# Drake University

Consolidated Financial Statements as of and
for the Years Ended June 30, 2021 and 2020,
and Independent Auditors' Report

# DRAKE UNIVERSITY

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**INDEPENDENT AUDITORS' REPORT**

The Board of Trustees
Drake University
Des Moines, Iowa

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Drake University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Consolidated Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Drake University as of June 30, 2021 and 2020, 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.

Deloitte & Touche LLP

November 1, 2021

# DRAKE UNIVERSITY

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| CASH AND CASH EQUIVALENTS | $ 31,854,881 | $ 24,755,401 |
| ACCOUNTS RECEIVABLE—Students and other (Net of allowance of $600,000 in 2021 and 2020) | 3,960,292 | 5,039,116 |
| U.S. GOVERNMENT RECEIVABLES | 2,174,792 | 1,230,105 |
| PREPAID EXPENSES AND INVENTORIES | 3,183,635 | 2,090,447 |
| CONTRIBUTIONS RECEIVABLE—Net | 16,604,369 | 16,196,527 |
| U.S. GOVERNMENT LOANS RECEIVABLE (Net of allowance of $290,000 in 2021 and 2020) | 9,971,032 | 11,351,592 |
| INVESTMENTS | 274,523,927 | 216,901,591 |
| LAND, BUILDINGS, AND EQUIPMENT—Net | 217,162,007 | 218,015,048 |
| FUNDS HELD IN TRUST BY OTHERS | 13,171,710 | 10,897,454 |
| TOTAL ASSETS | $ 572,606,645 | $ 506,477,281 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES: | | |
| Accounts payable and accrued expenses | $ 8,585,029 | $ 11,088,586 |
| Student deposits and deferred income | 15,028,198 | 10,569,866 |
| Other liabilities | 6,065,251 | 7,569,341 |
| Annuities payable | 896,080 | 952,247 |
| Loans and bonds payable | 56,084,708 | 61,561,437 |
| Accrued postretirement benefit obligation | 13,320,506 | 13,664,188 |
| U.S. government grants refundable | 8,507,126 | 10,201,102 |
| Total liabilities | 108,486,898 | 115,606,767 |
| NET ASSETS: | | |
| Without donor restrictions | 223,455,342 | 193,894,682 |
| With donor restrictions: | | |
| Time or purpose | 81,290,185 | 44,003,504 |
| Perpetual | 159,374,220 | 152,972,328 |
| Total with donor restrictions | 240,664,405 | 196,975,832 |
| Total net assets | 464,119,747 | 390,870,514 |
| TOTAL LIABILITIES AND NET ASSETS | $ 572,606,645 | $ 506,477,281 |

See notes to consolidated financial statements.

## DRAKE UNIVERSITY

### CONSOLIDATED STATEMENT OF ACTIVITIES
### FOR THE YEAR ENDED JUNE 30, 2021

| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
|---|---|---|---|
| OPERATING REVENUES: | | | |
| Student tuition and fees, net of scholarships and fellowships of $77,005,027 | $ 86,041,828 | $ | $ 86,041,828 |
| Government grants and contracts | 18,285,694 | 7,050 | 18,292,744 |
| Private grants and contracts | 261,449 | 342,844 | 604,293 |
| Private gifts | 2,940,959 | 6,151,565 | 9,092,524 |
| Endowment income used in operations | 3,513,372 | 7,596,518 | 11,109,890 |
| Sales and services of auxiliary enterprises | 14,325,243 | | 14,325,243 |
| Other operating revenue | 7,214,388 | | 7,214,388 |
| Net assets released from restriction | 11,865,133 | (11,865,133) | |
| Total operating revenues | 144,448,066 | 2,232,844 | 146,680,910 |
| OPERATING EXPENSES: | | | |
| Instruction | 50,722,074 | | 50,722,074 |
| Research | 1,134,997 | | 1,134,997 |
| Public service | 12,598,462 | | 12,598,462 |
| Academic support | 20,032,631 | | 20,032,631 |
| Student services | 27,219,157 | | 27,219,157 |
| Institutional support | 17,075,273 | | 17,075,273 |
| Auxiliary enterprises | 12,580,991 | | 12,580,991 |
| Total operating expenses | 141,363,585 | | 141,363,585 |
| Change in net assets from operations | 3,084,481 | 2,232,844 | 5,317,325 |
| NONOPERATING ACTIVITIES: | | | |
| Contributions for nonoperating purposes | 846,208 | 8,641,906 | 9,488,114 |
| Net realized and unrealized gains (losses) from investments | 18,013,752 | 48,980,414 | 66,994,166 |
| Allocation of endowment income to operations | (3,513,372) | (7,596,518) | (11,109,890) |
| Change in value of split interest agreements | 12,031 | (184,457) | (172,426) |
| Loss on disposal of property and equipment | (139,417) | | (139,417) |
| Change in fair value of interest rate swap agreements | 1,185,829 | | 1,185,829 |
| Realized gain on swap terminations | 227,047 | | 227,047 |
| Other nonoperating activities | 1,052,286 | (46,623) | 1,005,663 |
| Net assets released from restriction | 8,338,993 | (8,338,993) | |
| Other components of net periodic postretirement benefit cost | (315,164) | | (315,164) |
| Postretirement benefit plan related changes, other than net periodic postretirement benefit cost | 767,986 | | 767,986 |
| Change in net assets from nonoperating activities | 26,476,179 | 41,455,729 | 67,931,908 |
| CHANGE IN NET ASSETS | 29,560,660 | 43,688,573 | 73,249,233 |
| NET ASSETS—Beginning of year | 193,894,682 | 196,975,832 | 390,870,514 |
| NET ASSETS—End of year | $223,455,342 | $240,664,405 | $464,119,747 |

See notes to consolidated financial statements.

## DRAKE UNIVERSITY

### CONSOLIDATED STATEMENT OF ACTIVITIES
### FOR THE YEAR ENDED JUNE 30, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| OPERATING REVENUES: | | | |
| Revenue, gains and other support: | | | |
| Student tuition and fees | $161,361,041 | $ - | $161,361,041 |
| Less scholarships and fellowships | (72,589,959) | | (72,589,959) |
| Net student tuition and fees | 88,771,082 | - | 88,771,082 |
| Government grants and contracts | 13,248,116 | | 13,248,116 |
| Private grants and contracts | 437,315 | 349,346 | 786,661 |
| Private gifts | 2,835,541 | 7,758,942 | 10,594,483 |
| Endowment income used in operations | 3,601,152 | 7,296,878 | 10,898,030 |
| Sales and services of auxiliary enterprises | 15,156,099 | | 15,156,099 |
| Other operating revenue | 7,082,979 | | 7,082,979 |
| Net assets released from restriction | 13,526,138 | (13,526,138) | - |
| Total operating revenues | 144,658,422 | 1,879,028 | 146,537,450 |
| OPERATING EXPENSES: | | | |
| Instruction | 53,744,778 | | 53,744,778 |
| Research | 1,024,996 | | 1,024,996 |
| Public service | 13,782,077 | | 13,782,077 |
| Academic support | 22,109,395 | | 22,109,395 |
| Student services | 28,285,335 | | 28,285,335 |
| Institutional support | 16,884,508 | | 16,884,508 |
| Auxiliary enterprises | 12,887,542 | | 12,887,542 |
| Total operating expenses | 148,718,631 | - | 148,718,631 |
| Change in net assets from operations | (4,060,209) | 1,879,028 | (2,181,181) |
| NONOPERATING ACTIVITIES: | | | |
| Contributions for nonoperating purposes | 1,314,888 | 9,371,814 | 10,686,702 |
| Net realized and unrealized gains (losses) from investments | 1,097,683 | 305,429 | 1,403,112 |
| Allocation of endowment income to operations | (3,601,152) | (7,296,878) | (10,898,030) |
| Change in value of split interest agreements | 217,501 | (156,479) | 61,022 |
| Loss on disposal of property and equipment | (258,004) | | (258,004) |
| Change in fair value of interest rate swap agreements | (1,123,424) | | (1,123,424) |
| Other nonoperating activities | 362,730 | (129,479) | 233,251 |
| Net assets released from restriction | 1,601,896 | (1,601,896) | |
| Other components of net periodic postretirement benefit cost | (337,744) | | (337,744) |
| Postretirement benefit plan related changes, other than net periodic postretirement benefit cost | 580,529 | | 580,529 |
| Change in net assets from nonoperating activities | (145,097) | 492,511 | 347,414 |
| CHANGE IN NET ASSETS | (4,205,306) | 2,371,539 | (1,833,767) |
| NET ASSETS—Beginning of year | 198,099,988 | 194,604,293 | 392,704,281 |
| NET ASSETS—End of year | $193,894,682 | $196,975,832 | $390,870,514 |

See notes to consolidated financial statements.

