

American University
Consolidated Financial Statements
For the years ended June 30, 2022 and 2021
And report of independent auditors



Report of Independent Auditors

To the Board of Trustees of American University:

Opinion

We have audited the accompanying consolidated financial statements of American University and

in accordance with auditing standards generally accepted in the United States. Our responsibilities under those standards are further described in the Audit of the Consolidated Financial Statements section of our report. We are independent of the University and to meet our other ethical requirements with the relevant ethical requirements relating to our audit. We believe the evidence we have obtained is sufficient and appropriate to provide a basis

Opinion on the Consolidated Financial Statements

for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements. Management is required to evaluate whether there are conditions, in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date the financial

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statements, intentional omissions, misrepresentations, or the



In performing an audit in accordance with US GAAS, we:

- x Exercise professional judgment and maintain professional skepticism throughout the audit.
- x

American University
Consolidated Statements of Financial Position
As of June 30, 2022 and 2021

| (In thousands) | 2022 | 2021 |
|---|--------------|--------------|
| Assets | | |
| Cash and cash equivalents | \$ 123,639 | \$ 83,125 |
| Accounts and University loans receivable, net | 42,351 | 46,370 |
| Contributions receivable, net | 20,406 | 20,227 |
| Prepaid expenses, inventory and other assets | 20,369 | 16,367 |
| Investments | 1,233,115 | 1,313,854 |
| Property, plant, and equipment, net | 874,599 | 902,268 |
| Interest in perpetual trust | 20,405 | 25,434 |
| Right of use assets under operating leases | 4,929 | 5,617 |
| Right of use assets under finance leases | 155 | - |
| Total assets | \$ 2,339,968 | \$ 2,413,262 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 72,417 | \$ 76,445 |
| Deferred revenue and contract liabilities | 39,228 | 35,395 |
| Notes payable and long-term debt | 749,069 | 749,372 |
| Refundable advances from the U.S. government | 7,870 | 14,736 |
| Operating lease liabilities | 4,739 | 5,546 |
| Finance lease liabilities | 167 | - |
| Total liabilities | \$ 873,490 | \$ 881,494 |
| Net assets: | | |
| Without donor restrictions | \$ 1,165,980 | \$ 1,210,000 |

See accompanying notes to the consolidated financial statements

American University
Consolidated Statement of Activities
Year ended June 30, 2022

| (In thousands) | Without donor restrictions | With donor restrictions | Total |
|--|----------------------------------|-------------------------------|------------|
| Operating revenues and support | | | |
| Tuition and fees | \$ 461,813 | \$ - | \$ 461,813 |
| Grants and contracts | 59,675 | - | 59,675 |
| Indirect cost recovery | 3,296 | - | 3,296 |
| Contributions of cash and other financial assets | 21,952 | 9,975 | 31,927 |
| Contributions of nonfinancial assets | 7,086 | - | 7,086 |
| Endowment investment return | 22,821 | 8,356 | 31,177 |
| Investment return | 27,449 | 759 | 28,208 |
| Auxiliary enterprises | 103,632 | - | 103,632 |
| Other sources | 7,226 | - | 7,226 |
| Net asset release | 17,170 | (17,170) | - |
| Total operating revenues and support | 732,120 | 1,920 | 734,040 |
| Operating expenses | | | |
| Instruction | 233,598 | - | 233,598 |
| Research | 63,968 | - | 63,968 |
| Public service | 28,025 | - | 28,025 |
| Academic support | 82,812 | - | 82,812 |
| Student services | 59,982 | - | 59,982 |
| Institutional support | 95,739 | - | 95,739 |
| Auxiliary enterprises | 97,466 | - | 97,466 |

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See accompanying notes to the consolidated financial statements

