

FURMAN UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2021 and 2020

And Report of Independent Auditor

Furman University

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Independent Auditor's Report

To the Board of Trustees
Furman University
Greenville, South Carolina

We have audited the accompanying consolidated financial statements of Furman 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Furman University as of June 30, 2021 and 2020, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Reporting Required by Government Auditing Standards

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

Cherry Bekart LLP

Greenville, South Carolina
November 5, 2021

Furman University
Consolidated Statements of Financial Position

June 30, 2021 and 2020

| | 2021 | 2020 |
|--|-------------------------|-------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 36,046,397 | \$ 26,478,239 |
| Accounts receivable, net | 3,599,741 | 3,146,535 |
| Prepaid expenses and other assets | 4,045,012 | 4,290,409 |
| Contributions receivable, net | 66,617,675 | 16,706,224 |
| Investments | 748,382,794 | 565,422,507 |
| Equity interest in The Hollingsworth Funds, Inc. | 175,051,929 | 169,326,291 |
| Student loans and other notes receivable, net | 19,517 | 47,768 |
| Lease receivable | 15,389,157 | 13,944,616 |
| Property and equipment, net | 260,113,025 | 266,697,812 |
| Total assets | \$ 1,309,265,247 | \$ 1,066,060,401 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Payables and accrued liabilities | \$ 6,299,111 | \$ 5,482,919 |
| Accrued compensation and withholdings | 7,929,543 | 6,110,645 |
| Deferred revenue | 6,017,843 | 6,403,512 |
| Actuarial liability for annuities payable | 1,234,944 | 1,168,780 |
| Government advances for student loans | 12,402 | 369,113 |
| Bonds, notes and leases payable | 99,644,784 | 100,778,014 |
| Fair value of interest rate exchange agreement | - | 953,646 |
| Total liabilities | 121,138,627 | 121,266,629 |
| Net assets: | | |
| Without donor restrictions | 407,383,138 | 354,514,390 |
| With donor restrictions | 780,743,482 | 590,279,382 |
| Total net assets | 1,188,126,620 | 944,793,772 |
| Total liabilities and net assets | \$ 1,309,265,247 | \$ 1,066,060,401 |

See notes to consolidated financial statements.

| | 2021 | | | 2020 |
|---|-----------------------|-----------------------|-------------------------|-----------------------|
| | Without Donor | With Donor | Total | Total |
| | Restrictions | Restrictions | | |
| Operating revenues and support: | | | | |
| Tuition and fees, net | \$ 59,303,108 | \$ - | \$ 59,303,108 | \$ 71,972,522 |
| Contributions | 7,420,753 | 58,309,783 | 65,730,536 | 10,110,109 |
| Grants and contracts | 4,581,008 | 1,212,595 | 5,793,603 | 3,919,301 |
| Investment return designated for operations: | | | | |
| Endowment spending | 6,085,875 | 25,576,564 | 31,662,439 | 34,313,282 |
| Other investment income | 3,130,960 | - | 3,130,960 | 4,943,200 |
| Room, board, and other auxiliary services | 29,048,500 | - | 29,048,500 | 27,752,397 |
| Intercollegiate athletics | 1,753,616 | - | 1,753,616 | 4,510,087 |
| Other | 2,252,314 | 86,187 | 2,338,501 | 2,938,341 |
| Satisfaction of program restrictions | 31,991,135 | (31,991,135) | - | - |
| Total operating revenues and support | 145,567,269 | 53,193,994 | 198,761,263 | 160,459,239 |
| Operating expenses: | | | | |
| Instruction | 52,606,629 | - | 52,606,629 | 60,298,993 |
| Research | 2,430,813 | - | 2,430,813 | 2,100,814 |
| Public service | 406,080 | - | 406,080 | 320,268 |
| Academic support | 21,378,481 | - | 21,378,481 | 23,036,824 |
| Student services | 26,678,555 | - | 26,678,555 | 30,329,244 |
| Institutional support | 25,019,680 | - | 25,019,680 | 26,000,890 |
| Room, board, and other auxiliary services | 20,115,272 | - | 20,115,272 | 21,044,398 |
| Total operating expenses | 148,635,510 | - | 148,635,510 | 163,131,431 |
| Change in net assets from operating activities | (3,068,241) | 53,193,994 | 50,125,753 | (2,672,192) |
| Non-operating activities: | | | | |
| Investment return in excess (less than) amounts designated for current operations | 52,336,839 | 126,510,646 | 178,847,485 | (39,125,792) |
| Contributions | 92,105 | 11,643,897 | 11,736,002 | 8,942,950 |
| Net assets released from restrictions for plant | 834,344 | (834,344) | - | - |
| Donor designation changes | 780,296 | (780,296) | - | - |
| Change in interest rate exchange agreement | 61,028 | - | 61,028 | (96,226) |
| Other | 1,832,377 | 730,203 | 2,562,580 | (333,449) |
| Total non-operating activities | 55,936,989 | 137,270,106 | 193,207,095 | (30,612,517) |
| Change in net assets | 52,868,748 | 190,464,100 | 243,332,848 | (33,284,709) |
| Net assets, beginning of year | 354,514,390 | 590,279,382 | 944,793,772 | 978,078,481 |
| Net assets, end of year | \$ 407,383,138 | \$ 780,743,482 | \$ 1,188,126,620 | \$ 944,793,772 |

See notes to consolidated financial statements.

Furman University
Consolidated Statement of Activities

Year Ended June 30, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|-----------------------|
| Operating revenues and support: | | | |
| Tuition and fees, net | \$ 71,972,522 | \$ - | \$ 71,972,522 |
| Contributions | 3,374,360 | 6,735,749 | 10,110,109 |
| Grants and contracts | 2,537,555 | 1,381,746 | 3,919,301 |
| Investment return designated for operations: | | | |
| Endowment spending | 6,674,460 | 27,638,822 | 34,313,282 |
| Other investment income | 4,943,200 | - | 4,943,200 |
| Room, board, and other auxiliary services | 27,752,397 | - | 27,752,397 |
| Intercollegiate athletics | 4,510,087 | - | 4,510,087 |
| Other | 2,938,341 | - | 2,938,341 |
| Satisfaction of program restrictions | 39,797,345 | (39,797,345) | - |
| Total operating revenues and support | 164,500,267 | (4,041,028) | 160,459,239 |
| Operating expenses: | | | |
| Instruction | 60,298,993 | - | 60,298,993 |
| Research | 2,100,814 | - | 2,100,814 |
| Public service | 320,268 | - | 320,268 |
| Academic support | 23,036,824 | - | 23,036,824 |
| Student services | 30,329,244 | - | 30,329,244 |
| Institutional support | 26,000,890 | - | 26,000,890 |
| Room, board, and other auxiliary services | 21,044,398 | - | 21,044,398 |
| Total operating expenses | 163,131,431 | - | 163,131,431 |
| Change in net assets from operating activities | 1,368,836 | (4,041,028) | (2,672,192) |
| Non-operating activities: | | | |
| Investment return less than amounts designated for current operations | (13,886,227) | (25,239,565) | (39,125,792) |
| Contributions | 89,203 | 8,853,747 | 8,942,950 |
| Net assets released from restrictions for plant | 733,653 | (733,653) | - |
| Donor designation changes | 238,958 | (238,958) | - |
| Change in interest rate exchange agreement | (96,226) | - | (96,226) |
| Other | (253,508) | (79,941) | (333,449) |
| Total non-operating activities | (13,174,147) | (17,438,370) | (30,612,517) |
| Change in net assets | (11,805,311) | (21,479,398) | (33,284,709) |
| Net assets, beginning of year | 366,319,701 | 611,758,780 | 978,078,481 |
| Net assets, end of year | \$ 354,514,390 | \$ 590,279,382 | \$ 944,793,772 |

See notes to consolidated financial statements.

