

**University of St. Thomas**  
Independent Auditor's Report and  
Consolidated Financial Statements  
June 30, 2021 and 2020



**University of St. Thomas**  
**June 30, 2021 and 2020**

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## Independent Auditor's Report

Board of Directors  
University of St. Thomas  
Houston, Texas

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

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

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

### *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. 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 financial position of University of St. Thomas as of June 30, 2021 and 2020, and the 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.

***Emphasis of Matter***

As discussed in Note 14 to the consolidated financial statements, in 2021, the University adopted new accounting guidance for accounting for leases. Our opinion is not modified with respect to this matter.

**BKD, LLP**

Houston, Texas  
December 2, 2021

**University of St. Thomas**  
**Consolidated Statements of Financial Position**  
**June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 8,692,742	\$ 8,348,252
Student accounts and other receivables, net of allowance for doubtful accounts; 2021 - \$163,358 and 2020 - \$160,487	8,813,921	4,964,791
Pledges receivable, net	4,948,464	4,749,973
Prepayments and other assets	2,478,695	3,475,771
Notes and loans receivable	226,858	244,263
Investments	152,917,189	119,464,282
Cash and cash equivalents and investments restricted for investment in land, building and equipment	1,277,473	1,277,273
Property, plant and equipment, net	118,873,617	117,743,579
Right-of-use assets - operating leases	57,909	-
	<u>\$ 298,286,868</u>	<u>\$ 260,268,184</u>
Total assets		
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 5,119,123	\$ 3,272,865
Accrued liabilities	5,446,972	3,748,693
Deferred revenue	3,954,618	2,685,622
U.S. Government grants refundable	-	6,777
Bonds and loans payable, net	40,100,070	39,507,870
Lease liability - financing	1,409,089	-
Lease liability - operating	57,871	-
	<u>56,087,743</u>	<u>49,221,827</u>
Total liabilities		
<b>Net Assets</b>		
Without donor restrictions	87,090,910	90,829,113
With donor restrictions	155,108,215	120,217,244
	<u>242,199,125</u>	<u>211,046,357</u>
Total net assets		
Total liabilities and net assets	<u>\$ 298,286,868</u>	<u>\$ 260,268,184</u>

**University of St. Thomas**  
**Consolidated Statements of Activities**  
**Year Ended June 30, 2021**

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Operating Revenue</b>				
Tuition and fees, net of financial aid of \$33,324,289 and \$29,899,265 for 2021 and 2020, respectively	\$ 45,565,690	\$ -	\$ 45,565,690	\$ 43,128,176
Endowment earnings used for current operations	4,185,099	-	4,185,099	5,294,200
Government and private grants	9,698,980	45,000	9,743,980	2,518,736
Gifts and donations	6,546,232	167,806	6,714,038	8,049,471
Auxiliary operations	2,533,936	-	2,533,936	3,428,265
Commercial real estate rental	2,161,950	-	2,161,950	2,491,687
Other income	1,305,237	-	1,305,237	852,145
Net assets released from restrictions	1,114,555	(1,114,555)	-	-
Total operating revenue	<u>73,111,679</u>	<u>(901,749)</u>	<u>72,209,930</u>	<u>65,762,680</u>
<b>Operating Expenses</b>				
Instruction	33,373,789	-	33,373,789	28,625,739
Library	1,788,981	-	1,788,981	1,795,915
Academic support	1,077,850	-	1,077,850	808,962
Student services	9,973,992	-	9,973,992	8,850,348
Student aid	2,023,284	-	2,023,284	608,603
Institutional support	17,105,834	-	17,105,834	14,911,410
Institutional advancement	2,963,698	-	2,963,698	3,011,571
Auxiliary operations	7,121,064	-	7,121,064	6,824,868
UST Realty Company	2,397,983	-	2,397,983	3,294,432
Total operating expenses	<u>77,826,475</u>	<u>0</u>	<u>77,826,475</u>	<u>68,731,848</u>
<b>Changes in Net Assets From Operating Activities</b>	<u>(4,714,796)</u>	<u>(901,749)</u>	<u>(5,616,545)</u>	<u>(2,969,168)</u>
<b>Nonoperating</b>				
Gifts and donations	-	2,701,738	2,701,738	419,688
Endowment gain in excess of amounts designated for current operations, net	690,643	33,402,642	34,093,285	1,222,784
Discretionary reinvestment of endowment earnings	187,727	(187,727)	-	-
Change in fair value of split interest agreements	(25,710)	-	(25,710)	(40,399)
Loss on disposal of assets	-	-	-	(418,329)
Loss on refinancing debt obligations	-	-	-	(484,364)
Net assets released from restrictions for long-term purposes	123,933	(123,933)	-	-
<b>Changes in Net Assets From Nonoperating Activities</b>	<u>976,593</u>	<u>35,792,720</u>	<u>36,769,313</u>	<u>699,380</u>
Total changes in net assets	<u>(3,738,203)</u>	<u>34,890,971</u>	<u>31,152,768</u>	<u>(2,269,788)</u>
<b>Net Assets</b>				
Beginning of year	<u>90,829,113</u>	<u>120,217,244</u>	<u>211,046,357</u>	<u>213,316,145</u>
End of year	<u>\$ 87,090,910</u>	<u>\$ 155,108,215</u>	<u>\$ 242,199,125</u>	<u>\$ 211,046,357</u>

**University of St. Thomas**  
**Consolidated Statements of Activities**  
**Year Ended June 30, 2020**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2020 Total</b>
<b>Operating Revenue</b>			
Tuition and fees, net of financial aid of \$29,899,265 and \$27,013,622 for 2020 and 2019, respectively	\$ 43,128,176	\$ -	\$ 43,128,176
Endowment earnings used for current operations	5,294,200	-	5,294,200
Government and private grants	2,473,736	45,000	2,518,736
Gifts and donations	6,324,500	1,724,971	8,049,471
Auxiliary operations	3,428,265	-	3,428,265
Commercial real estate rental	2,491,687	-	2,491,687
Other income	852,145	-	852,145
Net assets released from restrictions	935,019	(935,019)	-
Total operating revenue	<u>64,927,728</u>	<u>834,952</u>	<u>65,762,680</u>
<b>Operating Expenses</b>			
Instruction	28,625,739	-	28,625,739
Library	1,795,915	-	1,795,915
Academic support	808,962	-	808,962
Student services	8,850,348	-	8,850,348
Student aid	608,603	-	608,603
Institutional support	14,911,410	-	14,911,410
Institutional advancement	3,011,571	-	3,011,571
Auxiliary operations	6,824,868	-	6,824,868
UST Realty Company	3,294,432	-	3,294,432
Total operating expenses	<u>68,731,848</u>	<u>0</u>	<u>68,731,848</u>
<b>Changes in Net Assets From Operating Activities</b>	<u>(3,804,120)</u>	<u>834,952</u>	<u>(2,969,168)</u>
<b>Nonoperating</b>			
Gifts and donations	-	419,688	419,688
Endowment gain in excess of amounts designated for current operations, net	73,612	1,149,172	1,222,784
Discretionary reinvestment of endowment earnings	144,077	(144,077)	-
Change in fair value of split interest agreements	(40,399)	-	(40,399)
Loss on disposal of assets	(418,329)	-	(418,329)
Loss on refinancing debt obligations	(484,364)	-	(484,364)
Net assets released from restrictions for long-term purposes	2,536,241	(2,536,241)	-
<b>Changes in Net Assets From Nonoperating Activities</b>	<u>1,810,838</u>	<u>(1,111,458)</u>	<u>699,380</u>
Total changes in net assets	(1,993,282)	(276,506)	(2,269,788)
<b>Net Assets</b>			
Beginning of year	<u>92,822,395</u>	<u>120,493,750</u>	<u>213,316,145</u>
End of year	<u>\$ 90,829,113</u>	<u>\$ 120,217,244</u>	<u>\$ 211,046,357</u>

