70.9	66.7
Total	$ 1,260.3	$ 1,000.2

4. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Fair value should be based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. Fair value measurements assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid). The University applies fair value measurements to certain assets and liabilities, including the University's managed investments, other investments, and funds held in trust by others, in accordance with the requirements described above.

The University maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information from external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available, or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flow and other income valuation approaches.

The University utilizes the following fair value hierarchy, which prioritizes, into three broad levels, the inputs to valuation techniques used to measure fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that the University has the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly traded range of equity and debt securities.

Level 2: Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means.

Level 3: Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 primarily consist of limited partnership interests and other similar investment vehicles.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. Fair value measurements are categorized as Level 3 when a significant proportion of price or other inputs that are considered to be unobservable are used in their valuations.

Investments in investee funds that are valued using the net asset value (NAV) of the underlying investee fund as a practical expedient have been excluded from the fair value hierarchy and are shown as a separate column in the fair value leveling table. Where the University has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) using the practical expedient, such investments have been excluded from the fair value hierarchy. Certain of these investments may be subject to modest holdback provisions to cover audit and other potential expenses or adjustments in the event of a complete withdrawal.

The University has various processes and controls in place to ensure investment fair value is reasonable and performs due diligence procedures on its investments, including an assessment of applicable accounting policies, a review of the valuation procedures employed, and consideration of redemption features and price transparency. The University holds direct real estate investments categorized as Level 3. Valuation for material directly held real estate investments is determined from periodic valuations prepared by independent appraisers or broker opinions.

The following tables present the University's assets that are measured at fair value for each hierarchy level, at June 30, 2020 and 2019:

2020 *(dollars in millions)*	Total	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient
Assets at fair value					
Managed investments (gross):					
Developed markets	$ 2,934.2	$ 22.5	$ 2.2	$ 0.9	$ 2,908.6
Emerging markets	2,454.3	504.2	-	-	1,950.1
Independent return	6,491.1	-	-	1.0	6,490.1
Private equity	10,048.6	(3.2)	5.8	135.7	9,910.3
Real assets	3,188.7	303.1	7.2	3.4	2,875.0
Fixed income	753.4	448.5	-	-	304.9
Cash and other	380.6	386.3	(5.7)	-	-
Total managed investments (gross)	**26,250.9**	**1,661.4**	**9.5**	**141.0**	**24,439.0**
Funds held in trust by others	112.1	-	-	112.1	-
Other investments	1,260.3	1,066.0	-	194.3	-
Total	**$ 27,623.3**	**$ 2,727.4**	**$ 9.5**	**$ 447.4**	**$ 24,439.0**

2019 *(dollars in millions)*	Total	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient
Assets at fair value					
Managed investments (gross):					
Developed markets	$ 2,501.5	$ (6.0)	-	$ 1.0	$ 2,506.5
Emerging markets	2,500.1	710.2	-	-	1,789.9
Independent return	6,567.1	-	-	1.1	6,566.0
Private equity	9,459.3	-	$ (1.4)	138.6	9,322.1
Real assets	3,672.1	318.6	9.9	3.9	3,339.7
Fixed income	896.3	896.3	-	-	-
Cash and other	215.6	217.7	(2.1)	-	-
Total managed investments (gross)	**25,812.0**	**2,136.8**	**6.4**	**144.6**	**23,524.2**
Funds held in trust by others	115.0	-	-	115.0	-
Other investments	1,000.2	792.0	-	208.2	-
Total	**$ 26,927.2**	**$ 2,928.8**	**$ 6.4**	**$ 467.8**	**$ 23,524.2**

Assets and liabilities of a majority-owned and -controlled investment fund have been consolidated for reporting purposes at June 30, 2020 and 2019. Gross managed investments include consolidated investment fund assets of $1,327.1 million and $1,087.3 million at June 30, 2020 and 2019, respectively, and liabilities associated with investments include consolidated investment fund liabilities of $0.0 million and $10.2 million at June 30, 2020 and 2019, respectively. The portion of consolidated net assets not owned by the University is reported as a noncontrolling interest.

Notes to Consolidated Financial Statements

Princeton University

Years ended June 30, 2020 and 2019

The following tables present the net change in the assets measured at fair value on a recurring basis and included in the Level 3 fair value category for the years ended June 30, 2020 and 2019:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
(dollars in millions)	June 30, 2019	Total gains or losses included in changes in net assets	Purchases	Sales and settlements	Transfers into Level 3	Transfers out of Level 3	June 30, 2020
Assets at fair value							
Managed investments (gross):							
Developed markets	$ 1.0	$ (0.1)	-	-	-	-	$ 0.9
Emerging markets	-	-	-	-	-	-	-
Independent return	1.1	0.6	-	$ (0.7)	-	-	1.0
Private equity	138.6	(29.3)	$ 5.0	(40.5)	$ 61.9	-	135.7
Real assets	3.9	(0.3)	-	(0.2)	-	-	3.4
Total managed investments (gross)	**144.6**	**(29.1)**	**5.0**	**(41.4)**	**61.9**	-	**141.0**
Funds held in trust by others	115.0	(2.9)	-	-	-	-	112.1
Other investments	208.2	(15.2)	7.0	(5.7)	-	-	194.3
Total Level 3 investments	**$ 467.8**	**$ (47.2)**	**$ 12.0**	**$ (47.1)**	**$ 61.9**	-	**$ 447.4**

