

Susquehanna University

Financial Statements

June 30, 2020 and 2019

Susquehanna University

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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, 2020 and 2019 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, 2020 and 2019 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.

Baker Tilly US, LLP

Chicago, Illinois
November 2, 2020

Susquehanna University

Statements of Financial Position

June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 4,156,978 | \$ 2,255,123 |
| Contributions receivable, net | 5,560,264 | 6,720,106 |
| Accounts receivable, net | 2,721,620 | 1,769,112 |
| Inventories and prepaid expenses | 1,376,011 | 1,407,224 |
| Student loans receivable, net | 1,489,129 | 1,755,956 |
| Investments | 190,071,961 | 193,433,652 |
| Funds held in trust by others | 5,731,629 | 5,783,375 |
| Other assets | 3,798,391 | 3,763,937 |
| Property, plant, and equipment, net | <u>124,756,722</u> | <u>131,699,395</u> |
| Total assets | <u>\$ 339,662,705</u> | <u>\$ 348,587,880</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and other accrued expenses | \$ 4,943,216 | \$ 5,360,715 |
| Student deposits and other liabilities | 6,739,125 | 4,137,849 |
| Annuities payable | 2,104,277 | 2,221,754 |
| Long-term debt | 51,226,964 | 53,890,117 |
| U.S. government advances refundable | 1,435,548 | 1,845,015 |
| Funds held in custody for others | <u>790,040</u> | <u>1,077,743</u> |
| Total liabilities | <u>67,239,170</u> | <u>68,533,193</u> |
| Net assets | | |
| Net assets without donor restrictions | 129,514,316 | 134,795,970 |
| Net assets with donor restrictions: | | |
| Restricted by purpose or time | 45,329,360 | 49,564,940 |
| Restricted in perpetuity | <u>97,579,859</u> | <u>95,693,777</u> |
| Total net assets with donor restrictions | 142,909,219 | 145,258,717 |
| Total net assets | <u>272,423,535</u> | <u>280,054,687</u> |
| Total liabilities and net assets | <u>\$ 339,662,705</u> | <u>\$ 348,587,880</u> |

See notes to financial statements

Susquehanna University

Statement of Activities

Year Ended June 30, 2020 (with comparative totals for 2019)

| | 2020 | | | 2019 |
|--|----------------|----------------|----------------|----------------|
| | Without Donor | With Donor | Total | Total |
| | Restrictions | Restrictions | | |
| Operating Revenues and Other Additions | | | | |
| Tuition and fees, net of scholarships and grants | \$ 40,841,997 | \$ - | \$ 40,841,997 | \$ 42,986,720 |
| Government grants | 4,377,688 | - | 4,377,688 | 1,591,521 |
| Private gifts and grants | 1,876,977 | 599,680 | 2,476,657 | 3,181,841 |
| Endowment income | 7,028,457 | 45,630 | 7,074,087 | 6,553,716 |
| Investment income | 552,651 | - | 552,651 | 567,913 |
| Other sources | 1,322,592 | - | 1,322,592 | 1,291,903 |
| Auxiliary enterprises | 19,917,954 | - | 19,917,954 | 25,512,745 |
| Net assets released from restrictions | 934,196 | (934,196) | - | - |
| Total operating revenues and other additions | 76,852,512 | (288,886) | 76,563,626 | 81,686,359 |
| Operating Expenses | | | | |
| Program expenses | | | | |
| Instruction | 27,286,980 | - | 27,286,980 | 28,436,831 |
| Research | 865,228 | - | 865,228 | 866,761 |
| Public service | 221,848 | - | 221,848 | 232,397 |
| Academic support | 4,963,504 | - | 4,963,504 | 5,025,870 |
| Student services | 22,200,031 | - | 22,200,031 | 21,853,347 |
| Auxiliary enterprises | 13,997,037 | - | 13,997,037 | 15,944,887 |
| Support expenses | | | | |
| Institutional support | 11,825,742 | - | 11,825,742 | 12,752,617 |
| Total operating expenses | 81,360,370 | - | 81,360,370 | 85,112,710 |
| Change in net assets from operating activities | (4,507,858) | (288,886) | (4,796,744) | (3,426,351) |
| Nonoperating Activities | | | | |
| Investment return, net of spending policy | (983,759) | (3,809,553) | (4,793,312) | 564,141 |
| Change in split interest and other agreements | - | 223,758 | 223,758 | 815,943 |
| Gifts-endowment and other | 20,776 | 1,682,347 | 1,703,123 | 2,887,732 |
| Other nonoperating activities | - | 32,023 | 32,023 | 193,163 |
| Net assets released from restrictions | 189,187 | (189,187) | - | - |
| Total nonoperating activities | (773,796) | (2,060,612) | (2,834,408) | 4,460,979 |
| Change in net assets | (5,281,654) | (2,349,498) | (7,631,152) | 1,034,628 |
| Net Assets, Beginning | 134,795,970 | 145,258,717 | 280,054,687 | 279,020,059 |
| Net Assets, Ending | \$ 129,514,316 | \$ 142,909,219 | \$ 272,423,535 | \$ 280,054,687 |

