

Susquehanna University

Financial Statements

June 30, 2021 and 2020

Susquehanna University

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June 30, 2021 and 2020

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Independent Auditors' Report

To the Board of Trustees of
Susquehanna University

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Susquehanna University 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.



Chicago, Illinois
October 25, 2021

Susquehanna University

Statements of Financial Position

June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 7,222,357 | \$ 4,156,978 |
| Contributions receivable, net | 5,566,025 | 5,560,264 |
| Accounts receivable, net | 6,856,451 | 2,721,620 |
| Inventories and prepaid expenses | 1,342,166 | 1,376,011 |
| Student loans receivable, net | 1,145,072 | 1,489,129 |
| Investments | 223,406,033 | 190,071,961 |
| Funds held in trust by others | 6,735,087 | 5,731,629 |
| Other assets | 4,497,342 | 3,798,391 |
| Property, plant, and equipment, net | <u>118,548,498</u> | <u>124,756,722</u> |
| Total assets | <u>\$ 375,319,031</u> | <u>\$ 339,662,705</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and other accrued expenses | \$ 6,634,947 | \$ 4,943,216 |
| Student deposits and other liabilities | 8,277,357 | 6,739,125 |
| Annuities payable | 2,100,302 | 2,104,277 |
| Long-term debt | 48,463,744 | 51,226,964 |
| U.S. government advances refundable | 1,156,186 | 1,435,548 |
| Funds held in custody for others | 1,098,432 | 790,040 |
| Operating lease liabilities | <u>353,542</u> | <u>-</u> |
| Total liabilities | <u>68,084,510</u> | <u>67,239,170</u> |
| Net Assets | | |
| Net assets without donor restrictions | 135,201,932 | 129,514,316 |
| Net assets with donor restrictions: | | |
| Restricted by purpose or time | 70,710,549 | 45,329,360 |
| Restricted in perpetuity | <u>101,322,040</u> | <u>97,579,859</u> |
| Total net assets with donor restrictions | 172,032,589 | 142,909,219 |
| Total net assets | <u>307,234,521</u> | <u>272,423,535</u> |
| Total liabilities and net assets | <u>\$ 375,319,031</u> | <u>\$ 339,662,705</u> |

See notes to financial statements

Susquehanna University

Statement of Activities

Year Ended June 30, 2021 (with comparative totals for 2020)

| | 2021 | | | 2020 |
|--|----------------------------|-------------------------|----------------|----------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| Operating Revenues and Other Additions | | | | |
| Tuition and fees, net of scholarships and grants | \$ 39,560,780 | \$ - | \$ 39,560,780 | \$ 40,841,997 |
| Government grants | 10,780,051 | - | 10,780,051 | 4,377,688 |
| Private gifts and grants | 1,351,368 | 798,946 | 2,150,314 | 2,476,657 |
| Endowment income | 7,361,455 | 46,725 | 7,408,180 | 7,074,087 |
| Investment income | 163,431 | - | 163,431 | 552,651 |
| Other sources | 633,081 | - | 633,081 | 1,322,592 |
| Auxiliary enterprises | 18,930,811 | - | 18,930,811 | 19,917,954 |
| Net assets released from restrictions | 1,045,012 | (1,045,012) | - | - |
| Total operating revenues and other additions | 79,825,989 | (199,341) | 79,626,648 | 76,563,626 |
| Operating Expenses | | | | |
| Program expenses | | | | |
| Instruction | 25,815,223 | - | 25,815,223 | 27,286,980 |
| Research | 709,868 | - | 709,868 | 865,228 |
| Public service | 188,462 | - | 188,462 | 221,848 |
| Academic support | 4,878,284 | - | 4,878,284 | 4,963,504 |
| Student services | 23,390,101 | - | 23,390,101 | 22,200,031 |
| Auxiliary enterprises | 13,902,288 | - | 13,902,288 | 13,997,037 |
| Support expenses | | | | |
| Institutional support | 12,321,119 | - | 12,321,119 | 11,825,742 |
| Total operating expenses | 81,205,345 | - | 81,205,345 | 81,360,370 |
| Change in net assets from operating activities | (1,379,356) | (199,341) | (1,578,697) | (4,796,744) |
| Nonoperating Activities | | | | |
| Investment return, net of spending policy | 6,035,094 | 23,643,167 | 29,678,261 | (4,793,312) |
| Change in split interest and other agreements | - | 1,282,931 | 1,282,931 | 223,758 |
| Gifts-endowment and other | 767,476 | 4,589,187 | 5,356,663 | 1,703,123 |
| Other nonoperating activities | - | 71,828 | 71,828 | 32,023 |
| Net assets released from restrictions | 264,402 | (264,402) | - | - |
| Total nonoperating activities | 7,066,972 | 29,322,711 | 36,389,683 | (2,834,408) |
| Change in net assets | 5,687,616 | 29,123,370 | 34,810,986 | (7,631,152) |
| Net Assets, Beginning | 129,514,316 | 142,909,219 | 272,423,535 | 280,054,687 |
| Net Assets, Ending | \$ 135,201,932 | \$ 172,032,589 | \$ 307,234,521 | \$ 272,423,535 |

See notes to financial statements

Susquehanna University

Statement of Activities
Year Ended June 30, 2020

| | 2020 | | |
|--|-----------------------|-----------------------|-----------------------|
| | Without Donor | With Donor | Total |
| | Restrictions | Restrictions | |
| Operating Revenues and Other Additions | | | |
| Tuition and fees, net of scholarships and grants | \$ 40,841,997 | \$ - | \$ 40,841,997 |
| Government grants | 4,377,688 | - | 4,377,688 |
| Private gifts and grants | 1,876,977 | 599,680 | 2,476,657 |
| Endowment income | 7,028,457 | 45,630 | 7,074,087 |
| Investment income | 552,651 | - | 552,651 |
| Other sources | 1,322,592 | - | 1,322,592 |
| Auxiliary enterprises | 19,917,954 | - | 19,917,954 |
| Net assets released from restrictions | 934,196 | (934,196) | - |
| Total operating revenues and other additions | <u>76,852,512</u> | <u>(288,886)</u> | <u>76,563,626</u> |
| Operating Expenses | | | |
| Program expenses | | | |
| Instruction | 27,286,980 | - | 27,286,980 |
| Research | 865,228 | - | 865,228 |
| Public service | 221,848 | - | 221,848 |
| Academic support | 4,963,504 | - | 4,963,504 |
| Student services | 22,200,031 | - | 22,200,031 |
| Auxiliary enterprises | 13,997,037 | - | 13,997,037 |
| Support expenses | | | |
| Institutional support | 11,825,742 | - | 11,825,742 |
| Total operating expenses | <u>81,360,370</u> | <u>-</u> | <u>81,360,370</u> |
| Change in net assets from operating activities | <u>(4,507,858)</u> | <u>(288,886)</u> | <u>(4,796,744)</u> |
| Nonoperating Activities | | | |
| Investment return, net of spending policy | (983,759) | (3,809,553) | (4,793,312) |
| Change in split interest and other agreements | - | 223,758 | 223,758 |
| Gifts-endowment and other | 20,776 | 1,682,347 | 1,703,123 |
| Other nonoperating activities | - | 32,023 | 32,023 |
| Net assets released from restrictions | 189,187 | (189,187) | - |
| Total nonoperating activities | <u>(773,796)</u> | <u>(2,060,612)</u> | <u>(2,834,408)</u> |
| Change in net assets | <u>(5,281,654)</u> | <u>(2,349,498)</u> | <u>(7,631,152)</u> |
| Net Assets, Beginning | <u>134,795,970</u> | <u>145,258,717</u> | <u>280,054,687</u> |
| Net Assets, Ending | <u>\$ 129,514,316</u> | <u>\$ 142,909,219</u> | <u>\$ 272,423,535</u> |