American University
Consolidated Statement of Activities
Year ended June 30, 2021

| (In thousands) | Without donor restrictions | With donor restrictions | Total |
|--|---|--|--------------|
| Operating revenues and support | | | |
| Tuition and fees | \$ 396,287 | \$ - | \$ 396,287 |
| Grants and contracts | 44,715 | - | 44,715 |
| Indirect cost recovery | 2,900 | - | 2,900 |
| Contributions of cash and other financial assets | 22,843 | 15,917 | 38,760 |
| Contributions of nonfinancial assets | 2,706 | - | 2,706 |
| Endowment investment return | 23,153 | 8,101 | 31,254 |
| Investment return | 7,594 | 759 | 8,353 |
| Auxiliary enterprises | 24,063 | - | 24,063 |
| Other sources | 9,077 | - | 9,077 |
| Net asset release | 19,398 | (19,398) | - |
| Total operating revenues and support | 552,736 | 5,379 | 558,115 |
| Operating expenses | | | |
| Instruction | 208,525 | - | 208,525 |
| Research | 62,026 | - | 62,026 |
| Public service | 28,950 | - | 28,950 |
| Academic support | 65,094 | - | 65,094 |
| Student services | 48,540 | - | 48,540 |
| Institutional support | 79,406 | - | 79,406 |
| Auxiliary enterprises | 68,404 | - | 68,404 |
| Total operating expenses | 560,945 | - | 560,945 |
| Total operating activities | (8,209) | 5,379 | (2,830) |
| Nonoperating items | | | |
| Other nonoperating sources | 3,330 | (171) | 3,159 |
| Investment return, net of endowment spending | 175,245 | 54,195 | 229,440 |
| Total nonoperating activities | 178,575 | 54,024 | 232,599 |
| Change in net assets | 170,366 | 59,403 | 229,769 |
| Net assets at beginning of year | 1,039,634 | 262,365 | 1,301,999 |
| Net assets at end of year | \$ 1,210,000 | \$ 321,768 | \$ 1,531,768 |

See accompanying notes to the consolidated financial statements

American University
Consolidated Statements of Cash Flows
Years ended June 30, 2022 and 2021

| (In thousands) | <u>2022</u> | <u>2021</u> |
|---|-------------------|------------------|
| Cash flows from operating activities | | |
| (Decrease) increase in net assets | \$ (65,290) | \$ 229,769 |
| Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities: | | |
| Contributed art and property | (5,085) | (488) |
| Net realized and unrealized capital loss (gain) | 106,277 | (253,495) |
| Loss on the disposal of fixed assets | 1,331 | - |
| Depreciation, amortization and accretion | 46,009 | 44,467 |
| Amortization of operating lease right-of-use assets | 3,446 | 3,254 |
| Interest on finance lease | 34 | - |
| Changes in assets and liabilities | | |
| Decrease in accounts and university loans receivable, net | 2,957 | 2,486 |
| Increase in contributions receivable, net | (179) | (4,134) |
| Increase in prepaid expenses, inventory and other assets | (4,002) | (5,571) |
| Decrease in accounts payable and accrued liabilities | (5,979) | (7,244) |
| (Decrease) increase in deferred revenue, deposits and other refundable advances | (3,033) | 8,256 |
| Decrease in operating lease liabilities | (3,566) | (3,325) |
| Receipt of contributed securities | (2,519) | (2,025) |
| Sale of contributed securities | 2,519 | 2,025 |
| Contributions collected and revenues restricted for long-term investment | (5,119) | (3,032) |
| Net cash provided by operating activities | <u>67,801</u> | <u>10,943</u> |
| Cash flows from investing activities | | |
| Purchases of investments | (799,745) | (928,969) |
| Proceeds from sales and maturities of investments | 780,971 | 824,422 |
| Purchases of property, plant, and equipment | (12,918) | (25,782) |
| Net cash used in investing activities | <u>(31,692)</u> | <u>(130,329)</u> |
| Cash flows from financing activities | | |
| Student loans repaid | 1,062 | 1,202 |
| Proceeds from issuance of debt | - | 115,580 |
| Debt issuance cost | - | (729) |
| Payments on finance leases | (42) | - |
| Proceeds from contributions restricted for | | |
| Investment in plant | 103 | 3 |
| Investment in endowment | 5,016 | 3,029 |
| Net cash provided by financing activities | <u>6,139</u> | <u>119,085</u> |
| Net increase (decrease) in cash and cash equivalents | 42,248 | (301) |
| Cash and cash equivalents at beginning of year | 87,500 | 87,801 |
| Cash and cash equivalents at end of year | <u>\$ 129,748</u> | <u>\$ 87,500</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest | \$ 27,548 | \$ 24,928 |
| Operating cash flows from operating leases | 2,758 | 1,498 |
| Financing cash flows from finance leases | 42 | - |
| Contributed art and property | 5,085 | 488 |
| Contributed securities | 2,519 | 2,025 |
| Accrued payment for property, plant & equipment | 1,857 | 7,242 |
| Cash and cash equivalents reported on the statements of financial position | | |
| Cash and cash equivalents | \$ 123,639 | \$ 83,125 |
| Uninvested cash included in investments | 5,945 | 4,211 |
| Deposits with trustees | 164 | 164 |
| Total cash, cash equivalents, and restricted cash | <u>\$ 129,748</u> | <u>\$ 87,500</u> |