See notes to financial statements

Susquehanna University

Statement of Activities

Year Ended June 30, 2019

| | 2019 | | |
|--|-------------------------------|----------------------------|----------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Operating Revenues and Other Additions | | | |
| Tuition and fees, net of scholarships and grants | \$ 42,986,720 | \$ - | \$ 42,986,720 |
| Government grants | 1,591,521 | - | 1,591,521 |
| Private gifts and grants | 1,992,344 | 1,189,497 | 3,181,841 |
| Endowment income | 6,510,704 | 43,012 | 6,553,716 |
| Investment income | 567,913 | - | 567,913 |
| Other sources | 1,291,903 | - | 1,291,903 |
| Auxiliary enterprises | 25,512,745 | - | 25,512,745 |
| Net assets released from restrictions | 872,654 | (872,654) | - |
| Total operating revenues and other additions | 81,326,504 | 359,855 | 81,686,359 |
| Operating Expenses | | | |
| Program expenses | | | |
| Instruction | 28,436,831 | - | 28,436,831 |
| Research | 866,761 | - | 866,761 |
| Public service | 232,397 | - | 232,397 |
| Academic support | 5,025,870 | - | 5,025,870 |
| Student services | 21,853,347 | - | 21,853,347 |
| Auxiliary enterprises | 15,944,887 | - | 15,944,887 |
| Support expenses | | | |
| Institutional support | 12,752,617 | - | 12,752,617 |
| Total operating expenses | 85,112,710 | - | 85,112,710 |
| Change in net assets from operating activities | (3,786,206) | 359,855 | (3,426,351) |
| Nonoperating Activities | | | |
| Investment return, net of spending policy | 157,574 | 406,567 | 564,141 |
| Change in split interest and other agreements | - | 815,943 | 815,943 |
| Gifts-endowment and other | 1,013,758 | 1,873,974 | 2,887,732 |
| Other nonoperating activities | - | 193,163 | 193,163 |
| Net assets released from restrictions | 2,499,895 | (2,499,895) | - |
| Total nonoperating activities | 3,671,227 | 789,752 | 4,460,979 |
| Change in net assets | (114,979) | 1,149,607 | 1,034,628 |
| Net Assets, Beginning | 134,910,949 | 144,109,110 | 279,020,059 |
| Net Assets, Ending | \$ 134,795,970 | \$ 145,258,717 | \$ 280,054,687 |

