

**FURMAN UNIVERSITY**

**CONSOLIDATED FINANCIAL STATEMENTS**

*As of and for the Years Ended June 30, 2022 and 2021*

*And Report of Independent Auditor*

# Furman University

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## Report of Independent Auditor

To the Board of Trustees  
Furman University  
Greenville, South Carolina

### Opinion

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, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2022 and 2021, 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.

### Basis for Opinion

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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## **Other Matters**

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2022, 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 Bekaert LLP*

Greenville, South Carolina  
October 24, 2022

# Furman University

## Consolidated Statements of Financial Position

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 27,200,802	\$ 36,046,397
Accounts receivable, net	4,718,253	3,599,741
Prepaid expenses and other assets	5,692,181	4,064,529
Contributions receivable, net	70,936,998	66,617,675
Funds held in trust for bond issued	72,729,194	-
Investments	707,590,579	748,382,794
Equity interest in Hollingsworth Funds, Inc. and Subsidiaries	186,055,200	175,051,929
Lease receivable	16,825,745	15,389,157
Property and equipment, net	255,390,691	260,113,025
<b>Total assets</b>	<u>\$ 1,347,139,643</u>	<u>\$ 1,309,265,247</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Payables and accrued liabilities	\$ 6,521,074	\$ 6,311,513
Accrued compensation and withholdings	5,009,163	7,929,543
Deferred revenue	5,179,449	6,017,843
Actuarial liability for annuities payable	1,060,729	1,234,944
Bonds and lease obligations, net	173,171,032	99,644,784
<b>Total liabilities</b>	<u>\$ 190,941,447</u>	<u>121,138,627</u>
Net assets:		
Without donor restrictions	389,466,131	407,383,138
With donor restrictions	766,732,065	780,743,482
<b>Total net assets</b>	<u>1,156,198,196</u>	<u>1,188,126,620</u>
<b>Total liabilities and net assets</b>	<u>\$ 1,347,139,643</u>	<u>\$ 1,309,265,247</u>

See notes to consolidated financial statements.

# Furman University

## Consolidated Statement of Activities Year Ended June 30, 2022 (With Summarized Totals for 2021)

	2022			2021
	Without Donor	With Donor	Total	Total
	Restrictions	Restrictions		
<b>Operating revenues and support:</b>				
Tuition and fees, net	\$ 56,240,830	\$ -	\$ 56,240,830	\$ 59,303,108
Contributions	7,661,341	2,537,606	10,198,947	65,730,536
Grants and contracts	8,000,268	1,416,958	9,417,226	5,793,603
Investment return designated for operations:				
Endowment spending rate	6,032,600	26,477,709	32,510,309	31,662,439
Other investment income	3,130,960	-	3,130,960	3,130,960
Room, board, and other auxiliary services	33,771,131	-	33,771,131	29,048,500
Intercollegiate athletics	4,126,160	-	4,126,160	1,753,616
Other	3,732,440	56,575	3,789,015	2,338,501
Satisfaction of program restrictions	39,387,309	(39,387,309)	-	-
<b>Total operating revenues and support</b>	<b>162,083,039</b>	<b>(8,898,461)</b>	<b>153,184,578</b>	<b>198,761,263</b>
<b>Operating expenses:</b>				
Instruction	59,575,828	-	59,575,828	52,606,629
Research	2,649,830	-	2,649,830	2,430,813
Public service	499,333	-	499,333	406,080
Academic support	22,512,893	-	22,512,893	21,378,481
Student services	31,063,670	-	31,063,670	26,678,555
Institutional support	27,122,760	-	27,122,760	25,019,680
Room, board, and other auxiliary services	23,981,518	-	23,981,518	20,115,272
<b>Total operating expenses</b>	<b>167,405,832</b>	<b>-</b>	<b>167,405,832</b>	<b>148,635,510</b>
<b>Change in net assets from operating activities</b>	<b>(5,322,793)</b>	<b>(8,898,461)</b>	<b>(14,221,254)</b>	<b>50,125,753</b>
<b>Non-operating activities:</b>				
Investment return less amounts designated for current operations	(16,823,805)	(27,179,418)	(44,003,223)	178,847,485
Contributions	133,425	25,311,170	25,444,595	11,736,002
Net assets released from restrictions for plant	3,155,951	(3,155,951)	-	-
Donor designation changes	(546,163)	546,163	-	-
Change in interest rate exchange agreement	-	-	-	61,028
Other	1,486,378	(634,920)	851,458	2,562,580
<b>Total non-operating activities</b>	<b>(12,594,214)</b>	<b>(5,112,956)</b>	<b>(17,707,170)</b>	<b>193,207,095</b>
<b>Change in net assets</b>	<b>(17,917,007)</b>	<b>(14,011,417)</b>	<b>(31,928,424)</b>	<b>243,332,848</b>
Net assets, beginning of year	407,383,138	780,743,482	1,188,126,620	944,793,772
<b>Net assets, end of year</b>	<b>\$ 389,466,131</b>	<b>\$ 766,732,065</b>	<b>\$ 1,156,198,196</b>	<b>\$ 1,188,126,620</b>

See notes to consolidated financial statements.