Furman University
Consolidated Statements of Cash Flows

Years Ended June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 243,332,848 | \$ (33,284,709) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 14,534,648 | 14,341,860 |
| Amortization of bond premium and bond issuance costs | (204,968) | (259,028) |
| Loss (gain) on disposal of property and equipment | 3,284 | (8,233) |
| Net realized gain on sale of investments | (42,553,368) | (3,353,105) |
| Net unrealized (gain) loss on investments | (151,088,304) | 7,570,145 |
| Loss on bond refinancing | 132,997 | - |
| Change in fair value of interest rate exchange agreement | (61,028) | 96,226 |
| Contributions restricted for long-term investment | (9,149,074) | (12,734,012) |
| Contributions restricted for investments subject to SIA | (50,546) | - |
| Change in value of obligations under split-interest agreements | 305,142 | 71,411 |
| Proceeds from sale of donated securities | 1,933,048 | 1,122,380 |
| Other non-cash operating items | (686) | (766) |
| Change in assets and liabilities | | |
| Accounts receivable | (453,206) | 2,579,325 |
| Prepaid expenses and other assets | 245,397 | 1,123,791 |
| Contributions receivable | (49,911,451) | 7,231,665 |
| Lease receivable | (1,444,541) | (1,452,262) |
| Payables and accrued liabilities | 671,950 | (1,580,177) |
| Accrued compensation and withholdings | 1,818,898 | 1,246,963 |
| Deferred revenue | (385,669) | (1,566,727) |
| Net cash from operating activities | <u>7,675,371</u> | <u>(18,855,253)</u> |
| Cash flows from investing activities: | | |
| Purchase of capital expenditures | (7,839,677) | (9,500,293) |
| Purchases of investments | (76,141,936) | (77,030,343) |
| Proceeds from sales and maturities of investments | 78,382,065 | 90,493,506 |
| Proceeds from disposals of property and equipment | 30,774 | 148,756 |
| Change in advances from federal government for student loans | (356,711) | (3,408,146) |
| Repayment of student loans | 28,937 | 2,953,167 |
| Net cash from investing activities | <u>(5,896,548)</u> | <u>3,656,647</u> |
| Cash flows from financing activities: | | |
| Contributions restricted for long-term investment | 9,149,074 | 12,734,012 |
| Principal payments on bonds, notes, leases payable, and interest rate exchange | (1,734,032) | (2,223,752) |
| Payments on call premium, interest on called bonds and issuance costs | (219,845) | - |
| Payments on split-interest agreements | (188,432) | (190,607) |
| Proceeds from sale of donated securities for long-term investment | 782,570 | 690,938 |
| Net cash from financing activities | <u>7,789,335</u> | <u>11,010,591</u> |
| Net change in cash and cash equivalents | 9,568,158 | (4,188,015) |
| Cash and cash equivalents, beginning of year | <u>26,478,239</u> | <u>30,666,254</u> |
| Cash and cash equivalents, end of year | <u>\$ 36,046,397</u> | <u>\$ 26,478,239</u> |
| Noncash investing and financing activities: | | |
| Bond payable proceeds to refinance new bonds | <u>35,830,000</u> | \$ - |
| Accounts payable for property and equipment acquisitions | <u>\$ 144,242</u> | <u>\$ 119,094</u> |

See notes to consolidated financial statements.

1 - Organization

Furman University (the "University"), founded in 1826, is a private, coeducational, not-for-profit institution of higher education located in Greenville, South Carolina. The University's primary emphasis is on providing a liberal arts education at the undergraduate level. The University also offers graduate and continuing education programs. The President and Board of Trustees, a self-perpetuating governing board with 36 members drawn from private, public and community interests, have oversight responsibility for all of the University's financial affairs.

The accompanying financial statements are the consolidated statements of the University and the Furman University Foundation (the "Foundation"). All material intercompany balances and transactions have been eliminated.

2 - Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Based on the existence or absence of donor-imposed restrictions, the University classifies resources into two categories: without donor restrictions and with donor restrictions.

Without donor restrictions – Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restriction class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restriction net asset class because the use of restricted contributions in accordance with the donors' stipulations results in the release of such restrictions.

With donor restrictions – Net assets with donor restrictions are limited as to use by donor-imposed stipulations that expire with the passage of time or that may be satisfied by action of the University. Net assets with donor restrictions are designated by donors for specific purposes, and include unconditional pledges, split-interest agreements, interests in trusts held by others, and accumulated appreciation on donor-restricted endowments which have not been appropriated by the Board of Trustees for distribution. Some net assets with donor restrictions are required by donors to be held in perpetuity. The donors of substantially all net assets held in perpetuity permit the University to use a portion of the income earned on the related investments for specified purposes.

Expirations of restrictions on net assets as the result of the passage of time, annual Board of Trustees' approval of the endowment spending rate, and/or fulfilling donor-imposed stipulations, are reported as net assets released from restrictions between the applicable classes of net assets in the consolidated statements of activities.

Cash and Cash Equivalents

Cash and cash equivalents, reported at fair value, are liquid assets with minimal interest rate risk and maturities of three months or less when purchased. Such assets primarily consist of depository account balances and money market funds.

2 - Summary of Significant Accounting Policies, continued*Concentration of Credit Risk*

The University places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. The University from time to time may have amounts on deposit in excess of the insured limits.

Investments

Investments, funds held in trust, and beneficial interests in trusts are recorded at fair value and primarily include investments in securities and investment funds.

Investments in securities include equity securities, fixed income instruments, registered mutual funds and exchange traded funds. Fair value for these investments is measured based on quoted prices in active markets, if available. If the market is inactive, fair value is determined by underlying managers after considering various sources of information and is reviewed by the University.

Investment funds primarily include investments in traditional equity and fixed income funds, hedge funds, and private equity funds. These investments are generally shares or units of trusts, partnerships, or other types of commingled vehicles and are reported at fair value in accordance with the University's valuation policies and procedures and U.S. GAAP. In accordance with U.S. GAAP, the University has estimated the fair value of its investments in investment funds on the basis of the net asset value ("NAV") per share of the investment (or its equivalent), as a practical expedient.

Of the amounts reported at NAV, approximately 55% of those investments as of June 30, 2021 are currently redeemable at NAV in 90 days or less under the current terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to inherent uncertainty of fair value, such estimates of fair value may differ from values that would have been applied had a readily available market existed and those differences could be material. Although a secondary market exists for these investments, the market is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is therefore reasonably possible that if the University were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and that discount could be significant.

The University's investments in investment funds are subject to the terms of the respective funds' agreements, private placement memoranda, and other governing agreements of such funds. These terms are typical for hedge funds and private equity arrangements. Additionally, such funds in which the University invests may restrict both the transferability of the University's interest and the University's ability to withdraw. In light of such restrictions imposed, an investment in these funds can be viewed as illiquid and subject to liquidity risks during periods of heightened volatility or market disruptions.

Investments are exposed to several risks including, but not limited to, market, credit, liquidity, currency, counterparty, interest rate, geopolitical, and other difficult to predict macro risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the University's consolidated financial statements.

2 - Summary of Significant Accounting Policies, continued*Fair Value Measurements*

The University follows the Financial Accounting Standards Board (“FASB”) guidance on *Fair Value Measurements* which defines fair value and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability at the measurement date. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are prices and valuations that are both significant to the fair value measurement and unobservable.

Fair Value Measurements of Financial Instruments

The carrying amounts of accounts receivable, prepaid expenses and other assets, payables and accrued liabilities, accrued compensation and withholding, and deferred revenue approximate fair value because of the short maturity of these financial instruments. Management has estimated the net realizable value of student loans and other notes receivable, evaluated collection history and has concluded the carrying amount approximates fair value. Management has estimated the net realizable value of contributions receivable based on the net present value of anticipated future cash flows reduced by an allowance for uncollectible contributions and has concluded the carrying amounts approximate fair value. Management has estimated the net realizable value of annuities payable based on the actuarial lifespan of the youngest intermediate beneficiary, discounted by the beneficiary income rate provided by the trust agreement and has concluded the carrying amounts approximate fair value. The fair value of investments is estimated as noted above and in Note 13. The fair value of interest rate exchange agreements is determined using pricing models developed based on the LIBOR rate and other unobservable market data. The carrying amount of notes payable with variable rates approximates the fair value because the variable rates reflect current market rates for notes payable with similar maturities and credit qualities. The fair value of notes payable with fixed interest rates is based on rates assumed to be currently available for bond issues with similar terms and average maturities.