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
(dollars in millions)	June 30, 2018	Total gains or losses included in changes in net assets	Purchases	Sales and settlements	Transfers into Level 3	Transfers out of Level 3	June 30, 2019
Assets at fair value							
Managed investments (gross):							
Developed markets	$ 0.9	$ 0.1	-	-	-	-	$ 1.0
Emerging markets	-	-	-	-	-	-	-
Independent return	3.1	(1.2)	-	$ (0.8)	-	-	1.1
Private equity	199.9	(31.7)	$ 4.6	(18.7)	-	$ (15.5)	138.6
Real assets	4.1	0.1	-	(0.3)	-	-	3.9
Total managed investments (gross)	**208.0**	**(32.7)**	**4.6**	**(19.8)**	-	**(15.5)**	**144.6**
Funds held in trust by others	113.1	1.9	-	-	-	-	115.0
Other investments	206.3	(3.7)	12.1	(6.5)	-	-	208.2
Total Level 3 investments	**$ 527.4**	**$ (34.5)**	**$ 16.7**	**$ (26.3)**	-	$ (15.5)	**$ 467.8**

The University assesses the valuation hierarchy for each asset or liability measured on an annual basis. From time to time, assets or liabilities will be transferred within hierarchy levels as a result of changes in valuation methodologies, liquidity, and/or redemption terms. One transfer out of NAV assets to Level 3 and one transfer out of Level 3 to Level 2 occurred in the year ended June 30, 2020. The University's policy is to recognize transfers at the beginning of the reporting period.

Realized gains of $4.5 million and losses of $36.0 million related to Level 3 investments and unrealized losses of $48.7 million and $0.3 million related to Level 3 investments are included in net realized and unrealized appreciation on investments in the Consolidated Statements of Activities for the years ended June 30, 2020 and 2019, respectively.

The following tables and disclosures set forth the significant terms of the agreements with investment managers or funds by major category at June 30, 2020 and 2019. The information is presented on a "manager-mandate" basis.

2020 *(dollars in millions)*	June 30 Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Managed investments (gross)				
Developed markets (a)	$ 2,934.2	$ 142.0	daily—annually	10–120 days
Emerging markets (b)	2,454.3	2.2	daily—annually	7–90 days
Independent return (c)	6,491.1	455.9	monthly—annually	60–90 days
Fixed income and cash (d)	1,134.0	-	daily—monthly	1–7 days
Marketable asset classes	**$ 13,013.6**	**$ 600.1**		
Private equity (e)	10,048.6	2,577.8		
Real assets (f)	3,188.7	1,641.8		
Nonmarketable asset classes	**$ 13,237.3**	**$ 4,219.6**		
Total gross managed investments	**$ 26,250.9**	**$ 4,819.7**		

2019 *(dollars in millions)*	June 30 Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Managed investments (gross)				
Developed markets (a)	$ 2,501.5	$ 75.0	daily—annually	7–90 days
Emerging markets (b)	2,500.1	86.7	daily—annually	7–90 days
Independent return (c)	6,567.1	678.4	monthly—annually	30–90 days
Fixed income and cash (d)	1,111.9	-	daily	1 day
Marketable asset classes	**$ 12,680.6**	**$ 840.1**		
Private equity (e)	9,459.3	2,562.7		
Real assets (f)	3,672.1	1,841.0		
Nonmarketable asset classes	**$ 13,131.4**	**$ 4,403.7**		
Total gross managed investments	**$ 25,812.0**	**$ 5,243.8**		

(a) Developed Markets: This asset class includes funds and accounts primarily invested in equities traded on domestic exchanges, over-the-counter markets, or equity and debt securities traded on exchanges in countries with developed economies. The fair values of the investments in this asset class have been estimated using the net asset value per share of the investee funds. Investments representing approximately 5 percent of the market value of this asset class are in nonredeemable assets.

(b) Emerging Markets: This asset class includes funds primarily invested in public equity and debt securities traded in countries with emerging economies. The fair values of the investments in this asset class have been estimated using the net asset value per share of the investee funds or, in the case of custodied accounts, the fair value of the securities held, at prevailing exchange rates. Investments representing approximately 21 percent of the market value of this asset class are invested in nonredeemable assets.

(c) Independent Return: This asset class includes funds invested in equity and debt securities and financial instruments such as options, swaps, futures, and other derivatives. Funds in this asset class may hold both long and short positions in any of these instruments and pursue a variety of investment strategies such as long/short equity investments and event-driven/arbitrage based upon the fund's investment mandate and the current opportunity set. Investments representing approximately 22 percent of the market value of this asset class are invested in nonredeemable assets.

(d) Fixed Income and Cash: On a combined basis, these asset classes primarily include U.S. government and U.S. government–guaranteed securities held in separate accounts at the custodial bank. The majority of the investments in these asset classes can be liquidated on a daily basis.

(e) Private Equity: This asset class includes funds primarily invested in buyouts or venture capital. The fair values of the investments in this asset class generally have been estimated using partners' capital statements issued by the funds, which reflect the University's ownership interest. Generally, investments in this asset class are not redeemable. Distributions from investee funds in the portfolio are received as the underlying investments of the funds are liquidated.

(f) Real Assets: This asset class includes funds primarily invested in real estate and natural resources. The fair values of the investments in this asset class have been estimated using partners' capital statements issued by the funds, which reflect the University's ownership interest. Generally, investments in this asset class are not redeemable. However, a small portion, $469.1 million at June 30, 2020, and $493.3 million at June 30, 2019, was invested in redeemable funds. More broadly, distributions from investee funds are received as the underlying investments of the funds are liquidated.

Investments in the marketable asset classes generally are redeemable, made in entities that allow the University to request withdrawals in specified circumstances. However, approximately $2.0 billion of the marketable asset classes are invested in "nonredeemable assets," which are not eligible for redemption by the University. Nonredeemable assets are specific investments within a fund designated by the fund manager as ineligible for withdrawal. Due to the illiquid nature of nonredeemable assets, it is impossible for the University to predict when these assets will liquidate and the proceeds be distributed to investors.

In addition to nonredeemable assets, the University may be limited in its ability to effect a withdrawal if a fund manager invokes a "gate" provision restricting redemptions from its fund. Gates generally are triggered when aggregate fund withdrawal requests exceed a contractually predetermined threshold. No withdrawal requests were impacted by a gate in the year ended June 30, 2020.