Furman University  
Consolidated Statement of Activities

Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating revenues and support:</b>			
Tuition and fees, net	\$ 59,303,108	\$ -	\$ 59,303,108
Contributions	7,420,753	58,309,783	65,730,536
Grants and contracts	4,581,008	1,212,595	5,793,603
Investment return designated for operations:			
Endowment spending rate	6,085,875	25,576,564	31,662,439
Other investment income	3,130,960	-	3,130,960
Room, board, and other auxiliary services	29,048,500	-	29,048,500
Intercollegiate athletics	1,753,616	-	1,753,616
Other	2,252,314	86,187	2,338,501
Satisfaction of program restrictions	31,991,135	(31,991,135)	-
<b>Total operating revenues and support</b>	<b>145,567,269</b>	<b>53,193,994</b>	<b>198,761,263</b>
<b>Operating expenses:</b>			
Instruction	52,606,629	-	52,606,629
Research	2,430,813	-	2,430,813
Public service <sup>1</sup>	406,080	-	406,080
Academic support	21,378,481	-	21,378,481
Student services	26,678,555	-	26,678,555
Institutional support	25,019,680	-	25,019,680
Room, board, and other auxiliary services	20,115,272	-	20,115,272
<b>Total operating expenses</b>	<b>148,635,510</b>	<b>-</b>	<b>148,635,510</b>
<b>Change in net assets from operating activities</b>	<b>(3,068,241)</b>	<b>53,193,994</b>	<b>50,125,753</b>
<b>Non-operating activities:</b>			
Investment return less amounts designated for current operations	52,336,839	126,510,646	178,847,485
Contributions	92,105	11,643,897	11,736,002
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
Other	1,832,377	730,203	2,562,580
<b>Total non-operating activities</b>	<b>55,936,989</b>	<b>137,270,106</b>	<b>193,207,095</b>
<b>Change in net assets</b>	<b>52,868,748</b>	<b>190,464,100</b>	<b>243,332,848</b>
Net assets, beginning of year	354,514,390	590,279,382	944,793,772
<b>Net assets, end of year</b>	<b>\$ 407,383,138</b>	<b>\$ 780,743,482</b>	<b>\$ 1,188,126,620</b>

See notes to consolidated financial statements.

**Furman University**  
**Consolidated Statements of Cash Flows**

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b><i>Cash flows from operating activities:</i></b>		
Change in net assets	\$ (31,928,424)	\$ 243,332,848
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	15,132,175	14,534,648
Amortization of bond premium and bond issuance costs	(321,731)	(204,968)
(Gain) loss on disposal of property and equipment	(9,316)	3,284
Net realized gain on sale of investments	(35,273,585)	(42,553,368)
Net unrealized loss (gain) on investments	46,293,304	(151,088,304)
Loss on bond refinancing	-	132,997
Change in fair value of interest rate exchange agreement	-	(61,028)
Contributions restricted for long-term investment	(11,229,758)	(9,149,074)
Contributions restricted for investments subject to split-interest agreements	-	(50,546)
Change in value of obligations under split-interest agreements	17,705	305,142
Proceeds from sale of donated securities	1,035,062	1,933,048
Change in allowance for accounts receivable and contributions receivable	938,679	357,115
Change in assets and liabilities:		
Accounts receivable	(1,136,415)	(394,232)
Prepaid expenses and other assets	(1,631,994)	(82,377)
Contributions receivable	(5,240,762)	(50,328,226)
Lease receivable	(1,436,588)	(1,444,541)
Payables and accrued liabilities	214,566	671,950
Accrued compensation and withholdings	(2,920,380)	1,818,898
Deferred revenue	(838,394)	(385,669)
Net cash from operating activities	<u>(28,335,856)</u>	<u>7,347,597</u>
<b><i>Cash flows from investing activities:</i></b>		
Purchase of property and equipment	(10,457,150)	(7,839,677)
Purchases of investments	(144,970,868)	(76,141,936)
Proceeds from sales and maturities of investments	89,335,491	78,382,065
Proceeds from disposals of property and equipment	56,625	30,774
Net cash from investing activities	<u>(66,035,902)</u>	<u>(5,568,774)</u>
<b><i>Cash flows from financing activities:</i></b>		
Contributions restricted for long-term investment	11,229,758	9,149,074
Principal payments on bonds, lease obligations and interest rate exchange	(1,841,180)	(1,734,032)
Payments on call premium, interest on called bonds and issuance costs	(588,703)	(219,845)
Payments on split-interest agreements	(191,920)	(188,432)
Proceeds from borrowings	76,277,862	-
Proceeds from sale of donated securities for long-term investment	640,346	782,570
Net cash from financing activities	<u>85,526,163</u>	<u>7,789,335</u>
Net change in cash and cash equivalents	(8,845,595)	9,568,158
Cash and cash equivalents, beginning of year	36,046,397	26,478,239
Cash and cash equivalents, end of year	<u>\$ 27,200,802</u>	<u>\$ 36,046,397</u>
<b><i>Noncash investing and financing activities:</i></b>		
Bond payable proceeds to refinance new bonds	\$ -	\$ 35,830,000
Payables for property and equipment acquisitions	\$ -	\$ 144,242

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 contributions receivable, 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 from plant 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.