Notes Receivable

The loan portfolio consists of loans granted by the University under the federally funded Perkins (formerly NDSL) program, and the A.C.E. institutional loan program. These funds are disbursed by the University based upon the demonstration of exceptional financial need, as presented by the student.

Property and Equipment

Property and equipment are recorded at cost at the date of acquisition or fair value at the date of donation. The University capitalizes assets that are greater than \$5,000 and have a useful life of at least 3 years. Repairs and maintenance costs are charged to operating expenses. Depreciation is calculated on the straight-line method over the assets’ estimated useful lives ranging from 3 to 75 years. Depreciation is not calculated on land, art collections, or construction in progress.

Conditional asset retirement obligations related to legal requirements to perform certain future activities associated with the retirement, disposal, or abandonment of capital assets are accrued to estimate the net present value for applicable future costs, e.g., asbestos abatement or removal.

2 - Summary of Significant Accounting Policies, continued*Costs of Borrowing*

Interest costs incurred on borrowed funds during the construction of capital assets, net of investment income on proceeds of borrowings that are held by a trustee, are capitalized as a component of the cost of acquiring the assets. Bond premiums and issuance costs are amortized over the term of the bonds.

Debt Portfolio Financial Instruments

Long-term debt and financing leases are reported at carrying value. The University employs an interest rate exchange agreement to manage market risks associated with a portion of its variable-rate debt. Gains or losses that result from changes in fair value are recognized as a non-operating item in the consolidated statements of activities. Periodic net cash settlement amounts with counterparties are accounted for as adjustments to interest expense on the related debt.

Parties to interest rate exchange agreements are subject to market risk for changes in interest rates as well as risk of credit loss in the event of nonperformance by the counterparty. The University's counterparty is a financial institution that meets rating criteria for financial stability and credit worthiness. Additionally, the agreement requires the posting of collateral when amounts subject to credit risk under the exchange arrangement exceeds specified levels. The agreement was terminated on September 22, 2020 and no new agreements were entered into.

Revenue Recognition

The University's revenue recognition policies are as follows:

Tuition and fees, net - Student tuition and fees are recorded as revenue in the fiscal year that the related educational services are rendered. Financial aid provided by the University is reflected as a reduction of tuition and fees and was \$62,575,063 and \$65,636,575 at June 30, 2021 and 2020, respectively. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Deferred revenue of \$536,373 and \$435,050 as of June 30, 2021 and 2020, respectively, represents performance obligations associated with payments received for enrollment deposits and prepayments for the fall semester, and rental housing deposits. In addition, students who officially withdraw from all courses during the semester will receive a partial refund in accordance with the University's refund policy. Historically, refunds of tuition have been approximately .15% of the total amount billed. Refunds issued reduce the amount of revenue recognized.

Grants and contracts - The University receives grant funding from various governmental and corporate sources. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or it may be a nonreciprocal transaction in which the resources provided are for the benefit of the University, the funding organization's mission, or the public at large.

Revenues from exchange transactions are recognized as performance obligations are satisfied, which in some cases are as related costs are incurred.

Revenues from non-exchange transactions (contributions) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied. In addition, the University has elected the simultaneous release option for conditional contributions that are also subject to purpose restrictions. Under this option, net assets without donor restrictions will include the donor-restricted contributions for which the purpose restrictions are met in the same reporting period as the revenue is recognized.

2 - Summary of Significant Accounting Policies, continued

Auxiliary enterprises - Auxiliary enterprises furnish services to students, faculty, and staff and include residence halls, an apartment complex, golf course, multi-purpose arena, conference center, food service, and bookstore and are recorded as revenue in the fiscal year that the related services are rendered or at the time the event or sale occurs.

Operating lease - The Foundation, as lessor, has a ground lease with Upstate Senior Living, Inc. ("USL"), a South Carolina not-for-profit corporation. USL constructed a continuing care retirement community on the property. USL is responsible for all operating expenses, maintenance, repairs and capital improvements of the continuing care retirement community.

Student Deposits and Deferred Revenue

Student deposits and deferred revenue represent payments received prior to the academic term and are included in deferred revenue on the consolidated statements for financial position. The following table depicts activity and balances for deposits and deferred revenue related to enrollment deposits, tuition and fees, and student housing.

| | Tuition and Fees | Student Housing | Enrollment Deposits | Total |
|---|-----------------------------|----------------------------|--------------------------------|-------------------|
| Balance at June 30, 2019 | \$ 222,329 | \$ 378,223 | \$ 1,021,550 | \$ 1,622,102 |
| Revenue Recognized, Deposits Applied/Forfeited | (222,329) | (378,223) | (1,021,550) | (1,622,102) |
| Payments Received for Future Performance Obligations | 146,100 | 19,250 | 269,700 | 435,050 |
| Balance at June 30, 2020 | 146,100 | 19,250 | 269,700 | 435,050 |
| Revenue Recognized, Deposits Applied/Forfeited | (146,100) | (19,250) | (269,700) | (435,050) |
| Payments Received for Future Performance Obligations | 141,991 | 53,482 | 340,900 | 536,373 |
| Balance at June 30, 2021 | \$ 141,991 | \$ 53,482 | \$ 340,900 | \$ 536,373 |

The balance of deferred revenue at June 30, 2021 less any refunds will be recognized as services are rendered. The University applies the practical expedient in *Accounting Standards Codification* ("ASC") paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The University anticipates that students enrolled for the fall semester will continue their educational experience in the spring semester, and that students who receive their baccalaureate degree in either December or May will be replaced by an equivalent number of new enrollees.

In March 2020, the University temporarily shut down campus as part of the global COVID-19 pandemic and students completed their classes online. As a result of the closure, the University issued pro-rata housing and meal plan credits, net of financial aid, of \$3.8 million.

Contributions

Contributions, including contributions receivable, are recognized as revenue in the period received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return or release – are not recognized until donor stipulations are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value.

2 - Summary of Significant Accounting Policies, continued

Unconditional promises to give, with payments due to the University in future years, are recorded as net assets with donor restrictions at the estimated present value of estimated future cash flows, using a credit risk adjusted discount rate of return appropriate for the expected term of the promise to give. Amortization of the discounts is recorded as contribution revenue in the appropriate net asset class. An allowance for uncollectible contributions receivable is provided based upon management's judgment of such factors as prior collection history, type of contribution and other relevant factors.

Coronavirus Aid, Relief and Economic Security Act

On March 27, 2020, the U.S. Congress passed and Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which provided economic assistance for certain businesses and individuals. As allowed by the CARES Act, at June 30, 2021 and 2020, the University deferred payment of \$2,754,185 and \$966,848, respectively, for the employer portion of Social Security Payroll tax, which is included in accrued compensation and withholdings on the consolidated statements of financial position. Fifty percent of the deferred tax payment must be paid by December 31, 2021 with the remainder paid by December 31, 2022.

Revenues from government grants for the year ended June 30, 2021 includes \$1,780,191 of Higher Education Emergency Relief fund ("HEERF") funds received by the University for emergency aid for students and to cover institutional expenses due to the COVID-19 pandemic. Of the HEERF grant revenue recognized in fiscal year 2021, \$828,233 was included as deferred revenue on the consolidated statements of position as of June 30, 2020. There are no HEERF funds classified as deferred revenue on the consolidated statements of position as of June 30, 2021.

Operating Results

Operating results (change in net assets from operating activities) in the consolidated statements of activities excludes non-operating activities related to endowment and other investments, changes in fair value of derivative financial instruments, contributions supporting major capital purchases, contributions to the endowment, and certain other non-recurring items.

Endowment distributions reported as operating revenue consist of endowment returns (regardless of when such income or returns were earned) distributed to support current operational needs. The University's Board of Trustees approves the determination of amounts to be distributed from the endowment pool on an annual basis. Objectives of the endowment distribution methodology include reducing the impact of capital market fluctuations on current operations.

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based on facility usage. Additionally, interest expense is allocated to the activities that have benefited most directly from the debt proceeds.

Income Taxes

The University is exempt from federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code. However, certain income unrelated to its exempt function is subject to income taxation.