# DRAKE UNIVERSITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | $ 73,249,233 | $ (1,833,767) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 10,739,173 | 10,460,859 |
| Net unrealized losses (gains) from investments | (44,378,308) | 2,252,396 |
| Change in fair value of interest rate swap agreements | (1,185,829) | 1,123,424 |
| Realized gain on swap terminations | (227,047) | |
| Net realized gains from investments | (20,850,064) | (1,240,180) |
| Loss on disposal of property and equipment | 139,417 | 258,004 |
| Change in value of split interest agreements | (172,426) | 61,022 |
| Other components of net periodic postretirement benefit cost | (315,164) | (337,744) |
| Postretirement benefit plan related changes, other than net periodic postretirement benefit cost | 767,986 | 580,529 |
| Contributions restricted for long-term investment | (3,951,182) | (3,182,155) |
| Noncash contributions of investments | (1,920,989) | (3,249,870) |
| Change in: | | |
| Student accounts, other, and U.S. government receivables | 134,137 | (658,849) |
| Prepaid expenses and inventories | (1,093,188) | (178,065) |
| Contributions receivable | (407,842) | (1,688,821) |
| Accounts payable and accrued expenses | (356,585) | 766,904 |
| Student deposits and deferred income | 4,458,332 | (2,341,284) |
| Other liabilities | (162,941) | (227,972) |
| Accrued postretirement benefit obligation | (796,504) | (385,148) |
| Net cash provided by operating activities | 13,670,209 | 179,283 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (84,519,830) | (39,213,131) |
| Proceeds from sales and maturities of investments | 91,772,599 | 47,215,789 |
| Purchases of property and equipment | (12,834,456) | (14,207,134) |
| Proceeds from sales of property and equipment | 811,933 | 30,000 |
| Issuance of U.S. government loans receivable | (965,160) | (765,875) |
| Payments from U.S. government loans receivable | 2,345,720 | 2,684,413 |
| Net cash used in investing activities | (3,389,194) | (4,255,938) |

(Continued)

## DRAKE UNIVERSITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings on loans payable | $ | $ 7,408,036 |
| Repayments on bonds payable | (1,825,000) | (1,775,000) |
| Repayments on loans payable | (3,700,000) | (4,300,000) |
| Change in annuities payable | 116,259 | (291,478) |
| Contributions restricted for long-term investment | 3,951,182 | 3,182,155 |
| Change in U.S. government grants refundable | (1,693,976) | (3,093,414) |
| Other | (30,000) | |
| Net cash (used in) provided by financing activities | (3,181,535) | 1,130,299 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 7,099,480 | (2,946,356) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of year | 24,755,401 | 27,701,757 |
| End of year | $ 31,854,881 | $ 24,755,401 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | $ 1,920,313 | $ 2,250,507 |
| Amounts included in period-end accounts payable for purchases of property and equipment | $ 581,279 | $ 2,728,251 |

See notes to consolidated financial statements. (Concluded)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Nature of Operations**—Drake University (the "University") is a private, Doctorate-Professional university in Des Moines, Iowa. The University is accredited as a member of the North Central Association of Colleges and Schools.

The University's mission is to provide an exceptional learning environment that prepares students for meaningful personal lives, professional accomplishments, and responsible global citizenship. The Drake University experience is distinguished by collaborative learning among students, faculty, and staff and by the integration of the liberal arts and sciences with professional preparation.

Drake University has been on the approved list of the North Central Association of Colleges and Schools since that association was established in 1913. Since reorganization of the Association in 2000, Drake University is accredited by the Higher Learning Commission (the "Commission") and a member of the North Central Association of Colleges and Schools. In 2018, the University's accredited status was continued by the Commission. The next Reaffirmation of Accreditation is scheduled to be completed in 2027–2028.

**Consolidated Financial Statements**—Community Holdings, LLC ("CH") is a single-member limited liability company with the University being the sole member. CH was created to take advantage of the New Markets Tax Credit Program, a federal financial program aimed at stimulating business and real estate investment in low-income communities via a federal tax credit. In accordance with the provisions of FASB Accounting Standards Codification (ASC) 958-810, the financial statements of the University and CH have been consolidated and all inter-organization transactions and accounts have been eliminated.

**Basis of Presentation**—The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). Net assets, revenue, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

***Net Assets Without Donor Restrictions*****—**Net assets not subject to donor-imposed restrictions, including those designated by the Board of Trustees as funds functioning as endowment (quasi-endowment), and board-designated net assets.

***Net Assets with Donor Restrictions*****—**Net assets that are subject to donor-imposed restrictions expiring with the passage of time, the occurrence of an event, or the fulfillment of certain conditions. When donor restrictions are met or the restrictions expire, net assets with donor restriction are reclassified as net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. Net assets subject to donor-imposed restrictions may also require assets be retained permanently and invested in perpetuity. Restrictions generally permit the use of some or all of the income earned on the invested assets for specific purposes.

The University follows guidance within FASB ASC 205-958, which codified FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("FSP No. 117-1"). This ASC provides guidance on the net asset classification of donor-restricted endowment funds for nonprofit entities subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Subsequently, Iowa enacted a version of the Iowa Uniform Prudent Management of Institutional Funds Act (IUPMIFA).

IUPMIFA establishes regulations in regard to the expenditure and consolidated financial statement disclosure of donor-restricted endowment funds. The Board has interpreted IUPMIFA as requiring the preservation of the historic value of the original gift absent explicit donor stipulation stating otherwise. Therefore, the University classifies the following as net assets with donor restrictions in relation to donor-restricted endowment funds: (a) the value of the original gifts to the endowment at the time of the gift, (b) the value of all new gifts to the endowment as of the date of the gift, and (c) reinvestments to the endowment specifically stated in the donor gift instrument at the time added to the fund.

In accordance with IUPMIFA, the University considers the following factors in making a determination to appropriate donor-restricted endowment funds:

- The purpose of the University and of the donor-restricted endowment fund
- The duration and preservation of the fund
- General economic conditions
- The possible effects of inflation and deflation
- The investment policies of the University
- The expected total return from income and the appreciation of investments
- Other University resources

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at fair value. Contributions received with donor-imposed restrictions that are met within the same year as received are reported as revenues in net assets with donor restrictions. Expirations of restrictions on net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between net assets with donor restrictions and net assets without donor restrictions.

Contributions to be received after one year are discounted at a risk-free rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues in net assets without donor restrictions. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues in net assets with donor restrictions; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Net unrealized and realized gains (losses) on investments and income from investments are reported as follows:

- As increases (decreases) in net assets with donor restrictions if the terms of the gift require that it be added to the principal of a permanent endowment fund.

- As increases (decreases) in net assets with donor restrictions if the terms of the gift impose restrictions on the use of the income.

- As increases (decreases) in net assets without donor restrictions in all other cases.

- Capital gains and dividends are recorded net with other realized gains and losses on the statement of activities in reinvested net gains (losses).

**Measure of Operations**—The consolidated statements of activities report the change in net assets from operating and nonoperating activities. The University's measure of operations as presented in the consolidated statements of activities includes revenue from tuition (net of certain scholarships and fellowships) and fees, grants and contracts, contributions for operating programs, the allocation of endowment spending for operations and other revenues. Operating expenses are reported in the consolidated statements of activities by natural classification.

Operating revenues consist of substantially all the activity of the University except for certain items specifically considered to be of a nonoperating nature. Contributions included in nonoperating activities consist of bequests and other gifts without donor restrictions not solicited as part of the annual fundraising campaigns, gifts with donor restrictions for the acquisition of capital assets, and gifts with donor restrictions made to endowment funds. Nonoperating activities also include realized and unrealized gains/losses on investments, endowment income not used in operations, change in net present value of split interest agreements, gains/losses on disposal of property and equipment, change in fair value of interest rate swap agreements, the change in the funded status of the postretirement benefit obligation and significant items of an unusual or nonrecurring nature.

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

**Impact of COVID-19**—For the years ended June 30, 2021 and 2020, the University was adversely impacted by the COVID-19 pandemic with decreases in tuition and auxiliary revenue as well as increased incremental COVID-19 emergency response expenses to ensure a safe campus environment for students, faculty, and staff. Partially offsetting the decreases in tuition and auxiliary revenue and increases in expenditures were the institutional aid portion of funds received from the Department of Education's Higher Education Emergency Relief Fund (HEERF) as provided by the various federal COVID-19 relief acts, as described in the table below.

| | Date Enacted | HEERF Award Amount: Institutional Aid Portion | HEERF Award Amount: Student Aid Portion | HEERF Award Amount: Total |
|---|---|---|---|---|
| HEERF I: | | | | |
| Coronavirus Aid, Relief, and Economic Security (CARES) Act | March 2020 | $ 1,112,112 | $ 1,112,113 | $ 2,224,225 |
| HEERF II: | | | | |
| Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act | December 2020 | 2,524,532 | 1,112,113 | 3,636,645 |
| HEERF III: | | | | |
| American Rescue Plan (ARP) Act | March 2021 | 3,225,304 | 3,225,972 | 6,451,276 |
| Total | | $ 6,861,948 | $ 5,450,198 | $ 12,312,146 |

| | Year Recognized | | | | | | |
|---|---|---|---|---|---|---|---|
| | Year Ended June 30, 2020 | | Year Ended June 30, 2021 | | To Be Recognized in Future Years | | |
| | Institutional Aid Portion[1] | Student Aid Portion[2] | Institutional Aid Portion[1] | Student Aid Portion[2] | Institutional Aid Portion | Student Aid Portion | Total |
| HEERF I | $ - | $ 419,673 | $ 1,112,112 | $ 692,440 | $ - | $ - | $ 2,224,225 |
| HEERF II | | | 2,524,532 | 1,112,113 | | | 3,636,645 |
| HEERF III | | | 163,650 | 163,650 | 3,061,654 | 3,062,322 | 6,451,276 |
| Total | $ - | $ 419,673 | $ 3,800,294 | $ 1,968,203 | $ 3,061,654 | $ 3,062,322 | $ 12,312,146 |

1 The institutional portion of each award was recognized as a component of government grants and contracts without donor restrictions in the accompanying consolidated statements of activities.

