

SOUTHWESTERN UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2021 and 2020

And Reports of Independent Auditor

SOUTHWESTERN UNIVERSITY
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Report of Independent Auditor

To the Board of Trustees
Southwestern University
Georgetown, Texas

Report of the Consolidated Financial Statements

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

Management’s Responsibility for the Consolidated Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Southwestern University and Southwestern Foundation as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2021 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Cheryl Behant LLP

Charlotte, North Carolina
November 18, 2021

SOUTHWESTERN UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 47,908,154	\$ 29,213,874
Receivables:		
Student accounts receivable, net	55,328	34,079
Unconditional promises receivable, net	5,464,754	4,583,801
Investment income	1,106	1,516
Other receivables	1,470,271	592,495
Prepays and other current assets	414,125	1,208,579
Total Current Assets	<u>55,313,738</u>	<u>35,634,344</u>
Unconditional promises receivable, net	3,992,798	5,546,567
Investments	355,377,475	289,110,284
Funds held in trusts by others (FHITBO)	5,682,585	4,818,067
Investment in plant, net	122,259,625	124,460,780
Student loans receivable, net	2,887,348	3,313,930
Other assets	13,287	15,945
Total Assets	<u><u>\$ 545,526,856</u></u>	<u><u>\$ 462,899,917</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable, accrued and other liabilities	\$ 10,673,313	\$ 6,609,065
Bonds and notes payable	670,000	1,097,703
Financing lease payable	131,702	730,232
Accrued post-retirement benefits	503,202	491,868
Deposits and deferred revenue	3,735,938	4,360,181
Total Current Liabilities	<u>15,714,155</u>	<u>13,289,049</u>
Bonds and notes payable, long-term portion	36,640,360	34,280,548
Financing lease payable, long-term portion	4,336	136,037
Accrued post-retirement benefits, long-term portion	5,826,884	7,791,136
Refundable advances	2,081,098	2,386,228
Deferred compensation and other long-term liabilities	11,400	11,400
Total Liabilities	<u>60,278,233</u>	<u>57,894,398</u>
Net Assets:		
Without donor restrictions	136,802,052	129,209,242
With donor restrictions	348,446,571	275,796,277
Total Net Assets	<u>485,248,623</u>	<u>405,005,519</u>
Total Liabilities and Net Assets	<u><u>\$ 545,526,856</u></u>	<u><u>\$ 462,899,917</u></u>

SOUTHWESTERN UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating Revenues:				
Net tuition and fees	\$ 27,911,151	\$ -	\$ 27,911,151	\$ 27,442,046
Private gifts and grants	863,730	4,037,165	4,900,895	4,845,701
Government grants	323,877	3,066,474	3,390,351	1,759,908
Endowment return used for operations, net	1,498,123	13,666,524	15,164,647	12,056,469
Investment return from nonendowment, net	689,505	6,795	696,300	883,803
Distributions from funds held in trusts by others	334	152,046	152,380	191,797
Other income	664,657	6,108	670,765	993,637
Auxiliary enterprises	8,850,052	-	8,850,052	9,927,782
Net assets released from restrictions	19,878,253	(19,878,253)	-	-
Total Operating Revenues	60,679,682	1,056,859	61,736,541	58,101,143
Operating Expenses:				
Instructional services	27,164,261	-	27,164,261	23,423,875
Student services	11,783,519	-	11,783,519	11,765,808
Auxiliary services	8,904,018	-	8,904,018	8,266,121
Institutional support	12,220,136	-	12,220,136	13,574,034
Scholarships (Higher Education Relief Funds)	606,725	-	606,725	606,725
Total Operating Expenses	60,678,659	-	60,678,659	57,636,563
Change in net assets from operating activities	1,023	1,056,859	1,057,882	464,580
Nonoperating Activities:				
Gifts for endowment and plant improvements	-	6,535,805	6,535,805	3,366,445
Net gain (loss) in excess of defined spending limit	6,362,689	64,276,636	70,639,325	(10,570,611)
Loss on disposal of fixed assets	(236,095)	-	(236,095)	(635,784)
Change in value of split-interest agreements	-	900,825	900,825	(175,878)
Net casualty loss	(135,019)	-	(135,019)	-
Other components of net periodic pension costs	(1,234,349)	-	(1,234,349)	2,987,762
Post-retirement related changes other than net periodic pension cost	2,708,794	-	2,708,794	(4,945,515)
Net assets released from restrictions for plant improvements	119,831	(119,831)	-	-
Other	5,936	-	5,936	36,326
Total Nonoperating Activities	7,591,787	71,593,435	79,185,222	(9,937,255)
Change in net assets	7,592,810	72,650,294	80,243,104	(9,472,675)
Net assets, beginning of year	129,209,242	275,796,277	405,005,519	414,478,194
Net assets, end of year	\$ 136,802,052	\$ 348,446,571	\$ 485,248,623	\$ 405,005,519

SOUTHWESTERN UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues:			
Net tuition and fees	\$ 27,442,046	\$ -	\$ 27,442,046
Private gifts and grants	1,762,602	3,083,099	4,845,701
Government grants	300,805	1,459,103	1,759,908
Endowment return used for operations, net	1,175,372	10,881,097	12,056,469
Investment return from nonendowment, net	876,226	7,577	883,803
Distributions from funds held in trusts by others	325	191,472	191,797
Other income	984,105	9,532	993,637
Auxiliary enterprises	9,927,782	-	9,927,782
Net assets released from restrictions	15,222,071	(15,222,071)	-
Total Operating Revenues	<u>57,691,334</u>	<u>409,809</u>	<u>58,101,143</u>
Operating Expenses:			
Instructional services	23,423,875	-	23,423,875
Student services	11,765,808	-	11,765,808
Auxiliary services	8,266,121	-	8,266,121
Institutional support	13,574,034	-	13,574,034
Scholarships (Higher Education Relief Funds)	606,725	-	606,725
Total Operating Expenses	<u>57,636,563</u>	<u>-</u>	<u>57,636,563</u>
Change in net assets from operating activities	<u>54,771</u>	<u>409,809</u>	<u>464,580</u>
Nonoperating Activities:			
Gifts for endowment and plant improvements	-	3,366,445	3,366,445
Net loss in excess of defined spending limit	(870,438)	(9,700,173)	(10,570,611)
Loss on disposal of fixed assets	(635,784)	-	(635,784)
Change in value of split-interest agreements	-	(175,878)	(175,878)
Other components of net periodic pension costs	2,987,762	-	2,987,762
Post-retirement related changes other than net periodic pension cost	(4,945,515)	-	(4,945,515)
Net assets released from restrictions for plant improvements	271,795	(271,795)	-
Other	36,326	-	36,326
Total Nonoperating Activities	<u>(3,155,854)</u>	<u>(6,781,401)</u>	<u>(9,937,255)</u>
Change in net assets	(3,101,083)	(6,371,592)	(9,472,675)
Net assets, beginning of year	<u>132,310,325</u>	<u>282,167,869</u>	<u>414,478,194</u>
Net assets, end of year	<u>\$ 129,209,242</u>	<u>\$ 275,796,277</u>	<u>\$ 405,005,519</u>