The University's policy is to record a liability for any tax position taken that is beneficial to the University, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of June 30, 2021 and 2020 and, accordingly, no liability has been accrued.

2 - Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates inherent in the preparation of the consolidated financial statements include estimates of the allowance for uncollectible accounts, estimates of fair value on non-publicly-traded securities, useful lives of depreciable assets, cash flows for contributions receivable and annuities payable, and actuarial assumptions used, and accruals for asset retirement obligation, interest rate exchange agreements, and self-insurance liabilities.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the consolidated statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of revenue recognition in the consolidated statement of activities. The University applied the standard to all leases using the modified retrospective method. The cumulative effect of the adoption did not have a material effect on the consolidated statement of financial position at June 30, 2021 and 2020 and the consolidated statements of activities for the years then ended.

Future Accounting Pronouncements

In September 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires presentation of contributed nonfinancial assets as a separate line item in the consolidated statement of activities, apart from contributions of cash and other financial assets. It also requires a disclosure of disaggregated contributions of nonfinancial assets by category that depicts the type of contributed nonfinancial assets. This distinction will increase transparency of contributions recognized. This standard will be effective for fiscal years beginning after June 15, 2021. Management is currently evaluating the impact the pending adoption will have on the University’s consolidated financial statements.

3 - Accounts Receivable

Accounts receivable as of June 30 are as follows:

| | 2021 | 2020 |
|--|----------------------------|----------------------------|
| Students | \$ 821,709 | \$ 1,258,493 |
| Grants | 1,496,673 | 917,543 |
| Agency funds | 287,927 | - |
| Other | 1,232,219 | 1,268,260 |
| Accounts receivable | <u>3,838,528</u> | <u>3,444,296</u> |
| Less: Allowance for uncollectible accounts | (238,787) | (297,761) |
| Accounts receivable, net | <u>\$ 3,599,741</u> | <u>\$ 3,146,535</u> |

Student accounts receivable are reported at the estimated net realizable amount and are written off after one year. Grants receivable are due primarily from federal and state agencies and are considered fully collectible. An allowance for doubtful accounts is established based on prior collection experience.

4 - Contributions Receivable

Contributions receivable, net, are summarized as follows at June 30:

| | 2021 | 2020 |
|--|-----------------------------|-----------------------------|
| Unconditional contributions expected to be collected in: | | |
| Less than one year | \$ 25,820,804 | \$ 12,166,235 |
| One to five years | 41,396,047 | 4,935,925 |
| Over five years | 465,407 | 240,750 |
| Charitable remainder trusts held by others | 2,542,555 | 2,125,343 |
| Contributions receivable | <u>70,224,813</u> | <u>19,468,253</u> |
| Less: | | |
| Unamortized discount | (1,216,295) | (787,961) |
| Allowance for uncollectible pledges | (2,390,843) | (1,974,068) |
| Contributions receivable, net | <u>\$ 66,617,675</u> | <u>\$ 16,706,224</u> |

Contributions receivable are discounted at a rate commensurate with the scheduled timing of receipt. The discount rate used for contributions receivable ranged from .16% and 6.17% at June 30, 2021 and 2020, respectively. The discount rate used for charitable remainder trusts held by others averaged approximately 5.6% at June 30, 2021 and 2020.

As of June 30, 2021 and 2020, the University has conditional contributions totaling \$100,000 and \$200,000, respectively. The outstanding conditional contribution, if received, will be restricted for the study away program.

At June 30, 2021 and 2020, gross written unconditional contributions receivable from members of the Board of Trustees and Officers of the University were \$6,064,358 and \$1,336,672, respectively.

5 - Investments

Investments by security type as of June 30 are as follows:

| | 2021 | 2020 |
|---|------------------------------|------------------------------|
| Equities | | |
| U.S. equity | \$ 28,800,948 | \$ 16,691,172 |
| U.S. equity funds | 101,451,558 | 84,192,865 |
| Developed international equity | 122,207,000 | 92,698,932 |
| Emerging markets | 51,276,820 | 33,779,602 |
| Closely-held stock | 101,341 | 328,225 |
| Fixed Income | | |
| Bond funds | 59,019,067 | 54,962,560 |
| U.S. government bond funds | 29,481 | 72,403 |
| Hedged Strategies | 130,255,086 | 118,144,389 |
| Private Capital | 155,871,483 | 89,146,580 |
| Other | | |
| Real estate | 2,875,864 | 5,508,146 |
| Real asset funds | 61,815,735 | 47,186,665 |
| Funds held in perpetual trust by others | 6,004,851 | 4,813,451 |
| Short-term investments | 21,575,232 | 11,677,292 |
| Receivable from redemptions | - | 1,061,088 |
| Total fair value | <u>741,284,466</u> | <u>560,263,370</u> |
| Real estate ⁽¹⁾ | 1,198,328 | 1,198,328 |
| Private capital ⁽¹⁾ | 5,900,000 | 3,960,809 |
| Total at cost | <u>7,098,328</u> | <u>5,159,137</u> |
| Total investments | <u>\$ 748,382,794</u> | <u>\$ 565,422,507</u> |
| Total cost | <u>\$ 434,554,604</u> | <u>\$ 401,534,614</u> |

⁽¹⁾ Direct investments in real estate and specific private capital investments are recorded at cost if purchased and at fair value at the date of the gift, if donated. Investments recorded at cost are reviewed annually for impairment. No impairment losses were recorded in fiscal years 2021 and 2020.

The fair value of investments held by the University under split-interest agreements was approximately \$3.7 million at June 30, 2021 and \$3.1 million at June 30, 2020. The University's investment activity for the years ended June 30 is detailed on the following page. Management fees are netted against interest and dividends and totaled \$2.8 million as of June 30, 2021 and \$5.7 million as of June 30, 2020.

5 - Investments, continued

Net investment return on investments for the years ended June 30 are as follows:

| | 2021 | 2020 |
|--|-----------------------|------------------------|
| Interest and dividends | \$ 19,999,212 | \$ 4,347,730 |
| Net realized gains from sales of investments | 42,553,368 | 3,353,105 |
| Net unrealized gain (loss) on investments | 151,088,304 | (7,570,145) |
| Total net investment return | 213,640,884 | 130,690 |
| Included in the consolidated statement of activities as investment return designated for current operations: | | |
| Endowment spending | (31,662,439) | (34,313,282) |
| Other investment income | (3,130,960) | (4,943,200) |
| Investment return less than amounts designated for current operations | \$ 178,847,485 | \$ (39,125,792) |

6 - Equity Interest in Hollingsworth Funds, Inc.

In December 2000, the equity interest of John D. Hollingsworth On Wheels, Inc. and substantial real estate holdings passed to an Internal Revenue Service ("IRS") qualified supporting organization, Hollingsworth Funds, Inc. (the "Funds") upon the death of John D. Hollingsworth, the company's founder and sole stockholder. According to Mr. Hollingsworth's last will and testament, Furman University will receive approximately forty-five percent of the annual distribution to beneficiaries of the Funds. During the year ending June 30, 2004, the estate of Mr. Hollingsworth cleared probate court and, accordingly, the University recognized its equity interest in his estate of \$115,346,777. The University and the Funds are financially inter-related organizations for financial reporting purposes and as a result, the University accounts for this interest under the equity method of accounting and recognizes its share of changes in net assets of the Funds.

The University recognized an unrealized gain of \$5,725,638 for fiscal year 2021 and an unrealized loss of \$12,193,390 for fiscal year 2020 which are included in the investment return in excess of amounts designated for current operations on the consolidated statements of activities. Income distributions from the Funds, which are reported as investment returns in the consolidated statement of activities was \$4,201,007 for fiscal year 2021 and \$3,895,459 for fiscal year 2020.