*Funds Held in Trust for Bond Issued*

Funds held in trust for bond issued, reported at fair value, are liquid assets with minimal interest rate risk and maturities of three months or less when purchased. Asset consists of a money market fund held by an outside trustee restricted by the bond issue for capital construction and interest due on bonds during construction.

*Investments*

Investment, funds held in trust, and beneficial interests in trusts 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.

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.

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 48% of those investments as of June 30, 2022, 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 the 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. Therefore, it is 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, which 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 withholdings, 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 by evaluating 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 actuarial liability 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 12. The carrying amount of bonds with variable rates approximate the fair value because the variable rates reflect current market rates for bonds with similar maturities and credit qualities. The fair value of bonds with fixed interest rates is based on rates assumed to be currently available for bond issues with similar terms and average maturities.

### *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.

*Revenue Recognition*

The University's revenue recognition policies are as follows:

**Tuition, fees, room, and board** - 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 \$70,167,580 and \$62,575,063 at June 30, 2022 and 2021, respectively. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Deferred revenue of \$676,387 and \$536,373 as of June 30, 2022 and 2021, 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 0.25% 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.

**Auxiliary services** - Auxiliary services 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.

**Lease receivable** - 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. The lease revenue is recognized on the straight-line basis over the term of the lease.

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

*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 tuition and fees, student housing, and enrollment deposits.

	<u>Tuition and Fees</u>	<u>Student Housing</u>	<u>Enrollment Deposits</u>	<u>Total</u>
<b>Balance at June 30, 2020</b>	\$ 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	<u>141,991</u>	<u>53,482</u>	<u>340,900</u>	<u>536,373</u>
<b>Balance at June 30, 2021</b>	141,991	53,482	340,900	536,373
Revenue Recognized, Deposits Applied/Forfeited	(141,991)	(53,482)	(340,900)	(536,373)
Payments Received for Future Performance Obligations	<u>313,837</u>	<u>-</u>	<u>362,550</u>	<u>676,387</u>
<b>Balance at June 30, 2022</b>	<u><u>\$ 313,837</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 362,550</u></u>	<u><u>\$ 676,387</u></u>

The balance of deferred revenue at June 30, 2022 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.

*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.

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.

**2 - Summary of Significant Accounting Policies, continued***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, the University deferred payment of \$2,754,185, for the employer portion of Social Security Payroll tax, which is included in accrued compensation and withholdings on the consolidated statements of financial position. The University paid the entire deferred tax payment by December 31, 2021 as required by the CARES Act.

Revenues from government grants include \$5,181,675 and \$1,780,191 for the years ended June 30, 2022 and 2021, respectively, of Higher Education Emergency Relief Fund (“HEERF”) funds received by the University for emergency aid for students and to cover lost revenue and institutional expenses due to the COVID-19 pandemic.

*Operating Results*

Operating results (change in net assets from operating activities) in the consolidated statements of activities exclude non-operating activities related to earnings on endowment in excess of the endowment spending rate, changes in fair value of interest rate exchange agreement, 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, 2022 and 2021 and, accordingly, no liability has been accrued.

*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, equity interest in Hollingsworth Funds, Inc. and Subsidiaries, 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.

## 2 - Summary of Significant Accounting Policies, continued

### *New 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 was implemented in July 1, 2021. The effect of the adoption did not have a material effect on the consolidated statements of activities for the years ended June 30, 2022.

### *Recent Accounting Pronouncement*

FASB issued ASU 2020-04, *Reference Rate Reforms* and related ASU 2021-01. The ASUs provide optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The optional expedients in this standard are only able to be applied between March 12, 2020 through December 31, 2022. The University is currently in the process of evaluating the impact of adoption of these ASUs on the consolidated financial statements.

## 3 - Accounts Receivable, Net

Accounts receivable, net, as of June 30 are as follows:

Student accounts receivable is reported at the estimated net realizable amount and are written off after one year. Grants receivable is due primarily from federal and state agencies and are considered fully collectible. Other receivables are mostly made up of customers receivable which are reported at the estimated net realizable amount. An allowance for uncollectible accounts is established based on prior collection experience.

	2022	2021
Student	\$ 869,041	\$ 821,709
Grants	1,803,958	1,496,673
Agency funds	-	287,927
Other	2,301,944	1,232,219
Accounts receivable	4,974,943	3,838,528
Less allowance for uncollectible accounts	(256,690)	(238,787)
<b>Accounts receivable, net</b>	<b>\$ 4,718,253</b>	<b>\$ 3,599,741</b>

## 4 - Contributions Receivable

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

	2022	2021
Unconditional contributions expected to be collected in:		
Less than one year	\$ 40,187,708	\$ 25,820,804
One to five years	31,900,272	41,396,047
Over five years	1,793,339	465,407
Charitable remainder trusts held by others	2,137,922	2,542,555
Contributions receivable	76,019,241	70,224,813
Less:		
Unamortized discount	(1,769,961)	(1,216,295)
Allowance for uncollectible contributions receivable	(3,312,282)	(2,390,843)
<b>Contributions receivable, net</b>	<b>\$ 70,936,998</b>	<b>\$ 66,617,675</b>

#### 4 - Contributions Receivable, continued

Contributions receivable is discounted at a rate commensurate with the scheduled timing of receipt. The discount rate used for contributions receivable ranged from 0.16% and 6.17% at June 30, 2022 and 2021, respectively. The discount rate used for charitable remainder trusts held by others averaged 5.60% at June 30, 2022 and 2021.