SOUTHWESTERN UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 80,243,104	\$ (9,472,675)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	6,359,807	4,676,149
Loss on disposal of assets	236,095	635,784
Net unrealized and realized gain on investments	(79,520,665)	(186,979)
Change in value of split-interest agreements	(864,518)	136,295
Change in value of private equity	(662,583)	-
Gifts and grants restricted for endowment and plant improvements	(6,535,805)	(3,366,445)
Changes in operating assets and liabilities:		
Student accounts and loans receivable, net	405,332	434,908
Unconditional promises receivable	672,816	317,033
Investment income receivable	409	40,101
Other receivables	(877,774)	(114,174)
Other assets	797,112	59,898
Accounts payable, accrued and other liabilities	2,585,069	(3,087,780)
Accrued post-retirement benefits	(1,952,918)	1,509,215
Deposits and deferred revenue	(624,244)	1,091,505
Refundable advances	(305,130)	(621,978)
Deferred compensation and other long-term liabilities	-	(407,901)
Net cash flows from operating activities	<u>(43,893)</u>	<u>(8,357,044)</u>
Cash flows from investing activities:		
Purchases of investments	(107,957,803)	(172,420,601)
Sales of investments	108,525,594	179,680,811
Liquidation of private capital loan fund	7,091,662	-
Proceeds from sale of land	6,256,604	-
Purchases of fixed assets	(2,956,248)	(8,543,551)
Proceeds from sale of fixed assets	1,500	-
Net cash flows from investing activities	<u>10,961,309</u>	<u>(1,283,341)</u>
Cash flows from financing activities:		
Payment on bonds and notes payable	(7,958,709)	(1,028,571)
Bond proceeds	10,000,000	-
Payments on issuance costs	(70,000)	-
Payments on capital leases	(730,232)	(706,765)
Gifts and grants restricted for endowment and plant improvements	6,535,805	3,366,445
Net cash flows from financing activities	<u>7,776,864</u>	<u>1,631,109</u>
Net change in cash and cash equivalents	18,694,280	(8,009,276)
Cash and cash equivalents, beginning of year	29,213,874	37,223,150
Cash and cash equivalents, end of year	<u>\$ 47,908,154</u>	<u>\$ 29,213,874</u>
Supplemental disclosure of cash payments for:		
Interest paid	<u>\$ 1,262,994</u>	<u>\$ 1,353,709</u>
Supplemental disclosure of noncash transactions for:		
Additions to fixed assets in accounts payable	<u>\$ 1,479,180</u>	<u>\$ 438,575</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements. 6

SOUTHWESTERN UNIVERSITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Nature of operations

Southwestern University (the “University”), located in Georgetown, Texas, is the oldest chartered institution of higher learning in the state. It traces its roots to the 1840 founding of Rutersville College in the Republic of Texas near La Grange. A nationally recognized, independent undergraduate liberal arts college affiliated with the United Methodist Church, the University provided services to 1,548 students and has a current student-to-faculty ratio of 13:1. Students choose from 36 major programs in the University’s two academic areas, The Brown College of Arts and Sciences and the Sarofim School of Fine Arts.

The revenues generated by the University consist primarily of tuition and fees paid by students. Many students rely on funds received from federal financial aid programs under Title IV of the Federal Higher Education Act of 1965 (“HEA”), as amended, to pay for a substantial portion of their tuition. As an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the United States Department of Education (the “USDE”).

Southwestern Foundation (the “Foundation”), a Texas nonprofit corporation, was founded in 1993. The Foundation’s board is composed of members selected and approved by the Board of Trustees. The Foundation is organized and operated to maintain real or personal property and to use and apply the income therefrom and the principal thereof exclusively for charitable, scientific, literary, and educational purposes. The Foundation is administered solely for the benefit and support of the University. For reporting purposes, the Foundation is consolidated in the University’s consolidated financial statements. Inter-entity transactions have been eliminated in the consolidated financial statements. The University will refer to the consolidated entity including both Southwestern University and Southwestern Foundation.

Tax-Exempt Status – The University claims exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The University files unrelated business income tax and other information returns as required by government authorities. The University has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the consolidated financial statements regarding uncertain tax provisions.

Student Financial Assistance Programs – The University participates in various student financial aid programs. These programs are subject to periodic review by the USDE pursuant to the HEA, as amended. In order to continue to participate in Title IV Programs, the University must comply with the standards set forth in the HEA and the regulations promulgated thereunder (the “Regulations”). Among other things, these Regulations require the University to exercise due diligence in approving and disbursing funds and servicing loans, and to exercise financial responsibility related to maintaining certain financial ratios and requirements, all of which the University believes they have been met at June 30, 2021 and 2020.

Note 2—Summary of significant accounting policies

Basis of Financial Statement Presentation – The consolidated financial statements of the University have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”), which require it to report information regarding its financial position and activities according to the following net asset classifications:

Without Donor Restrictions – Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions net asset class, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the funds have been used in accordance with the restricted stipulations; thus, they are released from such restrictions. Additionally, net assets may be set aside by the Board of Trustees to be used for specific activities and guidelines established by the Board of Trustees. As of June 30, 2021 and 2020 the Board of Trustees designated \$35,786,311 and \$29,447,351, respectively, to be set aside for the endowment (see Note 14).

SOUTHWESTERN UNIVERSITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

With Donor Restrictions – Net assets with donor restrictions are assets for which use by the University is limited by donor-imposed stipulations that either expire with the passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations. Net assets with donor restrictions are designated by donors for specific purposes and include unconditional promises receivable, split-interest agreements, interests in trusts held by others, and accumulated appreciation on donor-restricted endowments which have not been appropriated by the Board of Trustees for expenditure. Some net assets with donor restrictions are required to be held in perpetuity and only the income or a portion of the income earned is to be used for specific purposes.

Measure of Operations – The consolidated statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the University's ongoing education activities and supporting services. Nonoperating activities are limited to resources that generate return from investments, activities related to endowment and plant, other components of net periodic pension costs, and other activities considered to be of a more unusual or nonrecurring in nature.

Cash and Cash Equivalents – The University considers all highly liquid assets with a maturity of three months or less when purchased as cash and cash equivalents. Cash and cash equivalents held in transition for investment are included in investments. The University places its cash and cash equivalents with high quality financial institutions, which at times may exceed federally insured limits. The University has not experienced any losses on such accounts.

Loans Receivable – The Federal Perkins Loan Program consists primarily of funds advanced to students by the U.S. government. Under the terms of the program, these loans are subject to forgiveness or assignment back to the federal government under certain circumstances. The amount to be forgiven or assigned is based on the occurrence of certain future events that cannot be anticipated.

Investments – Investments with readily determinable fair values are stated at fair value. Fair value is 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. Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Investments in government obligations are valued at the bid price or the average of the bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. Purchases and sales of securities are recorded as of the trade date. Realized gains and losses on sales of securities are determined on the basis of average cost. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date. Investments in real estate and mineral rights are reported at either cost or the fair value at the date the gift was received.

Alternative investments consist of the University's investments in diversifying strategies, distressed debt, real estate, natural resources, private capital, and private credit investments that are not publicly traded. Participation in these funds is achieved via ownership of shares in limited partnerships and limited liability companies. Some of these alternative investments may entail liquidity risks to the extent that they are difficult to sell or cannot be converted readily to cash at favorable prices. The University's alternative investments are not traded in an active market; however, the net asset value ("NAV") of the shares is reported by the fund manager on a monthly or quarterly basis.

Debt Issuance Costs – Debt issuance costs are amortized by the straight-line method over the remaining terms of the related debt and are included in bonds and notes payable on the consolidated statements of financial position. The University believes the use of the straight-line method does not differ significantly from the use of the effective interest method. Amortization expense related to these costs was \$18,510 for the years ended June 30, 2021 and 2020, respectively, and is included in interest expense on the accompanying note of functional expenses (see Note 16).

SOUTHWESTERN UNIVERSITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

Contributions – All contributions are considered to be available for undesignated use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. Unconditional promises receivable are recorded at the present value of their estimated future cash flows, net of allowances. An allowance for uncollectible promises receivable is determined by a specific review based upon management’s judgment, including such factors as prior collection history and currently available information relating to the donor’s intent and ability to satisfy the promises receivable. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are expected to be received. Amortization of the discounts is included in contribution revenue. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or right of release, are not recognized until the conditions on which they depend have been substantially met.

Bequests in Probate and Conditional Promises Receivable – The University considers unconditional bequests, as declared valid by probate court, to be unconditional promises receivable. Unconditional bequests that are not in probate are considered to be intentions to give and are not recognized in the consolidated financial statements.