Summarized unaudited financial information of the Funds as of and for the years ended December 31 is as follows:

| | 2021 | 2020 |
|--------------------------------------|-----------------------|------------------------|
| Total assets | \$ 389,647,866 | \$ 376,898,579 |
| Total liabilities | \$ 2,572,077 | \$ 2,483,353 |
| Net assets | 387,075,789 | 374,415,226 |
| Total liabilities and net assets | \$ 389,647,866 | \$ 376,898,579 |
| Share of net assets | \$ 175,051,929 | \$ 169,326,291 |
| Revenues and gains | \$ 29,760,419 | \$ 42,396,118 |
| Expenses and losses | (18,249,395) | (15,092,335) |
| Income tax provision | 853,661 | (611,184) |
| Equity in net income of subsidiaries | 295,878 | 269,493 |
| Change in net assets | \$ 12,660,563 | \$ 26,962,092 |
| Share of change in net assets | \$ 5,725,638 | \$ (12,193,390) |

7 - Endowment

The University's endowment consists of more than a thousand separate funds established over many years for scholarships, professorships, academic programs and general institutional support. Endowment related net assets include donor-restricted endowments, board-designated endowments, the University's equity interest in Hollingsworth Funds, Inc., and interests in perpetual trusts held by others. Gift annuities and pledges are not considered components of the endowment. All of the University's endowment net assets without donor restrictions are board-designated endowments.

The Board of Trustees' interpretation of its fiduciary responsibilities for donor-restricted endowments under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), barring the existence of any donor-specific provisions, is to preserve intergenerational equity. Under this broad guideline, future endowment beneficiaries should receive at least the same level of economic support that the current generation enjoys. The overarching objective is to preserve and enhance the real (inflation-adjusted) purchasing power of the fund in perpetuity.

UPMIFA specifies that, unless stated otherwise in a gift instrument, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure. Barring the existence of specific instructions in gift agreements for donor-restricted endowments, the University reports the historical value for such endowments as net assets with donor restrictions held in perpetuity and the net accumulated appreciation as net assets with donor restrictions with purpose/time restrictions. In this context, historical value represents the original value of initial gifts restricted as permanent endowment, plus the original value of subsequent gifts, and if applicable, the value of accumulations made in accordance with the direction of specific donor gift agreements.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The University expects its endowment funds, over the majority of rolling five-year periods, to provide an average annual real rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation with investments in equity, fixed income, hedged, private capital, and natural resource/real asset strategies to achieve its long-term, risk-adjusted return objectives.

The Board designates only a portion of the University's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. Specific appropriation for expenditure of the University's endowment funds occurs each spring when the Board approves the University's operating budget for the ensuing year. For the year ended June 30, 2020, the University's endowment spending rate was based on 4.5% of the "spending base" established as of June 30, 2000. The base amount was increased at a rate of 4% annually, plus the nominal value of endowment gifts received through December 31 of the previous year. The University changed its spending policy effective August 2020. The objective of the new policy is to spend from the endowment pool no more than a 5% effective rate. Each year, the University will spend from the Endowment pool an amount equal to the average market value of the 12 trailing quarters as of the previous December 31st, multiplied by a rate of between 4% - 6%. The specific spending rate will be set each year through the university's annual budget process. The effective rate is defined as the current fiscal year's spending from the endowment pool divided by the previous fiscal year end's market value of the endowment pool.

The University considered the expected return on its endowment, when it established these policies. Accordingly, the University expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to or greater than planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

7 - Endowment, continued

Changes in endowment net assets for the years ended June 30, 2021 and 2020 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---|--|-----------------------|
| Endowment net assets, July 1, 2019 | \$ 117,907,594 | \$ 576,364,142 | \$ 694,271,736 |
| Investment return | (3,877,836) | 2,114,002 | (1,763,834) |
| Gifts and additions to endowment, net | 144,474 | 11,674,983 | 11,819,457 |
| Distributions | (6,674,460) | (27,638,822) | (34,313,282) |
| Endowment net assets, June 30, 2020 | 107,499,772 | 562,514,305 | 670,014,077 |
| Investment return | 40,163,856 | 154,153,339 | 194,317,195 |
| Gifts and additions to endowment, net | 159,081 | 6,140,043 | 6,299,124 |
| Distributions | (6,082,617) | (25,576,564) | (31,659,181) |
| Endowment net assets, June 30, 2021 | \$ 141,740,092 | \$ 697,231,123 | \$ 838,971,215 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. As of June 30, 2021 and 2020, donor restricted endowment funds that had a fair value below the original contribution value were \$108,228 and \$16,796,777, respectively, which had deficiencies of this nature of \$17,505 and \$555,641, respectively. These deficiencies resulted from unfavorable market declines that occurred after the investment of recent contributions with donor restrictions. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level will be classified as an increase in net assets with donor restrictions. Management believes these deficiencies will be relatively short-term in duration. The University limits the spending on endowment funds for funds that have a fair value of assets less than 80% of original contribution value.

Descriptions of amounts classified as net assets with donor restrictions (endowment only) are as follows:

| | 2021 | 2020 |
|--|-----------------------|-----------------------|
| The portion of perpetual funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA | \$ 221,202,267 | \$ 214,003,351 |
| Term endowment funds | 175,183,711 | 169,458,073 |
| The portion of perpetual endowment funds subject to a time restriction under UPMIFA | | |
| Without purpose restrictions | 31,769,630 | 20,886,752 |
| With purpose restrictions | 269,075,515 | 158,166,129 |
| With donor restriction net assets | <u>\$ 697,231,123</u> | <u>\$ 562,514,305</u> |

8 - Lease Receivable

The Foundation's ground lease with Upstate Senior Living, Inc. was amended and restated on September 17, 2017 to include the lease on Phase I parcel, as set forth in the existing lease, and the lease of the Phase II parcel. The amended and restated lease is for a term of one hundred years which ends August 31, 2116. Cumulative lease revenue for Phase I totals \$122,942,916 and for Phase II totals \$61,323,943, both of which is recognized on the straight-line basis over the 100-year lease term. Lease payments on Phase II were deferred until January 15, 2019. As of June 30, 2021 and 2020, the lease receivable totaled \$15,389,157 and \$13,944,616, respectively. The University recognized lease revenue of \$1,749,875 for fiscal years 2021 and 2020 which is included in other non-operating revenue on the consolidated statements of activities. An allowance for uncollectible lease receivable is established based on prior collection experience, and management has determined that an allowance is not required at June 30, 2021 and 2020.

Future lease payments to be received as of June 30, 2021 are as follows:

| | | |
|--------------|----|------------------------------|
| 2022 | \$ | 313,287 |
| 2023 | | 321,479 |
| 2024 | | 329,917 |
| 2025 | | 338,610 |
| 2026 | | 347,565 |
| Thereafter | | 181,726,307 |
| Total | | <u><u>\$ 183,377,165</u></u> |

9 - Notes Receivable

Notes receivable as of June 30 are as follows:

| | 2021 | 2020 |
|---------------------------------------|-------------------------|-------------------------|
| Federal Perkins loans | \$ 7,954 | \$ 35,643 |
| Institutional loans | 25,696 | 26,944 |
| Notes receivable | <u>33,650</u> | <u>62,587</u> |
| Less allowance for doubtful accounts: | | |
| Beginning of year | (14,819) | (441,293) |
| Change | 686 | 426,474 |
| End of year | <u>(14,133)</u> | <u>(14,819)</u> |
| Notes receivable, net | <u><u>\$ 19,517</u></u> | <u><u>\$ 47,768</u></u> |

9 - Notes Receivable, continued

Student notes receivable:

The University made uncollateralized student loans which are funded through the Federal Perkins revolving loan fund and an institutional loan fund created by the University to assist students in funding their education. The University acts as agent for the federal government in administering the Perkins revolving loan program.

Funds advanced by the federal government are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. The Perkins federal revolving loan program expired in September 2017. During fiscal year 2019, the University decided to voluntarily withdraw participation in the Perkins Loan Program and began the process of liquidating the University's Perkins loan portfolio.

10 - Property and Equipment

Property and equipment consists of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|------------------------------|------------------------------|
| Land and land improvements | \$ 39,101,585 | \$ 37,461,386 |
| Buildings | 338,395,053 | 337,694,612 |
| Equipment | 80,537,037 | 79,079,321 |
| Library books | 27,288,815 | 26,963,836 |
| Collections | 3,721,877 | 3,721,877 |
| Construction in progress | 6,521,621 | 4,090,283 |
| | <u>495,565,988</u> | <u>489,011,315</u> |
| Less accumulated depreciation | <u>(235,452,963)</u> | <u>(222,313,503)</u> |
| Total | <u>\$ 260,113,025</u> | <u>\$ 266,697,812</u> |

Depreciation expense totaled \$14,534,648 and \$14,341,860 in 2021 and 2020, respectively, and included depreciation expense for assets held under financing leases of \$83,709 and \$107,407, respectively, for the same periods.