2 The student aid portion of each award was recognized as a component of government grants and contracts without donor restrictions in the accompanying consolidated statements of activities.

Although the guidelines governing HEERF awards varied slightly under every act, each HEERF award contained separate emergency financial aid grants intended to be distributed to students as well as aid specifically for institutions. Funding for financial aid grants to students was permitted to be distributed to students for any component of the student's cost of attendance or for emergency costs that arise due to COVID-19. For the institutional portion of the funds, an institution may use the supplemental grant funds to offset expenses associated with COVID-19 (including lost revenue for HEERF II and HEERF III); carry out student support activities authorized by the Higher Education Act of 1965, as amended (HEA) that address needs related to COVID-19; and make additional financial grants to students.

COVID-19 has had an adverse impact on the University and, in the future, could have a material adverse impact on operations. The University continues to monitor developments as they arise and evaluate the impact upon the University. Expectations regarding future operations are subject to significant uncertainty and are dependent upon how widespread COVID-19 becomes, the duration and severity of the pandemic, and the actions taken by governmental authorities to contain the spread of COVID-19. Therefore, the University cannot make a reasonable estimate of the long-term impact(s) at this time.

**Cash and Cash Equivalents**—Cash and cash equivalents include interest-bearing money market accounts, repurchase agreements, and short-term investments with a maturity of three months or less at the date of purchase that are available for current operating purposes. The total cash balances are insured by the Federal Deposit Insurance Corporation (F.D.I.C.) up to $250,000 per bank. The University had cash balances on deposit with banks that exceeded the balance insured by the F.D.I.C. in the amount of approximately $31,000,000 and $24,000,000 at June 30, 2021 and 2020, respectively.

**Income Taxes**—The University has received a tax determination letter from the Internal Revenue Service (IRS) indicating it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") as a charitable educational institution. As such, the University is taxed only on any net unrelated business income under Section 511 of the Code.

GAAP requires management to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2021 and 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The statute of limitations on the University's U.S. federal tax returns remains open for the years ended June 30, 2018, through the present.

**Investments**—Investments are recorded at fair value, with gains and losses included in the consolidated statements of activities. Direct investments in real estate are stated at historical cost.

**Split Interest Agreements**—The University has a number of split interest agreements with individuals that generally require annuity payments to these individuals in exchange for property, securities, or cash. The assets in the split interest agreements are stated at fair value in the University's consolidated financial statements. These assets total approximately $3,522,000 and $3,080,000 at June 30, 2021 and 2020, respectively, and are included in "Investments" in the consolidated statements of financial position. The University's liability to the annuitants is recorded based on the present value of the expected payments using discount rates between 6.7% and 10.6% as of June 30, 2021 and 6.7% and 10.8% as of June 30, 2020. Annuities payable total approximately $896,000 and $952,000 at June 30, 2021 and 2020, respectively.

**Insurance Policies**—Insurance policies donated to the University are recorded at the cash surrender value of the policy and adjusted annually for changes in such values. Certain insurance policies require premium payments over several years.

**Land, Buildings, and Equipment**—Land, buildings, and equipment are stated at cost or, if received by gift, at the market or appraised value at the date of gift. Depreciation is provided on the straight-line basis over estimated useful lives ranging from 5 to 50 years.

Expenditures for new equipment, buildings, and improvements which substantially extend the useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. The University capitalizes interest on major projects during construction and amortizes the amounts over the related assets' estimated useful lives. Costs incurred for building materials and equipment comprises construction in progress.

**Works of Art**—The University maintains several collections, which are not reported for financial statement purposes. These collections include works of art, natural history artifacts, and other similar objects. Collections are held for public exhibition, education and research in furtherance of the University's goal to provide public service. Various University departments have the responsibility to control, preserve and protect these collections. In the event the University determines it is appropriate and feasible to sell a piece of art, and absent any donor restrictions to the contrary, any proceeds from such sale must be used to acquire other items in the collection or to preserve, restore, display, or secure the collection.

**Funds Held in Trust by Others**—The University is the beneficiary of funds held in perpetual trust. The University does not control or have possession of these funds but receives income from the trust. Funds held in trust by others are recorded at the estimated fair value of future cash flows, which is estimated to equal the fair value of the trust assets.

**U.S. Government Grants Refundable**—Funds provided by the U.S. government under the Federal Perkins Loan and Health Professions Student Loan Programs are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the U.S. government and are included as a liability in the consolidated statements of financial position.

**Fair Value of Financial Instruments**—Financial instruments are generally described as cash, contractual obligations or rights to pay or receive cash. The carrying amount approximates fair value for certain financial instruments because of the short-term maturity of these instruments, which include cash and cash equivalents, accounts receivable, U.S. government receivables, accounts payable, and student deposits.

Fair value estimates are made at a specific point in time based on relevant market information. Fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If available, quoted market prices are used to value investments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Investments are recorded at fair value primarily as determined by values provided by external investment managers or quoted market prices. See Note 4 for further information on investment fair value measurements.

U.S. government loans receivable and U.S. government grants refundable are not saleable and can only be assigned to the U.S. Government or its designees. The carrying value approximates fair value because the notes bear interest at rates which approximate current rates the University could obtain on notes with similar maturities and credit qualities.

**Derivative Financial Instruments**—From time to time, the University enters into interest rate swap agreements to modify the interest rate characteristics of its outstanding debt from floating to fixed. The University accounts for derivative instruments, including derivative instruments embedded in other contracts in accordance with ASC Topic 815, *Derivatives and Hedging*. ASC 815 requires that derivative instruments be measured at fair value and reported as assets or liabilities in the consolidated statements of financial position. Changes in the fair value of derivatives during the year are reported in the consolidated statements of activities. The University's interest rate swap agreements are considered derivative financial instruments and have been reported as other liabilities in the consolidated statements of financial position at fair value. The net change in the fair value of the agreements during the year is reported as an unrealized gain/loss in the nonoperating activities section of the consolidated statements of activities. The net cash received or paid under the terms of the interest rate swap agreements over their term are reported as a component of interest expense.

**Revenue Recognition**— In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 requires an entity to evaluate revenue recognition by identifying a contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfies a performance obligation. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842)—*Effective Date for Certain Entities*, which amended the effective date to be for fiscal years beginning after December 15, 2019, with early adoption permitted.

The University adopted ASU 2014-09 effective July 1, 2020, using the modified retrospective method applied to contracts that have remaining obligations as of July 1, 2020. As a result of the implementation of ASU 2014-09, the University modified the presentation of net student tuition and fees in its consolidated statement of activities and added disclosures in the accompanying notes.

Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration the University expects to receive in exchange for those goods or services. The University disaggregates revenue based on revenue stream and believes that the following information provides a reasonable representation of how performance obligations relate to the nature, amount, timing and uncertainty of revenue and cash flows.

***Student Tuition and Fees, net of scholarships and fellowships***

The University's operating revenue is primarily derived from academic programs provided to students, including undergraduate, graduate, and professional degree granting programs. Tuition and fees revenue is earned by the University for these educational services delivered during an academic term. Tuition is charged at different rates depending on the program in which the student is enrolled. As part of a student's course of instruction, certain fees, such as technology fees, and laboratory fees, are billed to students. Tuition and fees are earned over the applicable academic term and are not considered separate performance obligations.

Tuition scholarships and fellowships awarded by the University represent a reduction of the tuition transaction price. The University awards both need-based and merit-based scholarships. Scholarships are generally awarded for the academic year, and are applied to the student's account during each academic term.

Academic terms are determined by regulatory requirements mandated by the federal government and/or applicable accrediting body. The University's academic terms generally consist of Fall, January, Spring, and Summer terms. Except for certain programs in the Summer term, the academic terms generally have start and end dates that fall within the University's fiscal year.

The University bills tuition and fees in advance of each academic term, and recognizes the tuition and fees revenue on a straight-line basis, as the educational services are performed, over the academic term or program. Students are typically entitled to a partial refund through approximately 40% of an academic term. Once a student reaches the point in the academic term where no refund is given, generally no refunds are due if the student withdraws subsequent to that date.

Students pay tuition and fees (net of scholarships and fellowships) through a variety of funding sources, including among others, federal loan and grant programs, state grant programs, institutional payment plans, employer reimbursement, Veterans' Administration and other military funding and grants, private and institutional scholarships and borrowings, and cash payments.

***Sales and Services of Auxiliary Enterprises***

Auxiliary services revenue consists primarily of fees for room and dining services (board) during the student's education. The University considers that room fees and dining services are each separate performance obligations.

Room fees are charged at different rates depending on the residence hall and room accommodations. Room fees are billed in advance of each academic term, and recognized as revenue on a straight-line basis over the period housing is provided. While the University believes the residential experience is an integral part of a student's education, the University considers the residential arrangement to be a distinct performance obligation from the academic services.

Dining service fees are charged at different rates depending on the level of access to dining services during the term of the agreement. Dining services are billed in advance of each academic term, and are recognized as revenue ratably over the period during which the dining services are offered.

In addition to room and board, auxiliary services include revenue earned for various conference services offered by the University. Revenue from conference services is recognized once the performance obligations are complete.