See accompanying notes to the consolidated financial statements

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June 30, 2022 and 2021

is restricted by explicit donor stipulations or by law. Expirations of restrictions related to time or purpose recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions. Contributions with donor restrictions that expire simultaneously with the satisfaction of the specified conditions are reported as net assets without donor restrictions. Time or purpose restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Non-operating activities represent transactions relating to the University's long-term investments and plant activities, including contributions to be invested by the University to generate a return that will support future operations, contributions to be received in the future or to be used for facilities and equipment and investment gains or losses.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported change in net assets.

Use of Estimates

The preparation of financial statements in conform

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financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This guidance is effective for fiscal years beginning after December 15, 2022. Although early adoption is permitted, the University is evaluating the impact this will have on the consolidated financial statements beginning in the fiscal year 2024.

Cash and Cash Equivalents

Cash and cash equivalents include U.S. currency and highly liquid short-term interest-bearing marketable instruments with original maturities of three months or less from the initial purchase date.

The University places its cash and cash equivalents and investments in various financial institutions that are federally insured for \$250,000 and for \$500,000 under the Federal Depository Insurance Corporation Act (FDICA) and Securities Investor Protection Corporation (SIPC), respectively. At June 30, 2022, the aggregate balances were in excess of the insurance and therefore, bear some risk since they are not collateralized. The University has not experienced any losses on its cash and cash equivalents or investments to date as it relates to FDICA and SIPC insurance limits.

Receivables

Receivables consist of tuition and fee charges to students and auxiliary enterprises' sales and services, loans receivable primarily related to donor-structured loans and federal student financial aid programs including the corresponding accrued interest, and amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to grants and contracts. Receivables are recorded net of estimated uncollectible amounts. The University reviews the individual receivables as well as the history of collectability to determine the collectible amount as of the date of the statement of financial position. Additionally, unsecured and secured university loans receivables are evaluated annually.

Investments

Investments are presented at fair value in the statement of financial position. Investments include endowment funds and university working capital (non-endowment) funds. Endowment investment return included in operating revenues consists of annual amounts allocated for spending of endowment funds in accordance with the University's spending policy. The realized gains and losses, and the change in unrealized gains and losses are calculated using the average cost of investments. Gains and losses from investments of endowment funds are reported as non-operating revenues in the consolidated statements of activities. Endowment investment return includes both the pooled endowment and separately managed endowments. The return is reported in endowment investment return and investment return net of endowment spending in the statement of activities. Investment return is accrued as earned and is reported net of management fees. Income and realized gains and losses on investments of working capital are reported as investment return included in operating revenues. Additionally, the University has elected the policy that all short-term investments included within the investment portfolio are not cash equivalents and thus not included within cash and cash equivalents on the consolidated statement of cash flows.

Investments are valued based on the quoted market price when available. The University has interests in

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investments which do not trade on public markets and therefore may be subject to greater liquidity risk. See

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respectively, was funded by federal student financial aid programs (including loan, grant, and work-study programs).

Tuition, Fees and Scholarships

The University recognizes revenues from student tuition and fees within the fiscal year in which educational services are provided and the performance obligation is met. Students are billed upon registration and payment is due before the start of the term.