See notes to financial statements

Susquehanna University

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ (7,631,152) | \$ 1,034,628 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Depreciation and amortization, net of accretion | 10,606,666 | 10,847,097 |
| Net realized and unrealized losses (gains) on investments | 490,728 | (3,898,422) |
| Contributions restricted for endowment and plant projects | (1,655,698) | (2,700,549) |
| Actuarial adjustment on annuities payable | 76,582 | 101,155 |
| Loss on dispositions of property, plant and equipment | 4,567 | 56,527 |
| (Increases) decreases in | | |
| Contributions receivable | (35,833) | 185,559 |
| Accounts receivable | (952,508) | 45,345 |
| Inventories and prepaid expenses | 31,213 | 787,928 |
| Funds held in trust by others | 51,746 | (811,979) |
| Other assets | (34,452) | 173,829 |
| Increases (decreases) in | | |
| Accounts payable and other accrued liabilities | (454,754) | 103,056 |
| Student deposits and other liabilities | 2,601,274 | (31,464) |
| Funds held in custody for others | (287,703) | 106,346 |
| Net cash flows from operating activities | <u>2,810,676</u> | <u>5,999,056</u> |
| Cash Flows From Investing Activities | | |
| Purchases of property, plant and equipment | (3,876,958) | (4,582,979) |
| Purchase of investments | (218,454,435) | (110,607,739) |
| Proceeds from sales of investments | 221,325,398 | 103,471,482 |
| Disbursements of loans to students | (37,889) | (51,000) |
| Repayments of loans by students | 304,716 | 398,294 |
| Net cash flows from investing activities | <u>(739,168)</u> | <u>(11,371,942)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal repayments of indebtedness | (2,417,500) | (2,322,500) |
| Contributions received for endowment and plant projects | 2,851,373 | 4,356,595 |
| Proceeds from issuance of split interest agreements | 30,273 | 30,693 |
| Increase in U.S. government grants refundable, net | (409,467) | 27,599 |
| Payments to annuitants | (224,332) | (216,286) |
| Net cash flows from financing activities | <u>(169,653)</u> | <u>1,876,101</u> |
| Net change in cash and cash equivalents | 1,901,855 | (3,496,785) |
| Cash and Cash Equivalents, Beginning | <u>2,255,123</u> | <u>5,751,908</u> |
| Cash and Cash Equivalents, Ending | <u>\$ 4,156,978</u> | <u>\$ 2,255,123</u> |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash paid during the year for interest on long-term debt | <u>\$ 2,150,519</u> | <u>\$ 2,261,547</u> |
| Property, plant and equipment acquired through accounts payable | <u>\$ 67,088</u> | <u>\$ 29,833</u> |

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 2,240 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.

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, 2020 and 2019

Tuition, fees, room, and board rates are approved by the Board of Trustees. 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 \$71,330,000 and \$66,463,000 in 2020 and 2019, 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.

| | <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 |

Non-operating Activities

Non-operating 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, 2020 and 2019 statements of financial position net of allowances for doubtful accounts of approximately \$176,000 and \$62,000, 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 receivables 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 \$1,140,000 and \$1,133,000 for the years ended June 30, 2020 and 2019, respectively. These assets have been recorded at fair value at the time of the donation. Cash surrender value of donated life insurance was approximately \$594,000 and \$570,000 at June 30, 2020 and 2019, 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 \$705,000 and \$764,000 at June 30, 2020 and 2019, 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 \$1,869,537 and \$2,574,932 at June 30, 2020 and 2019, 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 1.2 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 \$1,805,487 and \$1,845,416 at June 30, 2020 and 2019, 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 \$89,000 for the years ended June 30, 2020 and 2019.

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 \$1,436,000 and \$1,845,000 at June 30, 2020 and 2019, respectively, and is recorded as a liability in the statements of financial position. As of June 30, 2020, 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>2020</u> | <u>2019</u> |
|----------------|--------------|--------------|
| State grants | \$ 2,190,034 | \$ 2,328,184 |
| Federal grants | 2,817,005 | 3,067,784 |

The Coronavirus Aid, Relief, and Economics Security (CARES) Act provided budgetary relief to higher education institutions. Congress set aside approximately \$14.25 billion of the \$30.75 billion allotted to the Education Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF). Each institution received one grant comprised of two parts. Under the legislation, no less than 50% 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 1 calendar year from the date of award in their HEERF Grant Award Notification to complete the performance of their HEERF grant.