The University is obligated under certain agreements to fund capital calls periodically up to specified commitment amounts. Such commitments generally are called over periods of up to 10 years and contain fixed expiration dates or other termination clauses.

5. ENDOWMENT

The University's endowment consists of approximately 4,800 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the University to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the University to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ASC 958, *Not-for-Profit Entities,* provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was enacted in the state of New Jersey in June 2009.

Interpretation of relevant law — The University interprets the UPMIFA as requiring the preservation of the fair value at the original gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Also classified as net assets with donor restrictions is accumulated appreciation on donor-restricted endowment funds until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the University and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the University
(7) The investment policies of the University

Endowment net asset composition by type of fund as of June 30, 2020 and 2019 was:

2020 *(dollars in thousands)*	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds:			
Restricted in perpetuity	-	$ 2,128,592	$ 2,128,592
Appreciation	-	12,837,086	12,837,086
Board-designated endowment funds	$ 10,978,605	-	10,978,605
Total	**$ 10,978,605**	**$ 14,965,678**	**$ 25,944,283**

2019 *(dollars in thousands)*	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds:			
Restricted in perpetuity	-	$ 2,051,038	$ 2,051,038
Appreciation	-	12,817,590	12,817,590
Board-designated endowment funds	$ 10,631,017	-	10,631,017
Total	**$ 10,631,017**	**$ 14,868,628**	**$ 25,499,645**

Changes in endowment net assets for the years ended June 30, 2020 and 2019 were:

2020 *(dollars in thousands)*	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	$ 10,631,017	$ 14,868,628	$ 25,499,645
Net investment return	634,558	793,897	1,428,455
Contributions	113	85,234	85,347
Appropriation of endowment assets for expenditure	(622,500)	(793,580)	(1,416,080)
Reclassifications, transfers, and board designations	335,417	11,499	346,916
Endowment net assets, end of year	**$ 10,978,605**	**$ 14,965,678**	**$ 25,944,283**

2019 *(dollars in thousands)*	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	$ 10,621,362	$ 14,694,860	$ 25,316,222
Net investment return	636,689	813,899	1,450,588
Contributions	8,208	95,170	103,378
Appropriation of endowment assets for expenditure	(593,514)	(757,818)	(1,351,332)
Reclassifications, transfers, and board designations	(41,728)	22,517	(19,211)
Endowment net assets, end of year	**$ 10,631,017**	**$ 14,868,628**	**$ 25,499,645**

Funds with deficiencies — From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in restricted net assets were $0.07 million at June 30, 2020. The aggregate fair value of these funds was $14.4 million, and the aggregate of the original gift amounts was $14.5 million. There were no funds with deficiencies at June 30, 2019. Deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions while continued appropriations are deemed prudent by the Board of Trustees.

In accordance with the terms of donor gift instruments, the University is permitted to reduce the balance of restricted endowments below the original amount of the gift. Subsequent investment gains then are used to restore the balance up to the fair market value of the original amount of the gift. Both fund deficiencies and subsequent gains above that amount are recorded in net assets with donor restrictions.

Return objectives and risk parameters — The University has adopted investment and spending policies for endowment assets that attempt to support the University's current and future operating needs while preserving intergenerational equity. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for donor-specified periods as well as University-designated funds. Under these policies, the endowment assets are invested in a manner intended to produce returns that exceed both the annual rate of spending and University inflation.

Strategies employed for achieving objectives — The vast majority of the endowment assets are actively managed by PRINCO, which is structured as a University office but maintains its own Board of Directors, and operates under the final authority of the University's Board of Trustees (the "Trustees").

In pursuit of the investment return objectives, PRINCO maintains an equity-biased portfolio and seeks to partner with best-in-class investment management firms across diverse asset categories.

Spending policy and how the investment objectives relate to spending policy — Each year, the Trustees decide upon an amount to be spent from the endowment for the following fiscal year. In their deliberations, the Trustees use a spending framework designed to enable sizable amounts to be spent in a reasonably stable fashion, while allowing for reinvestment sufficient to preserve purchasing power in perpetuity. The framework targets annual spending rates of between 4.0 percent and 6.25 percent.

The endowment must seek investment returns sufficient to meet spending policy targets as well as to maintain future purchasing power without deterioration of corpus resulting from University inflation.

6. LIQUIDITY AND AVAILABILITY OF RESOURCES

The University's financial assets and resources available to meet cash needs for general expenditures within one year of the date of the Consolidated Statement of Financial Position were as follows:

(dollars in thousands)	2020	2019
Financial assets:		
Cash	$ 105,648	$ 22,633
Accounts receivable	99,290	75,474
Educational and mortgage receivable	15,996	16,183
Contributions receivable	116,935	95,578
Working capital	511,451	658,427
Investments: appropriated for spending in the following year	1,423,000	1,412,000
Total financial assets available within one year	**$ 2,272,320**	**$ 2,280,295**
Liquidity resources:		
Taxable debt and commercial paper (unexpended)	741,859	291,512
Bank lines of credit (undrawn)	292,300	290,500
Total financial assets and resources available within one year	**$ 3,306,479**	**$ 2,862,307**

As part of the University's liquidity management strategy, the University structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term working capital investments. Cash withdrawals from the managed investment pool normally coincide with the endowment spending distribution, but may be adjusted higher or lower based on the timing of gift receipts, capital calls, income and capital distributions, operating expenses, and other factors affecting available cash. Endowment funds appropriated for spending are distributed to University department and program budgets for spending, subject to donor restrictions where applicable; however, cash withdrawals from the investment pool are available for general liquidity purposes. To help manage unanticipated liquidity needs, the University has committed bank lines of credit in the amount of $300 million, which it could draw upon, and a taxable commercial paper program authorized to a maximum level of $280 million. Subsequent to June 30, 2020, the lines of credit were increased to $500 million.