**University of St. Thomas**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2021**

Expenses	Program Activities							2021 Total Program	Support Activities		2021 Total Expenses
	Instruction	Library	Academic Support	Student Services	Student Aid	Auxiliary Operations	UST Realty Company		Institutional Support	Institutional Advancement	
Salaries	\$ 20,111,456	\$ 665,332	\$ 720,481	\$ 4,606,994	\$ -	\$ 878,101	\$ 36,634	\$ 27,018,997	\$ 3,471,532	\$ 1,295,131	\$ 31,785,660
Student wages	222,532	33,644	2,187	190,012	-	80,570	-	528,945	290,949	4,810	824,704
Benefits and taxes	4,297,182	119,714	157,480	1,013,839	-	63,243	10,408	5,661,866	1,756,681	282,570	7,701,117
Commissions	3,633,744	-	15,937	35,000	-	13,543	218,296	3,916,520	103,484	-	4,020,004
Technology maintenance and support	157,171	357,141	1,538	43,932	-	16,078	17,001	592,862	1,532,744	545	2,126,151
Operating expenses	997,675	31,332	70,247	1,254,289	-	1,081,874	188,609	3,624,026	5,819,077	741,253	10,184,356
Interest expense	-	-	-	-	-	2,100,849	-	2,100,849	-	-	2,100,849
Travel	42,575	244	17,196	276,352	-	48	-	336,415	5,906	104,058	446,378
Supplies	313,443	1,949	4,106	148,379	-	87,049	165	555,091	114,773	9,633	679,496
Insurance and taxes	(378)	-	-	81,321	-	-	396,131	477,074	1,276,596	-	1,753,670
Legal expenses	10,636	-	-	-	-	-	-	10,636	699,039	-	709,675
Facilities operations	647,837	117,334	3,687	369,489	-	719,663	333,423	2,191,433	205,360	9,274	2,406,066
Utilities	415,059	75,555	2,374	130,139	-	368,134	121,139	1,112,400	84,900	5,744	1,203,044
Third-party services	693,400	3,633	73,626	1,391,415	-	26,570	241,933	2,430,576	670,473	476,438	3,577,487
Repairs and maintenance	3,224	3,677	-	5,524	-	117,816	-	130,241	55,067	-	185,308
Depreciation/amortization	1,828,232	379,427	8,991	427,308	-	1,567,526	834,244	5,045,728	1,019,254	34,245	6,099,227
Student aid	-	-	-	-	2,023,284	-	-	2,023,284	-	-	2,023,284
Total expenses included in the expense section of the statement of activities	<u>\$ 33,373,789</u>	<u>\$ 1,788,981</u>	<u>\$ 1,077,850</u>	<u>\$ 9,973,992</u>	<u>\$ 2,023,284</u>	<u>\$ 7,121,064</u>	<u>\$ 2,397,983</u>	<u>\$ 57,756,943</u>	<u>\$ 17,105,834</u>	<u>\$ 2,963,698</u>	<u>\$ 77,826,475</u>

**University of St. Thomas**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2020**

Expenses	Program Activities							2020 Total Program	Support Activities		2020 Total Expenses
	Instruction	Library	Academic Support	Student Services	Student Aid	Auxiliary Operations	UST Realty Company		Institutional Support	Institutional Advancement	
Salaries	\$ 19,555,633	\$ 632,074	\$ 512,539	\$ 4,295,767	\$ -	\$ 652,787	\$ 48,077	\$ 25,696,877	\$ 3,181,594	\$ 1,189,370	\$ 30,067,841
Student wages	203,391	65,667	7,494	181,765	-	62,361	-	520,678	130,481	6,610	657,769
Benefits and taxes	3,376,338	91,904	88,985	715,651	-	20,795	13,658	4,307,331	1,853,317	206,524	6,367,172
Commissions	1,007,998	-	18,482	3,100	-	-	203,920	1,233,500	37,672	2,346	1,273,518
Technology maintenance and support	159,070	388,398	2,061	38,164	-	3,956	14,207	605,856	1,412,945	50	2,018,851
Operating expenses	514,089	50,926	150,619	987,359	-	1,904,659	230,578	3,838,230	4,890,278	801,781	9,530,289
Interest expense	-	-	-	-	-	1,298,448	215,023	1,513,471	-	-	1,513,471
Travel	232,229	(5,473)	11,889	448,376	-	5,531	-	692,552	82,876	173,800	949,228
Supplies	352,405	7,569	2,043	186,068	-	20,290	1,152	569,527	77,837	8,896	656,260
Insurance and taxes	2,623	-	-	87,634	-	-	466,976	557,233	816,949	-	1,374,182
Legal expenses	15,908	-	-	-	-	-	-	15,908	512,693	-	528,601
Facilities operations	661,688	114,152	3,587	388,525	-	707,598	303,518	2,179,068	128,535	8,678	2,316,281
Utilities	478,493	87,102	2,737	150,029	-	457,098	217,978	1,393,437	97,876	6,621	1,497,934
Third-party services	339,069	4,708	106	941,213	-	101,217	573,849	1,960,162	648,963	574,827	3,183,952
Repairs and maintenance	14,751	3,572	-	26,543	-	122,215	-	167,081	84,910	-	251,991
Depreciation/amortization	1,712,054	355,316	8,420	400,154	-	1,467,913	1,005,496	4,949,353	954,484	32,068	5,935,905
Student aid	-	-	-	-	608,603	-	-	608,603	-	-	608,603
Total expenses included in the expense section of the statement of activities	<u>\$ 28,625,739</u>	<u>\$ 1,795,915</u>	<u>\$ 808,962</u>	<u>\$ 8,850,348</u>	<u>\$ 608,603</u>	<u>\$ 6,824,868</u>	<u>\$ 3,294,432</u>	<u>\$ 50,808,867</u>	<u>\$ 14,911,410</u>	<u>\$ 3,011,571</u>	<u>\$ 68,731,848</u>