Revenue Recognition –

Net Tuition and Fees – The University recognizes revenue from student tuition and fees within the fiscal year in which academic services are rendered. Discounts in the form of scholarships and financial aid grants provided by the University, including those funded by the endowment and gifts, are reported as a reduction of student revenue. A discount represents the difference between the stated charge for the academic period and the amount that is due on the student account. Scholarships and grants awarded to students were \$38,565,447 and \$36,647,897 at June 30, 2021 and 2020, respectively.

Campus-based programs are delivered in fall (mid-August to mid-December) and spring (mid-January to mid-May) academic terms, as well as two summer terms described below. Payment for fall term is due in July, and payment for spring term is due in December. The University offers a payment plan for the fall term that can start as early as April. Any payments received for the future fall term that are received prior to July 1 are recorded as deferred revenue and later recognized as the fall term performance obligations are met.

Payments for tuition for all summer terms are recognized as performance obligations are met. During summer 2021, the University’s Summer 1 term began in May and ended prior to the fiscal year-end June 30. The University no longer has a summer 2 term. Summer 3 term starts in mid-May and ends in mid-August, spanning two reporting periods. The University determined that the tuition amounts for summer 3 that related to July is not significant.

Student Deposits – For the academic year 2020-2021, the student nonrefundable deposit was \$700, which includes a \$250 enrollment deposit, a \$250 housing deposit, and a \$200 student orientation fee. Because of the Coronavirus (“COVID-19”) pandemic, the three student orientation sessions held in June ended up being virtual as opposed to in person, so the \$200 fee was allocated as \$100 to the student orientation fee and an additional \$100 to the enrollment deposit to be applied to the fall 2021 term. Only the \$100 fee related to the June 2021 student orientation sessions was recognized as income in the year ended June 30, 2021. Since the remaining deposit amounts were received in advance of services rendered, they are recorded as deferred revenue and will be recognized when services are provided.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

Auxiliary Enterprises – Auxiliary services exist to furnish good or services to students, faculty, staff, or incidentally to the general public. Fees charged for auxiliary services are priced to offset the cost of the goods and services provided. The distinguishing characteristic of auxiliary services is that they are managed as an essentially self-supporting activity.

Auxiliary services revenue includes activities for student housing and dining facilities. Payments for housing and dining services are due the same time as tuition and fees or upon receipt if added after the initial due date. Student housing and dining facilities services are provided for fall (mid-August to mid-December) and spring (mid-January to mid-May) academic terms. Normally for summer terms, dining plans are not offered and housing is billed on a daily basis. Performance obligations for housing and dining services are delivered over the academic terms and recognized as the performance obligation is met. Due to the COVID-19 pandemic, the University moved to distance learning for Fall 2020 after Thanksgiving break and closed on-campus housing for most students.

Deferred revenue amounts for advance tuition payments and student deposits are shown in Note 9.

Investment in Plant, Net – Additions are generally recorded at cost at the date of acquisition or at fair value at the date of donation. Normal replacements of movable plant assets are charged to expense as maintenance. The University's asset capitalization threshold is \$2,500 for individual asset acquisitions.

Depreciation of physical plant and equipment was \$6,398,988 and \$4,726,132 for 2021 and 2020, respectively. Depreciation is computed using the straight-line method for all depreciable assets over their estimated useful lives as follows:

Computers and software	5 years
Automobiles	5 years
Furniture and equipment	7 years
Grounds improvements	15 years
Library books	25 years
Buildings (prior to July 2012)	40 years

Starting in July 2012, depreciation for new physical plant building renovations and construction is computed using the straight-line method for all depreciable assets over the following useful lives:

Building shell	70 years
Elevator system	20 years
Fire protection system	20 years
Fixed equipment assets	20 years
Plumbing system	20 years
Electrical and lighting system	20 years
Floor coverings	15-30 years
HVAC	15 years
Interior finish	15 years
Furniture and lab startup items	7 years
Miscellaneous	15 years
Roof covering	10-30 years

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

Collections – The University has 19 collections within the Special Collections of the A. Frank Smith, Jr. Library Center that contain a variety of books, records, papers, maps, and manuscripts that are protected and preserved for public exhibition, education, research, and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, such collections are not reported for financial statement purposes.

Split-Interest Agreements – The University is the income or remainder beneficiary for various perpetual and charitable remainder trusts held by third party trustees where the trustee has no discretion regarding the beneficiaries’ participation in the trust. The University’s beneficial interest in these agreements and related contribution revenue is recognized at the fair value at the date of donation. Changes from year to year in the fair value of the University’s beneficial interest are reported as a change in value of split-interest agreements in the appropriate net asset class according to the trust restrictions.

Scholarships and Grants – The consolidated statements of activities present financial assistance provided to students in the form of institutional scholarships and grants as a reduction to tuition and fees revenues. Scholarships and grants include programs supported by donor-restricted endowments, donor-restricted gifts, and grants and programs supported by general operations of the University. The following table presents the amount of scholarships and grants revenue reduction, and the related percentage of tuition and fee revenues supported by donor-restricted and general operation support:

	2021		2020	
	Amount	Discount Rate to Tuition	Amount	Discount Rate to Tuition
Scholarships and grants supported by endowments and gifts	\$ 4,517,613	6.8%	\$ 3,472,484	5.4%
Scholarships and grants supported by general operations	<u>34,047,834</u>	51.2%	<u>33,175,413</u>	51.8%
Total scholarships and grants	<u>\$ 38,565,447</u>	58.0%	<u>\$ 36,647,897</u>	57.2%

Use of Estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Actual results could differ from those estimates.

Accounting Pronouncement Adopted – In February 2016, the Federal Accounting Standards Board (“FASB”) issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classifications affecting the pattern of expense recognition in the consolidated statement of activities. The new standard was implemented during the fiscal year ended June 30, 2021. A modified retrospective transition approach was required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The effect of this standard had no material impact on the consolidated financial statements.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

Future Accounting Pronouncements – In September 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires presentation of contributed nonfinancial assets as a separate line item in the consolidated statement of activities, apart from contributions of cash and other financial assets. It also requires a disclosure of disaggregated contributions of nonfinancial assets by category that depicts the type of contributed nonfinancial assets. This distinction will increase transparency of contributions recognized. This standard will be effective for fiscal years beginning after June 15, 2021. Management is currently evaluating the impact the pending adoption will have on the University’s consolidated financial statements.

Note 3—Liquidity and availability of resources

The following table reflects the University’s financial assets as of June 30, with reductions for amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statements of activities.

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 47,908,154	\$ 29,213,874
Student receivables, net	55,328	34,079
Unconditional promise receivable, net, current	5,464,754	4,583,801
Investment income	1,106	1,516
Other receivables	1,470,271	592,495
Investments	<u>355,377,475</u>	<u>289,110,284</u>
Total financial assets at year-end	410,277,088	323,536,049
Less assets unavailable for general expenditures within one year:		
Receivable due in more than one year	(190,192)	(190,155)
Bond funds reserved for construction	-	(2,681,190)
Restricted investment	-	(7,325,149)
Endowments and accumulated earnings subject to appropriations beyond one year	(346,548,231)	(270,802,291)
Unmarketable investment	(4,262,603)	(3,600,020)
Restricted by donors with purpose restrictions	<u>(8,295,185)</u>	<u>(4,446,223)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>50,980,877</u>	<u>34,491,021</u>
Available board designated endowments	31,576,266	25,943,031
Available line of credit	<u>5,000,000</u>	<u>1,500,000</u>
Financial assets available to meet cash needs for general expenditures within one year with board approval	<u>\$ 87,557,143</u>	<u>\$ 61,934,052</u>

SOUTHWESTERN UNIVERSITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 3—Liquidity and availability of resources (continued)

As part of the University's liquidity management plan, it structures its financial assets to be available as its obligations come due. Cash in excess of daily requirements is invested in the University's short-term pooled investment fund. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of instruction, student services, and auxiliary services as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivables are not considered available for general expenditures as principal and interest on these loans are used solely to make new loans and are therefore not available to meet current operating needs.