See notes to financial statements

Susquehanna University

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 34,810,986 | \$ (7,631,150) |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Depreciation and amortization, net of accretion | 10,063,748 | 10,606,666 |
| Net realized and unrealized (gains) losses on investments | (35,207,499) | 490,728 |
| Contributions restricted for endowment and plant projects | (4,074,280) | (1,655,698) |
| Actuarial adjustment on annuities payable | 174,884 | 76,582 |
| Loss on dispositions of property, plant and equipment | 6,368 | 4,567 |
| (Increases) decreases in: | | |
| Contributions receivable | (113,439) | (35,833) |
| Accounts receivable | (4,134,831) | (952,508) |
| Inventories and prepaid expenses | 33,845 | 31,213 |
| Funds held in trust by others | (1,003,458) | 51,746 |
| Other assets | (698,951) | (34,454) |
| Increases (decreases) in: | | |
| Accounts payable and other accrued liabilities | 1,400,782 | (454,754) |
| Student deposits and other liabilities | 1,538,232 | 2,601,274 |
| Funds held in custody for others | 308,392 | (287,703) |
| Net cash flows from operating activities | <u>3,104,779</u> | <u>2,810,676</u> |
| Cash Flows From Investing Activities | | |
| Purchases of property, plant and equipment | (2,825,621) | (3,876,958) |
| Purchase of investments | (477,317,907) | (218,454,435) |
| Proceeds from sales of investments | 479,191,334 | 221,325,398 |
| Disbursements of loans to students | (4,000) | (37,889) |
| Repayments of loans by students | 348,057 | 304,716 |
| Net cash flows from investing activities | <u>(608,137)</u> | <u>(739,168)</u> |
| Cash Flows From Financing Activities | | |
| Principal repayments of indebtedness | (2,530,000) | (2,417,500) |
| Contributions received for endowment and plant projects | 3,556,958 | 2,851,373 |
| Proceeds from issuance of split interest agreements | 31,553 | 30,273 |
| Increase in U.S. government grants refundable, net | (279,362) | (409,467) |
| Payments to annuitants | (210,412) | (224,332) |
| Net cash flows from financing activities | 568,737 | (169,653) |
| Net change in cash and cash equivalents | 3,065,379 | 1,901,855 |
| Cash and Cash Equivalents, Beginning | <u>4,156,978</u> | <u>2,255,123</u> |
| Cash and Cash Equivalents, Ending | <u>\$ 7,222,357</u> | <u>\$ 4,156,978</u> |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for interest on long-term debt | \$ 2,015,485 | \$ 2,150,519 |
| Contribution of land received | 625,000 | - |
| Property, plant and equipment acquired through accounts payable | 358,037 | 67,088 |

See notes to financial statements

1. Significant Accounting Policies

Susquehanna University (the University) is a national liberal arts college located in Selinsgrove, Pennsylvania currently enrolling approximately 2,250 full-time students. Founded in 1858, the University grants Bachelor of Arts, Bachelor of Music, Bachelor of Science and Master of Education degrees. The University's mission is to educate undergraduate students for productive, creative and reflective lives of achievement, leadership and service in a diverse and interconnected world. The University accomplishes this mission by offering students strong liberal arts and sciences programs, enhanced by equally strong professional programs. The accounting policies of the University reflect practices common to universities and colleges and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Net Asset Classifications

For the purposes of financial reporting, the University classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of trustees.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in the net assets without donor restrictions class. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

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

Revenue Recognition

Tuition and fee revenue is recognized in the fiscal year in which the academic services are delivered. Sales and services of auxiliary enterprises revenue, which consists of room and board and related services, is recognized when the related service is provided. Tuition and fee and auxiliary enterprise contracts are considered to have a duration of less than one year. Summer tuition and fees are recognized in the applicable fiscal year based on when the services are completed. A portion of Fall tuition and fees received in advance are recorded in deferred revenue and recognized in revenue in the following year.

Susquehanna University

Notes to Financial Statements

June 30, 2021 and 2020

Tuition, fees, room, and board rates are approved by the Board of Trustees. The transaction price which is determined based on these approved rates net of institutional financial aid and discounts are recorded as tuition and fees and auxiliary enterprises revenue. Institutional financial aid and discounts provided by the University are reflected as a reduction of tuition and fee revenue. The University awards grants-in-aid and scholarships to individuals who meet the University's academic standards. The amounts of such awards are based upon the financial needs and/or merit of each applicant. Institutional financial aid and discounts provided to students were approximately \$72,687,000 and \$71,330,000 in 2021 and 2020, respectively.

Amounts are due for tuition, fees, room, and board prior to the beginning of each semester. In accordance with the University's refund policies, undergraduate students may receive a full or partial refund up to four weeks after the start of the semester; graduate students may receive a full or partial refund until the close of the first week of classes (drop/add period). Student accounts receivable includes amounts to which the University is unconditionally entitled. The University considers such amounts as unconditional based on the payment due date.

Private grants and contracts are generally deemed to be exchange (reciprocal) transactions and fall under the scope of revenue recognition standards. The performance obligation for each grant or contract is deemed to be the research itself and revenue is recognized as the eligible grant activities are conducted. Transaction prices are based on budgets in the award agreement. Private grants and contracts are generally one year or less in duration. Exchange contracts are not significant to the University's financial statements.

Government grants and contracts are deemed to be non-exchange (nonreciprocal) transactions and fall under the contribution accounting guidance. Under this guidance, revenue related to conditional grants and contracts is recorded when the conditions are met. Most grants and contracts are on a cost reimbursement basis and require the University to incur eligible expenses prior to the release of funds. The University reports these grants and contracts as changes in net assets without donor restrictions when restrictions are met in the same period.

