MARYMOUNT

UNIVERSITY

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2020

BROWNEDWARDS
certified public accountants

MARYMOUNT UNIVERSITY

CONSOLIDATED FINANCIAL REPORT

June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Marymount University
Arlington, Virginia

We have audited the accompanying consolidated financial statements of Marymount University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2020 and 2019, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Blacksburg, Virginia
November 5, 2020

MARYMOUNT UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents		
Cash and cash equivalents, other	$ 10,608,602	$ 15,659,036
Comprehensive campaign, restricted	81,890	83,011
Restricted by debt agreement (Note 7)	9,416,731	9,174,358
Total cash and cash equivalents	20,107,223	24,916,405
Receivables and other assets (Note 3)	11,047,569	8,505,492
Notes receivable, University and government student loans, net of allowance for doubtful accounts; 2020 and 2019, $6,188	549,005	615,066
Contributions receivable (Note 4)	7,279,016	7,095,421
Deferred lease incentive, net of accumulated amortization (Note 16)	2,754,131	3,216,948
Investments and funds held in trust by others (Note 5)	47,884,878	47,596,639
Land, buildings, and equipment, net of accumulated depreciation (Notes 6 and 7)	174,018,886	179,039,147
Total assets	$ 263,640,708	$ 270,985,118
LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of credit (Note 7)	$ -	$ 1,500,000
Accounts payable, accruals, and other liabilities	1,218,860	3,357,745
Accrued interest payable	3,213,852	3,270,262
Accrued salaries and payroll taxes	4,903,384	5,209,112
Deposits and deferred revenue	6,244,630	6,356,028
U.S. government grants refundable	902,986	1,078,672
Debt (Note 7)	143,879,983	146,827,940
Total liabilities	160,363,695	167,599,759
NET ASSETS (Note 8)		
Without donor restrictions	62,187,229	63,258,974
With donor restrictions	41,089,784	40,126,385
Total net assets	103,277,013	103,385,359
Total liabilities and net assets	$ 263,640,708	$ 270,985,118

The Notes to Consolidated Financial Statements are an integral part of these statements.

MARYMOUNT UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Tuition and fees	$ 91,924,712	$ -	$ 91,924,712
Less financial aid	(24,475,751)	-	(24,475,751)
Net tuition and fees (Note 9)	67,448,961	-	67,448,961
Contributions and grants	219,622	4,393,091	4,612,713
Grants – COVID-19 relief (Note 18)	-	1,140,284	1,140,284
Endowment income, available to support current operations (Note 5)	-	360,000	360,000
Investment income, other	290,983	-	290,983
Auxiliary services	15,472,645	-	15,472,645
Ground lease rental income (Note 16)	-	-	-
Other and miscellaneous fees	3,358,090	-	3,358,090
Net assets released from restrictions and reclassifications (Note 10)	3,583,106	(3,583,106)	-
Total revenues	90,373,407	2,310,269	92,683,676
EXPENSES			
Educational and general:			
Instruction	34,938,130	-	34,938,130
Academic support	12,274,194	-	12,274,194
Student services	12,060,368	-	12,060,368
Institutional support	16,783,003	-	16,783,003
Research	1,807,501	-	1,807,501
Auxiliary services	14,095,346	-	14,095,346
Total expenses (Note 11)	91,958,542	-	91,958,542
Change in net assets, operating	(1,585,135)	2,310,269	725,134
NON-OPERATING			
Investment return, net of amount available to support current operations (Note 5)	513,390	(246,870)	266,520
Loss from write-off of contribution receivable	-	(1,100,000)	(1,100,000)
Loss from termination of ground lease (Note 16)	-	-	-
Change in net assets	(1,071,745)	963,399	(108,346)
NET ASSETS			
Beginning	63,258,974	40,126,385	103,385,359
Ending	$ 62,187,229	$ 41,089,784	$ 103,277,013

The Notes to Consolidated Financial Statements are an integral part of these statements.

MARYMOUNT UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
REVENUES			
Tuition and fees	$ 90,232,740	$ -	$ 90,232,740
Less financial aid	(22,603,899)	-	(22,603,899)
Net tuition and fees (Note 9)	67,628,841	-	67,628,841
Contributions and grants	77	2,468,204	2,468,281
Grants – COVID-19 relief (Note 18)	-	-	-
Endowment income, available to support current operations (Note 5)	654,000	1,161,500	1,815,500
Investment income, other	670,123	-	670,123
Auxiliary services	14,118,750	-	14,118,750
Ground lease rental income (Note 16)	1,485,520	-	1,485,520
Other and miscellaneous fees	3,006,652	-	3,006,652
Net assets released from restrictions and reclassifications (Note 10)	2,339,454	(2,339,454)	-
Total revenues	89,903,417	1,290,250	91,193,667
EXPENSES			
Educational and general:			
Instruction	37,389,090	-	37,389,090
Academic support	14,132,988	-	14,132,988
Student services	13,307,832	-	13,307,832
Institutional support	16,920,034	-	16,920,034
Research	1,695,778	-	1,695,778
Auxiliary services	13,224,776	-	13,224,776
Total expenses (Note 11)	96,670,498	-	96,670,498
Change in net assets, operating	(6,767,081)	1,290,250	(5,476,831)
NON-OPERATING			
Investment return, net of amount available to support current operations (Note 5)	175,769	(38,214)	137,555
Loss from write-off of contribution receivable	-	-	-
Loss from termination of ground lease (Note 16)	(8,517,390)	-	(8,517,390)
Change in net assets	(15,108,702)	1,252,036	(13,856,666)
NET ASSETS			
Beginning	78,367,676	38,874,349	117,242,025
Ending	$ 63,258,974	$ 40,126,385	$ 103,385,359

The Notes to Consolidated Financial Statements are an integral part of these statements.

MARYMOUNT UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2020 and 2019

	2020	2019
OPERATING ACTIVITIES		
Change in net assets	$ (108,346)	$ (13,856,666)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Non-operating and noncash items:		
Contributions and investment income restricted for plant expansion and endowment	(1,104,644)	(753,098)
Net realized and unrealized (gains) losses on investments	93,950	(1,032,789)
Change in cash surrender value of life insurance	86,935	(12,178)
Deferred loan costs amortization and writeoff	86,249	418,097
Bond premium amortization	(152,504)	(152,504)
Loss from termination of ground lease	-	8,517,390
Depreciation and amortization	7,510,103	7,593,717
Change in certain operating assets and liabilities:		
(Increase) decrease in:		
Receivables and other assets	(2,629,012)	(686,198)
Contributions receivable	(183,595)	665,650
Deferred lease incentive	462,817	(3,216,948)
Ground lease receivable	-	(1,223,020)
Increase (decrease) in:		
Accounts payable, accruals, and other liabilities	(2,501,023)	1,325,569
Deposits and deferred revenue	(111,398)	(46,440)
Net cash provided by (used in) operating activities	1,449,532	(2,459,418)
INVESTING ACTIVITIES		
Change in notes receivable, net	66,061	99,971
Change in U.S. government grants refundable	(175,686)	-
Purchases of land, buildings, and equipment, net of debt and accounts payable incurred	(2,358,354)	(4,248,128)
Change in investments, net of proceeds from sales	(382,189)	300,487
Net cash used in investing activities	(2,850,168)	(3,847,670)
FINANCING ACTIVITIES		
Proceeds from contributions restricted for plant expansion and endowment	1,104,644	753,098
Gross borrowings on the line of credit	-	1,500,000
Gross payments on the line of credit	(1,500,000)	-
Change in funds held in reserve by debt agreement	-	1,000
Payments of debt	(3,013,190)	(1,822,495)
Proceeds from issuance of new debt:		
Note payable	-	15,500,000
Capital leases	131,488	-
Less debt incurred to refinance existing debt	-	(14,500,000)
Less debt incurred to finance equipment	(131,488)	-
Net cash provided by (used in) financing activities	(3,408,546)	1,431,603
Decrease in cash and cash equivalents	(4,809,182)	(4,875,485)
CASH AND CASH EQUIVALENTS, including cash restricted by debt agreement		
Beginning	24,916,405	29,791,890
Ending	$ 20,107,223	$ 24,916,405

(Continued)

MARYMOUNT UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2020 and 2019

	2020	2019
SUPPLEMENTAL DISCLOSURES INFORMATION		
Cash payments for interest	$ 7,216,803	$ 7,457,855
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Note payable refinanced with new debt	$ -	$ 14,500,000
Capital lease obligation (included in debt) incurred for use of equipment	$ 131,488	$ -
Reversal of funds held in reserve as a result of debt refinancing	$ -	$ 3,700,000

The Notes to Consolidated Financial Statements are an integral part of these statements.