Tuition discounts in the form of scholarships, fellowship, and loans, including those funded by the endowment, research funds, and gifts, have been reported as a reduction of tuition revenues. Tuition and fees revenue is as follows for the years ended June 30, 2022 and 2021 (in thousands):

| | 2022 | 2021 |
|-----------------------------|-------------------|-------------------|
| Tuition and fees, gross | \$ 664,215 | \$ 569,216 |
| Less: Scholarship allowance | <u>(202,402)</u> | <u>(172,929)</u> |
| Tuition and fees | <u>\$ 461,813</u> | <u>\$ 396,287</u> |

Grants and Contracts

The University receives grants and contracts revenue from various governmental and private 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. The University considers the majority of its grants and contracts from governmental sources and private foundations to be nonreciprocal conditional contributions. The University recognizes revenues associated with these grants and contracts as the related costs are incurred in accordance with the terms of the grant agreements. All other grants and contracts are considered exchange transactions and the University recognizes revenue as performance obligations are satisfied.

Total grants and contracts revenue for the years ended June 30, 2022 and 2021 are as follows (in thousands):

| | 2022 | 2021 |
|----------------------|-------------|-------------|
| Governmental sources | \$ 44,338 | \$ 32,947 |
| Private foundations | 10,067 | 7,525 |
| Total contributions | \$ 54,405 | \$ 40,472 |

| | 2022 | 2021 |
|----------------------|-------------|-------------|
| Governmental sources | \$ 4,432 | \$ 2,289 |
| Private foundations | 838 | 1,954 |

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Indirect Cost Recovery

Indirect costs recovered on federally sponsored programs are generally based on predetermined reimbursement rates negotiated with the University's cognizant federal agency, the Department of Health and Human Services. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsors. The University recognizes revenues for the recovery of indirect costs associated with these sponsored programs at the negotiated rates as the related direct costs are incurred.

Auxiliary Enterprises

The auxiliary enterprises revenue consists primarily of revenue received from students for housing and food services operations, parking revenue, corporate underwriting, and commercial property rental income.

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University has commercial paper facilities available to provide additional liquidity should unanticipated needs arise.

As of June 30, 2022, and 2021, the following financial assets and liquidity resources could readily be made available within one year (in thousands):

| | 2022 | 2021 |
|--|-------------------|-------------------|
| Financial assets and liquidity resources: | | |
| Cash and cash equivalents | \$ 123,639 | \$ 83,125 |
| Accounts and University loans receivable, net | 25,928 | 27,597 |
| Contributions receivable, net | 7,816 | 6,744 |
| Non-Endowment Investments | 322,007 | 430,152 |
| Financial assets available within one year | <u>479,390</u> | <u>547,618</u> |
| Other liquidity resources: | | |
| Commercial Paper | <u>125,000</u> | <u>125,000</u> |
| Total financial assets and liquidity resources | <u>\$ 604,390</u> | <u>\$ 672,618</u> |

The University also has Board Designated funds of \$438,302 and \$458,319 at June 30, 2022 and 2021, respectively. These represent unrestricted operating funds that have been internally designated by the University. These could be liquidated over time, if necessary, to support operations.

4. Accounts and University Loans Receivable, Net

Accounts and loans receivable, net, at June 30, 2022 and 2021 are as follows (in thousands):

| | 2022 | 2021 |
|------------------------------|-------------|-------------|
| Accounts receivable | | |
| Student | \$ 13,891 | \$ 15,791 |
| Grants, contracts, and other | 25,581 | 27,603 |
| Accrued interest | nt 794 | |

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5. Contributions Receivable, Net

As of June 30, 2022 and 2021, unconditional promises to give were as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|--------------------------------------|------------------|------------------|
| Amounts due in: | | |
| Less than one year | \$ 12,827 | \$ 11,755 |
| One year to five years | 13,477 | 15,513 |
| Over five years | 605 | 1,555 |
| | <u>26,909</u> | <u>28,823</u> |
| Less unamortized discount | (2,102) | (2,483) |
| Less allowance for doubtful accounts | (4,401) | (6,113) |
| | <u>\$ 20,406</u> | <u>\$ 20,227</u> |

Contributions receivable over more than one year are discounted at rates ranging from 3.0% to 6.5%. New contributions received during the years ended June 30, 2022 and 2021 were assigned a discount rate which is commensurate with the market and credit risk involved.