**University of St. Thomas**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Cash Flows From Operating Activities</b>		
Changes in net assets	\$ 31,152,768	\$ (2,269,788)
Items not requiring (providing) operating cash flows:		
Depreciation and amortization	6,080,925	5,732,449
Loss on retirement of debt	-	484,364
Prepaid bond costs	-	(492,129)
Amortization of bond premium	18,302	-
Bad debt expense	334,829	494,359
Loss on disposal of assets	-	418,329
Noncash contribution received	(224,017)	(802,274)
Gifts and donations restricted for long-term purposes	(2,737,788)	(647,598)
Net realized and unrealized gain on investments	(38,311,456)	(8,480,470)
Changes in operating assets and liabilities:		
Student accounts and other receivables	(4,183,959)	1,604,526
Pledge receivable, net	(286,574)	236,709
Prepayments and other assets	997,076	(1,120,125)
Notes and loans receivable	17,405	27,230
Accounts payable and accrued liabilities	3,544,537	907,324
Lease liability - operating	57,871	-
Deferred revenue	1,268,996	(534,275)
U.S. Governmental grants refundable	(6,777)	(174,255)
Net cash used in operating activities	(2,277,862)	(4,615,624)
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale/maturities of investments	6,799,823	6,267,614
Purchases of investments	(1,717,257)	(7,668,370)
Proceeds from sale of property, plant and equipment	701,686	-
Purchases of property, plant and equipment	(6,224,244)	(2,006,633)
Change in cash restricted for investment in land, building and equipment	(200)	877,998
Net cash used in investing activities	(440,192)	(2,529,391)

**University of St. Thomas**  
**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Cash Flows From Financing Activities</b>		
Gifts and donations restricted for:		
Investments in property and equipment	\$ 124,133	\$ 2,248,727
Investments in endowment	2,701,738	453,078
Proceeds from issuance of long-term debt	580,000	40,000,000
Principal payments on bonds and loans payable	(6,102)	(30,035,923)
Payments on financing lease liability	(337,225)	-
Change in cash restricted under debt covenants	-	64,788
Payments on line of credit and delayed draw loan	-	(2,000,000)
	<u>3,062,544</u>	<u>10,730,670</u>
<b>Net cash provided by financing activities</b>	<u>3,062,544</u>	<u>10,730,670</u>
<b>Net Increase in Cash and Cash Equivalents</b>	344,490	3,585,655
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>8,348,252</u>	<u>4,762,597</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 8,692,742</u>	<u>\$ 8,348,252</u>
<b>Supplemental Cash Flows Information</b>		
Cash paid for interest	\$ 2,100,849	\$ 1,150,645
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 102,058	\$ -
Financing cash flows from finance leases	\$ 337,225	\$ -
Right-of-use assets upon ASC 842 implementation:		
Finance leases	\$ 1,746,314	\$ -
Operating leases	\$ 57,909	\$ -

**University of St. Thomas**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Organization***

University of St. Thomas (the University) was founded in 1947 by the Congregation of St. Basil (the Basilian Fathers). The University is incorporated as a Texas nonprofit corporation and is governed by an independent Board of Directors (Board). A comprehensive university, educating both undergraduate and graduate students, the University enjoys a national reputation for academic excellence and a diverse student body.

Located near the City of Houston's museum district, one of the city's most attractive areas, and minutes from a thriving downtown cultural district, the University offers both undergraduate and graduate degree programs. More than 87 percent of faculty members hold the highest degrees in their disciplines. The students are predominantly Texan; however, many of them come from other states and 53 foreign countries. High acceptance rates for graduate school, law school, and allied health professions and medical school reflect strong academic undergraduate preparation.

UST Realty Company, a wholly owned subsidiary of the University, was formed to acquire commercial real estate property located adjacent to the campus. On February 1, 2007, UST Realty Company purchased two commercial office buildings and a retail center with an associated parking garage, contiguous to the University's campus. The University leases the office space to commercial tenants. The acquisition was financed through a loan with JPMorgan Chase Bank. That loan was refinanced through a \$40,000,000 bond issued by the University in February 2020. See Note 4 for more detail.

***Auxiliary Operations***

Auxiliary operations consist primarily of student housing facilities, dining services, summer camps and other student services.

***Basis of Accounting***

The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The University's resources are reported, for accounting purposes, in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

*Net Assets Without Donor Restrictions* — Net assets without donor restrictions are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties.

# University of St. Thomas

## Notes to Consolidated Financial Statements

### June 30, 2021 and 2020

*Net Assets with Donor Restrictions* — Net assets with donor restrictions are comprised of both assets with donor-imposed stipulations that can be fulfilled by actions of the University, pursuant to those stipulations, or that expire by the passage of time and net assets which are subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of the latter of these assets permit the University to use all or part of the investment return on these assets. In addition, some donors may require that all of the earnings be added to the fund balance until certain stipulations are met. Such assets include the University's permanent endowment funds.

Expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed contribution stipulations that simultaneously increase net assets without donor restrictions and decrease net assets with donor restrictions are reported as net assets released from restrictions. Donor restricted contributions received and expended during the same fiscal year are recorded as revenues and expenses without donor restrictions in the consolidated statements of activities.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The University considers all highly liquid short-term investments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents invested for long-term purposes are included in investments.

At June 30, 2021 and 2020, the University's cash accounts exceeded federally insured limits by \$9,316,844 and \$9,852,918, respectively.

#### ***Student Accounts and Other Receivables***

Typically, the University's accounts receivable are mainly due from students. Accounts receivable is stated at amounts due from students net of an allowance for doubtful accounts. Accounts not paid by the end of the semester are considered past due.

The University determines its allowance based on past due accounts and an estimate of uncollectible active accounts based on prior collection history. The University reserves for accounts and loans receivable when they are considered uncollectible or certain accounts may be fully written off later if deemed by the University to be completely uncollectible.

**University of St. Thomas**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

The loans receivable reflects the University's participation in the Federal Perkins Loan Program. Loans are made to qualified students and may be re-loaned after collection. Uncollected loan receivables are charged off when due diligence efforts by the University have been exhausted and receivables are assigned and accepted by the Department of Education. The University is in the process of liquidating its Perkins Loan portfolio and, therefore, no new loans are being made from the fund. Funds collected from existing loans are remitted to the Department of Education as appropriate.

***Cash and Investments Restricted for Investment in Land, Building and Equipment***

Amounts received from donors for use in capital programs are classified as cash and investments restricted for investment in land, building and equipment in the consolidated statements of financial position.

***Investments and Net Investment Return***

The estimated fair values of investments are based on quoted market prices, except for certain alternative assets for which quoted market prices are not available. The estimated fair values of these alternative assets are based on the most recent valuations provided by external investment managers. The University reviews and evaluates the values provided by external investment managers and agrees such values with the valuation methods and assumptions used to determine those values. Therefore, the University believes the carrying amounts of these financial instruments are reasonable estimates of their fair values. Because alternative assets are not readily marketable, their estimated fair values are subject to uncertainty and, therefore, may differ from the fair values that would have been used had a ready market for such investments existed. Investments in private equity funds are recorded at net asset value (NAV), as a practical expedient.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

***Property, Plant, and Equipment and Long-lived Assets***

Property, plant, and equipment are stated at cost at the date of acquisition or fair value at the date of donation, less accumulated depreciation. Plant and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 5 to 50 years. Upon retirement or sale, the University removes the cost of the assets and the related accumulated depreciation from the accounts and reflects any resulting gains or losses in income.

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The University evaluates the carrying amounts of its long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. In the event that facts and circumstances indicate that the long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation of impairment were required, the estimated future undiscounted cash flows associated with an asset would be compared to the asset's carrying amount to determine if a write-down to market value or cash flow value is required. There were no impairments in the fiscal years ended June 30, 2021 and 2020.