As of June 30, 2021, the University had conditional contributions totaling \$100,000. The outstanding amount of the conditional contributions, was received in fiscal year 2022, and was restricted for the study away program.

At June 30, 2022 and 2021, gross written unconditional contributions receivable from members of the Board of Trustees and Officers of the University were \$13,482,699 and \$6,064,358, respectively.

#### 5 - Investments

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

	2022	2021
Equities		
U.S. equity	\$ 25,035,420	\$ 28,800,948
U.S. equity funds	85,251,228	101,451,558
Developed international equity	97,561,938	122,207,000
Emerging markets	35,035,834	51,276,820
Closely-held stock	939	101,341
Fixed Income		
Bond funds	51,216,125	59,019,067
U.S. government bond funds	51,175	29,481
Hedged Strategies	113,204,964	130,255,086
Private Capital	177,351,677	155,871,483
Other		
Real estate	1,742,642	2,875,864
Real asset funds	72,978,310	61,815,735
Funds held in perpetual trust by others	5,097,744	6,004,851
Short-term investments	35,964,255	21,575,232
Total fair value	<u>700,492,251</u>	<u>741,284,466</u>
Real estate <sup>(1)</sup>	1,198,328	1,198,328
Private capital <sup>(1)</sup>	5,900,000	5,900,000
Total at cost	<u>7,098,328</u>	<u>7,098,328</u>
<b>Total investments</b>	<b><u>\$ 707,590,579</u></b>	<b><u>\$ 748,382,794</u></b>
<b>Total cost</b>	<b><u>\$ 447,672,767</u></b>	<b><u>\$ 434,554,604</u></b>

<sup>(1)</sup> 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 2022 and 2021.

The fair value of investments held by the University under split-interest agreements was approximately \$3.0 million at June 30, 2022 and \$3.7 million at June 30, 2021. 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 \$2.6 million as of June 30, 2022 and \$2.8 million as of June 30, 2021.



**5 - Investments, continued**

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

	2022	2021
Interest and dividends, net of investment fees	\$ 2,657,765	\$ 19,999,212
Net realized gains from sales of investments	35,273,585	42,553,368
Net unrealized (loss) gain on investments	(46,293,304)	151,088,304
<b>Total net investment return</b>	<b>(8,361,954)</b>	<b>213,640,884</b>
Included in the consolidated statement of activities as investment return designated for operations:		
Endowment spending rate	(32,510,309)	(31,662,439)
Other investment income	(3,130,960)	(3,130,960)
<b>Investment return less amounts designated for current operations</b>	<b>\$ (44,003,223)</b>	<b>\$ 178,847,485</b>

**6 - Equity Interest in Hollingsworth Funds, Inc. and Subsidiaries**

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. and Subsidiaries (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 income distribution from the Funds. During the year ended 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 \$11,003,271 and \$5,725,638 for fiscal years 2022 and 2021, respectively, which are included in the investment return less amounts designated for current operations on the consolidated statements of activities. Income distributions from the Funds, which are included in the investment return less amounts designated for current operations on the consolidated statements of activities, were \$4,495,645 for fiscal year 2022 and \$4,201,007 for fiscal year 2021.

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

	2022	2021
Total assets	<u>\$ 414,468,977</u>	<u>\$ 389,647,866</u>
Total liabilities	\$ 3,062,694	\$ 2,572,077
Net assets	411,406,283	387,075,789
Total liabilities and net assets	<u>\$ 414,468,977</u>	<u>\$ 389,647,866</u>
<b>Share of net assets</b>	<b><u>\$ 186,055,200</u></b>	<b><u>\$ 175,051,929</u></b>
Revenues and gains	\$ 41,409,984	\$ 29,760,419
Expenses and losses	(17,032,022)	(18,249,395)
Income tax provision	(354,819)	853,661
Equity in net income of subsidiaries	307,351	295,878
Change in net assets	<u>\$ 24,330,494</u>	<u>\$ 12,660,563</u>
<b>Share of change in net assets</b>	<b><u>\$ 11,003,271</u></b>	<b><u>\$ 5,725,638</u></b>

## 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 Subsidiaries, and funds in perpetual trusts held by others. Gift annuities and contributions receivable 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 equities, fixed income, hedged strategies, private capital, and other funds 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. The objective of the University's spending 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 twelve trailing quarters as of the previous December 31<sup>st</sup>, 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, 2022 and 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Endowment net assets, June 30, 2020</b>	<b>\$ 107,499,772</b>	<b>\$ 562,514,305</b>	<b>\$ 670,014,077</b>
Investment return, net	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)
<b>Endowment net assets, June 30, 2021</b>	<b>141,740,092</b>	<b>697,231,123</b>	<b>838,971,215</b>
Investment return, net	(4,795,241)	29,886	(4,765,355)
Gifts and additions to endowment, net	265,350	10,324,507	10,589,857
Distributions	(6,032,600)	(26,477,709)	(32,510,309)
<b>Endowment net assets, June 30, 2022</b>	<b>\$ 131,177,601</b>	<b>\$ 681,107,807</b>	<b>\$ 812,285,408</b>