Note 1. Reporting Entity and Significant Accounting Policies

Reporting entity

Marymount University (the “University”), an independent, comprehensive Catholic university, combines the liberal arts tradition with career preparation. The University was founded in 1950 and is associated with the Religious of the Sacred Heart of Mary. The University is located in Arlington, Virginia, minutes from Washington, D.C., and serves approximately 3,400 students through its main campus, its Ballston campus, and through outreach activities in Northern Virginia. The University’s charter allows up to a 35-member Board of Trustees (the “Board”), who are appointed for three-year terms. The University offers a wide range of graduate and undergraduate degree programs.

In 2015, the University formed Marymount NBG Ground Lessor LLC (the “LLC”), a limited liability company. The LLC was formed for the purpose of holding the residential parcel of the Ballston property that was subject to a ground lease and all the activities related to the ground lease. The ground lease is further discussed in Note 16. The University owns 100% membership interest in the LLC. As a result of this ownership interest, financial accounting standards require the LLC to be consolidated by the University for financial reporting purposes. All transactions between the University and the LLC were eliminated upon consolidation.

The significant accounting policies followed by the University are described below:

Basis of financial consolidated statement presentation and accounting

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

The accompanying consolidated financial statements present information regarding the University’s financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported in two classes as follows:

Net assets without donor restrictions are net assets available for use in general operations and not subject to donor restrictions. These net assets may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not net assets with donor restrictions are included in this classification. Expenses are reported as decreases in this classification.

Net assets with donor restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or that can be fulfilled by action of the University pursuant to those stipulations. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. All donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions.

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Recent accounting pronouncement

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The University adopted this guidance effective July 1, 2019. The adoption of ASU No. 2018-08 did not result in any significant changes to the accounting for any of the University's material revenue streams.

Cash and cash equivalents

The University considers all highly liquid investments with an original maturity of three months or fewer when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value. Cash held for long-term investment is included with endowment assets or classified as funds held for investment in land, buildings, and equipment or funds held in reserves.

The University follows the common cash management practice of consolidating certain operating cash and cash equivalent accounts, which includes various designated and restricted current operating and plant accounts. As a result of this practice, cash and cash equivalents specifically associated with the original gift of certain designated and restricted monies can be spent from the consolidated account. When this occurs, the activity is accounted for by maintaining receivables and payables between the net asset classes. The University has sufficient funds without donor restrictions to cover the receivables and payables, as applicable, of the designated or restricted net assets.

Student, grant, and other receivables

Student receivables are stated at the amount the University expects to collect from outstanding balances. The University provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its experience and other circumstances, which may affect the ability of students to meet their obligations. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

The University considers student receivable balances in excess of 90 days past due accounts. The University does not charge interest on past due balances. At June 30, 2020 and 2019, the University had balances in excess of 90 days of approximately \$6.4 million and \$5.1 million, respectively.

Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values. The fair values of investments in equities, bonds, U.S. government securities, exchange traded mutual funds, and short-term assets is determined by reference to quoted market prices and other relevant information generated by market transactions. Net unrealized and realized gains or losses are reflected on the consolidated statements of activities.

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Investments (Continued)

Gifts of investments are recorded at their fair values (based upon quotations or appraisals) at the date of the gift. Purchases and sales of investments are recorded on the trade date.

Income and realized and unrealized net gains on investments of endowment and similar net asset classes are reported as follows:

- As increases in net assets with donor restrictions if the terms of the gift require that they be added to the principal of an endowment fund to be held in perpetuity or if the terms of the gift impose restrictions on the use of the income, including income earned on donor-restricted endowment funds;
- As increases in net assets without donor restrictions in all other cases.

Land, buildings, and equipment

Land, buildings, and equipment are stated at cost at the date of acquisition or at fair value at the date of the gift, less accumulated depreciation and amortization. Depreciation and amortization are recorded using the straight-line method over the estimated useful lives of the assets.

Equipment is removed from the records and any gain or loss is recognized at the time of disposal. Expenditures for new construction, major renewals, replacements, and equipment exceeding $5,000 are capitalized.

Collections are recorded at cost if purchased and at fair value at date of accession if donated. Gains and losses from deaccessions are reported as changes in net assets based on the absence or existence and nature of donor-imposed restrictions. Collection items are protected, kept unencumbered, cared for, and preserved.

The University recognizes costs related to planned major maintenance activities as costs are incurred.

Asset retirement obligations (AROs)

An ARO is a legal liability to the University for the cost of retiring a tangible long-lived asset (e.g., a building containing asbestos) that results from the acquisition, construction, or development and/or normal operation of the long-lived asset. A conditional ARO is a legal obligation in which the timing and/or method of retirement are conditional on a future event that may or may not be within the control of the University. To reasonably estimate these liabilities, the University must be able to determine (1) the settlement date – the estimated date or range of dates that disposal is anticipated or legally required and (2) the settlement method – how the disposal will take place. The University follows the policy of recording the fair values of such liabilities when they can be reasonably estimated.

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Accrued compensation

The University accrues for salaries and all other compensation earned but not paid.

Student and other deposits

Deposits and student fees applicable to academic sessions subsequent to the current year are deferred and recognized as revenues in subsequent periods.

Notes receivable, government student loans, and U.S. government grants refundable

The University participates in the Federal Perkins Loan and the Nursing Student Loan programs sponsored by the U. S. government. Under these programs, funds are loaned to qualified students and may be re-loaned after collection. The authority to make new Perkins loans ended on September 30, 2017. Student loan receivables related to these programs are recorded as notes receivable. The portion of those funds contributed by the U.S. government (i.e., exclusive of the University's match funds) is ultimately refundable to the government.

Split-interest agreements

The University participates in various split-interest agreements that are unconditional and irrevocable. These arrangements are established when a donor makes a gift to the University or a trust in which the University shares benefits with other beneficiaries. Generally, the University accounts for these agreements by recording its share of the related assets at fair-market value (which approximates the present value of the estimated future cash receipts). Liabilities are recorded for any portion of the assets held for donors or other beneficiaries equal to the present value of the expected future payments to be made. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits. Contribution revenues are recognized at the dates the agreements are established for the difference between the assets and the liabilities.

If the University holds the assets or is the trustee, the assets are included on the consolidated statements of financial position as investments, and the related liabilities are included in accounts payable, accruals, and other liabilities. If a third party is the trustee until the termination of the trust and then the remaining assets are transferred to the beneficiaries, the assets less related liabilities are included in contributions receivable. The fair value of funds held in trust by others is determined by the present value of estimated future cash flows.

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Net asset classifications of institutional funds

The University holds institutional funds, principally endowment funds, subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). "Endowment" is a commonly used term to refer to the resources, including trusts and annuities, that have been restricted by the donor or designated by the Board that will be invested to provide future revenue to support the University's activities. The University's endowment consists of approximately 100 individual funds established for a variety of purposes. As titled, UPMIFA provides guidance and applicable regulations relative to the management of applicable funds.

In response to UPMIFA, the University adopted the provisions of accounting guidance for the net asset classification of donor-restricted endowment funds for an organization that is subject to UPMIFA including the required related financial statement disclosures.

Interpretation of UPMIFA

The Board has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the University classifies as net assets with donor restrictions the historical value of donor-restricted "true" endowment funds, which includes (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable, at the time the accumulation is added to the fund.