***Deferred Revenue***

Revenue from fees for tuition is deferred and recognized over the periods to which the fees relate. Tuition and fees for summer classes beginning in the subsequent fiscal year are deferred. Deferred revenue consists of amounts received for educational or auxiliary goods and services that have not yet been earned.

***Accrued Payroll and Employee Benefits***

As of June 30, 2021 and 2020, the University had an obligation related to its employees' rights to receive compensation for the remainder of their contract or future absences. This obligation is attributable to employees' contracts or services already rendered. These liabilities, amounting to \$2,946,469 and \$2,513,503 as of June 30, 2021 and 2020, respectively, are included in accrued liabilities and accounts payable in the accompanying consolidated statements of financial position.

***U.S. Government Grants Refundable***

Advances made from government agencies to the University are classified as refundable advances.

***Concentrations of Credit Risk***

The University is subject to concentrations of credit risk related primarily to cash, marketable securities and receivables. The University's cash deposits are held in major financial institutions. Marketable securities consist primarily of corporate stocks, which could subject the University to losses in the event of a general downturn in the stock market. The University has reduced its risk related to common stock through diversification into investments in a variety of industries. The University's receivables from students are monitored for potential losses, and an allowance for doubtful accounts is established based on the age of unpaid accounts and the University's experience. Pledges receivable represent unconditional promises to give and are monitored by the University for potential losses.

***Contributions***

Contributions received, including unconditional promises to give (pledges), are recorded as revenues in the period received at their discounted present values and are amortized into income on an effective yield basis. Pursuant to institutional policy, the University records all pledges greater than \$10,000.

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***Collections***

All collections of works of art, historical treasures and similar assets are capitalized. Items added to the collections are capitalized at costs if purchased, or at estimated fair value on the acquisition date if donated. Collection items sold or removed are reported as gains or losses with or without donor restrictions depending on donor stipulations, if any, placed on the items at the time of acquisition.

***Grants, Gifts and Donations***

Government grants and private gifts and donations include amounts received with donor restrictions and without donor restrictions net asset categories as appropriate considering the nature of the respective grant and gift instruments. Upon expiration of the restrictions, the applicable gift and grant revenue is released from the with donor restrictions net asset category and transferred to the without donor restrictions category.

***Functional Allocation of Expenses***

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to program and supporting activities based upon the square footage of utilized facilities. Interest costs are allocated to program and supporting activities based upon the use of the funds borrowed.

***Operating Measure***

The operating activities of the University include all current income and expenses, including gifts and donations with and without donor restrictions, other than those with permanent restrictions. Non-operating activities reflect gifts and donations of a permanent nature to be used by the University to generate a return that will support operations and the release of restrictions on net assets to be used for long-term purposes, as well as certain non-cash items which are not indicative of the University's operational performance.

***Tax Status***

The University and UST Realty Company have received determination letters from the Internal Revenue Service of exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC), and accordingly, no provision has been made for such taxes. Accounting standards generally accepted in the United States of America require that the University recognize the financial effects of a tax position in its consolidated financial statements, if that tax position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. Tax positions taken related to the University's tax-exempt status, the taxable income of unrelated business activities, and the deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the University would more likely than not be sustained upon examination by taxing authorities. Accordingly, the University has not recorded an income tax liability for uncertain tax benefits.

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**Note 2: Pledges Receivable, Net**

Pledges receivable are expected to be realized, as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Less than one year	\$ 463,420	\$ 592,003
Between one and five years	4,495,000	4,080,000
More than five years	<u>200,000</u>	<u>280,000</u>
Gross pledges receivable	5,158,420	4,952,003
Less present value discount	<u>(209,956)</u>	<u>(202,030)</u>
Net pledges receivable	<u>\$ 4,948,464</u>	<u>\$ 4,749,973</u>

Net pledges receivable as of June 30, 2021 and 2020, included pledges with the following restrictions:

	<u>2021</u>	<u>2020</u>
Gifts to the capital campaign for construction of plant	\$ 4,186,112	\$ 4,272,590
Gifts restricted for unbudgeted activities	580,759	276,132
Gifts to endowment for general and scholarship purposes	<u>181,594</u>	<u>201,251</u>
Total	<u>\$ 4,948,464</u>	<u>\$ 4,749,973</u>

Discount rates ranged from 1.45 percent to 0.66 percent for 2021 and 2020, respectively. No allowance has been recorded based on the University's determination that all pledges are deemed collectible.

**Note 3: Property, Plant and Equipment**

Property, plant and equipment as of June 30, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 151,358,050	\$ 150,310,648
Machinery and equipment	30,828,902	26,918,370
Furniture and fixtures	2,488,036	2,306,019
Library books	13,638,201	13,588,214
Software	<u>3,667,880</u>	<u>3,667,880</u>
Total property, plant and equipment	201,981,069	196,791,131
Less accumulated depreciation	<u>(108,618,696)</u>	<u>(102,570,515)</u>
Net depreciable property, plant and equipment	93,362,373	94,220,616
Construction in progress	1,788,281	-
Land	<u>23,722,963</u>	<u>23,522,963</u>
Property, plant and equipment, net	<u>\$ 118,873,617</u>	<u>\$ 117,743,579</u>

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As of June 30, 2021, \$20,730,604 in land, buildings and improvements are leased through UST Realty Company.

**Note 4: Bonds and Loans Payable**

On February 3, 2020, the University completed the issuance of \$40 million in new taxable bonds, the proceeds from which were used to refinance all outstanding debt obligations and to establish an approximately \$8.44 million liquidity reserve for the purpose of generating financial flexibility for strategic investment in new academic or business opportunities.

Bonds and loans payable as of June 30, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Taxable bonds, Series 2020. The bonds are interest only until October 1, 2026, with maturity dates from 2026 to 2059. Annual principal payments ranging from \$480,000 to \$2,455,000 and interest rates ranging from 3.642% to 5.573%.	\$ 40,000,000	\$ 40,000,000
Third Coast Bank loan, monthly interest and principal payment of \$3,692, with fixed interest rate of 4.5% and final payment on January 15, 2026, of all principal and accrued interest not yet paid, collateralized by property.	<u>573,898</u>	<u>-</u>
Subtotal	40,573,898	40,000,000
Less unamortized debt issuance costs	<u>(473,828)</u>	<u>(492,130)</u>
Total	<u>\$ 40,100,070</u>	<u>\$ 39,507,870</u>

Total interest expense incurred on bonds and loans payable for the years ended June 30, 2021 and 2020, was \$2,100,849 and \$1,513,471, respectively.

Future principal maturities of bonds and loans payable as of June 30, 2021, were as follows:

2022	\$ 19,885
2023	19,377
2024	20,215
2025	21,225
2026	493,196
Thereafter	<u>40,000,000</u>
Total	<u>\$ 40,573,898</u>

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**Note 5: Note Payable to Bank**

During 2018, the University entered into a \$2,000,000 revolving bank line-of-credit agreement, which was extended in 2019 and was refinanced on February 3, 2020, and, accordingly was no longer outstanding as of June 30, 2021 or 2020. There were no monies borrowed against this line of credit as of June 30, 2021 or 2020.

The line of credit was collateralized by general revenues of the University. Interest on the line of credit is the adjusted one-month LIBOR rate, and was payable quarterly.