The University received approximately \$2,191,211 of HEERF funding between April 13, 2020 and April 21, 2020. Institutions may recognize the institutional portion of the grant to the extent the grant was expended on student relief as of June 30, 2020. As of June 30, 2020, \$1,095,606 of the student relief portion of the grant was expended and recognized as government grants income and related expenses recognized in student services and \$1,095,605 of the institutional portion of the grant was expended and recognized as government grants income. As restrictions were met in the same period, these grants were reported as changes in net assets without donor restrictions.

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, 2020 and 2019. 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.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement of financial position. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. In 2019, the FASB issued ASU No. 2019-01 *Leases (Topic 842): Codification Improvements*, which delayed the effective date for certain entities. Topic 842 (as amended) is effective for the University in fiscal 2021. The University is currently assessing the effect that Topic 842 (as amended) will have on its change in net assets, financial position and cash flows.

During 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 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. Early adoption is permitted. The University is currently assessing the effect that ASU No. 2018-13 will have on its change in net assets, financial position and cash flows.

During March 2019, the FASB issued ASU No. 2019-03, *Updating the Definition of Collections*. ASU No. 2019-03 modifies the definition of the term *collections* and requires that a collection-holding entity disclose its policy for the use of proceeds from collection items that are deaccessioned (that is, removed from a collection). If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of *direct care*. ASU No. 2019-03 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted and the standard should be applied on a prospective basis when adopted. The University does not believe that the adoption of ASU No. 2019-03 will have a material effect on its change in net assets, financial position and cash flows.

In September 2020, the FASB issued Accounting Standards Update No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU No. 2020-07). 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 fiscal years beginning after June 15, 2021. Early adoption is permitted. Management is currently assessing the effect that ASU No. 2020-07 will have on its change in net assets, financial position and cash flows.

Susquehanna University

Notes to Financial Statements

June 30, 2020 and 2019

2. Restrictions and Limitations on Net Assets Balances

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

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------|-----------------------|
| Net Assets: | | |
| Without donor restrictions: | | |
| Investment in property, plant and equipment | \$ 73,529,758 | \$ 77,809,277 |
| Board-designated endowment funds | 35,518,067 | 35,852,906 |
| Reserves and operating funds | 20,466,491 | 21,133,787 |
| | <u>129,514,316</u> | <u>134,795,970</u> |
| With donor restrictions: | | |
| Net investment gains on donor endowments restricted for future periods, scholarship and educational | 41,142,789 | 44,947,423 |
| Contributions receivable restricted for future periods: | | |
| Capital purposes | 131,015 | 230,489 |
| Other | 3,409,905 | 3,455,908 |
| Donor purpose restrictions, fixed assets | 35,000 | - |
| Other donor purpose and time restrictions | 610,650 | 1,556,120 |
| Endowment funds | 93,727,313 | 91,494,122 |
| Student loan funds | 827,096 | 827,096 |
| Donor contributions and annuities for endowments | 3,025,451 | 2,747,559 |
| | <u>142,909,219</u> | <u>145,258,717</u> |
| Total | <u>\$ 272,423,535</u> | <u>\$ 280,054,687</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.

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.

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Notes to Financial Statements

June 30, 2020 and 2019

The following tables present the financial instruments measured at fair value as of June 30, 2020 and 2019 by caption on the statements of financial position by the valuation hierarchy defined above:

| | 2020 | | | Total Fair Value |
|---|---------------|------------|-----------|---------------------|
| | Level 1 | Level 2 | Level 3 | |
| 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 | 126,779,236 | 38,991,460 | - | 165,770,696 |
| Alternative investments (measured at net asset value) | | | | 24,301,265 |
| Total investments | | | | \$ 190,071,961 |
| Funds held in trust by others | - | - | 5,731,629 | 5,731,629 |
| 2019 | | | | |
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets reported at fair value: | | | | |
| Investments: | | | | |
| Short-term investments | \$ 26,533,395 | \$ - | \$ - | \$ 26,533,395 |
| Equities: | | | | |
| Domestic | 61,540,769 | - | - | 61,540,769 |
| Foreign | 44,888,752 | - | - | 44,888,752 |
| Domestic fixed income | 884,424 | 35,344,307 | - | 36,228,731 |
| Total investments by valuation hierarchy | 133,847,340 | 35,344,307 | - | 169,191,647 |
| Alternative investments (measured at net asset value) | | | | 24,242,005 |
| Total investments | | | | \$ 193,433,652 |
| Funds held in trust by others | - | - | 5,783,375 | 5,783,375 |