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditures, except for the amount that is available for annual appropriations in accordance with the board approved spending rate and with current year expenditures that meet the donor restrictions. Board-designated endowments totaling approximately \$31.5 million for June 30, 2021 and approximately \$26 million for June 30, 2020 are also subject to the board approved spending policy. The University does not intend to spend from the board-designated endowments other than the amounts appropriated for general expenditure in accordance with the spending policy; however, the amount of the board-designated endowments could be made available for cash liquidity needs with board approval.

In addition to financial assets availability to meet general expenditure over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Furthermore, the funds restricted by donors with purpose restrictions noted above are nonendowment funds and are also available for use in accordance with the donor restrictions for general expenditures in the following year. Lastly, the University had an unsecured line of credit of \$5,000,000 and \$1,500,000 at June 30, 2021 and 2020, respectively, available to meet cash flow needs in event of a liquidity need, as further described in Note 11.

Note 4—Student accounts and loans receivable

Student Accounts – Student accounts receivable are reported net of allowances for doubtful accounts of \$561,895 and \$561,179 for the years ended June 30, 2021 and 2020, respectively. Allowance for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence collectability of the balance outstanding. For student accounts the allowance percentage is 100% for accounts over 181 days past due but still undergoing collection procedures. For institutional loans, the allowance percentage ranges from 25% for accounts past 31 days due to 100% for accounts greater than five years past due. Balances are written off only when they are deemed permanently uncollectible. Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program.

Loans Receivable – The University makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. At June 30, 2021 and 2020, student loans represent .53% and .72% of total assets, respectively.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 4—Student accounts and loans receivable (continued)

At June 30, student loans consists of the following:

	<u>2021</u>	<u>2020</u>
Federal government programs	\$ 1,963,960	\$ 2,359,929
Institutional programs	2,040,778	2,057,770
	<u>4,004,738</u>	<u>4,417,699</u>
Less allowance for doubtful accounts:		
Beginning of year	(1,103,769)	(1,015,054)
Increases	(13,621)	(88,715)
End of year	<u>(1,117,390)</u>	<u>(1,103,769)</u>
Student loans receivable, net	<u>\$ 2,887,348</u>	<u>\$ 3,313,930</u>

The University participated in the Perkins federal revolving loan program, but the program expired on September 30, 2017, so no additional disbursements were permitted after June 30, 2018. As such, no new Perkins loans were issued for fiscal years ended June 30, 2021 and 2020. Funds advanced by the federal government and net accumulations in the revolving loan fund were \$2,059,673 and \$2,369,584 at June 30, 2021 and 2020, respectively, and are ultimately refundable to the government and are classified as refundable advances in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a decrease in the liability to the government.

At June 30, 2021 and 2020, the following amounts were due under the student loan programs:

<u>June 30,</u>	<u>Deferrals</u>	<u>Currently Due</u>	<u>31-90 Days Past Due</u>	<u>90+ Days Past Due</u>	<u>Total Due</u>
2021	\$ 672,172	\$ 1,417,803	\$ 179,380	\$ 1,735,383	\$ 4,004,738
2020	\$ 911,998	\$ 1,608,333	\$ 184,470	\$ 1,712,898	\$ 4,417,699

Note 5—Unconditional promises receivable

As of June 30, 2021 and 2020, the unconditional promises receivable are as follows:

	<u>2021</u>	<u>2020</u>
Less than one year*	\$ 10,464,754	\$ 9,583,801
One to five years	4,083,177	5,706,873
More than five years	-	100
	<u>14,547,931</u>	<u>15,290,774</u>
Present value discount	(90,379)	(160,406)
Allowance for uncollectable promises receivable	<u>(5,000,000)</u>	<u>(5,000,000)</u>
Total unconditional promises receivable	<u>\$ 9,457,552</u>	<u>\$ 10,130,368</u>

* The amount of the allowance for uncollectable promises receivable is related to a gift that is past due; thus, the amount reported for less than one year is unusually high without considering the off-setting allowance of \$5,000,000 when analyzing the unconditional promises due to be received in less than one year.

The University uses discount rates associated with the risks involved to discount anticipated cash flows for unconditional promises receivable. The rates used to discount the anticipated cash flows ranged from .2% to 4.9%.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 6—Investments

Investments consist of long-term assets controlled by the University. Investment securities are exposed to various risks such as interest rate, liquidity, market, currency, and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position.

A summary of investments at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
At fair value:		
Cash equivalents	\$ -	\$ 2,895,000
Equities, equity mutual funds and co-mingled equity funds	139,879,358	117,519,535
Fixed income and co-mingled fixed income funds	53,451,182	47,846,755
Alternative investments	<u>155,342,718</u>	<u>112,327,851</u>
Total at fair value	348,673,258	280,589,141
At cost or market at date of acquisition:		
Real estate	6,539,119	8,356,045
Mineral interests	<u>165,098</u>	<u>165,098</u>
Total at cost or market at date of acquisition	<u>6,704,217</u>	<u>8,521,143</u>
Total investments	<u>\$ 355,377,475</u>	<u>\$ 289,110,284</u>

Note 7—Fair value measurement

The University measures the fair value of investments using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets and in markets that are not active and for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and supported by little or no market activity. The University holds Level 3 investments, which included some privately held currently non-marketable common stock and funds held in trust by others. When observable prices are not available for these securities, the University uses one or more valuation techniques for which sufficient and reliable data is available. The degree of judgment exercised in determining fair value is greatest for securities categorized in Level 3, due to the inherent uncertainty of these valuations. Level 3 estimated values may differ significantly from the values that would have been used had a ready market for the investment existed, and the differences could be material.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 7—Fair value measurement (continued)

The inputs used by the University in estimating the value of Level 3 investments include the original transaction price and completed or pending third party transactions in the investment or comparable issuers. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the University in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis.

The following table presents the financial instruments carried on the consolidated statements of financial position by caption and by level within the valuation hierarchy:

	Assets at Fair Value as of June 30, 2021				
	Level 1	Level 2	Level 3	Investments Measured at NAV¹	Total
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Equities:					
U.S. equity	1,223,477	-	-	4,940,079	6,163,556
Global equity	-	-	-	133,715,802	133,715,802
Fixed income:					
Core bonds	-	-	-	33,318,355	33,318,355
Credit Securities	-	-	-	15,187,812	15,187,812
U.S. Treasury and agency co-mingled funds	-	-	-	4,945,015	4,945,015
Alternative investments:					
Diversifying strategies	-	-	-	33,671,116	33,671,116
Distressed debt	-	-	-	394,600	394,600
Real estate	-	-	-	11,000,749	11,000,749
Private real estate	-	-	-	18,061,494	18,061,494
Public natural resources	-	-	-	7,222,666	7,222,666
Private natural resources	-	-	-	14,166,944	14,166,944
Private capital	-	-	-	58,188,422	58,188,422
Private credit	-	-	-	8,374,124	8,374,124
Private equity	-	-	4,262,603	-	4,262,603
Total investments valued at fair value	1,223,477	-	4,262,603	343,187,178	348,673,258
Funds held in trust by others	-	-	5,682,585	-	5,682,585
Total	\$ 1,223,477	\$ -	\$ 9,945,188	\$ 343,187,178	\$ 354,355,843

¹ Investments that are measured at fair value using NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 7—Fair value measurement (continued)

The following table presents the financial instruments carried on the consolidated statements of financial position by caption and by level within the valuation hierarchy:

	Assets at Fair Value as of June 30, 2020				
	Level 1	Level 2	Level 3	Investments Measured at NAV ¹	Total
Cash and cash equivalents	\$ 2,895,000	\$ -	\$ -	\$ -	\$ 2,895,000
Equities:					
U.S. equity	544,476	-	-	-	544,476
Global equity	-	-	-	116,975,059	116,975,059
Fixed income:					
Core bonds	-	-	-	33,865,678	33,865,678
Credit Securities	-	-	-	12,295,387	12,295,387
U.S. Treasury and agency co-mingled funds	-	-	-	1,685,690	1,685,690
Alternative investments:					
Diversifying strategies	-	-	-	26,536,920	26,536,920
Distressed debt	-	-	-	655,381	655,381
Real estate	-	-	-	8,842,318	8,842,318
Private real estate	-	-	-	12,979,116	12,979,116
Public natural resources	-	-	-	2,875,553	2,875,553
Private natural resources	-	-	-	10,237,729	10,237,729
Private capital	-	-	-	32,507,176	32,507,176
Private capital loan fund	-	-	7,325,149	-	7,325,149
Private credit	-	-	-	6,768,489	6,768,489
Private equity	-	-	3,600,020	-	3,600,020
Total investments valued at fair value	3,439,476	-	10,925,169	266,224,496	\$ 280,589,141
Funds held in trust by others	-	-	4,818,067	-	4,818,067
Total	\$ 3,439,476	\$ -	\$ 15,743,236	\$ 266,224,496	\$ 285,407,208

¹ Investments that are measured at fair value using NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

The following provides additional disclosures required by ASC 820, *Fair Value Measurements and Disclosures*, for alternative investment strategies included in Level 3:

Private Equity – The University received donations of common stock shares in a bank holding company in fiscal years 2013 and 2019. A third party report containing per share valuation was provided when each donation was received. This valuation report was reviewed along with public financial reports for the bank to determine the value of the stock and the University has discounted the stock value until the shares become marketable. The University adjusts the stock value if the change in fair market value is greater than 15% between the current year and the year of valuation. The value of the gift was increased by \$662,583 in fiscal year 2021.

SOUTHWESTERN UNIVERSITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 7—Fair value measurement (continued)

Private Capital Loan Fund – The University held an investment at a private foundation, which is reported at fair market value. This private foundation invests in a Methodist loan portfolio, which provides loans to members of the constituent community for building programs and other capital investments. This fixed rate investment began in fiscal year 2014. The investment's redemption related to a note payable with the private foundation. In fiscal year 2021, the University liquidated the investment and paid off the associated note payable.

The following provides additional disclosures required by ASC 820 for alternative investments in funds valued based on NAV value as a practical expedient for fair value:

Equities

U.S. Equity – This category includes domestic equity securities.

Global Equity – This category includes funds with investments in global equity securities.

Fixed Income

Core Bonds – This category includes funds with fixed income securities.

Credit Securities – This category consists of a fund comprised of fixed income credit securities.

U.S. Treasury and Agency Co-Mingled Funds – This category includes a fund that invests primarily in obligations issued or guaranteed as to principal or interest by U.S. government securities.

Alternative Investments

Diversifying Strategies – This category includes third party investment funds invested in four broad investment categories: event-driven, credit, equity market neutral, and absolute return multi-strategy. Some or all of the marketable alternative strategies may be deployed across U.S. and non-U.S. markets.

Distressed Debt – This category includes a fund invested in performing restructured debt, stressed debt, distressed debt, “special situation” debt, and mezzanine debt investments.

Real Estate – This category primarily includes real estate investment trusts.

Private Real Estate – This category primarily includes funds and limited partnerships invested primarily in real estate.

Public Natural Resources – This category includes natural resource related equities.

Private Natural Resources – This category includes funds and limited partnerships invested primarily in natural resource related investments.

Private Capital – This category includes limited partnerships invested in equity securities, warrants or other options, and international emerging growth companies.

Private Credit – This category includes funds that invests on a leveraged basis, in whole or in part, in collateralized and unsecured commercial loans and debt securities of corporations, partnerships, companies, or other securities.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 7—Fair value measurement (continued)

The following table includes additional disclosures required by ASC 820, *Fair Value Measurements and Disclosures*, for investments measured at fair value and ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which amends the disclosure requirements of ASC 820, *Fair Value Measurements and Disclosures*, for the fair value measurements of investments valued at NAV at June 30, 2021.

Category	Level 3 Fair Value	Investments Measured as NAV	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
U.S. equity	\$ -	\$ 4,940,079	\$ -	Daily	1 day
Global equity	-	133,715,802	-	Monthly	5 days
Core bonds	-	33,318,355	-	1-7 days	1-5 days
Credit securities	-	15,187,812	-	Monthly	NAV; 90 days for
U.S. Treasury and agency co-mingled funds	-	4,945,015	-	Daily	N/A
Diversifying strategies	-	33,671,116	-	May redeem 25% of their shares on any calendar quarter	65 days
Distressed debt	-	394,600	803,200	No redemption	N/A
Real estate	-	11,000,749	-	Monthly	5 days
Private real estate	-	9,777,275	-	Quarterly	120 days
Private real estate	-	8,284,219	9,275,706	No redemption except as approved by GP	N/A
Public natural resources	-	7,222,666	-	Daily	2 days
Private natural resources	-	14,166,944	5,132,500	No redemption capability until respective partnership liquidation	N/A
Private capital	-	58,188,422	18,541,000	No redemption capability until respective partnership liquidation	N/A
Private credit	-	8,374,124	10,237,869	No redemption capability until fund liquidation	N/A
Private equity	4,262,603	-	-	N/A	N/A
	<u>\$ 4,262,603</u>	<u>\$ 343,187,178</u>	<u>\$ 43,990,275</u>		

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 7—Fair value measurement (continued)

The following table includes a roll forward for the year ended June 30, 2021 and 2020 of amounts for all financial instruments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. The unobservable inputs and valuation techniques are not disclosed due to all information being provided by third parties.

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 15,743,236	\$ 16,301,838
Change in value of private equity	662,583	-
Withdrawals	(7,346,903)	(516,555)
Net investment income	21,754	94,248
Change in value of split-interest agreements	864,518	(136,295)
Ending balance	<u>\$ 9,945,188</u>	<u>\$ 15,743,236</u>

Note 8—Investment in plant, net

At June 30, 2021 and 2020, investment in plant, net consists of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 111,510	\$ 111,510
Buildings	178,858,985	178,527,491
Furniture and equipment and computers and software	21,453,901	21,386,798
Library books	10,562,470	10,559,852
Automobiles	1,099,385	1,045,825
Ground improvements	19,456,800	19,476,849
Leased equipment under capital leases	3,432,672	3,432,672
Total property	234,975,723	234,540,997
Less accumulated depreciation	(117,174,553)	(111,065,605)
	117,801,170	123,475,392
Construction in progress	4,458,455	985,388
Investment in plant, net	<u>\$ 122,259,625</u>	<u>\$ 124,460,780</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 9—Deposits and deferred revenue

The activity and balances for deposits and deferred revenue from contracts with customers are shown in the following table:

	Advance Tuition Payments	Student Deposit	Other	Total
Beginning balance, June 30, 2019	\$ 2,714,779	\$ 524,087	\$ 29,811	\$ 3,268,677
Revenue recognized, deposits applied/forfeited	(2,714,779)	(208,072)	(147,280)	(3,070,131)
Payments received for future performance obligations	3,650,694	308,600	202,341	4,161,635
Balance, June 30, 2020	3,650,694	624,615	84,872	4,360,181
Revenue recognized, deposits applied/forfeited	(3,650,694)	(297,832)	(135,297)	(4,083,823)
Payments received for future performance obligations	3,038,194	301,700	119,686	3,459,580
Balance, June 30, 2021	<u>\$ 3,038,194</u>	<u>\$ 628,483</u>	<u>\$ 69,261</u>	<u>\$ 3,735,938</u>

Note 10—Bonds and notes payable

The University's notes and bonds payable as of June 30, 2021 and 2020 consist of the following:

	2021	2020
City of Riesel Education Facilities Corporation 2006 Note	\$ 2,770,000	\$ 2,980,000
Texas Methodist Foundation Note	-	7,318,709
Clifton Higher Education Finance Corporation 2017 Revenue Bonds	23,275,000	23,705,000
JP Morgan Chase Bank Note	10,000,000	-
	36,045,000	34,003,709
Plus bond premium	1,623,381	1,684,641
Less net debt issuance costs	(358,021)	(310,099)
	<u>\$ 37,310,360</u>	<u>\$ 35,378,251</u>