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, 2022 and 2021, donor restricted endowment funds that had a fair value below the original contribution value were \$5,798,344 and \$108,228, respectively, which had deficiencies of this nature of \$364,039 and \$17,505, 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:

	<u>2022</u>	<u>2021</u>
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 230,121,632	\$ 221,202,267
Term endowment funds	186,186,982	175,183,711
The portion of perpetual endowment funds subject to a time restriction under UPMIFA		
Without purpose restrictions	25,915,825	31,769,630
With purpose restrictions	238,883,368	269,075,515
With donor restriction net assets	<u>\$ 681,107,807</u>	<u>\$ 697,231,123</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, 2022 and 2021, the lease receivable totaled \$16,825,745 and \$15,389,157, respectively. The University recognized lease revenue of \$1,749,875 for fiscal years 2022 and 2021. Lease revenue was included in other operating revenues and support and other non-operating activities on the consolidated statements of activities for fiscal year 2022 and included in other non-operating activities for fiscal year 2021. 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, 2022 and 2021.

Future lease payments to be received as of June 30, 2022 are as follows:

2023	\$ 321,479
2024	329,917
2025	338,610
2026	347,565
2027	356,790
Thereafter	181,369,517
<b>Total</b>	<b><u><u>\$ 183,063,878</u></u></b>

## 9 - Property and Equipment, Net

Property and equipment, net, consists of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 38,167,724	\$ 39,101,585
Buildings	339,129,436	338,395,053
Equipment	82,823,746	80,537,037
Library books	27,616,614	27,288,815
Collections	3,721,877	3,721,877
Construction in progress	7,828,299	6,521,621
	<u>499,287,696</u>	<u>495,565,988</u>
Less accumulated depreciation	<u>(243,897,005)</u>	<u>(235,452,963)</u>
<b>Total</b>	<b><u><u>\$ 255,390,691</u></u></b>	<b><u><u>\$ 260,113,025</u></u></b>

Depreciation expense totaled \$15,132,175 and \$14,534,648 in fiscal years 2022 and 2021, respectively, and included depreciation expense for an asset held under a finance lease of \$83,709, 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 3.00% and a discount rate of 4.20% based on relevant factors at origination. ARO liabilities of \$1,447,054 for fiscal years 2022 and 2021 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, 2022 and 2021.

**9 - Property and Equipment, Net, continued**

Within property and equipment, net, are assets held for sale which consist of the following at June 30, 2022:

	2022
Land and land improvements	\$ 2,000,212
Buildings	15,115,865
Equipment	1,000,428
	<u>18,116,505</u>
Less accumulated depreciation	(9,345,745)
<b>Total</b>	<b><u>\$ 8,770,760</u></b>

**10 - Bonds and Lease Obligations, Net**

Outstanding bonds and lease obligations as of June 30 were as follows:

	<u>2022</u>	<u>2021</u>
Educational Facilities Revenue Bonds:		
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 3.00% to 5.00%.	\$ 62,030,000	\$ 62,610,000
Series 2020, serial bonds, due in varying installments (ranging from \$840,000 to \$13,160,000) through October 1, 2039. The bonds bear interest, payable, monthly at a fixed rate of 1.15%.	33,915,000	34,990,000
Series 2022, serial bonds, due in one lump sum payment on April 1, 2052. The bonds bear interest, payable semi-annually, at a fixed rate of 4.00%.	66,410,000	-
<b>Par amount of bonds</b>	<b>162,355,000</b>	<b>97,600,000</b>
Unamortized bond issuance costs	(1,146,640)	(632,268)
Unamortized premium	11,496,230	2,024,430
<b>Total bonds, net</b>	<b>172,704,590</b>	<b>98,992,162</b>
Lease obligations	466,442	652,622
<b>Bonds and lease obligations, net</b>	<b><u>\$ 173,171,032</u></b>	<b><u>\$ 99,644,784</u></b>

On January 26, 2022, the University issued Series 2022 tax-exempt fixed rate bonds in the aggregate principal amount of \$66,410,000 to provide funds to pay all or a portion of the costs for capital construction, the interest coming due on the Bonds during the period of construction, and issuance of the Bonds. The Bonds were issued at a premium of \$9,867,862 which will be amortized over the life of the bonds. The unexpended bond proceeds are reported on the consolidated statement of financial position and described within Note 2.