Additionally, the University has board-designated endowment funds of $11.0 billion and $10.6 billion as of June 30, 2020 and 2019, respectively. Although the University does not intend to spend from its board-designated endowment funds other than amounts appropriated for expenditure as part of its annual budget approval process, amounts from its board-designated endowment could be made available if necessary. However, both the board-designated and donor-restricted endowments contain investments with lock-up provisions that reduce the total investments that could be made available (see Note 4 for disclosures about investments).

7. EDUCATIONAL AND MORTGAGE LOANS

Educational loans include donor-restricted and federally sponsored educational loans that bear mandated interest rates and repayment terms and are subject to significant restrictions on their transfer and disposition. These loans totaled $53.2 million and $58.9 million at June 30, 2020 and 2019, respectively.

Through a program designed to attract and retain excellent faculty and senior staff, the University provides home acquisition and financing assistance on residential properties in the area surrounding the University. Notes receivable from faculty and staff and co-ownership interests in the properties are included in mortgage loans and are collateralized by mortgages on those properties. These loans and interests totaled $396.6 million and $388.1 million at June 30, 2020 and 2019, respectively.

Allowance for Doubtful Loans

Management assesses the adequacy of the allowance for doubtful loans by performing evaluations of the loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of borrowers, the economic environment, the level of delinquent loans, and the value of any collateral associated with the loans. In addition to general economic conditions and other factors described above, a detailed review of the aging of loans receivable is considered in management's assessment. The level of the allowance is adjusted according to the results of management's analysis.

Loans less than 120 days delinquent are deemed to have a minimal delay in payment and generally are not written off. Loans delinquent by 120 days or more are subject to standard collection practices, including litigation. Only loans that are deemed uncollectible are written off, and this occurs only after several unsuccessful collection attempts, including placement at an external collection agency. Considering the other factors discussed herein, management considers the allowance for doubtful loans at June 30, 2020 and 2019 to be prudent and reasonable.

Educational and mortgage loans receivable at June 30, 2020 and 2019 are reported net of allowances for doubtful loans of $0.3 million and $0.2 million respectively.

8. CONTRIBUTIONS RECEIVABLE

At June 30, 2020 and 2019, the University had received from donors unconditional pledges receivable in the following periods:

(dollars in thousands)	2020	2019
Less than one year	$ 116,935	$ 95,578
One to five years	198,428	205,206
More than five years	65,729	43,469
Total	**$ 381,092**	**$ 344,253**
Less unamortized discount	24,412	30,630
Less allowance for doubtful pledges	8,227	7,298
Total	**$ 348,453**	**$ 306,325**

The amounts pledged have been recorded after discounting the future cash flows to the present value (discount rates ranged from 0.72 percent to 6.18 percent). Current-year pledges are included in revenue as additions to net assets with donor restrictions and are included in contributions receivable at fair value based on observable ASC 820 Level 2 inputs.

In addition, at June 30, 2020, the University had received from donors pledges totaling $2.4 million, conditioned upon the raising of matching gifts from other sources and other criteria. These amounts will be recognized as income in the periods in which the conditions have been fulfilled.

9. PROPERTY

Land additions are reported at estimated market value at the date of gift, or on a cost basis. Buildings and improvements are stated at cost. Expenditures for operation and maintenance of physical plant are expensed as incurred.

Items classified as property at June 30, 2020 and 2019 consisted of the following:

(dollars in thousands)	2020	2019
Land	$ 113,867	$ 111,180
Buildings and improvements	4,976,605	4,868,553
Construction in progress	165,531	55,901
Equipment and systems	452,698	431,723
Rare books	130,909	124,993
Library books, periodicals, and bindings	322,703	311,315
Fine art objects	154,193	147,344
Total property	**$ 6,316,506**	**$ 6,051,009**
Accumulated depreciation	(2,049,484)	(1,894,113)
Total	**$ 4,267,022**	**$ 4,156,896**

Equipment, library books, periodicals, and bindings are stated at cost, net of accumulated depreciation. Equipment includes items purchased with federal government funds; an indeterminate portion of those items are expected to be transferred to the University at the termination of the respective grant or contract.

In addition to making purchases with University funds, the University, since its inception, has received a substantial number of fine art objects and rare books from individual gifts and bequests. Art objects and rare books acquired through June 30, 1973 are carried at insurable values at that date because it is not practicable to determine the historical cost or market value at the date of gift. Art objects and rare books acquired subsequent to June 30, 1973 are recorded at cost or fair value at the date of gift. Works of art, literary works, historical treasures, and artifacts that are part of a collection are protected, preserved, and held for public exhibition, education, and research in furtherance of public service. Collections are not capitalized, and contributed collection items are not recognized as revenues in the University's consolidated financial statements.

The University uses componentized depreciation for buildings and building improvements used for research. The costs of research facilities are separated into building shell, service system, and fixed equipment components that are separately depreciated.

Annual depreciation is calculated on the straight-line method over useful lives ranging from 10 to 50 years for buildings and improvements, 30 years for library books, and 5 to 25 years for equipment and systems. Art objects and rare books having cultural, aesthetic, or historical value are not depreciated.

10. LEASES

The University's leases are primarily real estate operating leases. Under the lease accounting standard adopted in the current year, a lease conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Leases result in the recognition on the consolidated statements of financial position of ROU assets, representing the right to use the underlying assets for the lease term, and lease liabilities, representing the obligation to make lease payments arising from the lease based on the present value of lease payments over the lease term. The University determines if an arrangement is a lease or contains a lease at inception of a contract.