SOUTHWESTERN UNIVERSITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 10—Bonds and notes payable (continued)

On August 1, 2006, the University entered into a bond agreement whereby Wells Fargo loaned \$5,000,000 to the University through the City of Riesel Education Facilities Corporation, a nonprofit education facilities corporation, for the purpose of financing a portion of the construction cost of a new residential apartment complex for students consisting of 32 two-bedroom suites in three residential buildings, as well as an apartment for a residential assistant and related recreational facilities, community facilities, and parking, and to pay costs of issuance of \$53,150. The loan is secured by the net assets without donor restriction of the University. The cost of issuance was capitalized and will be amortized over the life of the loan agreement. Principal repayment is due annually beginning February 15, 2008, payable over a 20-year period based on a 25-year amortization schedule, with a balloon payment of \$1,815,000 due on February 15, 2026. The loan had a fixed rate of 4.76% until January 1, 2018, when the fixed rate increased to 5.79% as a result of the Tax Cuts and Jobs Act passed in December 2017. Interest is paid in arrears on February 15 and August 15 each year. In fiscal years 2022, 2023, 2024, 2025, and 2026, principal payments of \$220,000, \$235,000, \$245,000, \$255,000, and \$1,815,000, respectively, will become due.

On June 17, 2014, the University entered into a loan agreement whereby Texas Methodist Foundation loaned \$10,000,000 to the University for the purpose of replenishing the funds provided by the endowment fiscal year 2013 withdrawals from undesignated funds functioning as endowment for expenses associated with re-initiating the football program and beginning the woman's lacrosse program. This loan was paid in full in December 2020 with no penalties.

On December 1, 2017, the University issued bonds whereby U.S. Bank National Association loaned \$24,510,000 to the University through the Clifton Higher Education Finance Corporation, a public nonprofit education facilities corporation, for the purpose of financing Phase II construction of the Fondren-Jones Science Hall, the related conversion of the existing Soule Drive into a pedestrian promenade to achieve better integration into the existing main Academic Mall. The bonds are unsecured. The cost of issuance of \$338,290 was capitalized and will be amortized over the life of the loan agreement. The bond was issued at a premium of \$1,837,790 which will also be amortized over the life of the bonds. Principal repayment is due annually beginning August 15, 2018, payable over a 30-year period based on a 30-year amortization schedule. Final payment is due August 15, 2047. The loan has a fixed rate of interest, ranging from 3.00% to 5.00%. In fiscal years 2022, 2023, 2024, 2025, 2026, and thereafter, principal payments of \$450,000, \$475,000, \$495,000, \$520,000, \$550,000, and \$20,785,000, respectively, will become due.

On November 2, 2020, the University entered into a loan agreement whereby JP Morgan Chase Bank, National Association loaned \$10,000,000 to the University. The loan is unsecured. The cost of issuance of \$70,000 was capitalized and will be amortized over the life of the 10-year loan agreement. The loan has a fixed interest rate of 2.82% with payments due semi-annually in May and November over the 10-year loan period. Principal repayment does not begin until November 1, 2026 and continues annually until the last payment on November 1, 2030. In fiscal years 2027, 2028, 2029, and 2030 principal payments of \$1,000,000 are due November 1, with the final principal payment of \$6,000,000 due on November 1, 2030.

Note 11—Line of credit

The University had an unsecured line of credit for \$1,500,000 with First Texas Bank, Georgetown, at the bank's prime rate was in place through February 4, 2021. On February 4, 2021, the unsecured line of credit with First Texas Bank, Georgetown, was increased to \$5,000,000, and expires on November 30, 2021. Based on prior experience, the University is expecting the \$5,000,000 line of credit to be renewed with First Texas Bank, Georgetown through November 30, 2022 after providing the audited financial statements ending June 30, 2021. The University did not draw on this line of credit in either fiscal year 2021 or 2020.

SOUTHWESTERN UNIVERSITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 12—Benefit plans

The University has defined contribution retirement plans for eligible faculty members and non-faculty employees. Contributions equal to various percentages of each eligible participant's regular salary are contributed to the plan and allocated among the plan fiduciary selected list of investment options based on the fund allocation directed by the participant. Teachers Insurance and Annuity Association and/or College Retirement Equities Fund maintains custody of all plan assets. Such contributions totaling \$1,669,885 and \$1,597,179 for fiscal years 2021 and 2020, respectively, were expensed.

The University has a contributory health and welfare plan (the "Health Plan") that became self-funded beginning January 1, 1999. The University and employee contributions are used to provide various medical benefits to eligible active employees and their dependents. The Health Plan has excess loss insurance that, in general, limits the amount of total claims paid by the University during the current plan year to approximately \$4,917,003 and claims paid per employee by the University during the 2021 and 2020 plan years to \$175,000 each year. The University recognized expenses related to the Health Plan of \$3,502,996 and \$4,524,674 in fiscal years 2021 and 2020, respectively.

The University also provides post-retirement health care benefits for eligible retirees and their spouses. The plan is structured as a defined contribution plan. Eligible retirees (age 65 and over) have access to Medicare supplemental plans and receive a subsidy from the University which may be used to pay for supplemental health insurance premiums or eligible medical expenses. The University will subsidize 100% of the cost of the "benchmark" plan premiums through 2018. Beginning on January 1, 2019, the subsidy was capped at the 2018 rate. The benchmark plan is defined as Medicare Supplemental (Medigap) Plan L and the average premiums of the Medicare Part D prescription drug programs available in Travis and Williamson counties.

The University will make contributions annually to the retirees' health reimbursement arrangement account.

All active employees who were hired on or before July 1, 1996, who meet the eligibility criteria to officially retire from the University, will be eligible for the above schedule of benefits at the time of their retirement. An employee who retires before age 65 and is an Early Retiree or a Faculty Phased Retiree continues coverage (and their spouse, if applicable) under the University's group medical plan or equivalent coverage and the University will subsidize 100% of the premium cost for the retiree and spouse (if age 65). If the spouse is not yet age 65, the retiree continues to pay premiums for the spouse until the spouse attains age 65. If a retiree is not an Early Retiree or a Faculty Phased Retiree, then the retiree pays 100% of the premiums for the University's group medical plan (and their spouse's premium, if applicable). All employees hired after July 1, 1996, are not eligible for retiree medical benefits.

Upon attaining age 65, all eligible retirees are required to enroll into the Extend Health program and discontinue participation in the University's group medical plan. If the retiree's spouse is not yet age 65, then the retiree pays 100% of the spouse's premium for the University's group medical plan. When the spouse attains age 65, the spouse enrolls in Extend Health program as the retiree's spouse and discontinues participation in the University's group medical plan.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 12—Benefit plans (continued)

Pursuant to the provisions of ASC 715-60, *Defined Benefits Plans – Other Post-Retirement*, and 715-20, *Defined Benefit Plans – General*, net periodic pension costs, other than service costs, and other post-retirement related changes are reflected in the consolidated statements of activities as a net change in net assets without donor restrictions apart from operating expenses. The University amortizes a portion of these costs each year and reports these amounts into other components of net periodic pension cost. Amounts amortized and the changes in balances of unamortized costs are as follows:

	Beginning Balance of Unamortized Amounts	Amount Amortized into Net Periodic Benefit Costs	Current Year Gains/Losses	Ending Balance of Unamortized Amounts
Net (gains) losses	\$ 10,371,215	\$ (1,097,578)	\$ (1,611,216)	\$ 7,662,421

In fiscal year 2022, the University expects to recognize as net periodic cost approximately \$976,000 of previously unamortized net loss.