**10 - Bonds and Lease Obligations, Net, continued**

Aggregate maturities of bonds subsequent to June 30, 2022 are as follows:

2023	\$ 1,700,000
2024	2,440,000
2025	2,520,000
2026	2,605,000
2027	13,160,000
Thereafter	<u>139,930,000</u>
<b>Total</b>	<b><u>\$ 162,355,000</u></b>

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

	<u>2022</u>	<u>2021</u>
Educational Facilities Revenue Bonds	\$ 160,955,350	\$ 105,563,302
Lease Obligations	466,442	652,622
<b>Total estimated fair value of bonds and lease obligations</b>	<b><u>\$ 161,421,792</u></b>	<b><u>\$ 106,215,924</u></b>

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

	<u>2022</u>	<u>2021</u>
Cash paid for interest	\$ 3,616,883	\$ 3,405,903
Amortization of bond premium	(396,062)	(265,853)
Amortization of bond issuance costs	74,331	60,885
Change in year-end accrual	646,876	(108,730)
Interest cost capitalized	(14,515)	(17,219)
<b>Total interest expense</b>	<b><u>\$ 3,927,513</u></b>	<b><u>\$ 3,074,986</u></b>

In May 2021, the University entered into a revolving line of credit, in an amount not to exceed \$10 million, with a national bank. The 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, 2022 and 2021.

The University has historically entered into several lease arrangements under which the University is the lessee. As of June 30, 2022, the University has entered into four operating leases and one finance lease.

The amount recognized as the right-of-use (ROU) asset related to the University's finance lease is included in property and equipment, net on the consolidated statements of financial position as of June 30, 2022.

**10 - Bonds and Lease Obligations, Net, continued**

Aggregate maturities of the lease obligations subsequent to June 30, 2022 are as follows:

	<b>Finance Lease</b>	<b>Operating Leases</b>	<b>Total</b>
2023	\$ 91,446	\$ 112,139	\$ 203,585
2024	83,844	72,320	156,164
2025	-	62,268	62,268
2026	-	57,632	57,632
Total undiscounted cash flows	175,290	304,359	479,649
Present value discount	(6,042)	(7,165)	(13,207)
<b>Total lease obligations</b>	<b>\$ 169,248</b>	<b>\$ 297,194</b>	<b>\$ 466,442</b>

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

	<u>2022</u>	<u>2021</u>
<b>Lease expense:</b>		
Finance lease expense		
Amortization of ROU asset	\$ 83,709	\$ 85,382
Interest on lease liabilities	7,361	10,282
Operating lease expense	147,823	81,618
<b>Total</b>	<b>\$ 238,893</b>	<b>\$ 177,282</b>

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

	<u>2022</u>	<u>2021</u>
<b>Other Information:</b>		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance lease (i.e., interest)	\$ 7,608	\$ 10,521
Financing cash flows from finance lease (i.e., principal portion)	\$ 83,858	\$ 80,945
Operating cash flows from operating leases	\$ 144,421	\$ 76,318
ROU asset obtained in exchange for new operating lease liabilities	\$ 35,382	\$ 282,778
Weighted-average remaining lease term in years for finance lease	1.92	2.92
Weighted-average remaining lease term in years for operating leases	3.30	3.93
Weighted-average discount rate for finance lease	3.54%	3.54%
Weighted-average discount rate for operating leases	1.75%	1.75%

**11 - Interest Rate Exchange Arrangement**

The University managed 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.

Periodic net cash settlements paid to counterparties before the agreement's termination totaled \$88,999 and were reflected as adjustments to interest expense for the year ended June 30, 2021.

The University's debt portfolio is 100% fixed as of June 30, 2022 and 2021.

## 12 - 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.

The following is a summary of the levels within the fair value hierarchy for the University's assets and liabilities measured at fair value at June 30:

2022:	Investments Measured at NAV	Investments Categorized in the Fair Value Hierarchy			
		Level 1	Level 2	Level 3	Total
Investments					
Equities					
U.S. equity	\$ -	\$ 25,035,420	\$ -	\$ -	\$ 25,035,420
U.S. equity funds	84,728,202	523,026	-	-	85,251,228
Developed international equity	66,563,824	30,998,114	-	-	97,561,938
Emerging markets	34,920,406	115,428	-	-	35,035,834
Closely-held stock	-	-	-	939	939
Fixed Income					
Bond funds	38,396,677	12,819,448	-	-	51,216,125
U.S. government bond funds	45,552	5,623	-	-	51,175
Hedged Strategies	105,609,346	7,595,618	-	-	113,204,964
Private Capital	177,351,677	-	-	-	177,351,677
Other					
Real estate	1,461,242	-	-	281,400	1,742,642
Real asset funds	72,758,770	219,540	-	-	72,978,310
Funds held in perpetual trust by others	-	-	-	5,097,744	5,097,744
Short-term investments	-	35,964,255	-	-	35,964,255
<b>Total investments</b>	<b>\$ 581,835,696</b>	<b>\$ 113,276,472</b>	<b>\$ -</b>	<b>\$ 5,380,083</b>	<b>\$ 700,492,251</b>
<b>Charitable remainder trusts held by others</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,137,922</b>	<b>\$ 2,137,922</b>
<b>Actuarial liability for annuities payable</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,060,729</b>	<b>\$ 1,060,729</b>