The University has identified unconditional asset retirement obligations ("ARO"), primarily for the costs of asbestos removal and disposal. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related asset by the same amount as the liability. The liabilities were established using an inflation rate of 3% and a discount rate of 4.2% based on relevant factors at origination. ARO liabilities of \$1,447,054 for fiscal years 2021 and 2020 are included in payables and accrued liabilities in the consolidated statements of financial position. No accretion expense was recognized for the years ended June 30, 2021 and 2020.

11 - Long-Term Debt and Lease Obligations

Outstanding long-term debt and lease obligations as of June 30 were as follows:

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------------|------------------------------|
| Educational Facilities Revenue Bonds: | | |
| Series 2006B, due in varying installments (ranging from \$625,000 to \$1,220,000 with a balloon payment of \$13,375,000) through October 1, 2039. The bonds bear interest, payable monthly, at a variable rate (.16 % at June 30, 2020) which is determined by the remarketing agent pursuant to the Series 2006B Indenture. | \$ - | \$ 29,290,000 |
| Series 2010, serial bonds, due in varying installments (ranging from \$250,000 to \$1,845,000) through October 1, 2026. The bonds bear interest, payable semi-annually, at rates ranging from 3.000% to 5.000%. | - | 6,305,000 |
| Series 2015, serial bonds, due in varying installments (ranging from \$485,000 to \$5,600,000) through October 1, 2045. The bonds bear interest, payable semi-annually, at rates ranging from 3.000% to 5.000%. | 62,610,000 | 63,165,000 |
| Series 2020, serial bonds, due in varying installments (ranging from \$840,000 to \$13,215,000) through October 1, 2040. The bonds bear interest, payable, monthly at a fixed rate of 1.15%. | <u>34,990,000</u> | <u>-</u> |
| Par amount of long-term debt | 97,600,000 | 98,760,000 |
| Unamortized bond issuance costs | (632,268) | (642,992) |
| Unamortized net premium | <u>2,024,430</u> | <u>2,326,969</u> |
| Total long-term debt | 98,992,162 | 100,443,977 |
| Lease obligations | <u>652,622</u> | <u>334,037</u> |
| Long-term debt and lease obligations | <u>\$ 99,644,784</u> | <u>\$ 100,778,014</u> |

The preceding table reflects fixed/variable allocations before the effects of an interest rate exchange agreement used by the University to manage its debt portfolio. The exchange agreement is covered in more detail in a subsequent note.

In September 2020, the University issued Series 2020 tax-exempt fixed rate bonds in the aggregate amount of \$35,830,000 for the purpose of refunding the outstanding Educational Facilities Revenue Bonds, Series 2006B and Series 2010, in the amounts of \$29,290,000 and \$6,305,000, respectively, and paying cost of issuance of the Bonds in the amount of \$235,000.

The Series 2006B and Series 2010 refinancing transactions resulted in an accounting loss of \$132,997 which is included in other non-operating activities in the consolidated statement of activities.

11 - Long-Term Debt and Lease Obligations, continued

Aggregate maturities of long-term debt subsequent to June 30, 2021 are as follows:

| | |
|--------------|-----------------------------|
| 2022 | \$ 1,655,000 |
| 2023 | 1,700,000 |
| 2024 | 2,440,000 |
| 2025 | 2,520,000 |
| 2026 | 2,605,000 |
| Thereafter | 86,680,000 |
| Total | <u>\$ 97,600,000</u> |

The estimated fair value of the University's long-term debt, including current maturities, at June 30 is as follows:

| | 2021 | 2020 |
|---|------------------------------|------------------------------|
| Educational Facilities Revenue Bonds | <u>\$ 105,563,302</u> | <u>\$ 105,226,241</u> |
| Leases | 652,622 | 334,037 |
| Total estimated fair value of long-term debt | <u>\$ 106,215,924</u> | <u>\$ 105,560,278</u> |

Interest expense on a cash and accrual basis for the years ended June 30 follows:

| | 2021 | 2020 |
|-------------------------------|----------------------------|----------------------------|
| Cash paid for interest | \$ 3,405,903 | \$ 3,682,981 |
| Amortization of bond premium | (265,853) | (321,050) |
| Change in year-end accrual | (108,730) | (54,346) |
| Interest cost capitalized | (17,219) | 20,493 |
| Total interest expense | <u>\$ 3,014,101</u> | <u>\$ 3,328,078</u> |

For fiscal year 2020, liquidity support for the Series 2006B variable rate debt was provided by a bank standby bond purchase agreement. The commitment expired in July 2020. Since initiation of the credit agreement, there have been no borrowings required to support redemptions of variable rate debt. The University's standby bond purchase agreement contains certain covenants and restrictions involving maintenance of a specified debt coverage ratio. Management believes it was in compliance with all covenants and restrictions at June 30, 2020.

The University capitalizes and amortizes on a straight-line basis the original issue premium or discount and costs related to applicable bond issues. At June 30, 2021 and 2020, unamortized bond issuance costs, net, of \$632,268 and \$642,992, respectively, is included in bonds, notes, and leases payable on the University's consolidated statements of financial position. Additionally, unamortized original issue net premium on related bonds of \$2,024,430 and \$2,326,969 for the years ended June 30, 2021 and 2020, respectively, is included in bonds, notes and leases payable on the University's consolidated statements of financial position. Net amortization expense for issuance costs and premiums was \$204,968 and \$259,028 for the years ended June 30, 2021 and 2020, respectively.

In May 2020, the University entered into a \$30 million revolving line of credit with a national bank. The amount of the line of credit was available through May 2021. Interest was paid monthly based on the Adjusted LIBOR rate for the interest period. The revolving line of credit was renegotiated in May 2021 in an amount not to exceed \$10 million. The renegotiated line of credit has a two-year term with interest accruing at a variable rate per annum equal to one-month LIBOR plus a set spread. There were no outstanding amounts on the line of credit as of June 30, 2021 and 2020.

11 - Long-Term Debt and Lease Obligations, continued

The University has historically entered into several lease arrangements under which the University is the lessee. As of June 30, 2021, the University has entered into three operating leases and one financing lease.

The amount recognized as the right of use asset related to the University's financing lease is included in property and equipment, net on the consolidated statements of positions as of June 30, 2021.

Aggregate maturities of the lease obligations subsequent to June 30, 2021 are as follows:

| | Finance Lease | Operating Lease |
|--------------------------------|--------------------------|----------------------------|
| 2022 | \$ 91,466 | \$ 133,663 |
| 2023 | 91,466 | 99,229 |
| 2024 | 83,844 | 59,410 |
| 2025 | - | 61,192 |
| 2026 | - | 57,632 |
| Total undiscounted cash flows | 266,776 | 411,126 |
| Present value discount | (13,677) | (11,603) |
| Total lease obligations | \$ 253,099 | \$ 399,523 |

The total lease expense recognized is included on the consolidated statement of activities as of June 30, 2021 and are detailed as follows:

Lease expense:

| | |
|-------------------------------|-------------------|
| Finance lease expense | |
| Amortization of ROU assets | \$ 85,382 |
| Interest on lease liabilities | 10,282 |
| Operating lease expense | 81,618 |
| Total | \$ 177,282 |

Other required information on the University's lease obligations at June 30, 2021 are as follows:

Other Information:

| | |
|--|------------|
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from finance leases (i.e. interest) | \$ 10,521 |
| Financing cash flows from finance leases (i.e. principal portion) | \$ 80,945 |
| Operating cash flows from operating leases | \$ 76,318 |
| ROU assets obtained in exchange for new operating lease liabilities | \$ 282,778 |
| Weighted-average remaining lease term in years for finance leases | 2.92 |
| Weighted-average remaining lease term in years for operating leases | 3.93 |
| Weighted-average discount rate for finance leases | 3.54% |
| Weighted-average discount rate for operating leases | 1.75% |

12 - Interest Rate Exchange Arrangement

The University manages the fixed/variable mix of its debt portfolio, including hedging exposure to increasing interest expense from variable-rate debt, by using an interest rate exchange agreement. The agreement took effect on September 29, 2006 and was terminated on September 22, 2020. The termination fee and accrued interest totaled \$910,800.