***Other Operating Revenue***

This category consists of revenue generated by the University under contractual arrangements deemed to be exchange transactions. Major revenue streams in this category include rental income generated by various residential and commercial properties owned by the University, revenue from seminars and workshops, athletic-related ticket sales and sponsorships, health center membership fees, and royalties. Revenue from these activities is generally recognized at a point in time as services are performed.

The majority of the University’s revenue from contracts with customers are from performance obligations with an initial duration of one year or less. Prices are specific to a distinct performance obligation and do not consist of multiple transactions.

***Deferred Revenues***
The University records deferred revenue in situations when amounts are invoiced but the revenue recognition criteria outlined about are not met. Such revenue is recognized when all criteria are subsequently met. Deferred revenues from revenue from contracts with customers are classified as liabilities on the statements of financial position within student deposits and deferred income and as of June 30, 2021 and 2020, were approximately $4,928,000 and $5,085,000, respectively.

***Significant Judgments***
Significant judgment is required in determining the appropriate approach to applying the revenue recognition criteria. While ASC Topic 606 is generally applied to an individual contract with a customer, as a practical experiment, the University applies this guidance to a portfolio of contracts (or performance obligations) with similar characteristics. The University reasonably expects that the effects of applying this guidance to the portfolio would not differ materially from applying the guidance to the individual contracts (or performance obligations) within the portfolio.

For tuition and fees, room, and dining services, the University has determined that students can be grouped into a portfolio for each of these three performance obligations. Based on the University’s experience, students in different programs have similar characteristics concerning the University’s approach to revenue recognition. Agreements concerning enrollment, student financial responsibility, housing, and dining plans each contain terms which clarify the performance obligations and eligibility for refunds or fee adjustments. These agreements are fundamentally the same regardless of the program of study.

For contracts with customers not pertaining to tuition and fees, and board, the University generally applies the revenue recognition guidance on an individual contract basis. Significant judgment is also required to assess collectability. For the majority of tuition and fees, the University receives cash receipts for tuition payments from various Federal and State government agencies. Students are required to provide documentation to the Department of Education to be eligible and approved for funding. The University monitors the progress of students through the eligibility and approval process for these financial aid programs. These cash receipts represent a substantial portion of overall billings and have an expected low risk of collectability. For the remainder of tuition and fees, room, and board, the University monitors for situations which would require a reassessment of collectability.

For contacts with customers not pertaining to tuition and fees, room, and board, the University generally assesses collectability on an individual contract basis. See Note 3 for additional information concerning student and other receivables and related allowances for doubtful accounts. Given the nature of the University’s contracts with customers, there are no incremental costs of obtaining a contract and no significant financing components. During the fiscal year, there were no significant changes in the judgements affecting the determination of the amount and timing of revenue from contracts with customers.

**Fund-Raising Expenses**—Fund-raising expenses for the University consist of development expenses, capital campaign costs, and alumni relations. Total fund-raising expenses were approximately $3,225,000 and $3,885,000 for the years ended June 30, 2021 and 2020, respectively.

**Auxiliary Enterprises**—The University's auxiliary enterprises exist primarily to furnish goods and services to students. Managed as essentially self-supporting activities, the University's auxiliaries consist principally of residence halls, dining halls, and parking. Auxiliary enterprise revenues and expenses are reported as changes in net assets without donor restrictions.

**Accrued Postretirement Benefit Obligation**—The University follows ASC 715, *Compensation—Retirement Benefits*. ASC 715 requires an employer to recognize in its consolidated statements of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a postretirement plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. In addition, ASC 715 requires that the measurement date of the plan obligation coincide with an employer's fiscal year-end. The University presents the change in the funded status of its postretirement benefit obligation within non-operating activities in the consolidated statements of activities, while the net periodic postretirement benefit cost is presented within operating activities in the consolidated statements of activities.

**New Accounting Pronouncements (Adopted in Fiscal Year 2021)**

***Revenue from Contracts with Customers***—See discussion under "Revenue Recognition" above.

***Changes to the Disclosure Requirements for Fair Value Measurement***—In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance eliminates, modifies, and adds certain disclosures on fair value measurements. The University adopted the eliminated or modified disclosure requirements beginning with its fiscal year 2019 consolidated financial statements. As allowed under the new guidance, the additional disclosure requirements are effective for the University for annual reporting periods beginning after December 15, 2019 (Fiscal Year 2021). The University adopted the remaining requirements of ASU 2018-13 effective July 1, 2020, had no impact on the University's financial position, results of operations, or cash flows.

**New Accounting Pronouncements (Effective in Future Fiscal Years)**

***Changes to the Disclosure Requirements for Defined Benefit Plans***—In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. This guidance eliminates and adds certain disclosures related to defined benefit plans. For the University, the guidance is effective beginning July 1, 2021 (Fiscal Year 2022). The University is currently assessing the potential impact of this ASU on its consolidated financial statements.

***Contributed Nonfinancial Assets***—In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The purpose of ASU 2020-07 is to clarify the presentation and disclosure of contributed nonfinancial assets with an intention to provide a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized by the University. The amendments in this update are to be applied on a retrospective basis and early adoption is permitted. For the University, the guidance is beginning July 1, 2021 (Fiscal Year 2022). The University is currently assessing the potential impact of this ASU on its consolidated financial statements.

***Leases***—In February 2016, the FASB issued ASU 2016-02, *Leases*. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842)—*Effective Date for Certain Entities*, which amended the effective date to be for fiscal years beginning after December 15, 2021, with early adoption permitted. For the University, the guidance is effective beginning July 1, 2022 (Fiscal Year 2023). The University is currently assessing the potential impact of this ASU on its consolidated financial statements.

***Credit Losses***—In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*. This ASU introduces a new current expected credit losses model. This guidance provides financial statement users with more decision-useful information about the expected credit losses on financial instruments, and other commitments to extend credit, held at each reporting date. The guidance adds to US GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, which updated the effective date ASU 2016-13 to be for fiscal years beginning after December 15, 2022. The University is currently assessing the potential impact of this ASU on its consolidated financial statements.

## 2. 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 statements of financial position were as follows:

| | 2021 | 2020 |
|---|---|---|
| Financial assets: | | |
| Cash and cash equivalents | $ 31,854,881 | $ 24,755,401 |
| Accounts receivable—student and other—net | 3,960,292 | 5,039,116 |
| Investments | 274,523,927 | 216,901,591 |
| Total financial assets | 310,339,100 | 246,696,108 |
| Less amounts not available to be used within one year: | | |
| Investments underlying endowments with donor restrictions | (192,375,454) | (149,291,326) |
| Total financial assets not available to be used within one year | (192,375,454) | (149,291,326) |
| Total financial assets available within one year | $ 117,963,646 | $ 97,404,782 |

The University actively monitors its liquidity and structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. General expenditures include operating expenses, principal and interest payments on debt, postretirement benefit plan payments, and internally funded capital construction costs. Student loans receivable are not considered to be available to meet general expenditures because principal and interest on these loans are used solely to make new loans.

In addition to the available financial assets above, a significant portion of the University's annual expenditures will be funded by current year operating revenues including tuition and fees, grants and contract income.

The cash cycle has seasonal variations related to the timing of tuition billings, third-party reimbursements, and the receipt of gifts and pledge payments. Cash in excess of daily requirements is invested in short-term investments and money market funds. Cash withdrawals 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 investment pools are available for general liquidity purposes.

The University has board-designated endowment funds of $74,235,080 and $59,611,387 as of June 30, 2021 and 2020, respectively. Although the University does not intend to spend from its board-designated endowment funds, amounts from its board-designated endowment funds could be made available at any time, if necessary, through approval by the University's Board of Trustees. As a result, the University concluded that the investments underlying board-designated endowment funds should be included in the table above as financial assets available within one year.

## 3. RECEIVABLES

**Financing Receivables Student Loans**—The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs and other institutional and private loans. At June 30, 2021 and 2020, student loans represented 1.8% and 2.3%, respectively, of total assets.

Student loans at June 30, 2021 and 2020, are summarized as follows:

| | **2021** | **2020** |
|---|---|---|
| Federal government programs | $ 10,261,032 | $ 11,641,592 |
| Institutional and private loans | 126,228 | 112,692 |
| | 10,387,260 | 11,754,284 |
| Less allowance for doubtful accounts: | | |
| Beginning of year—federal government programs | (290,000) | (290,000) |
| Beginning of year—institutional and private loans | (4,000) | (4,000) |
| Increases | | |
| Write-offs | | |
| End of year | (294,000) | (294,000) |
| Student loans receivable—net | $ 10,093,260 | $ 11,460,284 |

Institutional and private loans, net of the allowance for doubtful accounts are included within Accounts Receivable—Student and Other, Net, on the consolidated statements of financial position.

The University participates in the Perkins and Health Professions Student Loan (HPSL) Federal revolving loan programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the U.S. Government under the Perkins and HPSL programs of $8,507,126 and $10,201,102 as of June 30, 2021 and 2020, respectively, are ultimately refundable to the U.S. Government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under these programs result in a reduction of the funds available for loan and a decrease in the liability to the U.S. Government.

The following amounts were past due under student loan programs at June 30, 2021:

| **Past Due** | **2021** |
|---|---|
| 1–60 days | $ 2,693 |
| 60–90 days | 660 |
| 90+ days | 1,082,219 |
| Total past due | $ 1,085,572 |

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms.