Deferred Revenue and Deposits

Deferred revenue and deposits is included in student deposits and other liabilities on the statements of financial position and includes payments received prior to the start of the academic term.

The following table depicts activities for deferred revenue related to net student costs for the year ended June 30, 2021.

| | Balance at June 30, 2020 | Revenue Recognized Included in June 30, 2020 Balance | Cash Received in Advance of Performance | Balance at June 30, 2021 |
|-------------------------|-------------------------------------|---|--|-------------------------------------|
| Comprehensive fee, net | \$ 17,500 | \$ 17,500 | \$ 27,515 | \$ 27,515 |
| Student credit balances | 4,170,804 | 4,170,804 | 2,647,441 | 2,647,441 |
| Freshman deposits | 169,400 | 169,400 | 111,400 | 111,400 |

Susquehanna University

Notes to Financial Statements

June 30, 2021 and 2020

The following table depicts activities for deferred revenue related to net student costs for the year ended June 30, 2020.

| | <u>Balance at June 30, 2019</u> | <u>Revenue Recognized Included in June 30, 2019 Balance</u> | <u>Cash Received in Advance of Performance</u> | <u>Balance at June 30, 2020</u> |
|-------------------------|-------------------------------------|---|--|-------------------------------------|
| Comprehensive fee, net | \$ 441,584 | \$ 441,584 | \$ 17,500 | \$ 17,500 |
| Student credit balances | 784,719 | 784,719 | 4,170,804 | 4,170,804 |
| Freshman deposits | 184,100 | 184,100 | 169,400 | 169,400 |

Nonoperating Activities

Nonoperating activities reflect transactions affecting the net assets associated with endowment and capital campaign contributions, gains or losses on investments, change in value of split interest agreements, and other activities of a nonoperating nature.

Cash Equivalents

The University considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents.

Contributions Receivable

Unconditional promises to give are recognized in the period received. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of the fundraising activity.

Student Accounts Receivable

Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for doubtful accounts which is based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts are written off when deemed uncollectible. Recoveries of student accounts previously written off are recorded when received. Accounts receivable are presented in the June 30, 2021 and 2020 statements of financial position net of allowances for doubtful accounts of approximately \$169,000 and \$176,000, respectively. A student account receivable is considered to be delinquent if any portion of the receivable balance is outstanding for more than 30 days after the billing date. Interest is charged on delinquent student account receivable and is recognized as it is charged.

Other Assets

Other assets primarily include works of art received by the University, self-funded insurance plan trust account balance, and cash surrender value of University owned life insurance policies. Works of art totaled approximately \$1,145,000 and \$1,140,000 for the years ended June 30, 2021 and 2020, respectively. These assets have been recorded at fair value at the time of the donation. Cash surrender value of donated life insurance was approximately \$577,000 and \$594,000 at June 30, 2021 and 2020, respectively. The University is both the owner and beneficiary of these policies.

Self-Funded Insurance Plan

The University participates in a self-funded insurance plan to cover employee medical claims. Under the terms of the underlying trust agreement, a trust account was established to administer the stop/loss premium and medical claim payments. Specific and aggregate stop/loss coverage on the health plan is provided to limit the ultimate exposure of the University. The value of the trust account, less an estimated liability which includes an estimate of incurred but not reported claims based on data compiled from historical and actuarial experience, is recorded in other assets in the statements of financial position. The balance of the trust account was approximately \$1,060,000 and \$705,000 at June 30, 2021 and 2020, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost at date of acquisition or fair value at date of donation. Significant improvements and minor renewals are capitalized while routine maintenance and repairs are expensed as incurred. The University depreciates its assets on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 40 years. The University capitalizes equipment additions of \$3,000 or more.

Annuity Agreements and Funds Held in Trust by Others

The University's annuity agreements with donors consist primarily of charitable remainder trusts and annuity agreements for which the University serves as trustee. Assets held in these trusts, recorded at fair value, are included in investments. These assets amounted to approximately \$2,262,000 and \$1,870,000 at June 30, 2021 and 2020, respectively. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The assumptions used in determining the liabilities include the annuitants' life expectancies and discount rates ranging from 1.0 percent to 6.2 percent. Adjustments to annuities payable are included in nonoperating activities on the statements of activities. Assets held at PNC for the University's charitable gift annuities amounted to approximately \$1,982,000 and \$1,805,000 at June 30, 2021 and 2020, respectively.

The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as investment income and the carrying value of funds held in trust by others is adjusted for changes in the fair value of trusts. Distributions received from funds held in trust by others were approximately \$81,000 and \$89,000 for the years ended June 30, 2021 and 2020.

Student Loans Receivable, Net and U.S. Government Advances Refundable

These loans were made with funds advanced to the University by the federal government under the Perkins Student Loan Program (the Program). The Program expired on September 30, 2017 and after June 30, 2018 no new loans were permitted. In the event that the University no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these funds was approximately \$1,156,000 and \$1,436,000 at June 30, 2021 and 2020, respectively, and is recorded as a liability in the statements of financial position. As of June 30, 2021, the University continues to service the Perkins Loan Program.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable. Accordingly, interest on loans is recorded as received and is reinvested to support additional loans; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with the Programs requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated until after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.

Grants to Specified Students

Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University. The amounts of such grants at June 30 were as follows:

| | <u>2021</u> | <u>2020</u> |
|----------------|--------------|--------------|
| State grants | \$ 2,291,509 | \$ 2,190,034 |
| Federal grants | 2,796,646 | 2,817,005 |

Coronavirus Disease (COVID-19) and Emergency Relief Funding

As a response to COVID-19, the government approved three relief packages between April 2020 and March 2021. Congress set aside approximately \$76.6 billion between the Coronavirus Aid, Relief and Economic Security Act (CARES), Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan (ARP) to be allotted to the Educational Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF).

Under CARES, the University received one grant comprised of two parts. Under the legislation, no less than 50 percent of the full grant was to be used for direct emergency aid to students. The remaining portion of the full grant was to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Institutions were given one calendar year from the date of award in their HEERF Grant Award Notification to complete the performance of their HEERF grant. Institutions may recognize the institutional portion of the grant to the extent the grant was expended on student emergency aid. The University received \$2,191,211 of funding under CARES and recognized \$1,095,606 of the student emergency aid as federal grants revenue and student services expense as of June 30, 2020. The institutional portion of the grant totaling \$1,095,605 was expended and recognized as government grants as of June 30, 2020. As restrictions were met in the same period, the grants were reported as changes in net assets without donor restrictions.