Also included in net assets with donor restrictions is accumulated appreciation on donor-restricted "true" endowment funds which are available for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA, and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the University and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the University, and (7) the investment policies of the University.

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 of donor-restricted funds that organizations must hold in perpetuity or for a donor-specified period as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark in excess of the consumer price index (CPI) plus 4% while assuming a moderate level of investment risk. The University expects its endowment funds to provide an average annual rate of return of approximately 4% plus inflation (measured by the CPI). Actual returns in any given year may vary from this amount.

(Continued)

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Net asset classifications of institutional funds (Continued)

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 on its endowment investments that places emphasis on global equities, global fixed income securities, real assets, and diversifying assets in the following ranges to achieve its long-term return objectives within prudent risk constraints.

	Minimum	Target	Maximum
Global equity	40 %	56 %	70 %
Fixed income	15	33	45
Alternatives	-	11	20
Cash and cash equivalents	-	-	20

Spending Policy and How the Investment Objectives Relate to Spending Policy

On University-held investments, the University employs a total return endowment spending policy that establishes the amount of endowment investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and to increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For the years ended June 30, 2020 and 2019, the Board-approved spending formula for the endowment provided for an annual spending rate of not more than 4% and 5%, respectively, of the average of the prior three years' June 30 endowment market values, except on those funds that were "underwater." If cash yield (interest and dividends) is less than the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment. The spending rate on funds held in trust by others is determined by the respective trust document or trust administrator.

Funds with Deficiencies ("Underwater" Funds)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration, due to market fluctuations or other draws on the endowment. There were no such deficiencies as of June 30, 2020 and 2019.

(Continued)

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Contributions

Contributions, including unconditional promises to give or contributions receivable, are recognized as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions in the period the donor's commitment is received. Unconditional promises to give without donor restrictions are recognized as operating revenues with donor restrictions unless the donor explicitly stipulates its use to support current period activities.

Conditional promises to give are not recognized until they become unconditional, i.e., when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair values. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. 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.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net assets with donor restrictions class, and a reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the net assets without donor restrictions class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of the net assets with donor restrictions class; the restrictions are considered to be released at the time such long-lived assets are placed in service, or when the contribution is received, if the asset has already been placed in service.

Operations

Operating activities on the consolidated statements of activities illustrate a measure of how the University is maintaining the resources available for its "current operations." Operations reflect all transactions increasing or decreasing net assets without donor restrictions. Net assets with donor restrictions that are released from restrictions that satisfy an operating purpose and transfers from Board-designated and other non-operating funds to support current operating activities are also classified as operating.

In accordance with the University's total return policy, only the portion of total investment return available under this policy to meet operating needs is included in operating revenues on the consolidated statements of activities. Additionally, the portion of total investment return available to support current operations under the University's total return policy excludes cash flows from operating activities; only the actual cash yield is included in cash flows from operating activities.

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Operations (Continued)

Costs related to the operation and maintenance of the physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based upon periodic inventories of facilities. Interest expense on external debt is allocated to the activities that have most directly benefited from the proceeds of the external debt.

Advertising costs

The University follows the policy of charging advertising costs to expense as incurred.

Fair value measurements

The University carries various assets and liabilities at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, a market-based approach is used which establishes that fair value is based on the "highest and best use." Additionally, in accordance with the accounting guidance, the University categorizes its financial instruments based on the priority of the inputs to the valuation technique into a three-level fair value hierarchy as reflected below. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 – Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities that management has the ability to access at the measurement date.

Level 2 – Fair values are based on inputs other than quoted prices in Level 1 that are either 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 were observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Fair values are based on unobservable inputs for the asset or liability where there is little, if any, market activity for the asset or liability at the measurement date.

The estimated fair value for specific groups of financial instruments is presented within the notes applicable to such items. If not specifically presented, fair value is estimated to approximate the related carrying value. It was not considered practical to determine the fair value of notes receivable from students under U.S. government loan programs and related government advances because the notes receivable are non-marketable and can only be assigned to the U.S. government or its designees. These installment notes are due over terms of 10 years, with interest at 5% per annum, and are carried at face value. Based upon current borrowing rates available to the University for similar borrowings, the carrying value of long-term debt approximates fair value.

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Credit risk concentrations

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, short-term investments, marketable securities, student accounts receivable, and loans receivable. The University places its short-term investments with high-credit, quality financial institutions. A portion of the University's bank deposits are in excess of federally insured limits. Concentration of credit risk for marketable securities is limited by the University's policy of diversification of investments. Concentration of credit risk for student accounts receivable and loans receivable are limited due to a large base and geographic dispersion.

Income taxes

The University is exempt from federal income tax under Section 501(c)(3) of the *Internal Revenue Code*.

Reclassifications

Certain reclassifications have been made to the prior year amounts in order to conform to the current year presentation.

Subsequent events

Subsequent events were considered through November 5, 2020, the date the consolidated financial statements were available to be issued.

Note 2. Financial Assets and Liquidity Resources

As part of the University's liquidity management, it invests cash in excess of amounts required for operations in money markets, mutual funds, bonds, and equity securities in accordance with the University's investment policy. To help manage liquidity needs, the University has a quasi-endowment. Although the University does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget and appropriation, amounts from its quasi-endowment could be made available by action of the Board, if necessary. Accordingly, the quasi-endowed portion of the University's investments is included within the portion of investments without donor restrictions in the following schedule to arrive at the total financial assets available to meet cash needs for general expenditure within one year of the consolidated statements of financial position date.

(Continued)

Note 2. Financial Assets and Liquidity Resources (Continued)

As of June 30, financial assets available within one year of the consolidated statements of financial position date for general expenditure were as follows:

	2020	2019
Cash and cash equivalents, other	$ 10,608,602	$ 15,659,036
Student receivables, net of allowance for doubtful accounts and defaulted accounts	5,140,985	1,914,864
Contributions receivable, net due within one year without donor restrictions on the use of funds	804,833	230,667
Portion of investments without donor restrictions	18,398,518	18,578,183
	$ 34,952,938	$ 36,382,750

To help manage unanticipated liquidity needs, the University had a committed line of credit in the amount of $2.5 million which it could draw upon. Of this amount, the University borrowed $1.5 million as of June 30, 2019, with an available unused balance of $1 million. This line expired in May 2020. The University is currently in the process of finalizing a line of credit with a new institution.

Note 3. Receivables and Other Assets

Receivables and other assets consisted of the following as of June 30:

	2020	2019
Student receivables	$ 11,510,380	$ 8,122,699
Less allowance for doubtful accounts	(2,443,939)	(1,935,412)
	9,066,441	6,187,287
Prepaid expenses	1,009,641	1,198,737
Amounts due from various government agencies	154,873	248,856
Conference center receivable	(4,683)	12,565
Miscellaneous receivables	(15,118)	219,547
Rent receivable	550,503	265,653
Cash value of life insurance	274,912	361,847
Timeshare	11,000	11,000
	$ 11,047,569	$ 8,505,492

Note 4. Contributions Receivable

Contributions receivable consisted of the following as of June 30:

	2020	2019
Unconditional promises to give cash	$ 6,763,971	$ 6,534,994
Charitable remainder trusts held by others	515,045	560,427
Total	$ 7,279,016	$ 7,095,421
Expected to be collected in:		
Less than one year	$ 2,733,966	$ 2,156,369
One to five years	2,771,667	2,360,833
More than five years	2,654,045	3,698,427
	8,159,678	8,215,629
Less:		
Discount to net present value at 1.2% – 2.3%	(780,662)	(1,020,208)
Allowance for uncollectible contributions	(100,000)	(100,000)
	$ 7,279,016	$ 7,095,421

All contributions are classified in the net assets with donor restrictions class for time and/or purpose restrictions.

Contributions received from two donors and three donors comprised 43% and 39% of total contributions for the years ended June 30, 2020 and 2019, respectively, as reported on the consolidated statements of activities. Additionally, gross contributions receivable from three donors and four donors accounted for 57% and 71% of total gross contributions receivable as of June 30, 2020 and 2019, respectively.