**Note 6: Net Assets With Donor Restrictions**

Net assets with donor restrictions as of June 30, 2021 and 2020, are restricted for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Cash restricted for operating activities	\$ 7,554,246	\$ 7,894,134
Pledges restricted for operating activities	580,759	276,132
Restricted for investment in land, building and equipment	<u>5,463,585</u>	<u>5,549,863</u>
Total subject to expenditure for specified purpose	<u>13,598,590</u>	<u>13,720,130</u>
Endowments:		
Endowment earnings in excess of original endowment donations	58,440,808	26,130,035
Original endowment donations	<u>83,068,817</u>	<u>80,367,079</u>
Total endowments	<u>141,509,625</u>	<u>106,497,114</u>
Total net assets with donor restrictions	<u>\$ 155,108,215</u>	<u>\$ 120,217,244</u>

**Net Assets Released from Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

	<u>2021</u>	<u>2020</u>
Satisfaction or purpose restrictions:		
Capital expenditures	\$ 123,933	\$ 2,536,241
Educational programs	881,665	177,013
Financial aid	<u>232,890</u>	<u>758,006</u>
Total net assets released from restrictions	<u>\$ 1,238,488</u>	<u>\$ 3,471,260</u>

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**Note 7: Endowment**

The University's endowment consists of approximately 293 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (Board-designated endowment funds). As required by GAAP, net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board interprets the Texas Prudent Management of Institutional Funds Act (TPMIFA) as requiring the preservation of the fair value of original gifts as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The University has interpreted TPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

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

1. The duration and preservation of the fund
2. General economic conditions
3. The possible effects of inflation and deflation
4. The expected total return from income and appreciation of investments
5. Other resources of the University
6. The investment policy of the University

The composition of net assets by type of endowment fund at June 30, 2021 and 2020, was as follows.

	<b>2021</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board-designated endowment funds	\$ 2,548,054	\$ -	\$ 2,548,054
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	83,068,817	83,068,817
Endowment earnings in excess of original endowment donations	-	58,440,808	58,440,808
Total investment return	<u>\$ 2,548,054</u>	<u>\$ 141,509,625</u>	<u>\$ 144,057,679</u>

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	<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board-designated endowment funds	\$ 1,669,684	\$ -	\$ 1,669,684
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	80,367,079	80,367,079
Endowment earnings in excess of original endowment donations	-	26,130,035	26,130,035
Total investment return	<u>\$ 1,669,684</u>	<u>\$ 106,497,114</u>	<u>\$ 108,166,798</u>

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

	<b>2021</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, June 30, 2020	<u>\$ 1,669,684</u>	<u>\$ 106,497,114</u>	<u>\$ 108,166,798</u>
Investment return:			
Investment income	30	1,949	1,979
Net gains (realized and unrealized)	690,613	36,681,650	37,372,263
Total investment return	<u>690,643</u>	<u>36,683,599</u>	<u>37,374,242</u>
Discretionary reinvestment of earnings	187,727	(187,727)	-
Contributions and grants	-	2,701,738	2,701,738
Appropriation of endowment assets for expenditure	-	(4,185,099)	(4,185,099)
Endowment net assets, June 30, 2021	<u>\$ 2,548,054</u>	<u>\$ 141,509,625</u>	<u>\$ 144,057,679</u>

	<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, June 30, 2019	<u>\$ 1,451,995</u>	<u>\$ 105,137,331</u>	<u>\$ 106,589,326</u>
Investment return:			
Investment income	28	2,003	2,031
Net gains (realized and unrealized)	73,584	6,376,369	6,449,953
Total investment return	<u>73,612</u>	<u>6,378,372</u>	<u>6,451,984</u>
Discretionary reinvestment of earnings	144,077	(144,077)	-
Contributions and grants	-	419,688	419,688
Appropriation of endowment assets for expenditure	-	(5,294,200)	(5,294,200)
Endowment net assets, June 30, 2020	<u>\$ 1,669,684</u>	<u>\$ 106,497,114</u>	<u>\$ 108,166,798</u>

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As of both June 30, 2021 and 2020, approximately 44 percent of endowment assets are restricted for student scholarships while the remaining 56 percent is restricted for general educational and University operations, respectively.

From time to time, the fair values of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TPMIFA requires the University to retain as a fund of perpetual duration.

At June 30, 2020, funds with original gift values of \$2,514,726, fair values of \$2,453,936 and deficiencies of \$60,790 were reported in net assets with donor restrictions. There were no funds with deficiencies of June 30, 2021.

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new restricted contributions and continued appropriation for certain purposes that was deemed prudent by the Board.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs and scholarships supported by its endowment, while seeking to maintain the purchasing power of the endowment assets over time.

Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity, as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that equal or exceed a real rate of return of 5.0 percent, plus inflation (the Consumer Price Index) over a 10-year period). Performance goals are based upon a long-term investment horizon; therefore, interim variations should be expected.

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 that places a greater emphasis on high return investments to achieve its long-term return objectives within prudent risk constraints.

Endowment income, including realized and unrealized gains or losses on investments, is recognized in the appropriate net asset category according to the existence or absence of donor-imposed restrictions. Endowment funds, which consist primarily of marketable securities, are pooled for investment management purposes. Income from investments is allocated to each endowment based upon the relative market value and type of endowment. The endowment spending policy provides for an endowment income distribution equal to 5 percent based on a prior fiscal year's prior 12-quarter moving average of the endowment assets, excluding pledges receivable. In establishing the spending policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 5.0 percent, plus inflation (Consumer Price Index) annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

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In 2020, the University's Board approved a special additional draw from certain endowment funds totaling approximately \$1,286,000. This draw was made to provide additional funding to support the University's strategies objectives and mission in a manner consistent with the funds restrictions. There were no special additional draws during fiscal year 2021.

The revenues from applying this endowment spending rate policy are recorded in the operating revenue section in the consolidated statements of activities. Any difference between actual total endowment return, including realized and unrealized gains and losses, and the endowment spending rate is recorded in the nonoperating section of the consolidated statements of activities.

**Note 8: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2021 and 2020, are comprised of the following:

	<u>2021</u>	<u>2020</u>
Total financial assets (cash, receivables and investments)	\$ 171,928,182	\$ 134,298,861
Less donor-imposed restrictions:		
Restricted funds	1,277,473	1,277,273
Endowments	<u>141,509,625</u>	<u>106,497,114</u>
Net financial assets after donor-imposed restrictions	<u>29,141,084</u>	<u>26,524,474</u>
Less internal designations:		
Reserve funds	8,887,428	10,884,157
Gift annuities	961,370	733,808
Quasi-endowments	<u>2,548,054</u>	<u>1,669,684</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 16,744,232</u>	<u>\$ 13,236,825</u>

The University receives significant contributions restricted by donors and considers contributions restricted for programs, which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the years ended June 30, 2021 and 2020, restricted contributions of \$7,554,246 and \$7,894,134, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

The University's 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, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

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The Board-designated endowment of \$2,548,054 and \$1,669,684 as of June 30, 2021 and 2020, respectively, is subject to an annual spending rate of 5 percent as described in Note 7. Although the University does not intend to spend from this Board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

**Note 9: Revenue from Contracts with Students**

***Tuition, Residential Services and Meal Plan Services Revenue***

Revenue from contracts with students for tuition, residential services and meal plan services is reported at the amount that reflects the consideration to which the University expects to be entitled in exchange for providing instruction and housing, food, and other services. These amounts are due from students, third-party payers and others and are net of scholarships and institutional aid of \$33,324,289 and \$29,899,265 for the years ended June 30, 2021 and 2020, respectively.