As permitted under the transition guidance in Topic 842, the University elected a package of practical expedients which, among other provisions, allowed the University to carry forward historical lease classifications, and the practical expedient to account for non-lease components and the lease components to which they relate as a single lease component for all leases. The University also elected the hindsight practical expedient to determine the lease term for existing leases, which permits entities to consider available information prior to the effective date of the new guidance as to the actual or likely exercise of options to extend or terminate the lease. Certain real estate leases have renewal options, and the lease term includes options to extend the lease when it is reasonably certain that the University will exercise that option. Real estate lease agreements typically have initial terms of 5 to 15 years. The University does not include short-term leases within the consolidated statements of financial position since it has elected the practical expedient to exclude leases with an initial term of 12 months or less from operating right-of-use assets and lease liabilities.

At lease inception, operating lease assets and liabilities are recognized based on the present value of lease payments over the lease term. The University has elected to utilize a portfolio approach to implementation of existing operating leases and applied a single discount rate to all leases in each portfolio. For the initial and subsequent measurement of all lease liabilities, the discount rate is based on the rate implied within the lease or if not readily determinable the University has elected to apply a risk-free rate, using the applicable treasury yield as of implementation date.

Lease expense is recognized on a straight-line basis over the term of the lease. Operating lease expense was $15 million (including amortization related to ROU assets and lease liabilities) and $16 million, for the years ended June 30, 2020 and 2019, respectively.

At June 30, 2020, ROU assets recorded in Other assets were $44.8 million and lease liabilities recorded in Deposits, advance receipts, and accrued liabilities were $44.8 million.

The weighted average remaining lease term was 5 years for leases and the weighted average discount rate was 1.87% for operating leases at June 30, 2020.

Future maturities of lease liabilities at June 30, 2020 are as follows:

(dollars in thousands)	
2021	$ 10,708
2022	9,563
2023	9,032
2024	8,559
2025	4,544
Thereafter	4,327
Total minimum lease payments	46,733
Less: imputed interest	(1,954)
Total lease liabilities	**$ 44,779**

Future minimum lease payments at June 30, 2019, (prior to the adoption of Topic 842), were as follows:

(dollars in thousands)	
2020	$ 11,571
2021	10,339
2022	9,048
2023	8,506
2024	8,097
Thereafter	8,464
Total minimum lease payments	**$ 56,025**

11. INCOME AND EXCISE TAXES

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income. The University files U.S. federal and various state and local tax returns. The statute of limitations on the University's U.S. federal tax returns remains open for the years ended June 30, 2017 through the present.

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted. TCJA impacts the University in several ways, including imposing excise taxes on certain excess compensation and net investment income, and establishing new rules for calculating unrelated business taxable income. The University has reflected the tax assets, liabilities, and payables in the consolidated financial statements based on reasonable estimates under the currently available regulatory guidance on the TCJA. The University continues to evaluate the impact of the TCJA on current and future tax positions.

ASC 740, *Income Taxes,* prescribes the minimum recognition threshold that a tax position must meet in connection with accounting for uncertainties in income tax positions taken, or expected to be taken, by an entity before being measured and recognized in the consolidated financial statements. The University continues to evaluate its tax positions pursuant to the principles of ASC 740, and has determined that there is no material impact on the University's consolidated financial statements.

12. INDEBTEDNESS TO THIRD PARTIES

At June 30, 2020 and 2019, the University's debt consisted of taxable bonds, taxable notes, loans through the New Jersey Educational Facilities Authority (NJEFA), commercial paper, various parent loans, and notes as follows:

(dollars in thousands)	2020	2019
Taxable Revenue Bonds		
2009 Series A, 5.70%, due March 2039, net of unamortized		
discount of $1,043 and $1,098	$ 498,957	$ 498,902
2016 Series A, 1.85%, 2.61%, 3.63%, due July 2021, July 2026, July 2046	100,000	100,000
2017 Series A, 3.84%, due July 2048	150,000	150,000
2020 Series A, 2.52% due July 2050	500,000	-
Taxable Notes		
2012, 3.37%, due July 2042	170,000	170,000
2013, 4.73%, due July 2044	75,000	75,000
NJEFA Revenue Bonds		
2011 Series B, 4.09%, due July 2041, including unamortized premium of $11,452 and $11,997	221,402	227,843
2014 Series A, 3.77%, due July 2044, including unamortized premium of $15,404 and $16,045	201,413	205,076
2015 Series A, 2.32%, due July 2035, including unamortized premium of $22,720 and $24,235	120,025	141,935
2015 Series D, 3.40%, due July 2045, including unamortized premium of $16,494 and $17,154	157,904	161,569
2016 Series A, 2.53%, due July 2035, including unamortized premium of $17,483 and $18,648	119,008	124,258
2016 Series B, 1.77%, due July 2027, including unamortized premium of $18,351 and $20,972	123,621	130,987
2017 Series B, 2.91%, due July 2036, including unamortized premium of $45,204 and $48,029	321,839	355,734
2017 Series C, 3.50%, due July 2047, including unamortized premium of $19,225 and $19,937	157,724	161,032
2017 Series I, 2.97%, due July 2040, including unamortized premium of $60,630 and $63,661	401,985	415,481
NJEFA Capital Improvement Fund Bonds		
2014 Series B, 3.67%, due September 2033, including unamortized premium of $156 and $167	2,609	2,739
2016 Series A, 2.53%, due September 2020	164	323
Commercial Paper		
Taxable, 0.25% and 2.31%, with maturities up to one year	22,000	55,500
Tax-Exempt, 0.25% and 1.44% with maturities up to one year	19,000	12,000
Parent Loans, 0.56% to 4.94% with maturities up to six years	42,657	46,505
Notes	37	206
Total Borrowings	**$ 3,405,345**	**$ 3,035,090**
Unamortized debt issuance costs	(8,827)	(7,904)
Total Borrowings Net of Unamortized Issuance Costs	**$ 3,396,518**	**$ 3,027,186**

The University is authorized by the Trustees to issue new debt up to $650 million annually. In June 2020, the University issued $500 million of 2020 Series A Taxable Bonds for general corporate purposes. The University intends to issue additional debt in the future.