Note 5. Investments and Funds Held in Trust by Others

Investments and funds held in trust by others were comprised of the following as of June 30:

	2020		2019	
Equity securities:				
Mutual funds:				
U.S. small to large cap	$ 15,123,818	37.1%	$ 13,467,746	33.7%
International – developed and emerging markets	9,686,958	23.8	10,359,040	25.9
Total equity securities	24,810,776	60.9	23,826,786	59.6
Fixed income securities:				
U.S. treasuries/government agencies securities	3,114,556	7.7	2,867,835	7.2
Corporate obligations	11,904,222	29.2	11,294,967	28.3
Mutual funds	454,096	1.1	475,925	1.2
Total fixed income securities	15,472,874	38.0	14,638,727	36.7
Other:				
Alternatives – REIT and commodities	-	-	508,471	1.3
Cash and cash equivalents	436,008	1.1	950,395	2.4
Total other	436,008	1.1	1,458,866	3.7
	40,719,658	100.0%	39,924,379	100.0%
Clare Boothe Luce Fund – funds held in trust by others	7,165,220		7,672,260	
	$ 47,884,878		$ 47,596,639	

Note 5. Investments and Funds Held in Trust by Others (Continued)

The ownership of investments and funds held in trust by others for each class of net assets as of June 30 were as follows:

	2020	2019
Without donor restrictions	$ 18,398,518	$ 18,578,183
With donor restrictions	29,486,360	29,018,456
	$ 47,884,878	$ 47,596,639

The market values of investment asset classifications were as follows as of June 30:

	2020	2019
Endowment	$ 47,823,418	$ 46,907,579
Operating and plant	61,460	689,060
	$ 47,884,878	$ 47,596,639

The University has various investment vehicles with carrying values that fluctuate with the financial markets. As a result, the value of such investments may have declined from year end values and that decline could be material.

The activity in investments and funds held in trust by others for the years ended June 30 is reflected in the table below:

	2020	2019
Investments and funds held in trust by others, beginning	$ 47,596,639	$ 46,864,337
Gifts available for investment and investment income reinvestment	592,768	1,003,758
	48,189,407	47,868,095
Investment returns		
Dividends and interest	720,148	934,022
Investment return, net of amount available to support current operations per consolidated statements of activities	266,520	137,555
Less cash yield in excess of spending	(360,470)	895,234
Net realized and unrealized gains (losses)	(93,950)	1,032,789
Total return on investments	626,198	1,966,811
Amounts appropriated for operations, net transfers to operational accounts and other activity	(930,727)	(2,238,267)
Investments and funds held in trust by others, ending	$ 47,884,878	$ 47,596,639

Note 5. Investments and Funds Held in Trust by Others (Continued)

Investment returns for the years ended June 30, 2020 and 2019 are net of related management and custodial expenses of $211,424 and $207,687, respectively.

The following summarizes long-term investment return and its classification on the consolidated statements of activities for the years ended June 30:

	2020	2019
Endowment investment income, net of expenses	$ 716,351	$ 921,741
Net realized and unrealized gains (losses) on investments	(89,831)	1,031,314
Endowment total return	626,520	1,953,055
Other investment income, net of expenses	3,797	12,281
Other net realized and unrealized gains (losses) on investments	(4,119)	1,475
Total return on investments	$ 626,198	$ 1,966,811
Amount available to support current operations in accordance with the University's and the Henry Luce Foundation, Inc.'s spending policies	$ 360,000	$ 1,815,500
Other amounts available to support current operations included in investment income, other	(322)	13,756
Investment return, net of amount available to support current operations	266,520	137,555
	$ 626,198	$ 1,966,811

Clare Boothe Luce Fund

The University is the beneficiary of an original endowment bequest of a $3 million share of the Clare Boothe Luce Fund. The share remains in a trust administered by the Henry Luce Foundation, Inc. (the "Foundation") and is subject to normal prudent investment standards. Accordingly, the original share of the bequest and unrealized gains and income thereon are included in net assets with donor restrictions. Under the endowment terms, the income distribution is to be used to encourage women to enter, study, graduate, and teach in certain scientific and technological fields in which they have been historically underrepresented.

Note 5. Investments and Funds Held in Trust by Others (Continued)

Clare Boothe Luce Fund (Continued)

According to the will, each designated participant of 14 institutions, including the University, is to receive the income due to it in each calendar year. When the income distribution is received, it is placed in an interest-bearing escrow account by the University. Transactions in the escrow account included in investments as cash and cash equivalents during the years ended June 30 are summarized below:

	2020	2019
Opening balance, beginning	$ 16,569	$ 500,594
Investment earnings on escrow account	(95)	100
Cash received	348,000	340,000
Approved expenditures	-	(824,125)
Closing balance, ending	$ 364,474	$ 16,569

Approved expenditures totaling $360,000 for the year ended June 30, 2020 cleared the escrow account subsequent to year end.

Note 6. Land, Buildings, and Equipment

Land, buildings, and equipment consisted of the following at June 30:

	Estimated Useful Life	2020	2019
Land improvements	10 – 20 years	$ 4,380,266	$ 4,178,891
Buildings and improvements	10 – 50 years	208,595,488	206,899,218
Furniture and equipment	4 – 10 years	31,493,710	31,052,040
Library collection	10 years	17,745,648	17,622,582
Donated assets	4 – 10 years	61,396	61,396
Collections	50 years	248,090	248,090
Leased equipment	1 – 5 years	2,806,509	2,675,022
		265,331,107	262,737,239
Accumulated depreciation and amortization		(98,720,669)	(91,210,566)
		166,610,438	171,526,673
Land		7,408,448	7,408,448
Construction in progress		-	104,026
		$ 174,018,886	$ 179,039,147

Note 6. Land, Buildings, and Equipment (Continued)

As of June 30, 2019, construction in progress was primarily for renovations to the Chapel, St. Joseph Hall, and the Main House. Construction in progress included amounts under an original contract totaling approximately $549,000. As of June 30, 2019, the University had remaining a commitment of approximately $445,000 under the original contracts. As of June 30, 2020, there was no construction in progress or outstanding commitments on construction contracts.

Note 7. Debt

The University's debt consisted of the following as of June 30:

	2020	2019
The University borrowed funds by issuing tax-exempt bonds through the Virginia College Building Authority Educational Facilities Revenue and Refunding Bonds (the "Authority"), Series 2015A. Interest is payable semi-annually with rates ranging from 4% to 5% over the term of the bonds (5% at June 30, 2020 and 2019). Principal maturities range from $1.1 million to $3.865 million through July 2045. The University has a promissory note with the Authority in the principal amount of the bonds. Secured by a deed of trust on certain real property.	$ 58,960,000	$ 60,235,000
The University borrowed funds by issuing tax-exempt bonds through the Authority; Series 2015B, Green Bonds. Interest is payable semi-annually with rates ranging from 5% to 5.25% over the term of the bonds (5% and 5.25% at June 30, 2020 and 2019, respectively). Principal maturities range from $1.030 million to $35.915 million beginning July 2019 through July 2045. The University has a promissory note with the Authority in the principal amount of the bonds. Secured by a deed of trust on certain real property.	65,785,000	66,815,000
Note payable with a bank to refinance debt of the LLC, payable with monthly payments of principal and interest of $85,641 beginning on March 2019 and continuing through June 2025, at which time the balance is due in full. Interest is at a fixed rate of 5.2% per annum. The note is secured by a deed of trust on certain property.	15,191,663	15,409,893

(Continued)

Note 7. Debt (Continued)

The University's debt consisted of the following as of June 30: (Continued)

	2020	2019
Note payable with a bank, payable with monthly payments of $10,517 including interest of 4.75% through June 2044, at which time the balance is due in full. The note is secured by a deed of trust on a house.	1,937,671	1,969,461
Capital lease obligations, due in monthly and quarterly installments, with total annual payments of approximately $397,000 including interest at rates ranging up to 5.6%, maturing through January 2023, collateralized by equipment with a net book value of $408,009 and $674,999 at June 30, 2020 and 2019, respectively.	393,996	720,678
	142,268,330	145,150,032
Original issue premium on Authority debt	3,813,920	3,966,424
Unamortized deferred loan costs	(2,202,267)	(2,288,516)
	$ 143,879,983	$ 146,827,940

Debt matures as follows:

	Debt	Amortization of Premium	Amortization of Deferred Loan Costs	Total
Years ending June 30:				
2021	$ 2,906,251	$ 152,504	$ (86,251)	$ 2,972,504
2022	2,939,299	152,504	(86,251)	3,005,552
2023	3,012,783	152,504	(86,251)	3,079,036
2024	3,109,253	152,504	(86,251)	3,175,506
2025	17,168,302	152,504	(86,251)	17,234,555
2026 and thereafter	113,132,442	3,051,400	(1,771,012)	114,412,830
	$ 142,268,330	$ 3,813,920	$ (2,202,267)	$ 143,879,983

Note 7. Debt (Continued)

Amortization of the deferred loan costs is reported as interest expense on the consolidated statements of activities. Amortization is calculated on the straight-line basis over the term of the related financing agreement.