Under CRRSAA, institutions received one grant comprised of two parts. Institutions were required to spend an equal amount on student emergency aid as they spent under CARES. The remaining portion was to be used to defray expenses associated with coronavirus. Institutions were given one calendar year from the date of award in their HEERF Grant Award Notification to complete the performance of their HEERF grant. Institutions may recognize the institutional portion of the grant proportionate to the amount expended on student emergency aid. The University received \$3,214,295 of funding under CRRSAA and recognized \$1,095,606 of the student emergency aid as government grants income and student services expense as of June 30, 2021. The institutional portion of the grant totaling \$2,118,689 was recognized as government grants income as of June 30, 2021. The institutional portion of the grant was used to offset auxiliary refunds the University issued to students as a result of the campus closure beginning in March 2020 as well as housing, meal and fee credits issued in fiscal 2021. As restrictions were met in the same period, the grants were reported as changes in net assets without donor restrictions.

Under ARP, institution received one grant comprised of two parts. Under the legislation, no less than 50 percent of the full grant is to be used for direct emergency aid to students. The remaining portion of the full grant is to be used to defray expenses associated with coronavirus, implement evidence-based practices to monitor and suppress coronavirus, and conduct direct outreach to financial aid applications about the opportunity to receive a financial aid adjustment due to a change in circumstance. The University has received \$5,701,276 of funding under ARP and recognized \$2,850,639 of the student emergency aid as government grants income and student services expenses as of June 30, 2021. This amount of funding is recorded as a receivable as of June 30, 2021 in accounts receivable, net, and the student portion is recorded as a payable in student deposits and other liabilities. The institutional portion of the grant totaling \$2,850,637 was recognized as government grants income as of June 30, 2021 and is also recorded as a receivable in accounts receivable, net. The institutional portion of the grant was used to offset auxiliary refunds the University issued to students and to defray expenses associated with coronavirus.

Income Tax Status

The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2021 and 2020. The University's tax returns are subject to review and examination by federal and state authorities.

Advertising Expenses

Advertising costs are expensed when incurred.

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, including functional allocations, during the reporting period. Actual results could differ from those estimates.

Accounting Standards

Accounting Standards Adopted in the Current Year

Effective July 1, 2020, the University adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842) (as amended)*. Topic 842 was issued to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements. Under the provisions of Topic 842, a lessee is required to recognize a right-of-use asset and lease liability, initially measured at the present value of the remaining lease payments, in the statements of financial position. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the leasing activities.

The University elected the option to apply the transition requirements at the effective date of July 1, 2020, which allows the effects of initially applying Topic 842 to be recognized as a cumulative effect adjustment to net assets without donor restrictions in the period of adoption. Consequently, the financial statements and disclosures required under Topic 842 have not been updated as of and for the year ending June 30, 2020. The University also elected the package of practical expedients, which permits the University to not reassess prior conclusions about lease identification, classification and initial direct costs. In addition, the University elected the short-term lease recognition exemption for all leases that qualify under Topic 842.

The most significant effects of the adoption of Topic 842 on the University's financial statements relate to the recognition of new right of use assets and operating lease obligations on its statements of financial position for operating leases and providing significant new disclosures about leasing activities. Upon adoption, the University recognized operating lease obligations of approximately \$488,000 based on the present value of the remaining minimum rental payments as determined in accordance with Topic 842 for leases that had historically been accounted for as operating leases under Topic 840. The University recognized the corresponding operating right of use assets based on the operating lease obligations, which are recorded in property, plant, and equipment. The accounting for existing capital leases, now referred to as finance leases, remain substantially unchanged. The University currently does not have any finance leases.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, Fair Value Measurement. The amendments are based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, which the Board finalized on August 28, 2018. ASU No. 2018-13 was adopted by the University in fiscal year 2021 and was applied retrospectively to all periods presented in Note 3.

Recent Accounting Pronouncements

During September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021. The University is currently assessing the effect that ASU No. 2020-07 will have on its financial statements.

Susquehanna University

Notes to Financial Statements

June 30, 2021 and 2020

2. Restrictions and Limitations on Net Assets Balances

At June 30, the University's net assets were allocated as follows:

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| Net Assets: | | |
| Without donor restrictions: | | |
| Investment in property, plant and equipment | \$ 69,731,210 | \$ 73,529,758 |
| Board-designated endowment funds | 38,666,031 | 35,518,067 |
| Reserves and operating funds | 26,804,691 | 20,466,491 |
| | <u>135,201,932</u> | <u>129,514,316</u> |
| With donor restrictions: | | |
| Net investment gains on donor endowments restricted for future periods, scholarship and educational | 66,384,965 | 41,142,789 |
| Contributions receivable restricted for future periods: | | |
| Capital purposes | 313,227 | 131,015 |
| Other | 3,433,225 | 3,409,905 |
| Donor purpose restrictions, fixed assets | 35,000 | 35,000 |
| Other donor purpose and time restrictions | 544,132 | 610,650 |
| Endowment funds | 96,439,799 | 93,727,313 |
| Student loan funds | 827,096 | 827,096 |
| Donor contributions and annuities for endowments | 4,055,145 | 3,025,451 |
| | <u>172,032,589</u> | <u>142,909,219</u> |
| Total | <u>\$ 307,234,520</u> | <u>\$ 272,423,535</u> |

3. Fair Value Measurements, Investments and Other Financial Instruments

Fair Value Hierarchy

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Susquehanna University

Notes to Financial Statements

June 30, 2021 and 2020

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following tables present the financial instruments measured at fair value as of June 30, 2021 and 2020 by caption on the statements of financial position by the valuation hierarchy defined above:

| | 2021 | | | Total Fair Value |
|--|--------------------|-------------------|------------------|-----------------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets reported at fair value: | | | | |
| Investments: | | | | |
| Short-term investments | \$ 31,196,967 | \$ - | \$ - | \$ 31,196,967 |
| Equities: | | | | |
| Domestic | 36,486,121 | - | - | 36,486,121 |
| Foreign | 41,923,253 | - | - | 41,923,253 |
| Domestic fixed income | 609,420 | 29,496,007 | - | 30,105,427 |
| Total investments by valuation hierarchy | <u>110,215,761</u> | <u>29,496,007</u> | <u>-</u> | <u>139,711,768</u> |
| Alternative investments (measured at net asset value) | | | | <u>83,694,265</u> |
| Total investments | | | | <u>\$ 223,406,033</u> |
| Funds held in trust by others | <u>-</u> | <u>-</u> | <u>6,735,087</u> | <u>6,735,087</u> |
| 2020 | | | | |
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets reported at fair value: | | | | |
| Investments: | | | | |
| Short-term investments | \$ 24,688,253 | \$ - | \$ - | \$ 24,688,253 |
| Equities: | | | | |
| Domestic | 63,518,004 | - | - | 63,518,004 |
| Foreign | 37,640,875 | - | - | 37,640,875 |
| Domestic fixed income | 932,104 | 38,991,460 | - | 39,923,564 |
| Total investments by valuation hierarchy | <u>126,779,236</u> | <u>38,991,460</u> | <u>-</u> | <u>165,770,696</u> |
| Alternative investments (measured at net asset value) | | | | <u>24,301,265</u> |
| Total investments | | | | <u>\$ 190,071,961</u> |
| Funds held in trust by others | <u>-</u> | <u>-</u> | <u>5,731,629</u> | <u>5,731,629</u> |

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Short-Term Investments

The carrying values of short-term investments approximate fair value due to the short term nature of the securities.