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Notes to Financial Statements

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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

The University's investments in funds held in trust by others are categorized as Level 3 because the University is invested in a trust, not the actual underlying investments. The fair values of the trusts are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are measured at the present value of the future distributions the University expects to receive over the term of the agreements.

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.

The following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2020 are summarized as follows:

| | <u>Balance June 30, 2019</u> | <u>Net Realized and Unrealized Gains</u> | <u>Purchases</u> | <u>Sales</u> | <u>Settlement</u> | <u>Balance June 30, 2020</u> |
|----------------------------------|----------------------------------|--|------------------|----------------|-------------------|----------------------------------|
| Funds held in trust by others | \$ 5,783,375 | \$ (137,218) | \$ 2,763,122 | \$ (2,677,650) | \$ - | \$ 5,731,629 |

The following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2019 are summarized as follows:

| | <u>Balance June 30, 2018</u> | <u>Net Realized and Unrealized Gains</u> | <u>Purchases</u> | <u>Sales</u> | <u>Settlement</u> | <u>Balance June 30, 2019</u> |
|----------------------------------|----------------------------------|--|------------------|----------------|-------------------|----------------------------------|
| Funds held in trust by others | \$ 4,971,396 | \$ (43,034) | \$ 2,713,824 | \$ (1,910,811) | \$ 52,000 | \$ 5,783,375 |

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 statement of financial position.

The following table lists the investments in alternative investments by major category:

| | <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> | | |

The following table lists the investments in alternative investments by major category:

| | <u>Fair Value as of June 30, 2019</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency (If Currently Eligible)</u> | <u>Redemption Notice Period</u> |
|-------------------|---|---------------------------------|---|-------------------------------------|
| Assets: | | | | |
| Real estate funds | \$ 13,469,326 | \$ - | Quarterly | 90 Days |
| Hedge funds | 10,772,679 | - | Quarterly | 60 Days |
| Total | <u>\$ 24,242,005</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 expects to hold this investment for several years.

Hedge Funds

This category includes investments in hedge funds with a strategy of taking long positions in equities that are perceived to be undervalued and taking short positions in equities that are perceived to be overvalued. This strategy may commonly employ variable net exposure as well as the use of leverage. There is a 60 day advance notice requirement for redemption.

Included in the investment balance is a charitable remainder unitrust (CRUT) of \$756,448 and \$749,166 as of June 30, 2020 and 2019, 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 \$1,015,612 and \$1,046,946 as of June 30, 2020 and 2019, respectively from which annual distributions are made to a related party.

4. Contributions Receivable

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

| | <u>2020</u> | <u>2019</u> |
|--------------------------------------|---------------------|---------------------|
| Without donor restrictions | \$ 1,092,853 | \$ 1,860,693 |
| Donor restricted, operations | 3,605,701 | 3,694,515 |
| Donor restricted, plant projects | 289,402 | - |
| Donor restricted, endowment | <u>1,027,344</u> | <u>1,744,581</u> |
| Gross unconditional promises to give | 6,015,300 | 7,299,789 |
| Less unamortized discount | (262,334) | (384,200) |
| Allowance for uncollectible promises | <u>(192,702)</u> | <u>(195,483)</u> |
| Total | <u>\$ 5,560,264</u> | <u>\$ 6,720,106</u> |

Contributions receivable as of June 30, 2020 of \$1,536,504 are expected to be collected in less than one year, \$3,763,512 in one to five years, and \$715,284 in more than five years. Contributions receivable have been discounted using rates ranging from 0.3 percent to 2.7 percent. Contributions receivable at June 30, 2020 and 2019 from related parties were \$1,634,550 and \$1,650,238, respectively.