The full faith and credit of the University is pledged in all loan agreements with the NJEFA. In fiscal year 1999, the University entered into a loan facility with a national bank to fund its parent loan program, which currently is authorized by the Trustees up to $100 million. Fixed or variable rates may be selected on a pass-through basis to the borrowers; terms may be as long as 14 years.

In fiscal year 1998, a commercial paper program was authorized as an initial step of financing to provide construction funds for approved capital projects. The commercial paper proceeds primarily are used to finance construction expenditures until permanent financing from gifts or other sources is made available. The University maintains a taxable and tax-exempt program, which is currently authorized to a maximum level of $400 million.

Principal payments for each of the next five years and thereafter on debt outstanding at June 30, 2020, excluding commercial paper, are as follows:

(dollars in thousands)	**Principal Payments**
2021	$ 123,527
2022	87,666
2023	80,571
2024	79,980
2025	81,923
Thereafter	2,684,604
Subtotal	**3,138,271**
Unamortized premium	226,074
Net long-term debt	**$ 3,364,345**

The University has committed bank lines of credit totaling $300 million, under which the University may borrow on an unsecured basis at agreed-upon rates. Subsequent to June 30, 2020, the lines of credit were increased to $500 million. There were $7.7 million and $9.5 million in letters of credit outstanding under these credit facilities at June 30, 2020 and 2019, respectively.

13. EMPLOYEE BENEFIT PLANS

All faculty and staff who meet specific employment requirements participate in a defined contribution plan, which invests in the Teachers Insurance and Annuity Association and College Retirement Equities Fund, Vanguard Fiduciary Trust Funds, and other funds. The University's contributions were $67.6 million and $59.9 million for the years ended June 30, 2020 and 2019, respectively. The University also provides deferred compensation arrangements for certain officers, faculty, and staff. Accrued benefits of $642.0 million and $501.4 million for the years ended June 30, 2020 and 2019, respectively, include the Accumulated postretirement benefit obligation and deferred compensation.

Postretirement Benefits Other Than Pensions

ASC 715, *Compensation — Retirement Benefits*, requires the recognition of a defined benefit postretirement plan's funded status as either an asset or a liability on the Consolidated Statement of Financial Position. Actuarial gains or losses and prior service costs or credits that arise during the period must be recognized as a component of net assets without donor restrictions. The University calculates its Accumulated Postretirement Benefit Obligation (APBO) in accordance with ASC 715, which initially was elected in 1993 and amortized over 20 years. The University continues to recognize the cost of providing postretirement benefits for employees over the service period until their full retirement eligibility under the plan.

The University provides single-coverage health insurance to its retirees who meet certain eligibility requirements. Participants may purchase additional dependent or premium coverage. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with the University's expressed intent to increase retiree contributions in line with medical costs.

Notes to Consolidated Financial Statements

Princeton University

Years ended June 30, 2020 and 2019

The benefit costs for the years ended June 30, 2020 and 2019 consisted of the following:

(dollars in thousands)	2020	2019
Service cost	$ 24,741	$ 17,116
Interest cost	15,378	14,166
(Gain)/loss amortization	(352)	(7,709)
Total	**$ 39,767**	**$ 23,573**

The APBO at June 30, 2020 and 2019 consisted of actuarially determined obligations to the following categories of employees:

(dollars in thousands)	2020	2019
Retirees	$ 162,734	$ 136,152
Active employees eligible to retire	147,942	113,833
Other active participants	267,728	193,810
Total	**$ 578,404**	**$ 443,795**

As of June 30, 2020 and 2019, the APBO was unfunded.

The assumptions used to calculate the APBO at June 30, 2020 and 2019 were as follows:

	2020	2019
Discount rate	2.75%	3.50%
Healthcare cost trend rate	5.75%	6.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year the rate reaches the ultimate trend rate	2027	2027
Prescription drug cost trend rate	7.25%	7.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year the rate reaches the ultimate trend rate	2027	2027

A one-percentage-point change in assumed health care trend rates would have the following effects on postretirement benefits:

(dollars in thousands)	1-Percentage point increase	1-Percentage point decrease
Effect on APBO	$ 142,220	$ (106,985)
Effect on total of service and interest cost	9,652	(7,042)

The table below reflects expected postretirement plan benefit payments over the next 10 years. These amounts reflect the total benefits expected to be paid from the plan, net of the participants' share of the cost and federal subsidies. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee benefit service.

(dollars in thousands)	
2021	$ 9,761
2022	10,648
2023	11,591
2024	12,129
2025	13,147
2026 – 2030	80,655

The University provides Medicare retiree drug coverage through an employer group waiver plan (EGWP). Under EGWP, the cost of drug coverage is offset through direct federal subsidies, brand-name drug discounts, and reinsurance reimbursements. The net effect of these subsidies has been recognized in the calculation of the University's postretirement benefit obligation as of June 30, 2020 and 2019.

14. NET ASSETS

Net assets are categorized as without donor restrictions and with donor restrictions. Net assets without donor restrictions are derived from gifts and other institutional resources that are not subject to explicit donor-imposed restrictions. This category also includes income and gains on these funds. Included in the total is the net investment in plant and equipment. Certain net assets classified as without donor restrictions for external reporting purposes are board-designated for specific purposes or uses under the internal operating budget practices of the University. Net assets with donor restrictions generally are established by donors in support of schools or departments of the University, often for specific purposes such as professorships, research, faculty support, scholarships and fellowships, athletics, the library, the art museum, building construction, and other specific purposes. This category includes gifts, pledges, trusts and remainder interests, and income and gains that can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions and time restrictions imposed by donors or implied by the nature of the gift, or by the interpretations of law. Donor restrictions normally are released upon the passage of time or the incurrence of expenditures that fulfill the donor-specified purpose. Certain donor restrictions are perpetual in nature and may include gifts, pledges, trusts and remainder interests, and income and gains that are required to be permanently retained.