As of June 30, 2022, and 2021, the University had also received bequest intentions and conditional promises to give of \$17.5 million and \$10 million, respectively. These intentions to give are not recognized as assets. If the bequests are received, they will generally be restricted for specific purposes stipulated by the donors,

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For the years ended June 30, 2022 and 2021, depreciation expense was approximately \$45.1 million and \$44.5 million, respectively.

7. Fair Value Measurements

The University determines fair value in accordance with fair value measurement accounting standards. These standards establish a framework for measuring fair value, a fair value hierarchy based on the observability of inputs used to measure fair value, and disclosure requirements for fair value measurements. Financial assets and liabilities are classified and disclosed in one of the following three categories based on the lowest level input that is significant to the fair value measurement in its entirety:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than Level 1, that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Assets and Liabilities Measured at Fair Value

The following table displays the carrying value and estimated fair value of the University's financial instruments as of June 30, 2022 (in thousands):

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable (Level 2) | (Level 3) | | | | |
|--|---|---|-----------|------------|------|------|--------------|
| Assets | | | | | | | |
| Investments | | | | | | | |
| Cash and Short Term Investments | \$ 81,106 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 81,106 |
| Equity - Corporate Stocks | 217,332 | - | - | - | - | - | 217,332 |
| Equity - Domestic Funds | 74,742 | - | - | 4,162 | - | - | 78,904 |
| Equity - International Stocks | 87,363 | - | - | - | - | - | 87,363 |
| Equity - International Funds | 71,669 | - | - | - | - | - | 71,669 |
| Equity - Hedge Funds | - | - | - | 189,710 | - | - | 189,710 |
| Equity - Real Asset Funds | 2,786 | - | - | 60,158 | - | - | 62,944 |
| Equity - Private Equity Funds | - | - | - | 190,996 | - | - | 190,996 |
| Fixed Income - Corporate Bonds | - | 67,884 | - | - | - | - | 67,884 |
| Fixed Income - Government Agency Bonds | - | 17,954 | - | - | - | - | 17,954 |
| Fixed Income - International Bonds | - | - | - | - | - | - | - |
| Fixed Income - Treasury Securities | 16,831 | - | - | - | - | - | 16,831 |
| Fixed Income - Domestic Bond Funds | 149,744 | 32 | - | 482 | - | - | 150,258 |
| Deposits with trustees | 164 | - | - | - | - | - | 164 |
| Interest in perpetual trust | - | - | 20,405 | - | - | - | 20,405 |
| Total assets at fair value | \$ 701,737 | \$ 85,870 | \$ 20,405 | \$ 445,508 | \$ - | \$ - | \$ 1,253,520 |

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Notes to the Consolidated Financial Statements
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Notes to the Consolidated Financial Statements
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Changes in Level 3 Assets

The following table is a roll-forward of the statement of financial position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above for the years ended June 30, 2022 and 2021 (in thousands):

| | <u>2022</u> | <u>2021</u> |
|--|------------------|------------------|
| Beginning Balance at July 1 | \$ 25,434 | \$ 20,556 |
| Total gains or losses (realized/unrealized) included in earnings | (5,029) | 4,878 |
| Purchases, issuances, sales and settlements | | |
| Purchases | - | - |
| Issuances | - | - |
| Sales | - | - |
| Settlements | - | - |
| Transfers into level 3 | - | - |
| Transfers out of level 3 | - | - |
| Ending Balance at June 30 | <u>\$ 20,405</u> | <u>\$ 25,434</u> |

Total gains or losses for the year included in earnings attributable to the change in unrealized gains or losses relating to assets still held at period end

| | |
|------------|----------|
| \$ (5,029) | \$ 4,878 |
|------------|----------|

Transfers into and out of Level 3 are typically the result of a change in the availability and the ability to observe market data which is considered a significant valuation input required by various models. Generally, as markets evolve, the data required to support valuations becomes more widely available and observable. There were no significant transfers between Levels 1 and 2 or between Level 3 for the year ended June 30, 2022 and 2021.