The Authority's debt, along with the note payable to the bank obtained to refinance the LLC's debt, includes various covenants comprised of certain financial ratios and benchmarks. As of June 30, 2020, the University is not aware of any violations of the covenants.

Under the terms of the Series 2015A and Series 2015B bond agreements, the University is required to set aside funds for principal and interest payments. The total amounts set aside at June 30, 2020 and 2019 for the Series 2015A bonds were $4,513,451 and $4,397,295, respectively. The total amounts set aside at June 30, 2020 and 2019 for the Series 2015B bonds were $4,902,456 and $4,776,242, respectively. These amounts are included in cash and cash equivalents.

Interest expense for the years ended June 30 was as follows:

	2020	2019
Expensed	$ 7,160,393	$ 7,449,073
Capitalized, excluding interest income netted	-	-
	$ 7,160,393	$ 7,449,073

The University had a $2.5 million unsecured line of credit with a local bank. This line of credit bears interest at the 30-day London Interbank Offered Rate (LIBOR) plus 2.25% (4.65% at June 30, 2019). The University had a balance outstanding at June 30, 2019 of $1.5 million which was paid in full during 2020. The line expired in May 2020. Management is currently in the process of finalizing terms of a line of credit with a new institution and expects to obtain the final agreement subsequent to year end.

(Continued)

Note 8. Net Assets

Net assets as of June 30 consisted of the following:

	2020	2019
Without donor restrictions:		
Funds functioning as endowment – Board-designated	$ 18,395,100	$ 17,889,123
Investment in land, buildings, and equipment, net of debt	34,515,849	36,602,404
Undesignated	9,276,280	8,767,447
Total net assets without donor restrictions	62,187,229	63,258,974
With donor restrictions:		
Subject to expenditure for specific purposes and time:		
Available for the following purposes or periods:		
Financial aid, general operations, and maintenance or investment in land, buildings, and equipment	11,783,870	11,107,082
Term endowments	17,646,726	16,981,369
Accumulated endowment investment return, net of amounts spent – restricted for financial aid and operations	2,254,353	2,127,584
	31,684,949	30,216,035
Restricted in perpetuity, the income from which is expendable to support the following:		
Financial aid	2,239,615	2,238,090
Programs and operations	7,165,220	7,672,260
	9,404,835	9,910,350
Total net assets with donor restrictions	41,089,784	40,126,385
Total net assets	$ 103,277,013	$ 103,385,359

Note 9. Tuition and Fees, Net of Scholarship Allowances

Tuition and fees includes regular session tuition for the University's undergraduate and graduate regular and summer sessions, as well as miscellaneous fees such as lab fees and instructional materials. Fees directly related to instruction for the years ended June 30 were as follows:

	2020		2019	
Tuition and fees, undergraduate	$ 68,247,560	100.0%	$ 69,097,001	100.0%
Less scholarship allowances:				
Non-funded	(23,312,538)	(34.2)	(21,326,679)	(30.9)
Funded	(853,239)	(1.2)	(983,524)	(1.4)
	(24,165,777)	(35.4)	(22,310,203)	(32.3)
Tuition and fees, undergraduate, net	44,081,783	64.6%	46,786,798	67.7%
Tuition and fees, graduate	23,677,152		21,135,739	
Less scholarship allowances, non-funded	(309,974)		(293,696)	
Tuition and fees, graduate, net	23,367,178		20,842,043	
Total tuition and fees, net	$ 67,448,961		$ 67,628,841	

	2020		2019	
Tuition and fees:				
Undergraduate	$ 68,247,560	74.2%	$ 69,097,001	76.6%
Graduate	23,677,152	25.8	21,135,739	23.4
Total tuition and fees	$ 91,924,712	100.0%	$ 90,232,740	100.0%
Scholarship allowances:				
Undergraduate	$ (24,165,777)		$ (22,310,203)	
Graduate	(309,974)		(293,696)	
Total scholarship allowances	$ (24,475,751)		$ (22,603,899)	

Financial aid is awarded to students based upon need and merit and is applied to billed tuition and fees. Financial aid does not include payments made to students for services rendered to the University. However, the University does participate in work-study programs; these expenses, which totaled $252,294 and $337,521 for the years ended June 30, 2020 and 2019, respectively, are included in the appropriate functional expense categories on the consolidated statements of activities. Of these amounts, the federal government contributed $250,000 and $300,000 for the years ended June 30, 2020 and 2019, respectively.

Note 10. Net Assets Released from Restrictions and Reclassifications

Net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Restrictions were satisfied as follows for the years ended June 30:

	2020	2019
Operating:		
Financial aid and scholarships (funded)	$ 853,239	$ 983,524
General operations and maintenance	1,145,490	899,115
COVID-19 relief qualifying expenses	1,140,284	-
Buildings and equipment	99,093	142,815
Expiration of time restrictions	345,000	314,000
	$ 3,583,106	$ 2,339,454

Note 11. Expenses

The table below presents expenses by both their nature and function for the year ended June 30, 2020:

	Program Services							
	Instruction	Academic Support	Student Services	Research	Auxiliary Enterprises	Total	Institutional Support	2020 Total
Salaries and wages	$ 19,741,860	$ 5,743,006	$ 3,262,748	$ 1,716,565	$ 1,051,123	$ 31,515,302	$ 5,398,311	$ 36,913,613
Employee benefits, including payroll taxes	4,032,347	1,192,018	673,970	-	143,827	6,042,162	1,035,940	7,078,102
Depreciation and amortization	2,868,218	790,125	1,552,989	-	1,675,302	6,886,634	623,469	7,510,103
Interest	3,695,031	153,850	2,274,540	-	876,316	6,999,737	160,656	7,160,393
Dining	45,769	104,433	158,809	-	2,476,488	2,785,499	110,571	2,896,070
Maintenance and repairs	1,064,101	1,178,319	1,267,541	-	127,308	3,637,269	1,397,325	5,034,594
Utilities	299,723	138,303	472,343	-	7,865	918,234	149,670	1,067,904
Housekeeping	333,099	153,354	524,120	-	61,155	1,071,728	160,543	1,232,271
Supplies	227,700	50,418	263,401	-	13,718	555,237	61,052	616,289
Postage and printing	64,090	273,117	21,205	-	8,200	366,612	20,331	386,943
Rent	1,305,361	70,451	141,488	-	5,067,841	6,585,141	72,948	6,658,089
Dues, subscriptions, and books	212,096	1,008,713	94,797	-	59,368	1,374,974	205,359	1,580,333
Insurance	(81,175)	(33,077)	(56,734)	-	(133,054)	(304,040)	512,299	208,259
Advertising	3,189	32,036	35,588	-	1,284	72,097	443,225	515,322
Travel	512,383	97,264	411,351	4,936	5,457	1,031,391	70,647	1,102,038
Student aid	-	-	758,550	-	-	758,550	-	758,550
Other	614,338	1,321,864	203,662	86,000	2,653,148	4,879,012	6,360,657	11,239,669
Total	$ 34,938,130	$ 12,274,194	$ 12,060,368	$ 1,807,501	$ 14,095,346	$ 75,175,539	$ 16,783,003	$ 91,958,542