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Notes to Financial Statements

June 30, 2020 and 2019

5. Property, Plant and Equipment

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

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|-----------------------|-----------------------|
| Land | \$ 5,645,263 | \$ 5,645,263 |
| Improvements other than buildings | 22,090,624 | 21,866,516 |
| Buildings and improvements | 218,772,265 | 216,357,093 |
| Equipment and furnishings | 37,071,992 | 35,792,306 |
| Vehicles | 1,588,063 | 1,603,659 |
| Library materials | 4,606,111 | 4,577,361 |
| Construction in progress | 175,481 | 76,857 |
| | 289,949,799 | 285,919,055 |
| Less accumulated depreciation | <u>(165,193,077)</u> | <u>(154,219,660)</u> |
| | <u>\$ 124,756,722</u> | <u>\$ 131,699,395</u> |

Depreciation expense totaled \$10,852,319 and \$11,073,805 for the years ended June 30, 2020 and 2019, respectively.

Construction in progress includes improvements to the Degenstein Campus Center, Reed Hall and Aikens Hall. All projects are planned to be completed prior to June 30, 2021. The University has no outstanding commitments related to these projects as of June 30, 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 \$2,240,000 and \$2,330,000 for the years ended June 30, 2020 and 2019, 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 \$2,661,000 and \$3,113,000 were incurred for the years ended June 30, 2020 and 2019, respectively.

8. Long-Term Debt

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

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| PHEFA 2001 (including bond premium of \$1,753 and \$2,037, respectively) | \$ 3,301,753 | \$ 3,502,037 |
| SCHEA University Revenue Bonds 2015 (including bond premium of \$1,299,695 and \$1,473,075, respectively) | 24,542,195 | 26,108,075 |
| SCHEA University Revenue Bonds 2017 – Bond Payable (including bond premium of \$1,167,176 and \$1,290,707, respectively) | 23,819,676 | 24,768,207 |
| Bond Issuance Costs | <u>(436,660)</u> | <u>(488,202)</u> |
| Total | <u>\$ 51,226,964</u> | <u>\$ 53,890,117</u> |

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Notes to Financial Statements

June 30, 2020 and 2019

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 (0.11 percent at June 30, 2020). 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 \$2,500,000 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, 2020, the University was in compliance with its debt covenants.

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

| | |
|----------------------|----------------------|
| Year ending June 30: | |
| 2021 | \$ 2,504,989 |
| 2022 | 2,578,597 |
| 2023 | 2,737,262 |
| 2024 | 2,853,481 |
| 2025 | 2,997,261 |
| Thereafter | <u>35,523,410</u> |
| Total | <u>\$ 49,195,000</u> |

The University incurred interest costs of approximately \$2,177,000 and \$2,289,000 at June 30, 2020 and 2019, respectively. Bond issuance costs are amortized over the life of the related bond issue. Amortization expense was approximately \$52,000 and \$54,000 for the years ended June 30, 2020 and 2019, 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 \$308,550 and \$280,500 as of June 30, 2020 and 2019, respectively. The University reviews its estimates annually and adjusts the recorded liability as needed.

Purchase Commitments

The University contracted with Richards New Energy in August 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, Champion and Engie Energy through May of 2021. Currently, all of the natural gas accounts have been placed on a fixed contract with Direct Energy which go through January of 2022.

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.

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 2020 and 2019 was approximately \$249,000 and \$212,000, respectively.

Future approximate minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2020 are:

| | |
|-----------------------|------------|
| Years Ending June 30: | |
| 2021 | \$ 250,000 |
| 2022 | 124,000 |
| 2023 | 94,000 |
| 2024 | 58,000 |
| 2025 | 17,000 |
| | <hr/> |
| Total | \$ 543,000 |

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 28 percent and 30 percent of amounts paid to all vendors for the years ended June 30, 2020 and 2019, respectively. At June 30, 2020 and 2019, amounts due to these vendors represented 7 percent and 2 percent of accounts payable.