Revenue is recognized as performance obligations are satisfied, which is ratably over the academic term. Generally, the University bills students prior to the beginning of the semester, and student accounts receivable are due in full before classes begin.

If a student withdraws within dates as published on the University's website they are entitled to a refund ranging from 25 percent to a full refund depending on the date of withdrawal. The University determines the refund liability at year-end based on actual experience subsequent to year-end.

Tuition, residential services and meal plan services revenue are considered to be separate performance obligations. The University allocates the fees charged to students to tuition and housing, food, and other services based on standalone charges to students for tuition and those services.

***Transaction Price and Recognition***

The University determines the transaction price based on standard charges for goods and services provided, reduced by certain institutional scholarships and aid in accordance with the University's policies for granting certain merit based aid. The University determines its estimates of explicit price concessions based on its discount policies and merit awards.

From time to time, the University will incur student credit balances and student deposits, which represent the excess of tuition and fees and other student payments received as compared to amounts recognized as revenue. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of June 30, 2021 and 2020, the University has a liability for student credit balances recorded in accrued liabilities of approximately \$326,000 and \$337,000, respectively.

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***Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations***

Because all of its performance obligations relate to contracts with a duration of less than one year, the University has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to providing instruction to students. The performance obligations for these contracts are generally completed when the academic term is completed.

***Disaggregation of Revenue***

The composition of net student fees revenue by segment for the years ended June 30, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Net tuition and fees	\$ 45,565,690	\$ 43,128,176
Housing	1,523,916	1,924,296
Meal plan	<u>475,668</u>	<u>832,352</u>
Total	<u>\$ 47,565,273</u>	<u>\$ 45,884,824</u>

**Note 10: Retirement Benefits**

The University has a defined contribution plan, which is available to all eligible employees as defined by the Plan Document. Employees may contribute up to the IRC current maximum annual contribution limit, if they are eligible for the IRC's catch-up contribution. The University makes a 100-percent matching contribution of up to 6 percent of eligible annual compensation for employees with at least 1,000 hours of continuous service with the University. The University's contribution expense for fiscal years 2021 and 2020 was \$1,207,911 and \$1,172,912, respectively.

**Note 11: Commitments and Contingencies**

The University is subject to the oversight of the U.S. Department of Education related to student financial aid and other agencies related to grant programs. Management believes that the University is in substantial compliance with the terms of these programs, and findings, if any, resulting from such oversight, would not have a material adverse impact on the University's consolidated financial statements.

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**Note 12: Significant Estimates and Concentrations**

GAAP requires disclosure of certain significant estimates and current vulnerabilities, due to certain concentrations. Those matters include the following.

***Gifts and Donations***

Two donors were responsible for approximately 37 percent of gifts and donations revenues for the year ended June 30, 2021. Three donors were responsible for approximately 37 percent of gifts and donations revenues for the year ended June 30, 2020.

***Pledges Receivable***

One donor was responsible for approximately 78 percent of all pledges receivable as of June 30, 2021, and one donor was responsible for approximately 81 percent of all pledges receivable as of the year ended June 30, 2020. The pledges were made as part of the University's capital campaign during each respective year.

***General Litigation***

The University is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the University. Events could occur that would change this estimate materially in the near term.

***Risks and Uncertainties***

Investment securities are exposed to various market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in net values of investment securities will occur in the near term and that such changes could materially affect the amounts recorded in the consolidated statements of financial position.

**Note 13: Investments and Disclosures About Fair Value of Assets and Liabilities**

Financial accounting standards require disclosure of fair value information about financial instruments for which it is practical to estimate fair value. As of June 30, 2021 and 2020, management estimates that (i) the carrying amounts of cash and cash equivalents; cash restricted under debt covenants; cash restricted for investment in land, building and equipment; student accounts and other receivables; prepayments; accounts payable; accrued liabilities; deferred revenue; and U.S. Government grants refundable approximate fair values because of the short maturity of these instruments; (ii) the fair values of the University's investments in marketable securities are based upon the quoted market price on the last business day of the fiscal year; (iii) the fair values of the University's alternative investments are based on values provided by the managers of the funds; and (iv) bonds and loans payable with a carrying values of \$40,100,070 and \$39,507,870 have fair values of approximately \$39,810,115 and \$40,000,000 as of June 30, 2021 and 2020, respectively.

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The University currently records long-term investments at fair value. Accounting standards establish a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the University's assumptions (unobservable inputs). Determining the level at which an asset or liability falls within the fair value hierarchy requires significant judgment and is based on the lowest-level input that is significant to the fair value measurement as a whole. The fair value hierarchy consists of three broad levels, as follows, with Level 1 being the most observable:

- Level 1** Quoted prices (unadjusted) in active markets for identical assets that the University can access at the measurement date.
- Level 2** Observable inputs other than quoted prices included in Level 1.
- Level 3** Unobservable inputs.

Information about the University's long-term investments that are measured at fair value as of June 30, 2021 and 2020, and the level within the fair value hierarchy and the valuation techniques utilized to determine such fair values, is as follows:

As of June 30, 2021:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments Measured at NAV (A)</b>	<b>Total</b>
Cash equivalents	\$ 8,887,428	\$ 8,887,428	\$ -	\$ -	\$ -	\$ 8,887,428
Equity securities:						
U.S. securities	13,136,320	13,136,320	-	-	-	13,136,320
Multi-asset fund	25,117,647	-	25,117,647	-	-	25,117,647
Alternative investments:						
Private equity funds	7,826,534	-	-	-	7,826,534	7,826,534
Investment partnership	97,949,260	-	-	97,949,260	-	97,949,260
<b>Total</b>	<b>\$ 152,917,189</b>	<b>\$ 22,023,749</b>	<b>\$ 25,117,647</b>	<b>\$ 97,949,260</b>	<b>\$ 7,826,534</b>	<b>\$ 152,917,189</b>

As of June 30, 2020:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments Measured at NAV (A)</b>	<b>Total</b>
Cash equivalents	\$ 10,884,157	\$ 10,884,157	\$ -	\$ -	\$ -	\$ 10,884,157
Equity securities:						
U.S. securities	9,688,659	9,688,659	-	-	-	9,688,659
Multi-asset fund	19,172,154	-	19,172,154	-	-	19,172,154
Alternative investments:						
Private equity funds	5,323,701	-	-	-	5,323,701	5,323,701
Investment partnership	74,395,611	-	-	74,395,611	-	74,395,611
<b>Total</b>	<b>\$ 119,464,282</b>	<b>\$ 20,572,816</b>	<b>\$ 19,172,154</b>	<b>\$ 74,395,611</b>	<b>\$ 5,323,701</b>	<b>\$ 119,464,282</b>

- (A) Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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The investments in the multi-asset fund and the investment partnership are investments made in investment vehicles managed by The Investment Fund for Foundations (TIFF). Each of these funds are made up of many individual investments of varying type, duration and liquidity. Since the University's investment positions is the overarching fund as opposed to the component investments themselves, the assets are reported in Level 2 and Level 3 of the fair value hierarchy, respectively, although some of the underlying investments could qualify for an alternative placement within the hierarchy.