Note 11. Expenses (Continued)

The table below presents expenses by both their nature and function for the year ended June 30, 2019:

	Program Services							
	Instruction	Academic Support	Student Services	Research	Auxiliary Enterprises	Total	Institutional Support	2019 Total
Salaries and wages	$ 20,136,916	$ 5,890,787	$ 4,032,412	$ 1,695,778	$ 1,554,153	$ 33,310,046	$ 5,763,449	$ 39,073,495
Employee benefits, including payroll taxes	4,433,671	1,463,199	830,078	-	213,458	6,940,406	1,190,222	8,130,628
Depreciation and amortization	2,876,473	843,074	1,557,882	-	1,710,117	6,987,546	606,171	7,593,717
Interest	3,737,622	161,162	2,409,848	-	965,313	7,273,945	175,128	7,449,073
Dining	145,892	174,080	145,176	-	3,684,965	4,150,113	235,585	4,385,698
Maintenance and repairs	1,324,991	1,378,135	1,641,588	-	138,123	4,482,837	1,502,236	5,985,073
Utilities	378,087	173,470	585,929	-	(26,008)	1,111,478	190,914	1,302,392
Housekeeping	329,974	150,625	508,129	-	66,220	1,054,948	168,945	1,223,893
Supplies	355,484	68,464	227,142	-	48,152	699,242	74,310	773,552
Postage and printing	102,015	437,703	53,575	-	7,409	600,702	(4,911)	595,791
Rent	1,293,993	62,708	181,023	-	1,371,674	2,909,398	103,586	3,012,984
Dues, subscriptions, and books	242,706	1,123,728	139,407	-	92,240	1,598,081	204,556	1,802,637
Insurance	(22,144)	(6,187)	29,461	-	35,863	36,993	542,335	579,328
Advertising	1,195	182,308	1,281	-	569	185,353	429,011	614,364
Travel	1,421,222	241,394	735,867	-	2,666	2,401,149	223,570	2,624,719
Other	630,993	1,788,338	229,034	-	3,359,862	6,008,227	5,514,927	11,523,154
Total	$ 37,389,090	$ 14,132,988	$ 13,307,832	$ 1,695,778	$ 13,224,776	$ 79,750,464	$ 16,920,034	$ 96,670,498

The consolidated financial statements report certain categories of expenses that are attributable 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, and operations and maintenance of physical plant, which are all allocated based on management's estimates of usage. Costs related to the operation and maintenance of the physical plant, including depreciation and interest expense, are allocated to operating programs and supporting activities as of June 30 as follows:

	2020			2019		
	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses
Instruction	$ 27,113,091	$ 7,825,039	$ 34,938,130	$ 29,032,930	$ 8,356,160	$ 37,389,090
Academic support	10,528,900	1,745,294	12,274,194	12,353,931	1,779,057	14,132,988
Student services	6,052,112	6,008,256	12,060,368	6,485,213	6,822,619	13,307,832
Institutional support	15,375,496	1,407,507	16,783,003	15,320,037	1,599,997	16,920,034
Research	1,807,501	-	1,807,501	1,695,778	-	1,695,778
Auxiliary services	11,543,728	2,551,618	14,095,346	10,549,345	2,675,431	13,224,776
Operations and maintenance of physical plant	4,867,218	(4,867,218)	-	6,190,474	(6,190,474)	-
Depreciation and amortization	7,510,103	(7,510,103)	-	7,593,717	(7,593,717)	-
Interest expense	7,160,393	(7,160,393)	-	7,449,073	(7,449,073)	-
	$ 91,958,542	$ -	$ 91,958,542	$ 96,670,498	$ -	$ 96,670,498

Note 11. Expenses (Continued)

Allocation of costs related to the operation and maintenance of the physical plant, including depreciation and interest expense, to functional expense categories for the years ended June 30 approximated:

	2020	2019
Instruction	40.1%	39.4%
Academic support	8.9	8.4
Student services	30.8	32.1
Institutional support	7.2	7.5
Research	-	-
Auxiliary services	13.0	12.6
	100.0%	100.0%

Fundraising costs totaled $874,578 and $1,424,730 for the years ended June 30, 2020 and 2019, respectively.

Note 12. Employee Benefits

Employees of the University are eligible to participate in the contributory pension and retirement plans administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). Under these defined contribution plans, contributions are fully vested, and there are no unfunded past service costs. Participating employees under 50 may voluntarily contribute up to a maximum of $19,500 of their base salary. Participating employees over 49 may voluntarily contribute up to a maximum of $26,000 of their base salary. Eligible employees may also voluntarily contribute certain catch-up contributions. The University contributed 8% of the participant's base salary for the year ended June 30, 2019 as well as for most of the year ended June 30, 2020, but elected to temporarily suspend contributions beginning in June 2020. The University's contributions to the plans were $1,717,797 and $2,157,887 for the years ended June 30, 2020 and 2019, respectively. The University does not provide any other postretirement benefits to its employees.

Social Security and Medicare taxes expensed by the University were $2,490,703 and $2,619,298 for the years ended June 30, 2020 and 2019, respectively.

The University established an unfunded and unsecured, nonelective, nonqualified deferred compensation plan for a key employee. In order to defer compensation, the employee is required to perform three years of continuous service for the University extending through June 30, 2021. The deferral amount is the greater of $34,200 or an annually deferred amount based on a percentage of the key employee's salary. For the years ended June 30, 2020 and 2019, $34,200 was deferred under this plan.

(Continued)

Note 13. Commitments and Contingencies

Operating leases

The University leases office and classroom space on Fairfax Drive in Arlington, Virginia, under a lease that expires June 30, 2027. The total amount expensed for this lease was $1,499,393 and $1,459,363 for the years ended June 30, 2020 and 2019, respectively. As described in Note 16, during 2018 the University entered into a sublease with an unrelated third party for a portion of this space.

The University also has agreements for office equipment, computer and equipment maintenance, month to month leases for off-campus apartments, and automobiles. Total expense related to these agreements was $582,498 and $804,990 for the years ended June 30, 2020 and 2019, respectively.

The University entered into a lease agreement with a local high school for the redevelopment and use of a baseball stadium. Under this agreement, the University made two upfront lease installments of $200,000 each. These payments have been recorded as an asset and are amortized over the 15-year lease term which began during the year ended June 30, 2013.

The total future minimum rental payments under operating leases as of June 30, 2020 are as follows:

Years ending June 30:	
2021	$ 1,537,665
2022	1,583,191
2023	1,626,587
2024	1,671,479
2025	1,717,493
2026 and thereafter	3,577,892
	$ 11,714,307

Service agreements

Effective July 1, 2016, the University entered into a new management agreement with its food service provider expiring June 30, 2026. As part of this agreement, the University will receive investments for renovations from the food service provider not to exceed $2.5 million in the following installments: 2017, $750,000; 2018, $1,250,000; and 2022, $500,000. The investments will be recognized as revenue through amortization on a straight-line basis through June 30, 2026, with the University required to repay any unamortized amounts if the agreement is terminated. The agreement also resets the amortization period of previous investments received from the food service provider. The unamortized amounts as of June 30, 2020 and 2019 were $1,887,393 and $2,201,959, respectively, and are included in deposits and deferred revenue on the consolidated statements of financial position.

Also included in the management agreement with the food service provider is a termination fee clause that states: if the agreement is terminated for any reason prior to June 30, 2026, the University will pay the food service provider a fee of $17,000 for each month remaining in the term through June 30, 2026 as of the effective date of the termination.

Note 13. Commitments and Contingencies (Continued)

Service agreements (Continued)

The University entered into a contract through June 30, 2023 to operate and provide services for the University bookstore. In the event of the cancellation of the contract, the University or its successor contractor will be required to purchase the rental inventory outstanding at the time of the transition at 50% of the retail price. On an annual basis, the University will receive the applicable percentage of gross sales, as provided in the contract agreement, for bookstore services.