**Contributions Receivable**—Net contributions receivable at June 30, 2021 and 2020, are summarized as follows:

| | **2021** | **2020** |
|---|---|---|
| Unconditional promises expected to be collected in: | | |
| Less than one year | $ 6,132,495 | $ 5,643,421 |
| One year to five years | 9,919,165 | 8,476,818 |
| Over five years | 2,077,500 | 3,659,994 |
| | 18,129,160 | 17,780,233 |
| Less: | | |
| Unamortized discount on contributions receivable (with discount rates ranging from 0.6%-0.2% for 2021 and 2020) | (156,791) | (225,706) |
| Allowance for uncollectible contributions | (1,368,000) | (1,358,000) |
| Contributions receivable—net | $ 16,604,369 | $ 16,196,527 |

Contributions receivable are distributed between net asset classifications at June 30, 2021 and 2020, are as follows:

| | 2021 | 2020 |
|---|---|---|
| Without donor restrictions | $ 59,460 | $ 89,579 |
| With donor restrictions—time or purpose: | | |
| Capital projects | 9,340,399 | 9,884,306 |
| Other | 5,971,279 | 4,775,074 |
| | 15,311,678 | 14,659,380 |
| With donor restrictions—perpetual | 1,233,231 | 1,447,568 |
| Contributions receivable—net | $ 16,604,369 | $ 16,196,527 |

## 4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The University records certain of its assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Securities are carried at fair value on a recurring basis. The University uses quoted market prices and observable inputs to the maximum extent possible when measuring fair value. When market data is not available, fair value is determined using valuation models that incorporate management's estimates of the assumptions a market participant would use in pricing the asset or liability.

Under ASC 820, fair value measurements are classified among three levels based on the observability of the inputs used to determine fair value:

***Level 1***—Unadjusted quoted prices for identical instruments in active markets.

***Level 2***—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets.

***Level 3***—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the instrument. Level 3 valuations are typically performed using pricing models, discounted cash flow methodologies, or similar techniques, which incorporate management's own estimates of assumptions that market participants would use in pricing the instrument or valuations that require significant management judgment or estimation.

Transfers between levels occur when there is a change in the observability of significant inputs. This may occur between Level 1 and Level 2 when the availability of quoted prices changes, or when market activity significantly changes to active or inactive. A transfer between Level 2 and Level 3 generally occurs when the underlying inputs become, or can no longer be, corroborated with market observable data. The University's policy is to recognize all transfers at the end of each reporting period. There were no transfers between levels during the years ended June 30, 2021 and 2020.

The tables below illustrate the composition of the University's investments as of June 30, 2021 and 2020. In addition, in accordance with ASC 820, the tables below include the major categorization for assets and liabilities measured at fair value on a recurring basis on the basis of their nature and risk at June 30, 2021 and 2020.

| | Fair Value Measurements at June 30, 2021 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **ASSETS** | | | | |
| Cash equivalents | $ 21,207,179 | $ | $ | $ 21,207,179 |
| Investments: | | | | |
| Money market accounts and certificates of deposits | 9,618,191 | 190,000 | | 9,808,191 |
| Mutual funds: | | | | |
| Domestic equity | 66,304,883 | | | 66,304,883 |
| International equity | 24,704,349 | | | 24,704,349 |
| Fixed income | 32,211,711 | | | 32,211,711 |
| Common stocks—domestic equity | 770,741 | | | 770,741 |
| Government bonds | | 604,720 | | 604,720 |
| Total investments measured at fair value under ASC 820 | 133,609,875 | 794,720 | | 134,404,595 |
| Funds valued at NAV: | | | | |
| Commingled equity funds | | | | 35,807,276 |
| Limited partnership and similar nonmarketable equity interests | | | | 91,984,237 |
| Investments valued at cost: | | | | |
| Real estate | | | | 8,393,618 |
| Cash surrender value of life insurance policies | | | | 3,934,201 |
| Total investments | | | | 274,523,927 |
| Funds held in trust by others | | | 13,171,710 | 13,171,710 |
| Total assets measured at fair value under ASC 820 | $ 154,817,054 | $ 794,720 | $ 13,171,710 | |
| Total | | | | $ 308,902,816 |
| Liabilities—interest rate swaps | $ | $ 4,201,710 | $ | $ 4,201,710 |

| | Fair Value Measurements at June 30, 2020 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **ASSETS** | | | | |
| Cash equivalents | $ 14,685,074 | $ - | $ - | $ 14,685,074 |
| Investments: | | | | |
| Money market accounts and certificates of deposits | 7,623,396 | 155,000 | | 7,778,396 |
| Mutual funds: | | | | |
| Domestic equity | 44,149,189 | | | 44,149,189 |
| International equity | 14,467,268 | | | 14,467,268 |
| Fixed income | 25,938,062 | | | 25,938,062 |
| Common stocks—domestic equity | 530,335 | | | 530,335 |
| Government bonds | | 497,507 | | 497,507 |
| Total investments measured at fair value under ASC 820 | 92,708,250 | 652,507 | - | 93,360,757 |
| Funds valued at NAV: | | | | |
| Commingled equity funds | | | | 27,340,376 |
| Limited partnership and similar nonmarketable equity interests | | | | 83,911,092 |
| Investments valued at cost: | | | | |
| Real estate | | | | 8,393,618 |
| Cash surrender value of life insurance policies | | | | 3,895,748 |
| Total investments | | | | 216,901,591 |
| Funds held in trust by others | | | 10,897,454 | 10,897,454 |
| Total assets measured at fair value under ASC 820 | $107,393,324 | $ 652,507 | $10,897,454 | |
| Total | | | | $242,484,119 |
| Liabilities—interest rate swaps | $ - | $5,850,962 | $ - | $ 5,850,962 |

Private equity funds (included within "limited partnership and similar nonmarketable equity interests" in the tables on the preceding pages) primarily include investments with managers who implement long-only equity strategies, but also include certain global macro strategies, with some exposure to the credit markets. Private equity funds have original redemption lock-up periods that range from 5 years to 12 years, with remaining periods ranging from 1 year to 4 years as of June 30, 2021 and 2020, at which time the investments close. Assets in this category are invested in side pockets, which are less liquid and are generally restricted from redemption. Unfunded commitments as of June 30, 2021 and 2020, are $14,570,091 and $16,104,171, respectively.

Limited partnership interests and hedge funds (included within "limited partnership and similar nonmarketable equity interests" in the tables on the preceding pages) are generally master fund arrangements which invest in long/short equity, commodity, and fixed income instruments. Some of these investments have redemption lock-up periods and have redemption notice periods ranging from quarterly to annual. The University has no unfunded commitments as of June 30, 2021 and 2020.

Fair values on marketable securities, such as mutual funds and common stocks, are based on quoted market prices from an active exchange or from an active dealer market. The University's cash equivalents and money market accounts are highly liquid assets with daily pricing.

Certificates of deposit, bonds, and commingled equity and bond funds are often traded in less active markets with pricing being determined by looking at a similar asset that is currently trading.

The fair value of the University's investments in limited partnerships, private equity funds, commingled equity funds, commingled bond funds, and hedge funds represent the value of its NAV in these investment vehicles as reported by the fund managers in accordance with the practical expedient, as defined by ASU 2009-12. In accordance with ASU 2015-07, investments valued at NAV are not included within any level in the fair value hierarchy. All valuations utilize financial information supplied by the general partner of each limited partnership or the fund manager and are net of management fees and incentive allocations pursuant to the applicable investment agreements. The fair value of the University's investments in these investment vehicles generally starts with the NAV of the University's investment in the investment vehicle as reported by the general partner of each limited partnership or the fund manager, who determines the value of the limited investment vehicle's NAV in a manner consistent with ASC Topic 946, *Financial Services—Investment Companies*. The University may conclude in certain circumstances that, after considering information reasonably available at the time the valuation is made and that the University believes to be reliable, the NAV provided by the general partner of each limited partnership or the fund manager is not representative of the fair value of the University's interest in the investment vehicle. At June 30, 2021 and 2020, no valuation adjustments to the NAV provided by the general manager or fund manager have been made by the University. Due to the inherent uncertainty of valuation, the value of the University's investments in such investment vehicles may differ significantly from the values that would have been used had an active market for the investments held by the University been available.