Domestic Fixed Income

Investments in fixed income securities are comprised of U.S. Treasury notes, mortgage backed securities, municipal bonds, commercial paper and corporate bonds and notes. U.S. Treasury notes are classified as Level 1 as they trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The remaining fixed income securities are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from other markets that are not active or are for the same or similar assets in active markets.

Equities and Commodities

Investments in equity securities and commodities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

Funds Held In Trust by Others

Funds Held in Trust by Others are measured at fair value using the University's percentage of the earnings of the underlying trust assets applied to the fair value of the underlying assets. This is considered a Level 3 measurement because even though the measurement is based on the underlying fair value of the trust assets as reported by the trustee, the University will never receive those assets to have the ability to direct the trustee to redeem them.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Purchases and sales of funds held in trust by others for the year ended June 30, 2021 were \$3,492,609 and \$3,379,530, respectively. Purchases and sales for funds held in trust by others for the year ended June 30, 2020 were \$2,763,122 and \$2,677,650, respectively.

Alternative Investments

This category includes investments in funds of funds and are valued at their respective net asset value per share (or its equivalent) as a practical expedient. These funds allocate their assets to hedge fund managers that specialize in a wide range of alternative investment strategies. The funds offer the University exposure to a broad range of hedge fund strategies including equity long/short, event-driven, relative value and tactical trading sectors. The University measures the fair value for this investments based on net asset value (NAV) as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the University's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the University sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment. Investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table on the previous pages are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The following table lists the investments in alternative investments by major category as of June 30, 2021:

| | <u>Fair Value as of June 30, 2021</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency (If Currently Eligible)</u> | <u>Redemption Notice Period</u> |
|-----------------|---|---------------------------------|---|-------------------------------------|
| Assets: | | | | |
| Hedge funds | \$ 13,105,050 | \$ - | Quarterly Illiquid, Monthly, | 30-60 Days |
| Pooled vehicles | 61,728,805 | 8,324,985 | Quarterly, | 45-95 Days |
| Mutual funds | 6,430,891 | - | Annually | N/A |
| Private equity | 2,429,519 | 465,000 | Daily | N/A |
| | <u>2,429,519</u> | <u>465,000</u> | Illiquid | N/A |
| Total | <u>\$ 83,694,265</u> | <u>\$ 8,789,985</u> | | |

The following table lists the investments in alternative investments by major category as of June 30, 2020:

| | <u>Fair Value as of June 30, 2020</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency (If Currently Eligible)</u> | <u>Redemption Notice Period</u> |
|-------------------|---|---------------------------------|---|-------------------------------------|
| Assets: | | | | |
| Real estate funds | \$ 13,736,884 | \$ - | Quarterly | 90 Days |
| Hedge funds | 10,564,381 | - | Quarterly | 60 Days |
| Total | <u>\$ 24,301,265</u> | <u>\$ -</u> | | |

Real Estate Funds

This category includes investments in one real estate fund that invests primarily in U.S. commercial real estate. The fair values of the investments in this category have been estimated using the net asset value of the University's ownership interest in the funds. Withdrawals are paid from the real estate investments quarterly on a prorated basis among all those investors who are eligible for payment. Available cash for the payment of withdrawals equals the total amount of deposits made, plus the net proceeds from financings and re-financings which are not needed for operations or capital expenditures, principal repayments, acquisition of investments or other contingencies and after payout of operating cash flow. The University liquidated this investment in March 2021.

Pooled Vehicles

Pooled Vehicles are fund-of-fund strategies that are invested in underlying managers. Each pooled vehicle typically has 8 – 15 asset managers or investment opportunities. These underlying asset managers or investment opportunities could include hedge funds, private investments, daily-traded investments, and futures. The pooled vehicles tend to have lower volatility given those portfolios will typically be more diversified than a directly invested portfolio. The underlying vehicles have varying redemption terms depending on the asset managers and investment vehicle.

Mutual Funds

This category includes one long only US Equities investment in the portfolio. The fund is set up as a mutual fund, although it is subscription-based as opposed to daily market traded. This investment offers daily subscriptions as well as daily redemptions.

Private Equity

This category includes investments in funds that invest in private companies. These funds make investments in private companies through equity, debt, and/or real estate. The funds have a relatively long investment horizon, typically between 5-10 years.

Hedge Funds

This category includes investments in hedge funds that have either a long/short or long-only strategy. The long/short strategy funds may employ leverage and short positions that are perceived to be overvalued. The long-only funds focus on buying positions that they believe to be undervalued. Hedge fund strategies will vary with both net and gross exposure. These funds have varying redemption terms but typically require 30-60 days' notice.

Included in the investment balance is a charitable remainder unitrust (CRUT) of \$930,176 and \$756,488 as of June 30, 2021 and 2020, respectively from which annual distributions are made to a related party. Also included in the investment balance is a charitable remainder annuity trust (CRAT) of \$1,216,656 and \$1,015,612 as of June 30, 2021 and 2020, respectively from which annual distributions are made to a related party.

Susquehanna University

Notes to Financial Statements

June 30, 2021 and 2020

4. Contributions Receivable

Contributions receivable include the following unconditional promises to give at June 30:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------|---------------------|---------------------|
| Without donor restrictions | \$ 530,174 | \$ 1,092,853 |
| Donor restricted, operations | 3,625,722 | 3,605,701 |
| Donor restricted, plant projects | 25,000 | 289,402 |
| Donor restricted, endowment | 1,746,748 | 1,027,344 |
| Gross unconditional promises to give | 5,927,644 | 6,015,300 |
| Less unamortized discount | (172,065) | (262,334) |
| Allowance for uncollectible promises | (189,554) | (192,702) |
| Total | <u>\$ 5,566,025</u> | <u>\$ 5,560,264</u> |

Contributions receivable as of June 30, 2021 of \$1,888,605 are expected to be collected in less than one year, \$4,036,539 in one to five years, and \$2,500 in more than five years. Contributions receivable have been discounted using rates ranging from 0.3 percent to 0.89 percent. Contributions receivable at June 30, 2021 and 2020 from related parties were \$2,444,156 and \$1,634,550, respectively.