The multi-asset fund has daily liquidity and is comprised of underlying investments in funds focused on equity, debt, and commodity securities employing a variety of strategies. These strategies can be classified as follows:

<b>Category</b>	<b>Strategy Concentration as a % of Total Fund Assets as of June 30, 2021</b>	<b>Strategy Concentration as a % of Total Fund Assets as of June 30, 2020</b>
Equity-oriented assets	66%	66%
Diversifying strategies	20%	20%
Fixed income	14%	14%

These investment categories are defined by TIFF as follows:

*Equity-oriented Assets:* Positions in the equity-oriented assets category are intended to be the primary long-term driver of portfolio returns, and may include investments in global equities, high yield bonds, resource-related equity, and real estate investment trusts.

*Diversifying Strategies:* Assets in the diversifying strategies category are intended to generate meaningful returns while reducing equity market sensitivity. These funds may invest in hedge funds, asset-backed securities, commodity futures, and opportunistic credit assets.

*Fixed Income:* The fixed income strategy is intended to provide diversification, liquidity, and income generation, and may include investments in conventional bonds, treasury inflation-protected securities, and cash.

The investment partnership, made up entirely by an investment in the TIFF Keystone Fund, has quarterly liquidity with 180 days' notice. Similar to the multi-asset fund, the TIFF Keystone Fund has grouped its underlying assets into the same three strategies as previously described for the multi-asset fund. Investments within these categories are of similar types as described previously with the addition of private equity investments in the equity-oriented assets and diversifying strategies categories for the TIFF Keystone Fund. Asset allocation for the TIFF Keystone Fund by strategy is as follows.

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<b>Category</b>	<b>Strategy Concentration as a % of Total Fund Assets as of June 30, 2021</b>	<b>Strategy Concentration as a % of Total Fund Assets as of June 30, 2020</b>
Equity-oriented assets - marketable	39%	39%
Equity-oriented assets - private	27%	27%
Total equity-oriented assets	66%	66%
Diversifying strategies - marketable	19%	19%
Diversifying strategies - private	1%	1%
Total diversifying strategies	20%	20%
Fixed income	14%	14%
Total	100%	100%

The University's exposure to private investments when taking into account the underlying assets of the multi-asset fund and the Keystone fund was approximately \$38.2 million and \$25.5 million as of June 30, 2021 and 2020, respectively. This equates to 26.3 percent and 23.1 percent of the total balances for June 30, 2021 and 2020, respectively. Additionally, total exposure to alternative investments was \$60 million and \$40.8 million making up 41.3 percent and 38 percent of the investment balances as of June 30, 2021 and 2020, respectively.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2021. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described on following page.

***Cash Equivalents, Equity Securities and Multi-asset Fund Securities***

The estimated fair values of investment securities classified as equity and fixed-income securities are included in Level 1 and Level 2 of the fair value hierarchy and are based upon quoted market prices utilizing public information for the same transactions or information provided through third-party advisers.

***Alternative Investments***

The estimated fair values of investment securities classified as private equity funds and investment partnership are included in investments measured at NAV and Level 3 of the fair value hierarchy, respectively. TIFF Endowment Asset Management, LLC values all restricted securities for which quotations are not readily available at fair value for the investment classified as investment partnership.

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Investments in certain entities measured at fair value using the NAV per share as a practical expedient consist of the following:

2021						
Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period		
Private equity funds	(a)     \$ 7,826,534	\$ 1,547,252	N/A	N/A		
2020						
Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period		
Private equity funds	(a)     \$ 5,323,701	\$ 1,666,714	N/A	N/A		

- (a) This category invests in a diversified group of pooled investment vehicles, commonly referred to as private equity funds that include investments in buyout funds, venture capital funds, real estate funds, and diversified debt funds. The objective of these funds is to earn in excess of the public equity markets over a long-term (10-15 years) horizon. Due to the nature of investments in this category, distributions are received through liquidation of the underlying assets and would be liquidated over 5 to 15 years. The funds may invest in investment vehicles domiciled both within and outside of the United States.

***Unobservable (Level 3) Inputs***

Level 3 investments consist entirely of the investments in the TIFFF Keystone Fund. This partnership makes investments in various other funds run by independent asset managers.

Each of these funds has its own valuation methodology using different inputs depending upon the nature of the fund's assets. TIFFF's valuation practices are as follows:

- Alternative and private investment funds: valued at fair value, as determined by "Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value Per Share (or its equivalent)," pursuant to ASC 820. Valuation of interests in underlying investment funds is based on an amount equal to the partnership's pro-rata interest in the net assets, which are at fair value, as reported by the management of the investment fund, adjusted for management and incentive fees, if any.
- Marketable securities listed on one of the national securities exchanges: last sale price on the valuation date or, if no sale was recorded, last bid price.
- Marketable securities traded in the over-the-counter market: closing bid price on the valuation date.

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Unobservable inputs are used in the valuation of TIFF assets to the extent that relevant observable inputs are not available, and consist of TIFF's own assumptions about assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available. These inputs may also include the NAV per share or its equivalent for investments in alternative investment funds and private investment funds for which the NAV per share or its equivalent is not eligible to be used as a practical expedient for fair value.

Additional information about assets that have been measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of June 30, 2021 and 2020, is as follows:

	<b>2021</b>	<b>2020</b>
Sales	\$ (3,808,791)	\$ (3,527,461)
Purchases	1,912,978	-

Investment returns including dividends, interest, realized and unrealized gains were classified under the Net Assets with Donor Restrictions net asset category, while distributions from the endowment for operations were classified under the Net Assets Without Donor Restrictions net assets category. Investment returns were reported net of custodial and investment advisory fees of approximately \$516,000 and \$473,000 for the years ended June 30, 2021 and 2020, respectively.

Accounting standards permit entities to choose to measure financial instruments and other items at fair value that are not currently required to be measured at fair value. The University elected not to value any additional investments or other financial assets or liabilities at fair value. Accordingly, there is no impact on the consolidated financial statements resulting from this standard.

**Note 14: Leases**

***Change in Accounting Principle***

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): Targeted Improvements, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

On July 1, 2020, the University adopted the FASB Topic 842 as of the beginning of the period in which it was adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The University elected the package of practical expedients under the

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new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The University elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The University did not elect the hindsight practical expedient in determining the lease term for existing leases as of July 1, 2020.

***Accounting Policies***

The University determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The University determines lease classification as operating or financing at the lease commencement date. Financing Lease ROU assets are included in property and equipment and lease liabilities are included in the consolidated statement of financial position.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The University uses the implicit rate when readily determinable. As most leases do not provide an implicit rate, the University uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments.