Investments that Calculate Net Asset Value

Investments in certain entities that calculate net asset values at June 30, 2022 and 2021 are as follows (in thousands):

| | <u>June 30, 2022</u> | | | |
|-----------------------|----------------------|-----------------------------|------------------------------|---------------------------------|
| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
| Domestic Equity Funds | \$ 4,162 | \$ - | Daily | Same day |
| Domestic Bond Funds | 482 | - | Daily | Same day |
| Real Asset Funds | 60,158 | 71,388 | N/A | N/A |
| Hedge Funds | 189,710 | - | Monthly, quarterly, annually | 30 - 90 days |
| Private Equity Funds | 190,996 | 142,582 | N/A | N/A |
| Total | <u>\$ 445,508</u> | <u>\$ 213,970</u> | | |

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Notes to the Consolidated Financial Statements
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| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|-----------------------|-------------------|---------------------------------|---------------------------------|-------------------------------------|
| Domestic Equity Funds | \$ 4,659 | \$ - | Daily | Same day |
| Domestic Bond Funds | 538 | - | Daily | Same day |
| Real Asset Funds | 45,640 | 78,119 | N/A | N/A |
| Hedge Funds | 186,316 | - | Monthly, annually | 30 - 90 days |
| ePrivate Equ | | | | |

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The endowment net assets composition by type of fund at June 30, 2022 is as follows (in thousands):

| | Without donor restrictions | With donor restrictions | Total |
|----------------------------------|---|------------------------------------|-------------------|
| Donor-restricted endowment funds | \$ - | \$ 256,626 | \$ 256,626 |
| Board-designated endowment funds | <u>652,279</u> | <u>-</u> | <u>652,279</u> |
| Total endowment funds | <u>\$ 652,279</u> | <u>\$ 256,626</u> | <u>\$ 908,905</u> |

| | Without donor restrictions | With donor restrictions | Total |
|--|---|------------------------------------|-------------------|
| Endowment net assets, July 1, 2021 | \$ 609,088 | \$ 275,217 | \$ 884,305 |
| Total investment return | (32,557) | (15,150) | (47,707) |
| Contributions to endowment | 542 | 5,527 | 6,069 |
| Appropriation of endowment assets for expenditure | (22,822) | (8,968) | (31,790) |
| Other changes: | | | |
| Transfers to create board-designated endowment funds | <u>98,028</u> | <u>-</u> | <u>98,028</u> |
| Endowment net assets, June 30, 2022 | <u>\$ 652,279</u> | <u>\$ 256,626</u> | <u>\$ 908,905</u> |

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The endowment net assets composition by type of fund at June 30, 2021 is as follows (in thousands):

| | Without donor restrictions | With donor restrictions | Total |
|----------------------------------|---|------------------------------------|-------------------|
| Donor-restricted endowment funds | \$ - | \$ 275,217 | \$ 275,217 |
| Board-designated endowment funds | 609,088 | | 609,088 |
| Total endowment funds | <u>\$ 609,088</u> | <u>\$ 275,217</u> | <u>\$ 884,305</u> |

| | Without donor restrictions | With donor restrictions | Total |
|--|---|------------------------------------|-------------------|
| Endowment net assets, July 1, 2020 | \$ 483,190 | \$ 218,118 | \$ 701,308 |
| Total investment return | 148,166 | 62,148 | 210,314 |
| Contributions to endowment | 721 | 3,691 | 4,412 |
| Appropriation of endowment assets for expenditure | (23,124) | (8,740) | (31,864) |
| Other changes: | | | |
| Transfers to create board-designated endowment funds | 135 | - | 135 |
| Endowment net assets, June 30, 2021 | <u>\$ 609,088</u> | <u>\$ 275,217</u> | <u>\$ 884,305</u> |

Funds with Deficiencies

From time to time, the fair value of the assets associ

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and potential volatility. The generation of current income will be a secondary consideration. The University has established a policy portfolio, or normal asset allocation. The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. While the policy portfolio can be adjusted from time to time, it is designed to serve for long-time horizons