At June 30, 2020, the notional amount outstanding was \$8,055,000. Under the exchange agreement, the University received a floating rate of interest based on 68% of LIBOR and made payments at a fixed interest rate of 3.635% on the notional amount.

Periodic net cash settlements paid to counterparties totaled \$88,999 and \$207,888 in fiscal 2021 and 2020, respectively, and were reflected as adjustments to interest expense.

As of June 30, 2020, the University's adjusted long-term debt portfolio, after taking into consideration the aforementioned derivative, was approximately 78% fixed and 22% variable. As of June 30, 2021, the University's debt portfolio is 100% fixed.

13 - Fair Value Measurement

The University uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.

Level 3 inputs are unobservable inputs for the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement.

Investments measured at NAV are those which the University has applied a practical expedient and concluded that NAV reported by the underlying fund approximated the fair value of investments, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. The University has no plans to sell these investments in the secondary market at amounts substantially different from NAV.

13 - Fair Value Measurement, continued

The majority of the University's underlying fund managers use a market approach to value an investment. In addition, the following inputs/valuation techniques are used – comparable security analysis, recent transactions, earnings and cash flow forecasts, market multiple analysis, discounted cash flow/time value of money, internal valuation models, third party appraisals, bona-fide offers, and 'at cost' for the period subsequent to acquisition.

The classification of a financial instrument within Level 3 is based on the significance of the unobservable inputs to the overall fair value measurement.

All net realized and unrealized gains and losses on Level 3 investments are reflected in the consolidated statements of activities as investment return in excess of amounts designated for current operations.

There were no transfers between levels during fiscal years 2021 and 2020.

A roll-forward of investments in which significant unobservable inputs (Level 3) were used in determining fair value is as follows:

| | |
|---------------------------------|-----------------------------------|
| Balance at June 30, 2019 | \$ 5,544,946 |
| Net realized losses | (37,387) |
| Purchases | 28,733 |
| Redemptions | (71,864) |
| Net unrealized losses | (41,353) |
| Balance at June 30, 2020 | <u>5,423,075</u> |
| Net realized gains | 518,699 |
| Redemptions | (223,316) |
| Net unrealized gains | 669,133 |
| Balance at June 30, 2021 | <u><u>\$ 6,387,591</u></u> |

For investments in entities that calculate net asset value or its equivalent whose fair value is not readily determinable, the following table provides information about the relative liquidity of these investments. The fair values of these investments have been estimated using net asset value per share of the investments, unless noted. Management is not aware of any factors that would impact net asset value as of June 30, 2021.

13 - Fair Value Measurement, continued

| | Fair Value | Unfunded Commitments | Redemption Frequency (if applicable) | Redemption Notice Period |
|--|------------------------------|---------------------------------|---|-------------------------------------|
| U.S. equity funds ^(a) | \$ 100,656,767 | \$ - | Daily - Quarterly | 0 - 60 days |
| Developed international equity ^(b) | 83,830,515 | - | Daily - 3 Years | 0 - 120 days |
| Emerging markets ^(c) | 51,072,747 | - | Daily - Monthly | 30 days |
| Bond funds ^(d) | 46,082,699 | - | Daily - Quarterly | 0 - 90 days |
| U.S. government bond funds ^(e) | 11,261 | - | N/A | N/A |
| Hedged Strategies ^(f) | 123,077,098 | 1,800,000 | Monthly - 5 Years | 45 - 90 days |
| Private Capital ^(g) | 155,871,483 | 35,685,146 | N/A | N/A |
| Public real asset funds ^(h) | 23,056,092 | - | Daily - Monthly | 0 - 5 days |
| Private non-marketable real asset funds ⁽ⁱ⁾ | 38,618,472 | 9,912,144 | N/A | N/A |
| Real estate ⁽ⁱ⁾ | 2,594,465 | 196,758 | N/A | N/A |
| | <u>\$ 624,871,599</u> | | | |

(a) Includes investments primarily in long-only and active extension funds that have both long and short U.S. equity positions. There typically can be exposure to international markets within these funds. The funds are broadly diversified and have net exposure equal to 100% net long. The active extension funds utilize strategies that incorporate fundamental and quantitative methods and seek to outperform their respective benchmarks on a risk-adjusted basis.

(b) Includes investments primarily in diversified, long-only commingled funds that invest in developed international markets. There can be exposure to North America and emerging markets within these funds as well as a limited amount of credit, real estate and short exposure. The funds are actively managed and seek to outperform their respective benchmarks on a risk-adjusted basis by over/under weighting countries, sectors and securities.

(c) Includes investments primarily in diversified, long-only commingled funds that invest in emerging market equities. There can be exposure to developed international and North American markets within these funds. The funds are actively managed and seek to outperform their respective benchmarks on a risk-adjusted basis by over/underweighting countries, sectors, and securities.

(d) Includes investments primarily via an active global government sovereign and emerging market bond fund and smaller positions in active global high yield and loans, a short-term real estate loan fund, and unconstrained multi-sector bond funds. The active funds seek to add value versus their benchmarks by over/underweighting sectors and countries/currencies (in the case of the global government bond fund).

(e) Includes investments in a fund that invests in US Treasury Inflation Protection Securities.

(f) Includes direct investments in equity long/short hedge funds, multi-strategy hedge funds, and credit long/short hedge funds. The funds in aggregate generally have net long exposure (50%-90%) and gross exposure ranging from 100% to 250%. Less than a third of the hedged strategy exposure is considered "locked up" with redemption arrangements one year or more. These exclude funds with gate provisions within their liquidity terms.

13 - Fair Value Measurement, continued

- (g) Includes investments primarily in private equity and venture capital funds, private debt and structured credit funds, fund-of-funds, and co-investments which invest in or lend to private partnerships that seek to grow capital and/or generate cash flow over longer periods of time. The strategies typically utilized are to take ownership positions in early-stage or start-up ventures, growth equity, potential turn-around candidates or buyouts, private lending, CLO equity, or other special situations. Because of the longer-term nature of these investment strategies, the University does not have the ability to withdraw or redeem funds. Instead, the partnerships return money to the University over a longer period of time, usually 3 to 12 years after the initial subscription and investment period, but could be longer in the event that extensions are utilized.
- (h) Includes investments primarily in commodities (an unlevered fund that invests in a variety of diversified, liquid futures contracts) and publicly traded REIT ETFs.
- (i) Includes investments in longer term private capital direct investments and partnerships that invest in natural resource assets (oil and gas, metals and mining, renewable energy, and power generation) and real estate funds and/or fund-of-funds (raw land, buildings, publicly-traded securities/commingled funds, and private partnerships) and asset-based leasing opportunities. Because of the longer-term nature of these investment strategies, the University does not have the ability to withdraw or redeem funds. Instead, the partnerships return money to the University over a longer period of time, usually 3 to 12 years after the initial subscription and investment period, but could be longer in the event that extensions are utilized.
- (j) Includes direct investments, equity and debt, in real estate properties.