The status of the University's accrued post-retirement benefit cost at June 30, 2021 and 2020 are as follows:

	2021	2020
Reconciliation of benefit obligation:		
Obligation at beginning of year	\$ (8,283,004)	\$ (6,773,790)
Service cost including expenses	(8,585)	(6,780)
Interest cost	(136,771)	(193,364)
Actuarial loss (gain)	1,611,216	(1,764,389)
Benefit payments and actual expenses	487,058	455,319
Obligation, end of year	(6,330,086)	(8,283,004)
Reconciliation of fair value of plan assets:		
Employer contributions	(487,058)	(455,319)
Benefit payments and estimated expenses	487,058	455,319
Fair value of plan assets, end of year	-	-
Funded status, end of year	<u>\$ (6,330,086)</u>	<u>\$ (8,283,004)</u>

Amounts recognized in the consolidated statements of financial position are as follows:

	2021	2020
Current liabilities	\$ (503,202)	\$ (491,868)
Noncurrent liabilities	(5,826,884)	(7,791,136)
	<u>\$ (6,330,086)</u>	<u>\$ (8,283,004)</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 12—Benefit plans (continued)

Net periodic post-retirement benefit cost recognized during fiscal year 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Service cost	\$ 8,585	\$ 6,780
Interest cost	136,771	193,364
Amortization of prior actuarial loss	1,097,578	1,292,307
Amortization of prior service gain from plan amendment	-	(4,473,432)
	<u>\$ 1,242,934</u>	<u>\$ (2,980,981)</u>

The University used a weighted average discount rate of 2.36% and 2.23% to determine the post-retirement benefit obligation at June 30, 2021 and 2020, respectively. An average discount rate of 2.2% and 3.18% was used to determine the net periodic benefit cost for fiscal years 2021 and 2020, respectively. The decrease in the discount rate decreased the accrued post-retirement liability by approximately \$1,953,000.

In determining the net periodic benefit cost, the assumed pre-Medicare health care cost trend rate was 6.0% for fiscal year 2021, declining gradually to 4.5%. There is no trend on the post Medicare benefits as the HRA values are now capped. These health care cost trend rate assumptions have a significant effect on the amount of the obligation and periodic cost reported. For example, an increase in the assumed health care cost trend rate by one percentage point in each year would increase the amount of the obligation at June 30, 2021 by \$16,000 and the aggregate of service cost and interest cost components of net periodic post-retirement benefit cost for the year then ended by less than \$1,000. Alternatively, a decrease in the assumed health care cost trend rate by one percentage point in each year would decrease the obligation at June 30, 2021 by \$16,000 and the aggregate of service cost and interest cost components of net periodic post-retirement benefit cost for the year then ended by less than \$1,000.

Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:

	<u>2021</u>	<u>2020</u>
Net (gain) loss	\$ (1,611,216)	\$ 1,764,389
Amortization of net gain	(1,097,578)	(1,292,307)
Amortization of prior service cost	-	4,473,432
Total recognized net assets without donor restrictions	<u>(2,708,794)</u>	<u>4,945,514</u>
Total recognized in net periodic benefit cost and net assets without donor restrictions	<u>\$ (1,465,860)</u>	<u>\$ 1,964,533</u>

The following post-retirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid, net of the estimated Medicare prescription drug subsidies expected to be received:

Years Ending June 30,

2022	\$ 503,000
2023	495,000
2024	482,000
2025	469,000
2026	440,000
2027-2031	1,833,000
	<u>\$ 4,222,000</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 13—Nature and amount of net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2021	2020
Subject to expenditure for specified purpose:		
Scholarships	\$ 56,048,365	\$ 36,808,636
Professorships and faculty development	51,806,123	38,556,861
Plant	8,037,584	3,408,012
Academic support	10,414,609	5,842,456
Annuities and living trusts	137,087	112,276
Other	13,045,489	10,271,072
Restricted for use in future periods	79,782,870	60,600,491
	<u>219,272,127</u>	<u>155,599,804</u>
Restricted in perpetuity:		
General operations	28,870,136	28,850,319
Scholarships	49,399,479	41,066,303
Professorships and faculty development	24,979,171	23,888,916
Plant	1,547,060	1,547,045
Academic support	15,103,548	14,384,858
Annuities and living trusts	5,879,839	4,918,864
Other	3,395,211	5,540,168
	<u>129,174,444</u>	<u>120,196,473</u>
Total with donor restrictions	<u>\$ 348,446,571</u>	<u>\$ 275,796,277</u>

Note 14—Endowments

The University's endowment consists of approximately 500 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. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Adoption and Interpretation of Relevant Law – The University interprets the *Uniform Prudent Management of Institutional Funds Act of 2006* ("UPMIFA") enacted in the state of Texas as allowing the University, absent explicit donor stipulations to the contrary as stated in the gift instrument, to appropriate as much of a donor-restricted endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. However, during the years ended June 30, 2021 and 2020, the University continued to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) the remaining portion of the donor-restricted endowment fund until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 14—Endowments (continued)

In accordance with UPMIFA, the University considers the following seven 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 or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The University's investment policies

The following is the endowment net asset composition by type of fund as of June 30:

As of June 30, 2021	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose/Time Restrictions	Perpetual in Nature	
Donor-restricted endowment funds	\$ -	\$ 203,670,972	\$ 125,403,551	\$ 329,074,523
Board-designated endowment funds	35,786,311	-	-	35,786,311
Total endowment net assets	<u>\$ 35,786,311</u>	<u>\$ 203,670,972</u>	<u>\$ 125,403,551</u>	<u>\$ 364,860,834</u>

As of June 30, 2020	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose/Time Restrictions	Perpetual in Nature	
Donor-restricted endowment funds	\$ -	\$ 145,360,705	\$ 114,604,255	\$ 259,964,960
Board-designated endowment funds	29,447,351	-	-	29,447,351
Total endowment net assets	<u>\$ 29,447,351</u>	<u>\$ 145,360,705</u>	<u>\$ 114,604,255</u>	<u>\$ 289,412,311</u>

The University's endowment net assets and changes in endowment net assets for the years ended June 30, 2021 and 2020 are reported in the following table. The University's funds held by others in trust of \$5,682,585 and \$4,818,067 for June 30, 2021 and 2020, respectively, are included in endowment net asset balances within the table. Changes in the fair value of the University's funds held by others in trust is reported as change in value of split-interest agreements within the table.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 14—Endowments (continued)

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose/Time Restrictions	Perpetual in Nature	
Endowment net assets at June 30, 2019	\$ 30,503,307	\$ 155,064,290	\$ 110,845,102	\$ 296,412,699
Investment return, net	119,416	1,177,512	-	1,296,928
Contributions	-	-	3,895,448	3,895,448
Appropriated for expenditure	(1,175,372)	(10,881,097)	-	(12,056,469)
Change in value of split-interest agreements	-	-	(136,295)	(136,295)
Endowment net assets at June 30, 2020	29,447,351	145,360,705	114,604,255	289,412,311
Investment return, net	7,837,083	71,976,791	5,767,252	85,581,126
Contributions	-	-	4,167,526	4,167,526
Appropriated for expenditure	(1,498,123)	(13,666,524)	-	(15,164,647)
Change in value of split-interest agreements	-	-	864,518	864,518
Endowment net assets at June 30, 2021	<u>\$ 35,786,311</u>	<u>\$ 203,670,972</u>	<u>\$ 125,403,551</u>	<u>\$ 364,860,834</u>

Endowment Funds With Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by the donor-restriction to retain as a fund of perpetual duration. These deficiencies typically result from unfavorable market fluctuations that occur shortly after the investment of new contributions restricted in perpetuity. There are no deficiencies of this nature as of June 30, 2021. In fiscal year 2020, the University had thirteen endowment funds with donor contributions totaling \$1,666,150 and fair market value of \$1,651,247 resulting in deficiencies totaling \$14,903.

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 over time. 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.