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The following table sets forth the postretirement benefit plan's funded status and the amount of accumulated postretirement benefit plan costs for the years ended June 30, 2022 and 2021 using a measurement date of June 30 (in thousands):

| | 2022 | 2021 |
|--|-------------|-------------|
| Change in Accumulated Postretirement Benefit Obligation: | | |
| Accumulated postretirement benefit obligation at beginning of year | \$ 16,055 | \$ 19,623 |
| Service Cost | 313 | 651 |
| Interest Cost | 358 | 401 |
| Net actuarial (gain) loss | (3,007) | (3,588) |
| Plan participants' contributions | 194 | 196 |
| Benefits paid | (1,210) | (1,228) |
| Plan amendment | - | - |
| Accumulated postretirement benefit obligation at end of year | \$ 12,703 | \$ 16,055 |
| Change in Fair Value of Plan Assets: | | |
| Fair value of plan assets at beginning of year | \$ - | \$ - |
| Plan participants' contributions | 194 | 196 |
| Employer contributions | 1,016 | 1,032 |
| Benefits paid | (1,210) | (1,228) |
| Fair value of plan assets at end of year | \$ - | \$ - |

Reconciliation of Funded Status:

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Reclassifications to net periodic benefit cost of amounts previously recognized as changes in net assets without donor restrictions arising from a defined benefit plan but not included in net periodic benefit cost when they arose are as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|---|-------------|-------------|
| Amortization of net actuarial gain (loss) | \$ (151) | \$ - |
| Amortization of prior service credit | \$ (64) | \$ (64) |

Amounts that have been recognized as changes in net assets without donor restrictions arising from a defined benefit plan but not yet reclassified as components of net periodic benefit cost are as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|---------------------------|-------------|-------------|
| New actuarial (gain) loss | \$ (3,007) | \$ (3,588) |
| New prior service credit | \$ - | \$ - |

The weighted discount rate used in the actuarial valuation at the June 30, 2022 and June 30, 2021 measurement dates is as follows:

| | 2022 | 2021 |
|--------------------------------|-------------|-------------|
| End of year benefit obligation | 4.30% | 2.30% |

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12. Expenses

The University has developed and implemented a system of allocating expenses related to more than one function. These expenses are depreciation, interest and operations and maintenance of facility. Depreciation is allocated by individual fixed assets to the function utilizing that asset. Interest is allocated based on the use of borrowed money in the individual functional category. The operations and maintenance of plant and technology are divided into expenses used for the total institution not charged back to the operating units, and those expenses charged to some units but not all units. Technology costs include expenses associated with the operation and maintenance of administrative systems, network and telecommunications systems and related support for students, staff, and faculty. The allocation was determined through a study of departmental uses of the operations and maintenance, and technology budgets within each category.

For the year ended June 30, 2022, the University's program services and supporting services were as follows (in thousands):

| Natural Account | Instruction | Research | Public Service | Student & Academic Support | Institutional & Auxiliary Support | Total Expenses |
|-------------------------------------|--------------------|-----------------|-----------------------|---------------------------------------|--|-----------------------|
| Salaries and benefits | \$ 149,226 | \$ 50,238 | \$ 14,138 | \$ 95,764 | \$ 63,692 | \$ 373,058 |
| Professional services and fees | 50,519 | 5,891 | 9,652 | 7,723 | 42,064 | 115,849 |
| Occupancy and other office expenses | 11,011 | 6,808 | 2,192 | 29,650 | 45,152 | 94,813 |
| Travel | 879 | 1,031 | 33 | 3,094 | 264 | 5,301 |
| Depreciation | 13,476 | - | 1,233 | 4,014 | 26,265 | 44,988 |
| Interest | 8,487 | - | 777 | 2,549 | 15,768 | 27,581 |
| Total operating expenses | 233,598 | 63,968 | 28,025 | 142,794 | 193,205 | 661,590 |
| Other nonoperating expenses | - | 393 | 12 | (438) | 1,849 | 1,816 |
| Total e | 393 | | | | | |