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------|-----------------------|-----------------------|
| Land | \$ 6,020,263 | \$ 5,645,263 |
| Improvements other than buildings | 21,461,466 | 22,090,624 |
| Buildings and improvements | 218,955,409 | 218,772,265 |
| Equipment and furnishings | 37,556,641 | 37,071,992 |
| Vehicles | 1,574,798 | 1,588,063 |
| Library materials | 4,636,618 | 4,606,111 |
| Right-of-use assets | 488,000 | - |
| Construction in progress | 759,150 | 175,481 |
| | 291,452,345 | 289,949,799 |
| Less accumulated depreciation | (172,903,847) | (165,193,077) |
| | <u>\$ 118,548,498</u> | <u>\$ 124,756,722</u> |

Depreciation expense totaled approximately \$10,297,000 and \$10,852,000 for the years ended June 30, 2021 and 2020, respectively.

Construction in progress includes improvements to the Garrett Sports Complex and Seibert Hall. All projects are planned to be completed prior to June 30, 2022. The University has outstanding commitments related to these projects of approximately \$28,000 as of June 30, 2021.

Susquehanna University

Notes to Financial Statements

June 30, 2021 and 2020

6. Retirement Plans

For eligible employees, the University makes defined contributions to a national teachers' retirement plan which is administered by an independent organization. Total retirement plan expense amounted to approximately \$2,309,000 and \$2,240,000 for the years ended June 30, 2021 and 2020, respectively.

7. Fund Raising Expenses

The Office of University Relations has primary responsibilities to raise endowment, capital, and operating funds from the University's supporters. Fund raising expenses of approximately \$2,354,000 and \$2,661,000 were incurred for the years ended June 30, 2021 and 2020, respectively.

8. Long-Term Debt

Long-term debt at June 30 consisted of the following:

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| PHEFA 2001 (including bond premium of \$1,484 and \$1,753, respectively) | \$ 3,101,484 | \$ 3,301,753 |
| SCHEA University Revenue Bonds 2015 (including bond premium of \$1,136,255 and \$1,299,695, respectively) | 22,916,255 | 24,542,195 |
| SCHEA University Revenue Bonds 2017 – Bond Payable (including bond premium of \$1,048,638 and \$1,167,176, respectively) | 22,833,638 | 23,819,676 |
| Bond Issuance Costs | <u>(387,633)</u> | <u>(436,660)</u> |
| Total | <u>\$ 48,463,744</u> | <u>\$ 51,226,964</u> |

During the fiscal year ended June 30, 2001, the University borrowed \$6,000,000 by issuing tax exempt bonds through the Pennsylvania Higher Educational Facilities Authority (PHEFA). In May 2007, the bonds reverted to a variable rate with a weekly reset (0.03 percent at June 30, 2021). The bonds require future annual principal debt service payments ranging from approximately \$206,000 to \$402,000 with final maturity in 2031.

During the fiscal year ended June 30, 2016, the University borrowed \$27,305,000 through the issuance of tax exempt revenue bonds through Snyder County Higher Education Authority (SCHEA). The bonds require future annual principal debt service payments ranging from approximately \$1,016,000 to \$2,450,000 through January 2035 and bear interest ranging from 2.375 percent to 5.0 percent.

During the fiscal year ended June 30, 2017, the University borrowed \$25,115,000 through the issuance of tax exempt revenue bonds through SCHEA. The bonds require future annual principal debt service payments ranging from approximately \$923,000 to \$1,850,000 through January 2038 and bear interest ranging from 3.125 percent to 5.0 percent.

Covenants related to debt require the University to maintain expendable funds of at least 50 percent of long-term indebtedness, maximum annual debt service of no more than 15 percent of unrestricted revenue, unrestricted net assets at least equal to total long term indebtedness, and income available for debt service, as defined, to at least 100% of the annual debt service requirement. As of June 30, 2021, the University was in compliance with its debt covenants.

Susquehanna University

Notes to Financial Statements

June 30, 2021 and 2020

The following sets forth principal maturities for long-term debt:

| | |
|----------------------|----------------------|
| Year ending June 30: | |
| 2022 | \$ 2,578,597 |
| 2023 | 2,737,262 |
| 2024 | 2,853,481 |
| 2025 | 2,997,261 |
| 2026 | 3,126,107 |
| Thereafter | <u>32,372,292</u> |
| Total | <u>\$ 46,665,000</u> |

The University incurred interest costs of approximately \$2,040,000 and \$2,177,000 at June 30, 2021 and 2020, respectively. Bond issuance costs are amortized over the life of the related bond issue. Amortization expense was approximately \$49,000 and \$52,000 for the years ended June 30, 2021 and 2020, respectively.

9. Commitments and Contingencies

Litigation

The University is involved in various claims and litigation in the ordinary course of business. In the opinion of management, the outcome of such claims and litigation will not materially affect the University's financial position, results of its activities, or liquidity.

Asset Retirement Obligations

The University recognizes a liability for the fair value of conditional asset retirement obligations if their fair values can be reasonably estimated. This liability is initially recorded as an increase to the associated asset and depreciated over the remaining useful life of the asset.

Substantially all of the University's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The University has recorded a liability, included with other liabilities on the statements of financial position, of approximately \$339,000 and \$309,000 as of June 30, 2021 and 2020, respectively. The University reviews its estimates annually and adjusts the recorded liability as needed.

Purchase Commitments

The University contracted with Richards Energy in May 2017 to manage all of its utility supply contracts. The primary electrical account is managed as a block and index account which will typically float between 50 percent and 20 percent on the spot market, with multiple layered contracts of various lengths being bought at various points during the year based on market conditions. The current contracts are with Constellation NewEnergy through May of 2026 for the primary electrical account, and through May of 2022 for the remaining portfolio of smaller commercial electric accounts. Currently, all of the natural gas accounts have been placed on a fixed contract with Direct Energy which go to August of 2024.

The University contracted with WGL Energy Systems, Inc. (WGL) to purchase 100 percent of the energy produced from a solar photovoltaic electric generating system at prices defined within the agreement. The system was built on the University's land, but is owned, operated and maintained by WGL. The term of the agreement is 25 years with an option for the University to purchase the system at fair market value at the conclusion of the contract.