In accordance with the fair value measurements and disclosures guidance, the following tables present the category, fair value, redemption frequency, and redemption notice period for investments where the fair values have been estimated using NAV as of June 30, 2021 and 2020.

| **2021** | **Fair Value** | **Redemption Frequency** | **Redemption Notice Period** | **Redemption Lockup Period** |
|---|---|---|---|---|
| Investment type: | | | | |
| Limited partnerships | $ 11,873,959 | Monthly | 10 business days | 7 months |
| Limited partnerships | 11,615,302 | Weekly | 2 days | N/A |
| Limited partnerships | 1,571,473 | Monthly | 60 days | N/A |
| Limited partnerships | 12,741,596 | Monthly | 30 calendar days | N/A |
| Limited partnerships | 12,569,293 | Monthly | 17 business days | N/A |
| Private equity funds | 10,833,670 | None | N/A | N/A |
| Private equity funds | 356,279 | None | N/A | 1 year |
| Private equity funds | 4,406,503 | None | N/A | 3 years |
| Hedge funds | 9,831,081 | Semi-monthly | 15 calendar days | N/A |
| Hedge funds | 4,925,891 | Quarterly | 60 days | N/A |
| Hedge funds | 3,777,256 | Monthly | 3 days | N/A |
| Hedge funds | 4,514,725 | Quarterly | 90 days | N/A |
| Hedge funds | 4,820,812 | Monthly | 10 business days | N/A |
| Hedge funds | 2,184,321 | Quarterly | 90 days | 7 months |
| Hedge funds | 2,862,139 | Every two years | 60 calendar days | N/A |
| Hedge funds | 2,146,727 | Semi-annually | 60 calendar days | N/A |
| Hedge funds | 1,292,008 | Quarterly | 67 calendar days | 12 months |
| Hedge funds | 4,313,094 | Quarterly | 65 calendar days | N/A |
| Commingled equity funds | 5,017,744 | Weekly | 3 business days | N/A |
| Commingled equity funds | 16,137,640 | Monthly | 5 business days | N/A |
| | $ 127,791,513 | | | |

| 2020 | Fair Value | Redemption Frequency | Redemption Notice Period | Redemption Lockup Period |
|---|---|---|---|---|
| Investment type: | | | | |
| Limited partnerships | $ 10,363,284 | Monthly | 10 business days | 7 months |
| Limited partnerships | 10,789,887 | Weekly | 2 days | N/A |
| Limited partnerships | 2,115,126 | Quarterly | 90 days | 7 months |
| Limited partnerships | 4,819,839 | Monthly | 60 days | N/A |
| Limited partnerships | 13,636,241 | Monthly | 15 calendar days | N/A |
| Limited partnerships | 9,180,301 | Monthly | 17 business days | N/A |
| Private equity funds | 4,844,637 | None | N/A | N/A |
| Private equity funds | 338,827 | None | N/A | 1 year |
| Private equity funds | 4,190,337 | None | N/A | 3 years |
| Hedge funds | 6,625,178 | Semi-monthly | 15 calendar days | N/A |
| Hedge funds | 7,066,614 | Quarterly | 60 days | N/A |
| Hedge funds | 2,959,217 | Monthly | 3 days | N/A |
| Hedge funds | 4,067,829 | Quarterly | 90 days | N/A |
| Hedge funds | 3,442,671 | Monthly | 10 business days | N/A |
| Hedge funds | 2,968,865 | Every two years | 60 calendar days | N/A |
| Hedge funds | 1,988,871 | Semi-annually | 60 calendar days | N/A |
| Hedge funds | 2,483,967 | Quarterly | 65 days | N/A |
| Hedge funds | 2,097,250 | Quarterly | 67 calendar days | 12 months |
| Commingled equity funds | 1,955,552 | Monthly | 30 days | N/A |
| Commingled equity funds | 4,618,350 | Weekly | 3 business days | N/A |
| Commingled equity funds | 10,698,625 | Monthly | 5 business days | N/A |
| | $ 111,251,468 | | | |

For the years ended June 30, 2021 and 2020, investment gain (loss) consisted of the following:

| | 2021 | 2020 |
|---|---|---|
| Interest, rents, and dividends | $ 2,585,643 | $ 3,168,578 |
| Net realized gains from investments | 20,850,064 | 1,240,180 |
| Investment expenses | (819,849) | (753,250) |
| Investment income—net | 22,615,858 | 3,655,508 |
| Net unrealized (losses) gains from investments | 44,378,308 | (2,252,396) |
| Net investment gain | $ 66,994,166 | $ 1,403,112 |

## 5. LAND, BUILDINGS, AND EQUIPMENT—NET

Land, buildings, and equipment—net consisted of the following as of June 30, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Land, buildings, and equipment: | | |
| Land | $ 28,607,282 | $ 27,948,639 |
| Buildings | 283,299,580 | 267,891,983 |
| Equipment | 77,608,513 | 74,532,927 |
| Construction in progress | 747,307 | 10,386,966 |
| | 390,262,682 | 380,760,515 |
| Less accumulated depreciation | (173,100,675) | (162,745,467) |
| Land, buildings, and equipment—net | $ 217,162,007 | $ 218,015,048 |

Construction in process by project at June 30, 2021 and 2020, are as follows:

| | 2021 | 2020 |
|---|---|---|
| Architect & planning fees for multiple projects | $ 478,609 | $ 327,746 |
| Hubbell Dining Hall Renovation | 6,116 | 3,644,294 |
| Harkin Institute Construction | 21,032 | 5,387,757 |
| University Avenue Streetscape | | 860,360 |
| Bright College Classroom Renovation | 131,238 | |
| Meredith Hall Renovation | 63,785 | |
| Other | 46,527 | 166,809 |
| Construction in process | $ 747,307 | $ 10,386,966 |

## 6. LOANS AND BONDS PAYABLE

Loans and bonds payable at June 30, 2021 and 2020, are as follows:

| | 2021 | 2020 |
|---|---|---|
| Loan agreement with commercial bank related to Series 2017A—Private College Facility Revenue Bonds | $ 7,360,000 | $ 8,425,000 |
| Loan agreement with commercial bank related to Series 2017B—Private College Facility Revenue Bonds | 17,610,000 | 20,245,000 |
| Series 2016—Private College Facility Revenue and Refunding Bonds maturing April 1, 2038. The bonds bear interest at fixed rates ranging from 3.0% to 4.0%. | 23,830,000 | 25,655,000 |
| Loan agreements with qualified community development entity related to QLICIA & QLICIB —Community Holdings, LLC | 7,840,000 | 7,840,000 |
| Loans and bonds payable subtotal | 56,640,000 | 62,165,000 |
| Less debt issuance costs—net | (555,292) | (603,563) |
| Loans and bonds payable | $ 56,084,708 | $ 61,561,437 |

The University issued a Series 2017A direct purchase, tax-exempt draw down bond on January 18, 2017 in the amount of $15,200,000 through the Iowa Higher Education Loan Authority ("IHELA") via a loan agreement with a commercial bank dated January 1, 2017. Series 2017A proceeds provided partial financing for two new academic buildings as part of the STEM@Drake project. The underlying bond matures on June 1, 2027, and may be paid at any time with 30 days' notice. Prepayments may be applied to future scheduled bond payments. The bonds are collateralized by pledges. Principal payments are due annually on June 1, with interest payments due quarterly beginning September 1. The interest rate varies based on a spread over a 1-month LIBOR index, reset monthly, through December 1, 2021.

The University issued a Series 2017B direct purchase, tax-exempt bond on February 7, 2017 in the amount of $29,695,000 through IHELA via a loan agreement with a commercial bank dated February 1, 2017. Series 2017B proceeds refinanced the outstanding Series 2008 bonds which refunded the previous bonds that financed, in part, the Goodwin Kirk renovation, Knapp Center, and Opperman Hall. The underlying bond matures on June 1, 2031, and may be paid at any time with 30 days' notice. Principal payments are due semi-annually on December 1 and June 1, with interest payments due monthly. The interest rate varies based on a spread over a 1-month LIBOR index, reset monthly, through December 1, 2021. The bond is hedged with an interest rate swap.

Community Holdings, LLC entered into two loan agreements with a qualified community development entity as part of a New Markets Tax Credit financing arrangement related to the Gregory & Suzie Glazer Burt Club building which was opened on August 23, 2019. The two loans (QLICI A & QLICI B) were issued on November 27, 2019 for $5,623,100 and

$2,216,900, respectively. Both loans were issued at a fixed interest rate of 2.07%, and are repaid by interest-only quarterly loan payments through December 1, 2026, and thereafter by quarterly principal and interest payments through the maturity date of November 27, 2049. Quarterly payment dates occur on the 1st day of March, June, September, and December. The loans are collateralized by a mortgage on the building and the University has guaranteed the loans on behalf of Community Holdings, LLC.

The University's loans and bonds are general obligations of the University. The loan and bond agreements contain various financial covenants, such as liquidity ratios. As of June 30, 2021 and 2020, the University was in compliance with all such financial covenants.

Contractual maturities on loans and bonds payable of the University subsequent to June 30, 2021, are as follows:

| **Years Ending June 30** | |
|---|---|
| 2022 | $ 6,135,000 |
| 2023 | 2,585,000 |
| 2024 | 2,675,000 |
| 2025 | 3,305,000 |
| 2026 | 2,205,000 |
| Thereafter | 39,735,000 |
| | $56,640,000 |

The above schedule has been prepared based on the contractual maturities of the debt outstanding as of June 30, 2021.

**Interest Rate Swap Agreements**—In order to minimize the impact of interest rate changes, the University had entered into three interest rate swap agreements. Under the terms of the interest rate swaps, the University receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. The terms of the swap transactions are aligned with the underlying bond maturities. On June 22, 2021, the University terminated the Series 2003 and Series 2005 interest rate swaps. The University recognized a loss of $227,047 on the swap terminations. The interest rate swap agreements have an outstanding notional of $12,000,000 and $19,650,000 as of June 30, 2021 and 2020, respectively.