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13. Net Assets

Net assets with donor restrictions related to time or purpose consist of the following at June 30, 2022 and 2021 (in thousands):

| | 2022 | 2021 |
|---|-------------|-------------|
| Unspent contributions and related investment income | | |

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The total cost of finance leases (in thousands) consists of the following for the year ended June 30, 2022:

| | | |
|---|----|-----------|
| Amortization on finance lease assets | | |
| included in depreciation and amortization | \$ | 20 |
| Interest on Finance lease liabilities | | |
| included in interest on indebtedness | | <u>34</u> |
| Total | \$ | <u>54</u> |

Minimum lease payments under these agreements are as follows (in thousands) as of June 30, 2022:

| | Finance Lease | Operating Leases |
|-------------------------------------|--------------------------|-----------------------------|
| Year ending June 30: | | |
| 2023 | \$ 66 | \$ 3,306 |
| 2024 | 66 | 769 |
| 2025 | 66 | 261 |
| 2026 | 66 | 213 |
| 2027 | 24 | 68 |
| Thereafter | <u>-</u> | <u>175</u> |
| Total minimum lease payments | 288 | 4,792 |
| Less: amounts representing interest | <u>(121)</u> | <u>(53)</u> |
| Present value of lease liabilities | <u>\$ 167</u> | <u>\$ 4,739</u> |

Rent expense in the years ended June 30, 2022 and 2021 was approximately \$5.2 million and \$5.8 million, respectively.

15. Income Taxes

The Airlie Foundation, a subsidiary acquired by the University in September 2016, is a taxable non-stock corporation. The University accounts for income taxes based on the liability method, and deferred tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred taxes are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in results of operations in the period that includes the enactment date. Valuation allowances are recorded against deferred tax assets when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. As Airlie has historically generated operating losses and, therefore, has no earnings history, a full valuation allowance has been applied against the US net deferred tax assets during the years ended June 30, 2022 and 2021. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning in evaluating whether it is more likely than not that deferred tax assets will be realized.

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The University has analyzed its filing positions related to Airlie in each jurisdiction where required to file income tax returns and believes that its income tax filing positions will be sustained on audit. To date, Airlie has not been audited by the IRS or any state jurisdictions and remains subject to examination by U.S. federal and various state authorities for the years 2016 forward. Additionally, Airlie has not been assessed interest and/or penalties by taxing jurisdictions. In the event Airlie is assessed interest and/or penalties, those costs will be classified in the consolidated statements of activities as income tax expense.

Airlie Foundation paid \$0 for income taxes for the years ending June 30, 2022 and June 30, 2021.

16. Commitments and Contingencies

At June 30, 2022 and 2021, commitments of the University under contracts for construction of plant facilities amounted to approximately \$8.7 million and \$14.4 million, respectively.

Amounts received and expended by the University under various federal programs are subject to audit by governmental agencies. In the opinion of the University's administration, audit adjustments, if any, will not have a significant effect on the financial position, changes in net assets, or cash flows of the University.

The University is a party to various litigations, arising out of the normal conduct of its operations. In the opinion of the University's administration, the ultimate resolution of these matters will not have a materially adverse effect on the University's consolidated financial position, changes in net assets or cash flows.

17. Related Parties

Members of the University's Board of Trustees and their related entities may contribute to the University and their contributions are included in contribution revenue in the accompanying statements of activities. The University received \$4.3 million and \$7.1 million of contributions from the Board of Trustees during the years ended June 30, 2022 and 2021, respectively. Also, for the years ended June 30, 2022 and 2021, approximately \$14.0 million and \$16.0 million, respectively, were included in contribution receivable in the accompanying statement of financial position.

18. Paycheck Protection Program

The University's radio station and the University subsidiary, Airlie Foundation, received Paycheck Protection Program (PPP) loans in the amount of \$3.7 million during the year ended June 30, 2021 granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PPP loans are considered conditional contributions, with a right of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the funds. The University recognized the amount received as refundable advances from the United States government until the notice of forgiveness is received from the

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19. Subsequent Events

The University has performed an evaluation of subsequent events through November 22, 2022 which is the date the financial statements were issued. Nothing was noted which affect the financial statements as of June 30, 2022.