The University entered into a property management agreement with a third party to maintain the Ballston Campus effective July 1, 2017. The initial term was for two years and renews automatically from year to year unless terminated by either party upon written notice. Under this agreement, the University will pay the property manager an annual management fee determined by various percentages of revenue and rent received, but the amount will be no less than $75,000 and no more than $125,000. In addition to this management fee, the University is required to reimburse the property manager for all expenses related to the maintenance of the Ballston Campus including electricity; water; elevator maintenance; housekeeping; heating, ventilation, and air conditioning (HVAC) services; and other miscellaneous expenses. The total expenses paid to the property manager for the years ended June 30, 2020 and 2019 totaled $1,029,343 and $1,166,026, respectively, and have been included in operating expenses on the consolidated statements of activities.

Long Bridge Park agreement

In 2010, the University entered into an agreement with Arlington County (the "County") that allows the University the use of an athletic field for the purpose of conducting games and practices for its intercollegiate teams in exchange for capital and operating contributions. This agreement has a term of 15 years. The University has made capital contributions to the County totaling $2 million in compliance with the initial agreement. In 2019, an updated agreement was entered into by the University and the County regarding the University's portion of replacement costs of the field and extension of the agreement through July 30, 2034. The University paid $200,000 towards their obligation for the 2019 replacement during the year ended June 30, 2020 with the remaining obligation to be paid as follows:

Years ending June 30:	
2021	$ 200,000
2022	100,000
	$ 300,000

These obligations are due by the University even in the event that the agreement is terminated prior to the due date of the last payment.

In addition, the agreement provides for the University's portion of future estimated replacement costs expected to occur in 2027 and 2035. The University's expected portion of the 2027 replacement costs is $630,000 due in equal installments of $105,000 from July 2021 to July 2026. The University's expected portion of the 2035 replacement costs is $630,000 due in equal installments of $78,750 from July 2027 to July 2034.

Note 13. Commitments and Contingencies (Continued)

Other commitments and contingencies

The University has a self-insurance plan for losses related to employee health benefits. The University is obligated for claims and payments; however, a portion of the cost is recovered from participating employees. Stop loss provisions cover individual claims in excess of $175,000 and aggregate claims in excess of 125% of expected claims. Expenses related to this self-insurance plan were approximately $2,463,913 and $2,598,328 in claims, reinsurance charges, and related fees for 2020 and 2019, respectively. At June 30, 2020 and 2019, the University accrued approximately $198,000 and $244,000, respectively, for estimated incurred but not reported claims.

The University is unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation AROs. These conditional AROs are primarily related to encapsulated asbestos that is not subject to abatement unless the buildings containing them are demolished and non-encapsulated asbestos that the University would remediate only if it performed major renovations on the applicable buildings. Because these conditional obligations have indeterminate settlement dates, the University could not develop a reasonable estimate of their fair values. The University will continue to assess its ability to estimate fair values at each future reporting date. The related liability, if any, will be recognized once sufficient additional information becomes available.

From time to time, the University is named as a party in litigation arising in the normal course of business. Management believes that the outcome of any such litigation will not result in a material impact on the financial position or a change in the net assets of the University.

The University's students receive a substantial amount of support from state and federal student financial assistance programs. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on the University's programs and activities.

Final expenditure reports of grants and contracts submitted to certain granting agencies in current and prior years are subject to audit by such agencies. As a result, the reimbursed expenditures are subject to adjustment. The effect of such adjustments, if any, is not determinable at this time. Management is of the opinion that the liability, if any, would not have a material effect on the University's financial position.

(Continued)

Note 14. Endowment

A summary of assets, liabilities, and net assets of the endowment is as follows as of June 30:

	2020	2019
Assets:		
Investments	$ 40,658,198	$ 39,235,319
Funds held in trust by others	7,165,220	7,672,260
Due from other funds	-	847
Total assets	$ 47,823,418	$ 46,908,426
Liabilities:		
Due to other funds	$ 122,404	$ -
Net assets:		
Without donor restrictions:		
Quasi-endowment	18,395,100	17,889,123
With donor restrictions:		
Term endowments	17,646,726	16,981,369
Accumulated endowment investment return, net of amounts spent restricted for financial aid and operations	2,254,353	2,127,584
Endowment – college held	2,239,615	2,238,090
Funds held in trust by others	7,165,220	7,672,260
	29,305,914	29,019,303
Total net assets	47,701,014	46,908,426
Total liabilities and net assets	$ 47,823,418	$ 46,908,426

Note 14. Endowment (Continued)

The University's endowment consisted of the following net assets as of June 30:

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:						
Original donor-restricted gift amount and amounts to be maintained in perpetuity	$ -	$ 2,239,615	$ 2,239,615	$ -	$ 2,238,090	$ 2,238,090
Accumulated investment return	-	19,901,079	19,901,079	-	19,108,953	19,108,953
Funds held in trust by others	-	7,165,220	7,165,220	-	7,672,260	7,672,260
Board-designated endowment funds	18,395,100	-	18,395,100	17,889,123	-	17,889,123
Total endowment net assets	$ 18,395,100	$ 29,305,914	$ 47,701,014	$ 17,889,123	$ 29,019,303	$ 46,908,426

Changes in the University's endowment as of June 30 were as follows:

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, Beginning	$ 17,889,123	$ 29,019,303	$ 46,908,426	$ 17,560,849	$ 28,739,472	$ 46,300,321
Investment return:						
Investment income	350,983	365,368	716,351	419,564	502,177	921,741
Realized and unrealized gains (losses)	162,407	(252,238)	(89,831)	410,205	621,109	1,031,314
Total investment return	513,390	113,130	626,520	829,769	1,123,286	1,953,055
Contributions	59,337	533,431	592,768	124,975	728,783	853,758
Appropriation for expenditure	-	(360,000)	(360,000)	(654,000)	(1,161,500)	(1,815,500)
Reclassifications and other	(66,750)	50	(66,700)	27,530	(410,738)	(383,208)
Endowment net assets, ending	$ 18,395,100	$ 29,305,914	$ 47,701,014	$ 17,889,123	$ 29,019,303	$ 46,908,426

Note 15. Fair Value Measurements

The following is a summary of the inputs used to determine the fair values of financial assets measured on a recurring basis as of the years ended June 30:

	2020				2019			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Financial assets:								
Investments:								
Equity securities	$ 24,810,776	$ 24,810,776	$ -	$ -	$ 23,826,786	$ 23,826,786	$ -	$ -
Fixed income	15,472,874	15,472,874	-	-	14,638,727	14,638,727	-	-
Alternative investments	-	-	-	-	508,471	508,471	-	-
Cash and cash equivalents	436,008	436,008	-	-	950,395	950,395	-	-
Funds held in trust by others	7,165,220	-	-	7,165,220	7,672,260	-	-	7,672,260
Total financial assets	$ 47,884,878	$ 40,719,658	$ -	$ 7,165,220	$ 47,596,639	$ 39,924,379	$ -	$ 7,672,260

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value for the years ended June 30:

	2020	2019
Balance, beginning	$ 7,672,260	$ 7,534,405
Change in unrealized appreciation (depreciation)	(507,040)	137,855
Balance, ending	$ 7,165,220	$ 7,672,260

The fair values of investments in cash and cash equivalents and publicly traded investments in equities, fixed income securities, and alternatives are determined based upon quoted market prices. The fair value of funds held in trust by others is determined by the University's percentage of the estimated market value of the assets held in trust by others.

Note 16. Lessor Transactions

Ground lease agreement

The University entered into a ground lease agreement in 2015 with an unrelated third party for the portion of the Ballston land to be used for a residential building. The lease was to expire 99 years after the commencement date.

The lease called for reduced rent for the first four years calculated as 50% of the annual rate of $1.05 million, or $525,000. After the first four years, the annual rent was $1.05 million, adjusted annually through the expiration of the lease. The total rent payments of $262,500 were received on this lease for the year ended June 30, 2019; however, in accordance with accounting standards, rental income is recognized on a straight-line basis over the term of the lease. Rental income of $1,485,520 is included in ground lease rental income on the consolidated statements of activities for the year ended June 30, 2019.