The following tables provide approximate fair value details regarding the University's derivative financial instruments as of and for the years ended June 30, 2021 and 2020:

| | **As of June 30, 2021** | | | |
|---|---|---|---|---|
| | **Asset Derivatives** | | **Liability Derivatives** | |
| | **Balance Sheet Location** | **Fair Value** | **Balance Sheet Location** | **Fair Value** |
| Interest rate swaps | | $ | Other liabilities | $ (4,201,710) |
| Total derivatives | | $ | | $ (4,201,710) |

| | For the Year Ended June 30, 2021 | |
|---|---|---|
| | Location of Gain (Loss) Recognized in Income | Amount of Gain (Loss) Recognized in Income on Derivatives |
| Interest rate swaps | Change in fair value of interest rate swap agreements | $ 1,185,829 |
| Interest rate swaps | Realized gain on swap terminations | 227,047 |
| Total | | $ 1,412,876 |

| | As of June 30, 2020 | | | |
|---|---|---|---|---|
| | Asset Derivatives | | Liability Derivatives | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest rate swaps | | $ - | Other liabilities | $ (5,850,962) |
| Total derivatives | | $ - | | $ (5,850,962) |

| | For the Year Ended June 30, 2020 | |
|---|---|---|
| | Location of Gain (Loss) Recognized in Income | Amount of Gain (Loss) Recognized in Income on Derivatives |
| Interest rate swaps | Change in fair value of interest rate swap agreements | $ (1,123,424) |
| Total | | $ (1,123,424) |

The liability under interest rate swap agreements, which is included in “Other Liabilities” in the statements of financial position at June 30, 2021 and 2020, is as follows:

| | **2021** | **2020** |
|---|---|---|
| Series 2001 (refunded into Series 2017B) notional amounts as of June 30, 2021 and 2020, of $12,000,000 and $12,000,000, respectively at 4.49% | $ (4,201,710) | $ (5,387,539) |
| Series 2003 (refunded into Series 2017B) notional amounts as of June 30, 2021 and 2021, of $0 and $4,185,000, respectively, at 3.29% | | (345,688) |
| Series 2005 (refunded into Series 2017B) notional amounts as of June 30, 2021 and 2020, of $0 and $3,465,000, respectively, at 3.48% | | (117,735) |
| | $ (4,201,710) | $ (5,850,962) |

The University incurred interest expense related to its interest rate swap agreements of approximately $729,000 and $634,000 for the years ended June 30, 2021 and 2020, respectively.

## 7. ENDOWMENT NET ASSETS

The University’s endowment consists of donor gifts (net assets with donor restrictions—perpetual) plus other Board-designated funds (net assets without donor restrictions) and funds held in trust by others which are deemed to be held and invested in perpetuity. The Board of Trustees approves a spending policy annually for the endowment.

The University follows the IUPMIFA. IUPMIFA prescribes guidelines for expenditure of donor-restricted endowment funds. Per IUPMIFA, an institution may appropriate for expenditure as the institution determines is prudent for uses, benefits, purposes and duration for which the endowment is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution. Appropriation for expenditure is deemed to occur upon approval for expenditure unless approval is for a future period, in which case appropriation is deemed to occur when that period is reached. IUPMIFA does not apply to board-designated endowment funds and therefore the appreciation on these funds remains a part of net assets without donor restrictions.

The endowment net assets activity consisted of the following for the year ended June 30, 2021:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets—July 1, 2020 | $ 59,611,387 | $ 160,188,781 | $ 219,800,168 |
| Total gifts (excluding pledges) | 350,536 | 4,115,519 | 4,466,055 |
| Total other changes | 54,482 | 330,677 | 385,159 |
| Total investment return—net | 17,732,048 | 48,508,706 | 66,240,754 |
| Endowment income used in operations | (3,513,372) | (7,596,518) | (11,109,890) |
| Endowment net assets—June 30, 2021 | $ 74,235,081 | $ 205,547,165 | $ 279,782,246 |

The endowment net assets activity consisted of the following for the year ended June 30, 2020:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets—July 1, 2019 | $ 62,903,468 | $ 163,251,438 | $ 226,154,906 |
| Total gifts (excluding pledges) | 374,887 | 3,091,307 | 3,466,194 |
| Total other changes | (918,250) | 795,480 | (122,770) |
| Total investment return—net | 852,434 | 347,434 | 1,199,868 |
| Endowment income used in operations | (3,601,152) | (7,296,878) | (10,898,030) |
| Endowment net assets—June 30, 2020 | $ 59,611,387 | $ 160,188,781 | $ 219,800,168 |

All endowment net assets classified as net assets without donor restrictions are board-designated funds. All endowment net assets classified as net assets with donor restrictions are classified accordingly based on donor-imposed restrictions.

Endowment net assets were classified as follows as of June 30, 2021 and 2020:

| | June 30, 2021 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor restricted endowment funds | $ | $ 192,375,455 | $ 192,375,455 |
| Funds held in trust | | 13,171,710 | 13,171,710 |
| Board-designated funds functioning as endowment funds | 74,235,081 | | 74,235,081 |
| Total endowment net assets | $ 74,235,081 | $ 205,547,165 | $ 279,782,246 |

| | June 30, 2020 | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| Donor restricted endowment funds | $ - | $ 149,291,327 | $ 149,291,327 |
| Funds held in trust | | 10,897,454 | 10,897,454 |
| Board-designated funds functioning as endowment funds | 59,611,387 | | 59,611,387 |
| Total endowment net assets | $ 59,611,387 | $ 160,188,781 | $ 219,800,168 |

**Funds with Deficiencies**—A donor-restricted endowment fund is considered to be underwater if the fair value of the fund is less than either the original gift amount or the amount required to be maintained by the donor or by law. At times, the University may have individual donor-restricted endowment funds that are underwater. The University has a policy that permits spending from underwater funds depending on the degree to which the fund is underwater, unless specifically prohibited by the donor or relevant laws and regulations. At June 30, 2021 and 2020, the amount by which funds were underwater was calculated as follows:

| | **2021** | **2020** |
|---|---|---|
| Aggregate original gift amount | $ 456,842 | $85,410,884 |
| Aggregate fair value | 426,439 | 78,996,910 |
| Aggregate deficiency | $ (30,403) | $ (6,413,974) |

**Return Objectives and Risk Parameters**—The University intends that its endowment will be invested to enhance the real purchasing power of the principal of the fund and to provide reasonably stable and predictable cash flows from the endowment for its operating purposes.

The primary investment objective of the endowment fund is to achieve at least an annualized total return, after investment management fees, of 5% in excess of inflation (as defined by the Consumer Price Index) based on the endowment's long-term goal of distributing between 4% and 5% of a twelve-quarter average of the endowment's fair values as established each year by the Board of Trustees.

**Spending Policy**—For the years ended June 30, 2021 and 2020, the endowment distribution under the Board of Trustees approved spending policy was calculated as 5% of a twelve-quarter average of the fair value of endowment net assets.

## 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Time or purpose restrictions: | | |
| Unexpended for restricted purposes | $ 11,811,416 | $ 10,816,295 |
| Contributions for capital asset acquisition | 4,638,829 | 7,571,834 |
| Endowment | 48,755,523 | 10,117,592 |
| Annuity and life income | 772,739 | 748,824 |
| Contributions receivable | 15,311,678 | 14,748,959 |
| Total net assets with donor restrictions—time or purpose | 81,290,185 | 44,003,504 |
| Perpetual restrictions: | | |
| Student loans | 273,068 | 418,897 |
| Endowment | 143,619,930 | 139,173,734 |
| Annuity and life income | 1,076,281 | 1,034,675 |
| Funds held in trust by others | 13,171,710 | 10,897,454 |
| Contributions receivable | 1,233,231 | 1,447,568 |
| Total net assets with donor restrictions—perpetual | 159,374,220 | 152,972,328 |
| Total net assets with donor restrictions | $ 240,664,405 | $ 196,975,832 |

## 9. RETIREMENT BENEFITS

The University is a participant in the Teachers Insurance and Annuity Association—College Retirement Equity Fund (TIAA-CREF), which is a defined contribution plan. TIAA-CREF does not segregate the assets, liabilities, or costs by participating employer, since the accounts are maintained on an employee-basis only. Total retirement benefit expense was approximately $713,000 and $4,956,000 for the years ended June 30, 2021 and 2020, respectively. Accrued retirement benefit costs are funded on a current basis.

In addition to providing retirement benefits, the University provides certain health care insurance benefits for retired employees. Substantially all of the University's employees who were hired prior to September 15, 1994, may become eligible for those benefits if they reach normal retirement age while working for the University or have elected to take early retirement under voluntary early retirement agreements. Employees hired after September 15, 1994, may elect to participate in the health care plans while bearing the full cost of premiums. The plan is contributory with retiree contributions adjusted annually, and contains other cost-sharing features, such as deductibles and coinsurance. The University's policy is to fund the cost of medical benefits in amounts determined at the discretion of management.