The composition of net assets by restriction and purpose at June 30, 2020 and 2019 was as follows:

2020 **Net Assets** *(dollars in millions)*	**Without Donor Restrictions**	**With Donor Restrictions**	**Total Net Assets**
Endowment:			
Teaching and research	$ 1,278	$ 5,573	$ 6,851
Student financial aid	595	4,079	4,674
Department programs and support	2,731	3,643	6,374
Designated for operations	3,783	1,671	5,454
Designated for capital	2,592	-	2,592
Other:			
Pledges	-	348	348
Capital, unallocated gifts, and grants	-	359	359
Annuities and trusts	-	193	193
Net investment in plant	1,896	-	1,896
Operating	(473)	-	(473)
Noncontrolling interests	188	-	188
Total	**$ 12,590**	**$ 15,866**	**$ 28,456**

2019 **Net Assets** *(dollars in millions)*	**Without Donor Restrictions**	**With Donor Restrictions**	**Total Net Assets**
Endowment:			
Teaching and research	$ 1,278	$ 5,552	$ 6,830
Student financial aid	595	4,053	4,648
Department programs and support	2,717	3,596	6,313
Designated for operations	3,445	1,668	5,113
Designated for capital	2,592	-	2,592
Other:			
Pledges	-	306	306
Capital, unallocated gifts, and grants	-	281	281
Annuities and trusts	-	200	200
Net investment in plant	1,742	-	1,742
Operating	(149)	-	(149)
Noncontrolling interests	197	-	197
Total	**$ 12,417**	**$ 15,656**	**$ 28,073**

15. EXPENSES BY FUNCTIONAL AND NATURAL CLASSIFICATION

Expenses are presented by functional classification in alignment with the overall mission of the University. The University's primary service mission is academic instruction and research, which includes direct supporting functions such as the University's library system and art museum. Student services and support include various student-supporting functions such as admission, health, career, and athletics, as well as auxiliary enterprises and related student aid. The Princeton Plasma Physics Laboratory, which is operated by the University on behalf of the U.S. Department of Energy, is classified as an independent operation.

Natural expenses attributable to more than one functional expense category are allocated using reasonable cost allocation techniques. Depreciation, plant operations, and maintenance expenses are allocated on a square footage basis. Interest expense on indebtedness is allocated to the functional categories that have benefited from the associated debt.

Notes to Consolidated Financial Statements

Princeton University

Years ended June 30, 2020 and 2019

Expenses by functional and natural classification for the years ended June 30, 2020 and 2019 were as follows:

2020

Natural Classification *(dollars in thousands)*	Academic & Research	Student Services & Support	General Admin & Operations	Independent Operations	Total
Salaries and wages	$ 490,647	$ 66,118	$ 183,723	$ 60,953	$ 801,441
Employee benefits	158,864	19,474	28,498	19,358	226,194
Supplies, services, and other	171,187	70,012	38,446	45,405	325,050
Space and occupancy	4,934	4,408	57,003	2,962	69,307
Student stipends and prizes	-	70,084	-	-	70,084
Allocations:					
Depreciation	142,974	35,592	10,250	74	188,890
Interest	66,997	16,379	31,883	-	115,259
Operations and maintenance	84,831	33,457	(118,288)	-	-
Total operating expenses	**1,120,434**	**315,524**	**231,515**	**128,752**	**1,796,225**
Net periodic benefit cost other than service cost	9,943	1,381	2,426	1,275	15,025
Total expenses	**$ 1,130,377**	**$ 316,905**	**$ 233,941**	**$ 130,027**	**$ 1,811,250**

2019

Natural Classification *(dollars in thousands)*	Academic & Research	Student Services & Support	General Admin & Operations	Independent Operations	Total
Salaries and wages	$ 462,423	$ 63,775	$ 175,620	$ 52,712	$ 754,530
Employee benefits	153,519	19,232	23,171	17,204	213,126
Supplies, services, and other	183,833	70,172	34,554	34,961	323,520
Space and occupancy	4,976	5,011	60,338	4,485	74,810
Student stipends and prizes	-	71,651	-	-	71,651
Allocations:					
Depreciation	135,255	33,069	9,538	70	177,932
Interest	67,639	16,536	40,957	-	125,132
Operations and maintenance	95,267	37,393	(132,660)	-	-
Total operating expenses	**1,102,912**	**316,839**	**211,518**	**109,432**	**1,740,701**
Net periodic benefit cost other than service cost	4,357	630	1,116	354	6,457
Total expenses	**$ 1,107,269**	**$ 317,469**	**$ 212,634**	**$ 109,786**	**$ 1,747,158**

Student Financial Aid

The University provides financial aid to undergraduate students in the form of scholarship grants designed to meet 100 percent of demonstrated financial need. All Ph.D. and many Master's degree candidates in the Graduate School receive financial support for the duration of their degree program in the form of fellowships, assistantships in research or teaching, and non-University awards. Graduate student support covers the full cost of tuition and fees and a stipend that supports estimated living expenses. Students also may be awarded grants that support various academic or research activities. Undergraduate scholarships and graduate fellowships and assistantships are reported as discounts to tuition and fee revenues in the Consolidated Statements of Activities. Student stipends, awards, and prizes are reported as operating expenses. Student financial aid costs are funded by the University's endowment, Annual Giving, and other University resources.

Total student financial aid costs for the years ended June 30, 2020 and 2019 were as follows:

Student Financial Aid *(dollars in thousands)*	**2020**	**2019**
Scholarships and fellowships	$ 303,641	$ 284,644
Stipends and prizes	70,084	71,651
Total	**$ 373,725**	**$ 356,295**

16. COMMITMENTS AND CONTINGENCIES

At June 30, 2020, the University had authorized major renovation and capital construction projects for more than $2,602.2 million. Of the total, approximately $504.8 million had not yet been expended. The University has entered into certain agreements to guarantee the debt of others. Under these agreements, if the principal obligor defaults on the debt, the University may be required to satisfy all or part of the remaining obligation. The total amount of these guarantees was $18.5 million at June 30, 2020.