Susquehanna University

Notes to Financial Statements

June 30, 2021 and 2020

Grants

Amounts received and expended by the University under various federal and state programs are subject to audit by governmental entities. In the opinion of management, audit adjustments, if any, do not have a significant effect on the financial position of the University.

10. Leases

The University has several non-cancelable operating leases for copiers, mail machines and vehicles that expire over the next five years. Rental expense for operating leases during 2021 and 2020 was approximately \$264,000 and \$249,000, respectively.

The obligations associated with these leases have been recognized as a liability in the statements of financial position based on future lease payments, discounted by the incremental borrowing rate. The University makes certain assumptions and judgements in determining the discount rate if leases do not provide an implicit rate. The University uses their incremental borrowing rate based on information available at the commencement date in determining the present value of lease payments.

Subsequent to the lease commencement date, the University reassesses lease classification when there is a contract modification that is accounted for as a separate contract, a change in the lease term, or a change in the assessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset or terminate the lease. Lease terms may include options to extend or terminate certain leases. The value of a lease is reflected in the valuation if it is reasonably certain an option to extend or terminate will be exercised.

Leases with an initial term of 12 months or less are not recorded on the statements of financial position since the University has elected the practical expedient to exclude these leases from operating right of use asset and lease liabilities. Short-term lease expenses are recognized on a straight-line basis over the lease term as an operating expense.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2021 are:

| | | |
|---|----|----------------|
| Years Ending June 30: | | |
| 2022 | \$ | 125,900 |
| 2023 | | 112,771 |
| 2024 | | 88,374 |
| 2025 | | 48,084 |
| 2026 | | 2,267 |
| | | <hr/> |
| Total lease payments | | 377,396 |
| Less present value discount | | <hr/> (23,854) |
| Operating lease liabilities as of June 30, 2021 | \$ | <hr/> 353,542 |

Additional information for the University's leases at June 30, 2021, are summarized below:

| | |
|---------------------------------------|------------|
| Weighted average remaining lease term | 2.80 years |
| Weighted average discount rate | 3.92% |

11. Concentration of Credit Risk

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, investments, and accounts receivable. The University places substantially all of its cash and liquid investments with a variety of financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Student receivables and other receivables are due from a variety of sources concentrated primarily in the eastern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities. The University also has a concentration of payments to two vendors, the food services and health plan vendors. These vendors accounted for approximately 32 percent and 28 percent of amounts paid to all vendors for the years ended June 30, 2021 and 2020, respectively. At June 30, 2021 and 2020, amounts due to these vendors represented 4 percent and 7 percent of accounts payable, respectively.

12. Endowment

The University's endowment consists of approximately 515 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Commonwealth of Pennsylvania law permits the University to allocate to income each year a portion of endowment net realized gains. Pennsylvania legislation was enacted on July 23, 2021 which allows spending up to 10 percent of the value of the endowed assets. This applies to calendar years 2020, 2021 and 2022, or fiscal years that end during these years. These provisions are applicable only to entities that: (1) previously elected or now elect to be governed by the applicable statutory provisions, and (2) adopt and follow a total return investment policy. See below for the University's spending policy for the years ended June 30, 2021 and 2020.

Since donor endowment net realized and unrealized gains may be spent by the University, such gains are recorded on the financial statements as net assets with donor restrictions until transferred to net assets without donor restrictions. The University only transfers to net assets without donor restrictions endowment income and gains required to annually fund its spending policy.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. At June 30, 2020, donor-restricted funds with original gift values of approximately \$2,690,000, fair values of approximately \$2,545,000 and deficiencies of approximately \$100,400 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions with donor restrictions and continued distribution for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets with donor restrictions. At June 30, 2021, there were no donor-restricted endowment funds with deficiencies reported in net assets with donor restrictions.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that fund the spending from the endowment and match inflation so that the purchasing power of the endowment is maintained. This philosophy of maintaining the purchasing power of the endowment is in keeping with guidance issued by the Council of Advancement and Support of Education (CASE).

Strategies Employed for Achieving Objectives

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 equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy of appropriating for distribution each year a percentage of its endowment fund's average fair market value over the prior three years through the quarter ended September 30 preceding the fiscal year in which the distribution is planned. A rate of 4.5 percent was used for the years ended June 30, 2021 and 2020. In establishing this 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 maintain its purchasing power.

Endowment net asset composition by type of fund consists of the following as of June 30, 2021:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------------|---------------------------------------|------------------------------------|-----------------------|
| Donor-restricted endowment funds | \$ - | \$ 166,879,909 | \$ 166,879,909 |
| Board-designated endowment funds | 38,666,031 | - | 38,666,031 |
| Total endowment net assets | <u>\$ 38,666,031</u> | <u>\$ 166,879,909</u> | <u>\$ 205,545,940</u> |

Endowment net asset composition by type of fund consists of the following as of June 30, 2020:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------------|---------------------------------------|------------------------------------|-----------------------|
| Donor-restricted endowment funds | \$ - | \$ 137,895,553 | \$ 137,895,553 |
| Board-designated endowment funds | 35,518,067 | - | 35,518,067 |
| Total endowment net assets | <u>\$ 35,518,067</u> | <u>\$ 137,895,553</u> | <u>\$ 173,413,620</u> |

Susquehanna University

Notes to Financial Statements

June 30, 2021 and 2020

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

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|-----------------------|
| Endowment net assets, June 30, 2020 | \$ 35,518,067 | \$ 137,895,553 | \$ 173,413,620 |
| Investment return: | | | |
| Investment income | 323,232 | 2,019,596 | 2,342,828 |
| Net appreciation, realized and unrealized | 3,867,156 | 28,088,429 | 31,955,585 |
| Total investment return | 4,190,388 | 30,108,025 | 34,298,413 |
| Contributions | - | 5,141,232 | 5,141,232 |
| Appropriation of endowment assets for expenditure | (1,042,424) | (6,264,901) | (7,307,325) |
| Endowment Net Assets, June 30, 2021 | <u>\$ 38,666,031</u> | <u>\$ 166,879,909</u> | <u>\$ 205,545,940</u> |

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

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---------------------------------------|------------------------------------|-----------------------|
| Endowment net assets, June 30, 2019 | \$ 35,852,906 | \$ 139,814,104 | \$ 175,667,010 |
| Investment return: | | | |
| Investment income | 434,292 | 2,657,746 | 3,092,038 |
| Net appreciation (depreciation), realized and unrealized | 246,252 | (519,657) | (273,405) |
| Total investment return | 680,544 | 2,138,089 | 2,818,633 |
| Contributions | 2,500 | 1,886,083 | 1,888,583 |
| Appropriation of endowment assets for expenditure | (1,017,883) | (5,942,723) | (6,960,606) |
| Endowment Net Assets, June 30, 2020 | <u>\$ 35,518,067</u> | <u>\$ 137,895,553</u> | <u>\$ 173,413,620</u> |

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13. Functional Expenses

The financial statements report certain categories of expenses that attribute to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, information technology, and facilities operation and maintenance. Depreciation, interest, and facilities operation and maintenance are allocated based on square footage. Costs of other categories were allocated on estimates of time and effort.