The following tables set forth the plan's benefit obligation, fair value of plan assets, components of net periodic benefit cost, and weighted average actuarial assumptions as of June 30, 2021 and 2020:

| | **2021** | **2020** |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of period | $13,664,188 | $13,806,551 |
| Service cost | 109,140 | 100,422 |
| Interest cost | 315,164 | 400,585 |
| Actuarial gain | 289,335 | 380,495 |
| Benefits paid | (1,057,321) | (1,023,865) |
| Benefit obligation at end of period | $13,320,506 | $13,664,188 |

| | **2021** | **2020** |
|---|---|---|
| Change in fair value of plan assets: | | |
| Fair value of plan assets at beginning of period | $ - | $ - |
| Employee/employer contributions | 1,057,321 | 1,023,865 |
| Benefits paid | (1,057,321) | (1,023,865) |
| Fair value of plan assets at end of period | $ - | $ - |

| | **2021** | **2020** |
|---|---|---|
| Components of net periodic benefit cost: | | |
| Service cost | $ 109,140 | $ 100,422 |
| Interest cost | 315,164 | 400,585 |
| Amortization of (gain)/loss | | (62,841) |
| Net periodic benefit cost | $ 424,304 | $ 438,166 |

| | **2021** | **2020** |
|---|---|---|
| Actuarial assumptions: | | |
| Discount rate | 2.50 % | 2.29 % |
| Healthcare cost present trend rate | 4.90 % | 5.20 % |
| Healthcare cost ultimate trend rate (year of stabilization) | 3.70% (2074) | 3.70% (2074) |

Mortality assumptions: Pri-2012 Total Dataset Mortality Tables (Employee and Retiree tables) with MP-2020 generational projection from the 2012 base year for 2021; and MP-2019 generational projection from the 2012 base year for 2020.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| As of June 30, 2021 | 1% Increase | 1% Decrease |
|---|---|---|
| Effect on total of service and interest cost | $ 43,500 | $ (36,100) |
| Effect on postretirement benefit obligations | 1,303,800 | (1,093,700) |
| **As of June 30, 2020** | | |
| Effect on total of service and interest cost | $ 45,700 | $ (41,500) |
| Effect on postretirement benefit obligations | 1,221,800 | (1,041,800) |

**Cash Contributions, Benefit Payments, and Asset Allocation**—The University's postretirement benefits are unfunded, therefore cash contributions for postretirement benefits are equal to the current year benefit payments.

The following table details the expected cash contributions and benefit payments for the years ended June 30, 2022 through 2031:

| | |
|---|---|
| 2022 | $ 924,000 |
| 2023 | 919,000 |
| 2024 | 846,000 |
| 2025 | 812,000 |
| 2026 | 776,000 |
| Years 2027–2031 | 3,570,000 |

All benefit payments for other postretirement benefits are voluntary, as the postretirement plans are not funded, and are not subject to any minimum regulatory funding requirements. The University's postretirement plan had no plan assets as of June 30, 2021 and 2020. Benefit payments for each year represent claims paid for medical expenses, and the University anticipates the 2022 postretirement benefit payments will be made from cash generated from operations.

## 10. ASSET RETIREMENT OBLIGATIONS

The University records an asset retirement obligation (ARO) for legal obligations related to the retirement of long-lived physical assets. The University estimates its ARO liabilities based upon a third-party estimate of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation and discounted at a credit-adjusted, risk-free rate. The University then records an ARO asset associated with the liability. The ARO assets are depreciated over their expected lives, and the ARO liabilities are accreted to the projected spending date. Changes in estimates could occur due to plan revisions, changes in estimated costs, or changes in timing of the performance of removal activities.

The University follows ASC 410-20, *Asset Retirement and Environmental Obligations*. ASC 410-20 clarifies that the term refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, the University is required to recognize a liability for the fair value of a conditional ARO if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional ARO is factored into the measurement of the liability when sufficient information exists.

The change in the balance of the total ARO liability which is recorded in "Other Liabilities" in the consolidated statements of financial position is summarized as follows:

| | For the Year Ended June 30, | |
|---|---|---|
| | **2021** | **2020** |
| Beginning balance | $ 1,477,645 | $ 1,590,933 |
| Accretion | 71,727 | 69,023 |
| Change in assumptions | (13,826) | (182,311) |
| Ending balance | $ 1,535,546 | $ 1,477,645 |

The ARO liability represents the University's legal obligation to remove asbestos in an environmentally acceptable manner from certain buildings on campus.

## 11. EXPENSES BY FUNCTIONAL AND NATURAL CLASSIFICATION

Expenses are presented in the consolidated statements of activities by functional classification in alignment with the overall mission of the University. The University's primary program services are comprised of instruction, research, public service, academic support, student services, institutional support, and auxiliary enterprises. Expenses reported as student services and auxiliary enterprises are incurred in support of primary activities.

Natural expenses attributable to more than one functional expense category are allocated using reasonable cost allocation techniques. The University allocates operation and maintenance of plant, depreciation, amortization, and asset retirement obligation expense based on proportional expenditures using estimates of building square footage. The University allocates interest expense to the functional categories which have benefited from the associated debt.

Expenses by functional and natural classification for the years ended June 30, 2021 and 2020, were as follows:

| **2021**<br>**Natural Classification** | **Instruction & Academic Support** | **Student Services** | **Institutional Support** | **Auxiliary Enterprises** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| Salaries & wages | $42,529,273 | $ 9,590,186 | $ 8,197,695 | $ 561,113 | $ 5,618,592 | $ 66,496,859 |
| Employee benefits | 13,385,711 | 2,971,553 | 353,720 | 614,477 | 1,462,663 | 18,788,124 |
| Non-personnel operating expenses | 6,056,507 | 9,382,324 | 7,120,390 | 5,607,383 | 6,066,022 | 34,232,626 |
| Allocations: | | | | | | |
| Depreciation, amortization, ARO expense | 4,313,935 | 2,755,240 | 697,295 | 2,654,340 | 232,026 | 10,652,836 |
| Interest expense | 673,192 | 108,650 | 47,354 | 802,616 | 162,288 | 1,794,100 |
| Operations and maintenance | 3,796,087 | 2,411,204 | 658,819 | 2,341,062 | 191,868 | 9,399,040 |
| Total operating expenses | $70,754,705 | $27,219,157 | $17,075,273 | $12,580,991 | $13,733,459 | $141,363,585 |

| 2020<br>Natural Classification | Instruction & Academic Support | Student Services | Institutional Support | Auxiliary Enterprises | Other | Total |
|---|---|---|---|---|---|---|
| Salaries & wages | $43,587,210 | $10,393,373 | $ 8,818,473 | $ 503,743 | $ 5,549,611 | $ 68,852,410 |
| Employee benefits | 16,043,204 | 3,711,655 | 176,785 | 579,190 | 1,525,091 | 22,035,925 |
| Non-personnel operating expenses | 7,279,940 | 8,828,254 | 6,675,752 | 5,988,988 | 7,161,738 | 35,934,672 |
| Allocations: | | | | | | |
| Depreciation, amortization, ARO expense | 4,222,421 | 2,710,865 | 581,022 | 2,601,435 | 251,548 | 10,367,291 |
| Interest expense | 865,469 | 181,943 | 50,220 | 833,285 | 96,471 | 2,027,388 |
| Operations and maintenance | 3,855,929 | 2,459,245 | 582,256 | 2,380,901 | 222,614 | 9,500,945 |
| Total operating expenses | $75,854,173 | $28,285,335 | $16,884,508 | $12,887,542 | $14,807,073 | $148,718,631 |

Expenses are categorized on a functional expenses basis as follows:

Instruction and academic support includes expenses for all activities that are part of an institution's instruction program. Expenses for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions are included. It also includes expenses incurred to provide support services for the institution's primary programs of instruction.

Student services are considered programmatic and include activities that, as their primary purpose, contribute to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program.

Institutional support includes centralized expenses incurred to provide support services for the institution's primary mission and program functions. This classification includes the university's governing board, executive management, fiscal operations, information technology services, and activities concerned with community and alumni relations, including development and fundraising.

Auxiliary enterprises support the furnishing of goods or services to students, faculty, staff, other institutional departments, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. These activities are managed to operate as a self-supporting activity and include expenses relating to the operation of the institution's auxiliary activities such as housing, food service, parking, and so forth.

The Other classification is made up of the functional classifications of Research and Public Service. The research classification includes all expenses for activities specifically organized to produce research, whether commissioned by an agency external to the institution or separately managed by an organizational unit within the institution. The public service classification includes expenses for activities established primarily to provide non-instructional services for the benefit of individuals and groups that are external to the institution.

## 12. INFORMATION USED IN THE DETERMINING DEPARTMENT OF EDUCATION'S FINANCIAL RESPONSIBILITY COMPOSITE SCORE

Section 498(c) of the Higher Education Act of 1965, as amended, requires for-profit and non-profit institutions to annually submit audited financial statements to the Department of Education (ED) to demonstrate they are maintaining the standards of financial responsibility necessary to participate in the Title IV programs. One of many standards which ED utilizes to gauge the financial responsibility of an institution is a composite of three ratios derived from an institution's audited financial statements.

The financial information below provides the correspondence between certain values presented in the University's consolidated financial statements and the values as they are included in the determination of the ratios used by ED to gauge the University's financial responsibility:

| | **2021** |
|---|---|
| **Long-Term Debt (1)** | |
| Pre-Implementation Long-term Debt | $ 48,683,874 |
| Allowable Post-Implementation Long-term Debt | 7,400,834 |
| Long-Term Debt | $ 56,084,708 |

**(1)** Long-term debt on the Financial Responsibility Composite Score supplemental schedule corresponds with the University's Loans and Bonds Payable in Note 6

| | **2021** |
|---|---|
| **Land, Buildings, and Equipment - Net** | |
| Pre-Implementation Land, Buildings, and Equipment - Net | $ 192,598,275 |
| Post-Implementation Land, Buildings, and Equipment - Net Financed with Long-Term Debt | 7,094,276 |
| Constructon in Progress | 747,307 |
| Post-Implementation Land, Buildings, and Equipment - Net Purchased without Long-Term Debt | 16,722,149 |
| Land, Buildings and Equipment - Net | $ 217,162,007 |

## 13. SUBSEQUENT EVENTS

Subsequent events related to the consolidated financial statements have been evaluated through November 1, 2021, the date the consolidated financial statements were available to be issued, and it has been determined that there are no events that require adjustment to, or disclosure in, these consolidated financial statements.

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