12. Endowment

The University's endowment consists of approximately 510 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 which allows spending between 2 percent and 7 percent of a three-year moving average of the market value of the endowed assets.

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 \$2,689,520, fair values of \$2,545,129 and deficiencies of \$100,379 were reported in net assets with donor restrictions. At June 30, 2019, donor-restricted funds with original gift values of \$1,372,900, fair values of \$1,339,460 and deficiencies of \$33,440 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.

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, 2020 and 2019. 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, 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> |

Endowment net asset composition by type of fund consists of the following as of June 30, 2019:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------------|---------------------------------------|------------------------------------|-----------------------|
| Donor-restricted endowment funds | \$ - | \$ 139,814,104 | \$ 139,814,104 |
| Board-designated endowment funds | 35,852,906 | - | 35,852,906 |
| Total Endowment Net Assets | <u>\$ 35,852,906</u> | <u>\$ 139,814,104</u> | <u>\$ 175,667,010</u> |

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Notes to Financial Statements

June 30, 2020 and 2019

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> |

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|-----------------------|
| Endowment net assets, June 30, 2018 | \$ 33,945,458 | \$ 135,849,719 | \$ 169,795,177 |
| Investment return: | | | |
| Investment income | 524,048 | 2,989,134 | 3,513,182 |
| Net appreciation, realized and unrealized | 1,431,963 | 2,864,198 | 4,296,161 |
| Total investment return | 1,956,011 | 5,853,332 | 7,809,343 |
| Contributions | 910,808 | 3,583,241 | 4,494,049 |
| Appropriation of endowment assets for expenditure | (959,371) | (5,472,188) | (6,431,559) |
| Endowment Net Assets, June 30, 2019 | <u>\$ 35,852,906</u> | <u>\$ 139,814,104</u> | <u>\$ 175,667,010</u> |

Susquehanna University

Notes to Financial Statements

June 30, 2020 and 2019

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 is 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, 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> |

Expenses by nature and function for June 30, 2019 are as follows:

| | <u>Program</u> | <u>Support</u> | <u>Total</u> |
|--------------------------------------|----------------------|----------------------|----------------------|
| Salaries and wages | \$ 26,029,942 | \$ 5,576,694 | \$ 31,606,636 |
| Employee benefits | 9,463,224 | 2,222,793 | 11,686,017 |
| Services, supplies, and other | 17,566,042 | 4,008,657 | 21,574,699 |
| Off campus studies | 4,233,114 | - | 4,233,114 |
| Depreciation and amortization | 10,460,642 | 386,455 | 10,847,097 |
| Interest | 2,162,418 | 126,103 | 2,288,521 |
| Facilities operation and maintenance | 2,444,711 | 431,915 | 2,876,626 |
| Total Expenses | <u>\$ 72,360,093</u> | <u>\$ 12,752,617</u> | <u>\$ 85,112,710</u> |

Susquehanna University

Notes to Financial Statements

June 30, 2020 and 2019

14. 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>2020</u> | <u>2019</u> |
|-------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 4,156,978 | \$ 2,255,123 |
| Accounts receivable, net | 2,721,620 | 1,769,112 |
| Contributions receivable, net | 1,536,504 | 1,884,912 |
| Investments | 15,206,309 | 14,633,506 |
| Assets limited to use: | | |
| Board designated | 1,284,126 | 1,208,846 |
| Donor restricted | 6,023,199 | 5,751,760 |
| Total | <u>\$ 30,928,736</u> | <u>\$ 27,503,259</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 \$35,518,067 and \$35,852,906 as of June 30, 2020 and 2019, 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.

15. 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 \$134,106 for a portion of the investment portfolio 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.

16. Subsequent Events

The University has evaluated subsequent events through November 2, 2020, which is the date that the financial statements were issued. In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to geographic locations in which the University operates. Beginning in March 2020, certain of the University's locations were closed temporarily, either by order of local governmental authorities, or at the University's discretion.

The extent of the impact of COVID-19 on the University's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.