The University seeks an average total annual return that exceeds the spending/payout rate plus inflation, as measured over five- and ten-year periods in order to preserve, over time, the principal value of the assets as measured in real, inflation-adjusted terms. The endowment is a long-term pool of funds with an indefinite time horizon that runs concurrent with the endurance of the institution, in perpetuity. As such, the endowment assets are invested with a time horizon that extends well beyond a normal market cycle and can assume an above-average level of risk as measured by the standard deviation of weighted annual returns. The University seeks to minimize portfolio risk through use of professional asset management and sufficient portfolio diversification to smooth volatility and help ensure reasonable consistency of return over time.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 14—Endowments (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 among both equity and fixed income strategies. As a long-term policy guideline, endowment assets are allocated between equity classes, 70% (with ranges of 60%-80%), and fixed income asset class investments, 30% (with ranges of 20%-40%). The University’s policy statement restricts investment in non-traditional (alternative) asset classes to no more than 50% of the portfolio and restricts the total amount of illiquid investments to 30% or less of the portfolio. An illiquid investment is defined by the policy statement to mean “investments that could not be converted to cash in an orderly market over a period of twelve months or in a shorter period of time by accepting a discount of more than 10%.”

Spending Policy – The University has adopted a spending formula for determining that part of the total return on endowment funds which can be expended annually. The spending formula determines spendable endowment return as a percentage of the 20-quarter average endowment market value, excluding investments in real estate, as of June 30 of the second preceding fiscal year. The spending formula is based on the fair market value of individual funds. The spending rate was 6% and 5% for fiscal years 2021 and 2020, respectively. The University has approved a 5.5% spending rate for fiscal year 2022. No spending distributions are made from endowments with a market value of less than \$25,000 unless specified by the donor.

The University employs a reduced spending rate for endowments with deficiencies of market value to donor restricted net asset held in perpetuity as of the date of the spending calculation. For endowments with deficiencies less than 10%, the spending rate is reduced to 4%. For endowments with deficiencies greater than 10% but less than 20%, the spending rate is reduced to 3%. Endowments with deficiencies greater than 20% have no spending appropriation for the year.

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 and planned changes to that policy to allow its endowments to grow at an average rate that equals or exceeds inflation.

Note 15—Higher Education Emergency Relief Fund

The CARES Act created a Higher Education Emergency Relief Fund (“HEERF”) to provide financial relief to students and institutions who were impacted by the COVID-19 pandemic. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan (ARP) provided additional rounds of HEERF (II and III). The HEERF funds contained two components, an institutional award and a student aid award.

The following cumulative amounts have been awarded as HEERF as of June 30, 2021:

	Student Portion	Institutional Portion	Total
Awarded:			
HEERF I	\$ 606,725	\$ 606,724	\$ 1,213,449
HEERF II	606,725	1,221,827	1,828,552
HEERF III	1,617,561	1,617,559	3,235,120
	<u>\$ 2,831,011</u>	<u>\$ 3,446,110</u>	<u>\$ 6,277,121</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 15—Higher Education Emergency Relief Fund (continued)

The College expended the following funds for the year ended June 30, 2021:

	Student Portion	Institutional Portion	Total
Expended:			
HEERF I	\$ -	\$ 306,724	\$ 306,724
HEERF II	606,725	1,221,827	1,828,552
HEERF III	-	390,000	390,000
	<u>\$ 606,725</u>	<u>\$ 1,918,551</u>	<u>\$ 2,525,276</u>

Note 16—Functional expenses

Expenses by function and nature consist of the following for the year ended June 30, 2021:

	Salary and Wages	Benefits	Other Operating Expense	Depreciation	Interest	COVID-19 Campus Readiness Expenses and Student Aid	Grand Total
Instructional services	\$ 14,099,456	\$ 4,135,486	\$ 4,927,190	\$ 3,101,586	\$ 669,461	\$ 231,082	\$ 27,164,261
Student services	6,053,975	1,740,041	3,187,111	215,758	46,570	540,064	11,783,519
Auxiliary services	1,157,821	379,240	4,518,832	2,256,787	487,115	104,223	8,904,018
Institutional support	6,134,199	1,913,468	2,736,368	824,857	178,041	433,203	12,220,136
Scholarships (HEERF)	-	-	-	-	-	606,725	606,725
Grand total	<u>\$ 27,445,451</u>	<u>\$ 8,168,235</u>	<u>\$ 15,369,501</u>	<u>\$ 6,398,988</u>	<u>\$ 1,381,187</u>	<u>\$ 1,915,297</u>	<u>\$ 60,678,659</u>

Expenses by function and nature consist of the following for the year ended June 30, 2020:

	Salary and Wages	Benefits	Other Operating Expense	Depreciation	Interest	COVID-19 Campus Readiness Expenses and Student Aid	Grand Total
Instructional services	\$ 12,368,209	\$ 3,826,084	\$ 5,230,522	\$ 1,874,857	\$ 120,583	\$ 3,620	\$ 23,423,875
Student services	5,828,598	1,866,190	3,395,550	629,048	40,458	5,964	11,765,808
Auxiliary services	186,357	64,608	6,304,421	1,607,357	103,378	-	8,266,121
Institutional support	8,855,656	2,749,506	1,261,824	614,870	39,546	52,632	13,574,034
Scholarships (HEERF)	-	-	-	-	-	606,725	606,725
Grand total	<u>\$ 27,238,820</u>	<u>\$ 8,506,388</u>	<u>\$ 16,192,317</u>	<u>\$ 4,726,132</u>	<u>\$ 303,965</u>	<u>\$ 668,941</u>	<u>\$ 57,636,563</u>

Allocation of Certain Expenses – The consolidated statements of activities present expenses by functional classification. The University’s primary program services are instruction and student services. Expenses reported as institutional support and auxiliary services are incurred in support of these primary program services. Uncapitalized plant expenses are allocated to the specific operating expense lines that the expenses relate to. Depreciation, interest expense, the cost of operation and maintenance of plant facilities, and general plant expenses are allocated to functional categories based on building square footage dedicated to that specific function.

SOUTHWESTERN UNIVERSITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 17—Disclosures about fair value of financial instruments

The estimated fair value amounts have been determined by the University using available market information and appropriate valuation methodologies. Considerable judgment is required in developing these estimates; however, no assurance can be given that the estimated values presented herein are indicative of the amounts that would be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts.

As of June 30, 2021 and 2020, the carrying amounts of the University's assets and liabilities which are considered to be financial instruments approximate their fair value except for student loans receivable (see Note 4) and the 2006 and 2017 notes payable (see Note 10). Based on the nature of the federal loan program and the privately contributed loan funds representing student loans receivable, such financial instruments may not be sold. Accordingly, determining fair value is not practical. The University's 2006 note payable totaled \$2,770,000 and \$2,980,000 and has an estimated fair value of \$2,770,000 and \$2,980,000 at June 30, 2021 and 2020, respectively. The 2006 note amount is valued using current market yields. The University's 2017 bonds payable totaled \$23,275,000 and \$23,705,000, respectively, and has an estimated fair value of \$26,679,042 and \$26,327,249 at June 30, 2021 and 2020, respectively. The University's 2020 note payable totaled \$10,000,000 and \$-0- and has an estimated fair value of \$10,000,000 and \$-0- at June 30, 2021 and 2020, respectively. The 2020 note amount is valued using current market yields.

Note 18—Commitments and contingencies

The University has contracts for the construction of University facilities, including residence halls and athletic fields, and campus-wide roof repairs caused by storm damage. At June 30, 2021, the remaining commitments under these contracts approximated \$5,800,000.

Note 19—Transactions with related parties

One member of the Board of Trustees of the University also serves as Vice Chairman of the Board of Trustees of a financial institution where the University has a significant banking relationship. Four voting members of the Board of Trustees also served as directors of a private foundation during the fiscal year where the University has an outstanding investment and loan until December 2020. The University has a conflict of interest policy that is regularly updated by all members of the Board of Trustees. The relationship with the financial institution and the private foundation has been consistently reported as a conflict of interest. In all matters related to business decisions at the meetings of the Board of Trustees, the parties refrain from participating in any votes on these matters. The abstention is reflected in the official minutes of the meeting.

Note 20—Subsequent events

The University has evaluated subsequent events through November 18, 2021, the date when consolidated financial statements were available to be issued, and has determined there are no material subsequent events or transactions that would require additional disclosure in the University's consolidated financial statements.