This lease was terminated effective February 2019 and resulted in a loss from termination of $8,517,390, which is included on the consolidated statements of activities for the year ended June 30, 2019.

Other lease agreements

During 2018, the University entered into an agreement to lease space in the Ballston Center to an unrelated third party. The initial lease term was for 10 years beginning approximately August 2017, with the tenant having the option to extend the agreement for two consecutive five-year periods. The base annual rent for this lease for the first five years is $107,702, increasing to $118,472 for the remaining five years.

Also during 2018, the University entered into a sublease agreement with an unrelated third party for space at the Fairfax Drive location in Arlington, Virginia (see Note 13). The sublease was effective December 1, 2017 and expires on July 1, 2024. The base annual rent for this sublease is $266,016 with annual rental escalations of 2.75% each July 1 of the sublease term.

During 2019, the University entered into an agreement with another unrelated third party to lease space on the 9th floor of the Ballston Center. This lease was effective August 1, 2018 and expires on April 30, 2029. The base annual rent for this lease is $859,905 with annual rental escalations of 2.5% effective the first day of each lease year. In addition, for lease years one, two, three, and seven, rent is abated for the first three months of each of these lease years with no rent being due.

This lease was expanded to include space on the 8th floor in the Ballston Center for a period of seven years, commencing upon the earlier of January 1, 2019 or the date of substantial completion of the improvements to the premises. The base annual rent for this expansion space is $849,870 with annual rental escalations of 2.5% effective the first day of each lease year. As part of this lease amendment, the University provided the tenant with a leasehold improvement allowance of $3,419,471 during the year ended June 30, 2019. This amount is amortized against rental income over the term of the lease and has been reported as a deferred lease incentive on the consolidated statements of financial position net of accumulated amortization of $665,340 and $202,523 for the years ended June 30, 2020 and 2019, respectively.

Note 16. Lessor Transactions (Continued)

<u>Other lease agreements</u> (Continued)

Future minimum lease receipts under these leases are as follows:

Years ending June 30:		
2021	$	1,954,021
2022		2,232,406
2023		2,297,035
2024		2,352,260
2025		2,159,581
2026 and thereafter		4,782,172
	$	15,777,475

Total rental income received from these leases for the years ended June 30, 2020 and 2019, and included in auxiliary services income on the consolidated statement of activities, was $1,931,084 and $1,436,072, respectively.

Note 17. The Rixey

In February 2019, Marymount NBG Ground Lessor LLC, a Virginia limited liability company whose sole member is the University, purchased The Rixey, a 278-unit apartment building adjacent to the University's Ballston Academic Building. The limited liability company previously ground leased The Rixey to its prior owner. Simultaneously with the purchase, the University entered into a long-term concession agreement (the "Concession") with Provident Group-Ballston Properties LLC (Provident) to operate The Rixey as student housing for University students, faculty, and staff and the students, faculty, and staff of other area universities. ACC SC Management LLC (ACC) will manage The Rixey for Provident. Provident financed the purchase of the Concession from the University with the proceeds of a conduit revenue bond financing issued by the Virginia Small Business Financing Authority (the "Provident Debt"). The University used the proceeds received from Provident from the sale of the Concession to purchase The Rixey, but neither the University nor its limited liability company has any obligation to repay the Provident Debt. The Provident Debt is payable solely from revenues generated by The Rixey to Provident pursuant to the Concession. Under the Concession, the University and its limited liability company have certain contractual obligations with respect to The Rixey, and under certain limited circumstances the breach of Concession obligations may result in the limited liability company reverting to the ground lessor of The Rixey, rather than the owner of both the ground and the improvements. However, the University's and the limited liability company's Concession obligations are primarily obligations unrelated to the payment of any money, and none of the Concession obligations or any other arrangements related to The Rixey are debt obligations of the University or its limited liability company. The Rixey is not included as an asset in these consolidated financial statements. The University made rental payments to ACC in the amount of $4,510,003 for the year ended June 30, 2020.

(Continued)

Note 18. COVID-19 Outbreak

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The COVID-19 outbreak in the United States has caused business disruptions through mandated and voluntary closings of higher education institutions. While the closings were temporary, there has been a change in the environment in how courses are delivered along with the implementation of various safety protocols.

In order to help alleviate some of the financial burden on institutions, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") through the Higher Education Emergency Relief Fund (HEERF) provides certain funding to institutions. The HEERF is an allotment of funding for higher education institutions for budgetary relief. Each institution receives one grant comprised of two parts – student aid and institutional aid. No less than 50% of the grant must be used for direct emergency aid to students including grants for food, housing, course materials, technology, healthcare, and childcare. The remaining portion up to 50% of the grant can be used as institutional aid to cover costs related to significant changes in the delivery of instruction due to the COVID-19 outbreak. The University has been allotted $2,074,937 in HEERF funds with the student and institutional portions totaling $1,037,469 each. The University is accounting for these funds as conditional contributions, recording revenue as qualifying expenses are incurred. As a result, for the year ended June 30, 2020, the University has only made drawdowns from the U.S Department of Education for those portions of funds where the conditions have been met which equaled $758,550 for the student portion and $381,734 for the institutional portion. These funds are recorded in revenue as grants – COVID-19 relief with donor restrictions with a corresponding release from restrictions to revenue without donor restrictions on the consolidated statements of activities. The remaining funds available to the University of $934,653 are expected to be drawn down and applied in 2021.

In addition, as part of the CARES Act, state governors are able to award grant funds through the Governor's Emergency Education Relief (GEER) Fund. Virginia's GEER Fund allows Virginia higher education institutions that have timely completed the application process to use this one-time funding for various purposes including immediate student financial needs, support for activities to make online learning more accessible and equitable, and to cover health and safety costs associated with the COVID-19 outbreak. The University submitted their application in August 2020 and is expected to receive an allocation of $143,900 for use in 2021. Since this application process occurred subsequent to year end, no amounts have been recorded for the year ended June 30, 2020.

The University is participating in the Employer Tax Deferral Program under the CARES Act that allows employers to defer the deposit and payment of the employer's share of social security tax during the deferral period ending December 31, 2020. Deferred deposits of 50% of the eligible deferred amount are due on December 31, 2021 with the remaining amount due on December 31, 2022. The University also plans to participate in the Employee Retention Credit under the CARES Act; however, they have not submitted their amended filings to date. The Employee Retention Credit is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020 and before January 1, 2021.

(Continued)

Note 18. COVID-19 Outbreak (Continued)

As noted in the above analysis, the University still has outstanding funds available to apply in 2021; however, the University is not able to estimate the effects of the COVID-19 outbreak on its financial condition, liquidity, or results of operations for 2021 given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread.

Note 19. Pending Pronouncements

<u>Revenue from contracts with customers</u>

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 clarifies the principles for recognizing revenue and establishes a common revenue standard for U.S. financial reporting purposes. The guidance in ASU No. 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). ASU No. 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) 605, *Revenue Recognition* and most industry-specific accounting guidance. Additionally, ASU No. 2014-09 supersedes some guidance included in ASC 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts*. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of ASC 360, *Property, Plant, and Equipment* and intangible assets within the scope of ASC 350, *Intangibles – Goodwill and Other*) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in ASU No. 2014-09. The FASB approved to defer the effective date of ASU No. 2014-09 due to the COVID-19 outbreak. ASU No. 2014-09 is now effective for nonpublic entities for annual reporting periods beginning after December 15, 2019 and interim periods therein.

<u>Lease accounting</u>

On February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires that lessees recognize all leases (other than leases with a term of 12 months or fewer) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU No. 2016-02 also makes targeted changes to other aspects of current guidance, including identifying a lease and lease classification criteria as well as the lessor accounting model, including guidance on separating components of a contract and consideration in the contract. The amendments in ASU No. 2016-02 will be effective for the University on July 1, 2022 and will require modified retrospective application as of the beginning of the earliest period presented on the consolidated financial statements. Early application is permitted.