Expenses by nature and function for June 30, 2021 are as follows:

| | <u>Program</u> | <u>Support</u> | <u>Total</u> |
|--------------------------------------|----------------------|----------------------|----------------------|
| Salaries and wages | \$ 25,215,780 | \$ 6,135,663 | \$ 31,351,443 |
| Employee benefits | 9,388,576 | 1,872,999 | 11,261,575 |
| Services, supplies, and other | 20,020,024 | 3,354,920 | 23,374,944 |
| Off campus studies | 718,385 | - | 718,385 |
| Depreciation and amortization | 9,590,890 | 454,215 | 10,045,105 |
| Interest | 1,928,060 | 112,436 | 2,040,496 |
| Facilities operation and maintenance | 2,022,511 | 390,886 | 2,413,397 |
| Total expenses | <u>\$ 68,884,226</u> | <u>\$ 12,321,119</u> | <u>\$ 81,205,345</u> |

Expenses by nature and function for June 30, 2020 are as follows:

| | <u>Program</u> | <u>Support</u> | <u>Total</u> |
|--------------------------------------|----------------------|----------------------|----------------------|
| Salaries and wages | \$ 25,731,984 | \$ 4,981,841 | \$ 30,713,825 |
| Employee benefits | 9,587,489 | 2,036,892 | 11,624,381 |
| Services, supplies, and other | 16,705,816 | 3,854,536 | 20,560,352 |
| Off campus studies | 3,078,521 | - | 3,078,521 |
| Depreciation and amortization | 10,156,661 | 415,157 | 10,571,818 |
| Interest | 2,056,648 | 119,935 | 2,176,583 |
| Facilities operation and maintenance | 2,217,509 | 417,381 | 2,634,890 |
| Total expenses | <u>\$ 69,534,628</u> | <u>\$ 11,825,742</u> | <u>\$ 81,360,370</u> |

14. Line of Credit

The University obtained a \$10,000,000 secured revolving line of credit available from a bank in December 2020. Interest on the outstanding principal will be paid monthly at an adjustable rate with an index floor of .25 percent at one-month London Interbank Offered Rate (LIBOR) plus 2.15 percent collateralized by the unrestricted gross revenues of the University. A substitute index will be determined once LIBOR is no longer available. At June 30, 2021, no amount was outstanding under this line of credit. The line of credit has a maturity date of December 31, 2023. The interest rate was 2.40 percent as of June 30, 2021.

Susquehanna University

Notes to Financial Statements

June 30, 2021 and 2020

15. Liquidity

The University's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for tuition charges and collections on student accounts in relation to the start of academic semesters.

The following reflects the University's financial assets as of the statements of financial position date, reduced by amounts not available for general use within one year of the statements of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts available include the board-approved appropriation from the endowment fund for the following year as well as donor-restricted amounts that are available for general expenditure in the following year. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Board of Trustees approves that action.

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 7,222,357 | \$ 4,156,978 |
| Accounts receivable, net | 4,005,811 | 2,721,620 |
| Contributions receivable, net | 1,016,272 | 452,765 |
| Investments | 22,533,219 | 23,475,227 |
| Assets limited to use: | | |
| Board designated | 1,283,844 | 1,284,126 |
| Donor restricted | 6,185,850 | 6,023,199 |
| Total | <u>\$ 42,247,353</u> | <u>\$ 38,113,915</u> |

The University has certain board designated and donor restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above.

As part of the University's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the University has a board-designated endowment of \$39,373,654 and \$35,518,067 as of June 30, 2021 and 2020, respectively. Although the University does not intend to spend from its board-designated endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from the University board-designated endowment could be made available if necessary. However, both the board-designated endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available.

16. Related Parties

The University has entered into a number of transactions with an organization with which a member of the Board of Trustees has a relationship. The transactions include management fees of \$99,300 for a portion of the investment portfolio for the year ended June 30, 2021 and \$134,100 for the year ended June 30, 2020. In addition, contributions receivable from related parties are disclosed in Note 4 and related party distributions from investment securities are disclosed in Note 3.

Susquehanna University

Notes to Financial Statements

June 30, 2021 and 2020

17. Department of Education Financial Responsibility

The Department of Education (ED) revised the regulations for financial responsibility effective July 1, 2019. The regulations require the University to provide additional disclosures, including a financial responsibility supplemental schedule, to assist ED in measuring financial responsibility through the composite score of financial ratios. The financial responsibility supplemental schedule must contain all financial elements required to calculate the composite score ratios, with a cross-reference to the financial statement line or note that contains the element.

| | |
|-----------------------------------|---------------------|
| Net Assets | |
| Annuities with donor restrictions | <u>\$ 2,144,382</u> |

Note 5 provides information on the University's land, buildings, and equipment, net, but does not provide a breakout by the implementation date of July 1, 2019. The following table provides a breakdown of land, buildings and equipment, net, at June 30, 2021 based on the July 1, 2019 implementation date.

| | |
|---|-----------------------|
| Pre-implementation: | |
| Property, plant and equipment, net | <u>\$ 110,887,985</u> |
| Post-implementation: | |
| Property, plan and equipment, ent, with outstanding debt for original purchase | <u>-</u> |
| Property, plan and equipment, net without outstanding debt for original purchase | 6,901,363 |
| Construction in progress | <u>759,150</u> |
| Total property, plant and equipment, net without outstanding debt for original purchase | <u>7,660,513</u> |
| Total property, plant and equipment, net, on June 30, 2021 | <u>\$ 118,548,498</u> |

Note 8 provides information on the College's long-term debt, but does not provide a breakout by the implementation date of July 1, 2019. The following table provides a breakdown of long-term debt for long-term purposes, at June 30, 2021 based on the July 1, 2019 implementation date.

| | |
|--|----------------------|
| Pre-implementation: | |
| Long-term debt for long-term purposes | \$ 51,226,964 |
| Less current year repayments | <u>(2,763,220)</u> |
| Long-term debt, pre-implementation | 48,463,744 |
| Post-implementation: | |
| Long-term debt for long-term purposes, post-implementation | <u>-</u> |
| Total long-term debt on June 30, 2021 | <u>\$ 48,463,744</u> |

18. Subsequent Events

The University has evaluated subsequent events through October 25, 2021, which is the date that the financial statements were issued.