14 - Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows for the years ended June 30:

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Purpose restrictions accomplished | | |
| Instruction and academic support | \$ 2,877,129 | \$ 5,942,001 |
| Research | 92,140 | 156,030 |
| Student services | 969,918 | 1,800,251 |
| Institutional support | 627,315 | 1,601,213 |
| Student aid | 1,489,525 | 2,396,718 |
| Endowment distributions | 25,576,564 | 27,638,822 |
| Other | 358,544 | 262,310 |
| Satisfaction of program restrictions from operations | 31,991,135 | 39,797,345 |
| Capital improvements | 834,344 | 733,653 |
| Total | \$ 32,825,479 | \$ 40,530,998 |

15 - Composition of Net Assets

Net assets with donor restrictions are available for the following purposes at June 30:

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| Subject to expenditure for specified purpose: | | |
| Instruction and academic support | \$ 209,440,990 | \$ 177,182,002 |
| Public service | - | 287,715 |
| Student services | 2,370,080 | 1,691,876 |
| Institutional support | 1,017,858 | 1,277,254 |
| Student aid | 1,426,584 | 2,136,173 |
| Capital projects | 2,836,653 | 1,788,670 |
| Unspecified designation | 24,973,049 | 270,523 |
| Endowment earnings | 300,845,145 | 179,052,882 |
| Total | 542,910,359 | 363,687,095 |
| Subject to the spending policy and appropriation: | | |
| Restricted in perpetuity, the income from which is expendable to support: | | |
| Student aid | 132,161,888 | 124,849,768 |
| Instruction and academic support | 86,626,424 | 88,183,659 |
| Student services | 621,245 | 1,253,495 |
| Capital projects and building maintenance | 18,423,564 | 12,305,365 |
| | 237,833,121 | 226,592,287 |
| Total | \$ 780,743,480 | \$ 590,279,382 |

16 - Expenses

Expenses by function and nature consist of the following for the years ended June 30, 2021 and 2020:

| | Instruction | Research | Public Service | Academic Support | Student Services | Institutional Support | Room, Board and Other Auxiliary Services | Total |
|---|----------------------|---------------------|-------------------|----------------------|----------------------|-----------------------|--|-----------------------|
| Salaries and Wages | \$ 27,526,973 | \$ 546,896 | \$ 281,507 | \$ 9,537,085 | \$ 11,427,333 | \$ 9,650,929 | \$ 2,162,499 | \$ 61,133,222 |
| Fringe Benefits | 10,139,879 | 58,286 | 78,762 | 2,637,922 | 3,397,880 | 4,864,457 | 550,716 | 21,727,902 |
| Operation and Maintenance of Plan | 6,081,258 | - | 22,542 | 1,800,403 | 2,349,681 | 1,230,441 | 2,256,889 | 13,741,214 |
| Depreciation | 3,341,735 | 301,489 | 1,634 | 2,555,604 | 2,382,542 | 1,163,707 | 4,787,937 | 14,534,648 |
| Interest | 1,668,227 | - | - | 3,305 | 46,997 | 243,593 | 1,112,864 | 3,074,986 |
| Other non-compensation operating expenses | 3,848,557 | 1,524,142 | 21,635 | 4,844,162 | 7,074,122 | 7,866,553 | 9,244,367 | 34,423,538 |
| Total | \$ 52,606,629 | \$ 2,430,813 | \$ 406,080 | \$ 21,378,481 | \$ 26,678,555 | \$ 25,019,680 | \$ 20,115,272 | \$ 148,635,510 |

| | Instruction | Research | Public Service | Academic Support | Student Services | Institutional Support | Room, Board and Other Auxiliary Services | Total |
|---|----------------------|---------------------|-------------------|----------------------|----------------------|-----------------------|--|-----------------------|
| Salaries and Wages | \$ 28,377,003 | \$ 542,682 | \$ 205,278 | \$ 10,792,735 | \$ 12,072,841 | \$ 9,640,252 | \$ 2,515,251 | \$ 64,146,042 |
| Fringe Benefits | 10,798,278 | 63,197 | 59,000 | 3,197,743 | 3,849,298 | 4,530,942 | 724,506 | 23,222,964 |
| Operation and Maintenance of Plan | 6,551,371 | - | 24,319 | 1,939,313 | 2,532,821 | 1,331,958 | 2,415,582 | 14,795,364 |
| Depreciation | 3,307,478 | 262,239 | 1,520 | 2,542,838 | 2,305,319 | 1,152,614 | 4,769,852 | 14,341,860 |
| Interest | 1,726,650 | - | - | 10,770 | 51,765 | 254,187 | 1,243,720 | 3,287,092 |
| Other non-compensation operating expenses | 9,538,213 | 1,232,696 | 30,151 | 4,553,425 | 9,517,200 | 9,090,937 | 9,375,487 | 43,338,109 |
| Total | \$ 60,298,993 | \$ 2,100,814 | \$ 320,268 | \$ 23,036,824 | \$ 30,329,244 | \$ 26,000,890 | \$ 21,044,398 | \$ 163,131,431 |

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include interest and plant operations and maintenance. Interest expense is allocated based on percentage of bond proceeds used to fund cost of construction while plant operations and maintenance is allocated on a square footage basis. Program functions consist of instruction, research, public service, academic support, student services, and auxiliary services and supporting functions consist of institutional support.

17 - Liquidity

Financial assets available for general expenditure within one year at June 30 are as follows:

| | 2021 | 2020 |
|---|-----------------------|-----------------------|
| Total Assets | \$ 1,309,265,247 | \$ 1,066,060,401 |
| Less non-financial assets: | | |
| Prepaid expenses and other assets | (4,045,012) | (4,290,409) |
| Property and equipment, net | (260,113,025) | (266,697,812) |
| Less financial assets unavailable for general expenditures within one year: | | |
| Endowment funds less equity interest in Hollingsworth | (663,919,286) | (500,687,786) |
| Other net assets restricted for specified purposes | (12,382,204) | (7,173,778) |
| Annuities, trusts, and other illiquid investments | (4,020,743) | (3,378,113) |
| Contributions receivable, net | (66,617,675) | (16,706,224) |
| Equity interest in The Hollingsworth Funds, Inc. | (175,051,929) | (169,326,291) |
| Student loans and other notes receivable, net | (19,517) | (47,768) |
| Lease receivable | (15,389,157) | (13,944,616) |
| Add financial assets available for general expenditures within one year: | | |
| Amount subject to appropriation within one year | 35,638,219 | 34,790,140 |
| Contributions receivable due in one year | 25,820,804 | 12,166,235 |
| Lease receivable due in one year | 313,287 | 305,334 |
| Financial assets available within one year | \$ 169,479,009 | \$ 131,069,313 |

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of instruction and the conduct of services undertaken to support those activities to be general expenditures. The University manages its financial assets to be available as its operating expenditures, liabilities, and other obligations come due. The University actively manages its resources and invests cash in excess of daily requirements in a combination of short, medium, and long-term investment strategies.

Endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditure. Board-designated endowment of \$141,740,092 and \$107,499,772 at June 30, 2021 and 2020, respectively, is subject to the University's spending policy as described in Note 7. The University does not intend to spend from the board-designated endowment other than amounts appropriated for general expenditure in accordance with the spending policy and has deducted these funds from total assets in the table above. However, these amounts could be made available if necessary.

18 - Retirement Plan

The University sponsors a defined contribution retirement plan that covers substantially all full-time faculty and staff employees. Contributions under this plan are applied to individual annuities issued to each plan participant. Effective August 1, 2020, employer contributions to the plan changed from 7.5% or 12.5% to 5% or 10% of base compensation based on years of service or attained age. Retirement expense was approximately \$5.2 million and \$6.8 million for the years ended June 30, 2021 and 2020, respectively.

19 - Development Expenses

The University incurred expenses related to development and fundraising amounting to approximately \$4.9 million and \$5.3 million during each of the years ended June 30, 2021 and 2020, respectively. Such expenses are included in institutional support on the consolidated statements of activities.

20 - Commitments and Contingencies

Construction and Equipment

At June 30, 2021, open contracts for the construction or purchase of physical properties amounted to approximately \$4.6 million.

Self-Insurance

The University provides employee healthcare benefits primarily through employer contributions, participant contributions, and excess loss insurance and manages those programs through a third party administrator. For the years ended June 30, 2021 and 2020, the self-insurance liability was \$635,000 and \$700,000, respectively, and is included in payables and accrued liabilities on the consolidated statements of financial position.

Litigation

The University is engaged in various legal actions occurring in the normal course of activities. While the final outcomes cannot be determined at this time, management is of the opinion that the resolution of these matters will not have a material adverse effect on the University's financial position.

Financial Aid

Federally and state funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the University. No such audits have occurred as of the date of the audit report; therefore, no provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

21 - Subsequent Events

The University evaluated events subsequent to June 30, 2021 and through November 5, 2021, the date on which the consolidated financial statements were available for issuance.