The University is subject to certain legal claims that have arisen in the normal course of operations. In the opinion of management, the ultimate outcome of these actions will not have a material effect on the University's financial position, consolidated statement of activities, or cash flows.

17. SUBSEQUENT EVENTS

The University has evaluated subsequent events through November 24, 2020, which is the date the consolidated financial statements were issued, and determined that there were no subsequent events requiring adjustment or disclosure in the consolidated financial statements.

18. CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

The following tables present the consolidating statements of financial position of all legal entities of the Trustees of Princeton University as of June 30, 2020 and 2019:

As of June 30, 2020 *(dollars in thousands)*	**Princeton University**	**Affiliates**	**Eliminations**	**Consolidated**
Assets				
Cash	$ 105,648	-	-	$ 105,648
Accounts receivable	157,125	-	-	157,125
Receivables associated with investments	20,232	-	-	20,232
Educational and mortgage loans receivable	449,759	-	-	449,759
Contributions receivable	348,453	-	-	348,453
Managed investments at market value	25,832,844	$ 418,088	-	26,250,932
Funds held in trust by others	112,091	12	$ (12)	112,091
Other investments	1,260,344	-	-	1,260,344
Property, net of accumulated depreciation	4,267,022	-	-	4,267,022
Other assets	58,610	-	-	58,610
Total assets	**32,612,128**	**418,100**	**(12)**	**33,030,216**
Liabilities				
Accounts payable	56,957	-	-	56,957
Liabilities associated with investments	20,136	-	-	20,136
Deposits, advance receipts, and accrued liabilities	241,186	-	-	241,186
Deposits held in custody for others	130,626	-	(12)	130,614
Liability under planned giving agreements	69,751	-	-	69,751
Liability for annuity contracts	16,504	-	-	16,504
Indebtedness to third parties	3,396,518	-	-	3,396,518
Accrued postretirement benefits	641,970	-	-	641,970
Total liabilities	**4,573,648**	**-**	**(12)**	**4,573,636**
Net assets				
Total net assets without donor restrictions	12,222,248	368,126	-	12,590,374
Total net assets with donor restrictions	15,816,232	49,974	-	15,866,206
Total net assets	**28,038,480**	**418,100**	**-**	**28,456,580**
Total liabilities and net assets	**$ 32,612,128**	**$ 418,100**	**$ (12)**	**$ 33,030,216**

Notes to Consolidated Financial Statements

Princeton University

Years ended June 30, 2020 and 2019

As of June 30, 2019 *(dollars in thousands)*	**Princeton University**	**Affiliates**	**Eliminations**	**Consolidated**
Assets				
Cash	$ 22,633	-	-	$ 22,633
Accounts receivable	122,776	-	-	122,776
Receivables associated with investments	71,804	-	-	71,804
Educational and mortgage loans receivable	446,784	-	-	446,784
Contributions receivable	306,325	-	-	306,325
Managed investments at market value	25,376,486	$ 435,466	-	25,811,952
Funds held in trust by others	114,969	3,024	$ (3,024)	114,969
Other investments	1,000,246	-	-	1,000,246
Property, net of accumulated depreciation	4,156,896	-	-	4,156,896
Other assets	19,805	-	-	19,805
Total assets	**31,638,724**	**438,490**	**(3,024)**	**32,074,190**
Liabilities				
Accounts payable	42,796	-	-	42,796
Liabilities associated with investments	63,361	-	-	63,361
Deposits, advance receipts, and accrued liabilities	135,910	-	-	135,910
Deposits held in custody for others	141,541	-	(3,024)	138,517
Liability under planned giving agreements	79,658	-	-	79,658
Liability for annuity contracts	12,390	-	-	12,390
Indebtedness to third parties	3,027,186	-	-	3,027,186
Accrued postretirement benefits	501,426	-	-	501,426
Total liabilities	**4,004,268**	**-**	**(3,024)**	**4,001,244**
Net assets				
Total net assets without donor restrictions	12,027,445	389,514	-	12,416,959
Total net assets with donor restrictions	15,607,011	48,976	-	15,655,987
Total net assets	**27,634,456**	**438,490**	**-**	**28,072,946**
Total liabilities and net assets	**$ 31,638,724**	**$ 438,490**	**$ (3,024)**	**$ 32,074,190**

I want to express once again my gratitude to all the Princetonians—students and their families, faculty, staff, and alumni—who have collaborated to address the special challenges of this year. Many people at this University have worked hard both to support online instruction and to give students the option of a semester in residence. I recognize that, even with this herculean effort, our students are confronting a very imperfect choice between remote learning and a highly constrained on-campus experience.

President Christopher L. Eisgruber

The pandemic challenges how we deliver the prized qualities of Princeton's residential liberal arts curriculum.

Katherine Stanton
Director of the McGraw Center for Teaching and Learning

Let us rise to the occasion to make transformative strides in advancing solutions to the world's most pressing problems. Let us fight passionately to ensure that this stressful period of sacrifice will be remembered as a moment in history when diversity of thought, creativity, compassion and bravery conquered fear of a common threat to humankind. With perseverance, we will overcome.

Nicholas Johnson
Valedictorian, Princeton University, Class of 2020

You are already the most unusual students who have been here since the bubonic plague. This is your chance to cyber your way into further immortality. Give it your best shot. I just have one overall thought: Like everybody else, I miss you.

Professor John McPhee

Princeton University researchers have responded to the COVID-19 pandemic with a tremendous array of potential solutions to the challenges that this virus presents, from research on vaccines and immunity to developing new health care technologies. Our goal is to accelerate the transition of COVID-19 related discoveries and inventions into the hands of those who can rapidly deploy these solutions where they are most needed.

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In the Nation's Service and the Service of Humanity

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