12 - Fair Value Measurement, continued

2021:	Investments Measured at NAV	Investments Categorized in the Fair Value Hierarchy			
		Level 1	Level 2	Level 3	Total
Investments					
Equities					
U.S. equity	\$ -	\$ 28,800,948	\$ -	\$ -	\$ 28,800,948
U.S. equity funds	100,656,767	794,791	-	-	101,451,558
Developed international equity	83,830,515	38,376,485	-	-	122,207,000
Emerging markets	51,072,747	204,073	-	-	51,276,820
Closely-held stock	-	-	-	101,341	101,341
Fixed Income					
Bond funds	46,082,699	12,936,368	-	-	59,019,067
U.S. government bond funds	11,261	18,220	-	-	29,481
Hedged Strategies	123,077,098	7,177,988	-	-	130,255,086
Private Capital	155,871,483	-	-	-	155,871,483
Other					
Real estate	2,594,465	-	-	281,399	2,875,864
Real asset funds	61,674,564	141,171	-	-	61,815,735
Funds held in perpetual trust by others	-	-	-	6,004,851	6,004,851
Short-term investments	-	21,575,232	-	-	21,575,232
<b>Total investments</b>	<b>\$ 624,871,599</b>	<b>\$ 110,025,276</b>	<b>\$ -</b>	<b>\$ 6,387,591</b>	<b>\$ 741,284,466</b>
<b>Charitable remainder trusts held by others</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,542,555</b>	<b>\$ 2,542,555</b>
<b>Actuarial liability for annuities payable</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,234,944</b>	<b>\$ 1,234,944</b>

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 less amounts designated for current operations.

There were no transfers between levels during fiscal years 2022 and 2021.

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, 2022.

12 - Fair Value Measurement, continued

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if applicable)</u>	<u>Redemption Notice Period</u>
U.S. equity funds <sup>(a)</sup>	\$ 84,728,202	\$ -	Daily - Quarterly	0 - 60 days
Developed international equity <sup>(b)</sup>	66,563,824	-	Daily - 3 Years	0 - 120 days
Emerging markets <sup>(c)</sup>	34,920,406	-	Daily - Monthly	30 days
Bond funds <sup>(d)</sup>	38,396,677	-	Daily - Quarterly	0 - 90 days
U.S. government bond funds <sup>(e)</sup>	45,552	-	N/A	N/A
Hedged Strategies <sup>(f)</sup>	105,609,346	-	Monthly - 2 Years	45 - 90 days
Private Capital <sup>(g)</sup>	177,351,677	30,988,573	N/A	N/A
Real estate <sup>(h)</sup>	1,461,242	196,758	N/A	N/A
Public real asset funds <sup>(i)</sup>	18,331,230	-	Daily - Monthly	0 - 30 days
Private non-marketable real asset funds <sup>(i)</sup>	54,427,540	6,773,106	N/A	N/A
	<u>\$ 581,835,696</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/underweighting 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 in 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 U.S. Treasury Inflation-Protected 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.

**12 - 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, collateralized loan obligation 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 direct investments, equity and debt, in real estate properties.
- (i) Includes investments primarily in commodities (an unlevered fund that invests in a variety of diversified, liquid futures contracts) and publicly traded real estate investment trust exchange traded funds.
- (j) 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.

**13 - 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>2022</u>	<u>2021</u>
Purpose restrictions accomplished:		
Instruction and academic support	\$ 5,326,889	\$ 2,877,129
Research	218,148	92,140
Student services	2,210,137	969,918
Institutional support	1,171,295	627,315
Student aid	3,526,602	1,489,525
Endowment distributions	26,477,709	25,576,564
Other	456,529	358,544
Satisfaction of program restrictions from operations	39,387,309	31,991,135
Capital improvements	3,155,951	834,344
<b>Total</b>	<b><u>\$ 42,543,260</u></b>	<b><u>\$ 32,825,479</u></b>

**14 - Composition of Net Assets**

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

	2022	2021
Subject to expenditure for specified purpose:		
Instruction and academic support	\$ 212,292,037	\$ 209,440,990
Student services	2,276,968	2,370,080
Institutional support	942,674	1,017,858
Student aid	2,818,294	1,426,584
Capital projects and building maintenance	5,332,134	2,836,653
Unspecified designation	21,341,883	24,973,049
Endowment earnings	264,799,193	300,845,145
<b>Total</b>	<b><u>509,803,183</u></b>	<b><u>542,910,359</u></b>
Subject to the spending policy and appropriation:		
Restricted in perpetuity, the income from which is expendable to support:		
Instruction and academic support	90,230,784	86,626,424
Student services	8,845,422	621,245
Institutional support	227,170	-
Student aid	139,140,126	132,161,888
Capital projects and building maintenance	18,485,380	18,423,566
	<b><u>256,928,882</u></b>	<b><u>237,833,123</u></b>
<b>Total</b>	<b><u>\$ 766,732,065</u></b>	<b><u>\$ 780,743,482</u></b>

**15 - Operating Expenses**

Operating expenses by function and nature consist of the following for the years ended June 30, 2022 and 2021:

2022	Program Functions						Supporting Functions		Total
	Instruction	Research	Public Service	Academic Support	Student Services	Room, Board, and Auxiliary Services	Institutional Support		
Salaries and Wages	\$ 28,595,786	\$ 484,207	\$ 324,964	\$ 8,488,607	\$ 11,824,780	\$ 2,212,335	\$ 10,788,001	\$ 62,718,680	
Fringe Benefits	9,369,925	80,388	88,205	2,366,088	3,372,372	553,286	5,746,272	21,576,536	
Operation and Maintenance of Plant	6,536,201	-	24,233	1,934,822	2,549,191	2,520,209	1,328,327	14,892,983	
Depreciation	3,334,573	368,251	1,778	3,085,430	2,422,656	4,746,163	1,173,324	15,132,175	
Interest	1,684,302	-	-	2,762	54,168	2,074,657	111,624	3,927,513	
Other non-compensation operating expenses	10,055,041	1,716,984	60,153	6,635,184	10,840,503	11,874,868	7,975,212	49,157,945	
<b>Total</b>	<b><u>\$ 59,575,828</u></b>	<b><u>\$ 2,649,830</u></b>	<b><u>\$ 499,333</u></b>	<b><u>\$ 22,512,893</u></b>	<b><u>\$ 31,063,670</u></b>	<b><u>\$ 23,981,518</u></b>	<b><u>\$ 27,122,760</u></b>	<b><u>\$ 167,405,832</u></b>	

2021	Program Functions						Supporting Functions		Total
	Instruction	Research	Public Service	Academic Support	Student Services	Room, Board, and Auxiliary Services	Institutional Support		
Salaries and Wages	\$ 27,526,973	\$ 546,896	\$ 281,507	\$ 9,537,085	\$ 11,427,333	\$ 2,162,499	\$ 9,650,929	\$ 61,133,222	
Fringe Benefits	10,139,879	58,286	78,762	2,637,922	3,397,880	550,716	4,864,457	21,727,902	
Operation and Maintenance of Plant	6,081,258	-	22,542	1,800,403	2,349,681	2,256,889	1,230,441	13,741,214	
Depreciation	3,341,735	301,489	1,634	2,555,604	2,382,542	4,787,937	1,163,707	14,534,648	
Interest	1,668,227	-	-	3,305	46,997	1,112,864	243,593	3,074,986	
Other non-compensation operating expenses	3,848,557	1,524,142	21,635	4,844,162	7,074,122	9,244,367	7,866,553	34,423,538	
<b>Total</b>	<b><u>\$ 52,606,629</u></b>	<b><u>\$ 2,430,813</u></b>	<b><u>\$ 406,080</u></b>	<b><u>\$ 21,378,481</u></b>	<b><u>\$ 26,678,555</u></b>	<b><u>\$ 20,115,272</u></b>	<b><u>\$ 25,019,680</u></b>	<b><u>\$ 148,635,510</u></b>	

**15 - Operating Expenses, continued**

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these operating 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.

**16 - Liquidity**

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

	<u>2022</u>	<u>2021</u>
Total Assets	\$ 1,347,139,643	\$ 1,309,265,247
Less non-financial assets:		
Prepaid expenses and other assets	(5,692,181)	(4,064,529)
Property and equipment, net	(255,390,691)	(260,113,025)
Less financial assets unavailable for general expenditures within one year:		
Endowment funds less equity interest in Hollingsworth Funds, Inc. and Subsidiaries	(626,230,208)	(663,919,286)
Other net assets restricted for specified purposes	(10,933,046)	(12,382,204)
Annuities, trusts, and other illiquid investments	(3,374,979)	(4,020,743)
Unspent bond proceeds	(72,729,194)	-
Contributions receivable, net	(70,936,998)	(66,617,675)
Equity interest in Hollingsworth Funds, Inc. and Subsidiaries	(186,055,200)	(175,051,929)
Lease receivable	(16,825,745)	(15,389,157)
Add financial assets available for general expenditures within one year:		
Amount subject to appropriation within one year	40,906,181	35,638,219
Contributions receivable due in one year	40,187,708	25,820,804
Lease receivable due in one year	321,479	313,287
<b>Financial assets available within one year</b>	<b><u>\$ 180,386,769</u></b>	<b><u>\$ 169,479,009</u></b>

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 \$131,177,601 and \$141,740,092 at June 30, 2022 and 2021, 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.

## 17 - 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. Employer contributions to the plan amount to 5% or 10% of base compensation based on years of service or attained age. Retirement expense was approximately \$5.3 million and \$5.2 million for the years ended June 30, 2022 and 2021, respectively.

## 18 - Development and Fundraising Expenses

The University incurred expenses related to development and fundraising amounting to approximately \$5.3 million and \$4.9 million during each of the years ended June 30, 2022 and 2021, respectively. Such expenses are included in institutional support on the consolidated statements of activities.

## 19 - Commitments and Contingencies

### *Construction and Equipment*

At June 30, 2022, open contracts for the construction or purchase of physical properties amounted to approximately \$72.4 million. In spring 2022, the University announced its largest construction project to date, a comprehensive renovation of South Housing that will include building a new residence hall and updating four others in the complex devoted to first-year students.

### *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. The University is liable for losses on claims up to \$250,000 per claimant and has third party insurance coverage for any losses in excess of such amounts. For the years ended June 30, 2022 and 2021, the self-insurance liability was \$630,000 and \$635,000, 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, 2022 and through October 24, 2022, the date on which the consolidated financial statements were available for issuance.

Effective August 1, 2022, employer contributions to the University's Defined Contribution were increased to 5.25% or 10.25% of base compensation based on years of services or attained age.