The lease term may include options to extend or to terminate the lease that the University is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The University has elected not to record leases with an initial term of 12 months or less on the consolidated statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

***Nature of Leases***

The University has entered the following lease arrangements:

***Financing Leases***

These leases mainly consist of Information Technology (IT) equipment for the use of IT infrastructure improvements. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

***Operating Leases***

The University has leases for office-related equipment that expire in 2023. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

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**Quantitative Disclosures**

The ROU asset and corresponding liability associated with future lease payments at June 30, 2021, are shown below:

	<u>Operating</u>	<u>Finance</u>	<u>Total</u>
ROU assets	\$ 57,909	\$ -	\$ 57,909
Equipment	-	1,746,314	1,746,314
Lease liability	57,871	1,409,089	1,466,960
Weighted-average discount rate	4.55%	4.55%	
Remaining lease term (years)	1.2	4.4	

Lease costs reported in the consolidated statements of activities for the year ended June 30, 2021, are as follows:

Finance:		
Amortization of ROU assets		\$ 293,701
Interest on lease liability		<u>43,807</u>
Total		337,508
Operating:		
Operating lease costs		<u>106,728</u>
Total lease costs		<u>\$ 444,236</u>

Future minimum lease payments and reconciliation to the consolidated statements of financial position at June 30, 2021, are as follows:

	<u>Finance Leases</u>	<u>Operating Leases</u>
2022	\$ 381,031	\$ 63,769
2023	381,031	1,720
2024	381,031	-
2025	<u>381,031</u>	<u>-</u>
Total future undiscounted lease payments	1,524,124	65,489
Less interest	<u>115,035</u>	<u>7,618</u>
Lease liabilities	<u>\$ 1,409,089</u>	<u>\$ 57,871</u>

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**Note 15: Future Rental Revenue**

Adoption of FASB Topic 842 elections described above in Note 14 were also elected for lease revenue.

Future minimum rental receipts due under operating leases that have initial or remaining noncancelable lease terms after June 30, 2021, are as follows:

**Years Ending June 30,**

2022		\$	1,419,804	
2023			1,037,833	
2024			593,531	
2025			126,527	
			1,277,695	
Total minimum lease receipts		\$	3,177,695	

**Note 16: Asset Retirement Obligation**

As of June 30, 2021 and 2020, the University has an asset retirement obligation (ARO) related to asbestos remediation in accordance with state regulations. FASB ASC 410-20, *Asset Retirement Obligations*, requires a liability for an ARO to be recorded at fair value if a reasonable estimate of fair value can be made. The University's practice is to remediate asbestos containing materials whenever a renovation, remodel, repair or demolition has an impact on specific asbestos containing materials. A liability has not been recognized in the accompanying consolidated financial statements because the range of time over which the University may liquidate the obligation is unknown and cannot be reasonably estimated. The University continually evaluates the facts and circumstances surrounding the ARO and will recognize a liability when sufficient information is available to reasonably estimate fair value.

**Note 17: COVID-19 Pandemic and Related Funding**

On March 27, 2020, December 27, 2020, and March 11, 2021, the U.S. Government signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES), the Coronavirus Response and Relief Supplement Appropriations Act (CRRSAA), and the American Rescue Act (ARPA), respectively. The CARES, CRRSAA and ARPA Acts created Higher Education Emergency Relief Funds specifically for emergency aid grants to students for expenses related to the disruption of campus operations due to COVID-19 and also direct aid to institutions to cover costs associated with the significant changes to the delivery of instruction due to COVID-19. The University was awarded a total of \$11,864,415 under these programs, of which \$5,013,653 was designated for distribution directly to students. As of June 30, 2021, \$8,345,465 had been

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expended. An institution would recognize revenue related to the institutional costs portion only to the extent that the institution has provided grants to students. The University has recorded conditional contributions of \$1,163,999 as deferred revenue, which represents the institutional portion not yet earned until grants are provided to students.

While the COVID-19 global pandemic continues to impact the global economy and supply chains, the impact on the University's operations has been reduced dramatically. Accordingly, while there remains the possibility of unforeseen impacts on operations which may be caused by outbreaks, new variants, or other unforeseen factors, the University does not anticipate that the pandemic will have a materially adverse impact on the University operations. The University anticipates that there may be lingering impacts resulting from global inflation and reduced availability of certain goods and services, but the impacts of these factors are not expected to be significant.

**Note 18: Subsequent Events**

The University has evaluated subsequent events through December 2, 2021, which is the date the consolidated financial statements were issued.

**Note 19: U.S. Department of Education Financial Responsibility Ratio Information**

The following information is required by the U.S. Department of Education for the year ended June 30, 2021:

Property, plant and equipment, including construction in progress, net of accumulated depreciation - pre-implementation	\$ 112,385,445
Property, plant and equipment, including construction in progress, net of accumulated depreciation - post-implementation without outstanding debt for original purchase	6,488,171
Total property, plant and equipment, net	\$ 118,873,617
Right-of-use lease asset - finance leases, net of accumulated amortization - post-implementation	\$ 1,746,314
Long-term debt obtained for long-term purposes - pre-implementation	\$ 28,855,390
Long-term debt obtained for long-term purposes - post-implementation	\$ 515,000
Finance lease liability - post-implementation	\$ 1,409,089

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**Financial Responsibility Supplemental Schedule Required**  
**by the U.S. Department of Education**  
**June 30, 2021**

**Financial Responsibility Supplemental Schedule Required by the U.S. Department of Education**

Ratio Element	Reference to Financial Statements and/or Notes	2021
<b>Primary Reserve Ratio</b>		
<b>Expendable Net Assets</b>		
Net assets without donor restrictions	Statement of Financial Position	\$ 87,090,910
Net assets with donor restrictions	Statement of Financial Position	\$ 155,108,215
Net assets with donor restrictions - restricted in perpetuity	Note 7	\$ 83,068,817
Property, plant and equipment, including construction in progress, net of accumulated depreciation - pre-implementation	Note 19	\$ 112,385,445
Property, plant and equipment, including construction in progress, net of accumulated depreciation - post-implementation without outstanding debt for original purchase	Note 19	<u>6,488,171</u>
Total property, plant and equipment, net	Statement of Financial Position	\$ 118,873,617
Right-of-use lease asset - finance leases, net of accumulated amortization - post-implementation	Note 14	<u>\$ 1,746,314</u>
Long-term debt obtained for long-term purposes - pre-implementation	Note: 19	\$ 28,855,390
Long-term debt obtained for long-term purposes - post-implementation	Note: 19	\$ 515,000
Finance lease liability - post-implementation	Note 14	\$ 1,409,089
<b>Total Expenses and Losses</b>		
Total expenses without donor restrictions	Statement of Activities	\$ 77,826,475
<b>Equity Ratio</b>		
<b>Modified Net Assets</b>		
Net assets without donor restrictions	Statement of Financial Position	\$ 87,090,910
Net assets with donor restrictions	Statement of Financial Position	\$ 155,108,215
<b>Modified Assets</b>		
Total assets	Statement of Financial Position	\$ 298,286,868
<b>Net Income Ratio</b>		
Change in net assets without donor restrictions	Statement of Activities	\$ (3,738,203)
Total operating revenue	Statement of Activities	\$ 73,111,679
Non-operating gain	Statement of Activities	690,643
Discretionary reinvestment of endowment earnings	Statement of Activities	187,727
Change in fair value of split interest agreements	Statement of Activities	(25,710)
Net assets released from restrictions	Statement of Activities	<u>123,933</u>
Total revenue and gains without donor restrictions		<u>\$ 74,088,272</u>