

SPALDING UNIVERSITY, INC.
Louisville, Kentucky

FINANCIAL STATEMENTS
June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Spalding University, Inc.
Louisville, Kentucky

Opinion

We have audited the financial statements of Spalding University, Inc. (the "University"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year from the date the financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.


Crowe LLP

New York, New York
December 15, 2022

SPALDING UNIVERSITY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,023,121	\$ 11,965,594
Cash - restricted	244,039	257,378
Student accounts receivable, less allowance for doubtful accounts of \$1,856,167 and \$2,069,705 at June 30, 2022 and 2021, respectively	544,033	559,030
Student loans receivable – current portion	275,101	351,969
Contributions receivable – current portion (Note 4)	498,027	258,536
Other receivables	1,120,665	543,544
Prepaid expenses and other	<u>741,770</u>	<u>436,001</u>
Total current assets	11,446,756	14,372,052
Student loans receivable – net of current portion	574,426	732,514
Contributions receivable – net of current portion (Note 4)	652,838	640,433
Property, plant, and equipment, net (Note 5)	47,646,631	42,751,677
Investments (Note 3)	22,028,041	25,678,200
Investments held in perpetual trust	737,150	922,673
Interest in charitable remainder trust	402,605	404,202
Other	<u>201,989</u>	<u>30,888</u>
Total assets	<u>\$ 83,690,436</u>	<u>\$ 85,532,639</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 2,012,015	\$ 1,072,151
Accrued expenses and other	1,492,627	1,411,354
Deferred revenue	816,519	886,274
Note payable – current portion (Note 7)	1,499,917	5,330,057
Fair value of swap agreement – current portion (Note 8)	<u>24,568</u>	<u>90,164</u>
Total current liabilities	5,845,646	8,790,000
Note payable – net of current portion (Note 7)	5,683,487	2,590,221
Fair value of swap agreement – net of current portion (Note 8)	-	57,909
Refundable government student loan funds	1,146,127	1,251,728
Other long-term liabilities	<u>926,279</u>	<u>1,261,344</u>
Total liabilities	13,601,539	13,951,202
Net Assets		
Without donor restrictions:		
Undesignated	39,312,470	39,250,059
Board designated	<u>1,300,000</u>	<u>400,000</u>
Total net assets without donor restrictions	40,612,470	39,650,059
With donor restrictions (Note 11)	<u>29,476,427</u>	<u>31,931,378</u>
Total net assets	<u>70,088,897</u>	<u>71,581,437</u>
Total liabilities and net assets	<u>\$ 83,690,436</u>	<u>\$ 85,532,639</u>

See accompanying notes to financial statements.

SPALDING UNIVERSITY, INC.
STATEMENTS OF ACTIVITIES
Year ended June 30, 2022
(With Comparative Figures for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees, net	\$ 23,661,636	\$ -	\$ 23,661,636	\$ 26,030,942
Auxiliary enterprises	2,217,434	-	2,217,434	1,804,606
Contributions	114,749	2,402,202	2,516,951	1,713,243
Bequests and perpetual trusts	1,000	22,605	23,605	110,935
Sponsored programs	-	4,630,985	4,630,985	2,346,582
Net investment income	12,621	227,608	240,229	276,163
Gain on sale of property	-	-	-	220,963
Other	594,315	7,510	601,825	301,231
Net assets released from restrictions	<u>6,308,215</u>	<u>(6,308,215)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>32,909,970</u>	<u>982,695</u>	<u>33,892,665</u>	<u>32,804,665</u>
EXPENSES				
Instructional	13,572,939	-	13,572,939	11,844,928
Academic support and research	1,221,679	-	1,221,679	1,070,826
Student services	4,116,955	-	4,116,955	3,415,859
Institutional support	9,946,561	-	9,946,561	8,240,737
Physical plant and maintenance	3,151,376	-	3,151,376	2,904,924
Depreciation	1,987,813	-	1,987,813	1,960,040
Fundraising	363,389	-	363,389	287,156
Auxiliary enterprises	<u>2,285,882</u>	<u>-</u>	<u>2,285,882</u>	<u>1,856,371</u>
Total expenses	<u>36,646,594</u>	<u>-</u>	<u>36,646,594</u>	<u>31,580,841</u>
Change in net assets before other income and net assets released for capital purposes	(3,736,624)	982,695	(2,753,929)	1,223,824
Other income				
Change in value of split interest agreements	-	(133,729)	(133,729)	268,326
Realized/unrealized gain (loss) on investments	-	(2,897,804)	(2,897,804)	5,161,421
Change in value of swap agreement	123,505	-	123,505	141,150
Forgiveness of PPP Loan	<u>4,169,417</u>	<u>-</u>	<u>4,169,417</u>	<u>-</u>
Change in net assets from other income	4,292,922	(3,031,533)	1,261,389	5,570,897
Net assets released for capital purposes	<u>406,113</u>	<u>(406,113)</u>	<u>-</u>	<u>-</u>
Change in net assets	962,411	(2,454,951)	(1,492,540)	6,794,721
Net assets, beginning of year	<u>39,650,059</u>	<u>31,931,378</u>	<u>71,581,437</u>	<u>64,786,716</u>
Net assets, end of year	<u>\$ 40,612,470</u>	<u>\$ 29,476,427</u>	<u>\$ 70,088,897</u>	<u>\$ 71,581,437</u>

See accompanying notes to financial statements.

SPALDING UNIVERSITY, INC.
STATEMENTS OF ACTIVITIES
Year ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Tuition and fees, net	\$ 26,030,942	\$ -	\$ 26,030,942
Auxiliary enterprises	1,804,606	-	1,804,606
Contributions	248,001	1,465,242	1,713,243
Bequests and perpetual trusts	100,000	10,935	110,935
Sponsored programs	-	2,346,582	2,346,582
Other	269,594	31,637	301,231
Net investment income	18,783	257,380	276,163
Gain on sale of property	220,963	-	220,963
Net assets released from restrictions	<u>3,157,576</u>	<u>(3,157,576)</u>	<u>-</u>
Total revenues, gains and other support	<u>31,850,465</u>	<u>954,200</u>	<u>32,804,665</u>
EXPENSES			
Instructional	11,844,928	-	11,844,928
Academic support and research	1,070,826	-	1,070,826
Student services	3,415,859	-	3,415,859
Institutional support	8,240,737	-	8,240,737
Physical plant and maintenance	2,904,924	-	2,904,924
Depreciation	1,960,040	-	1,960,040
Fundraising	287,156	-	287,156
Auxiliary enterprises	<u>1,856,371</u>	<u>-</u>	<u>1,856,371</u>
Total expenses	<u>31,580,841</u>	<u>-</u>	<u>31,580,841</u>
Change in net assets before other income and net assets released for capital purposes	269,624	954,200	1,223,824
Other income			
Change in value of split interest agreements	-	268,326	268,326
Realized/unrealized gain (loss) on investments	(147)	5,161,568	5,161,421
Change in value of swap agreement	<u>141,150</u>	<u>-</u>	<u>141,150</u>
Increase in net assets from other income	141,003	5,429,894	5,570,897
Net assets released for capital purposes	<u>191,064</u>	<u>(191,064)</u>	<u>-</u>
Change in net assets	601,691	6,193,030	6,794,721
Net assets, beginning of year	<u>39,048,368</u>	<u>25,738,348</u>	<u>64,786,716</u>
Net assets, end of year	<u>\$ 39,650,059</u>	<u>\$ 31,931,378</u>	<u>\$ 71,581,437</u>

See accompanying notes to financial statements.

SPALDING UNIVERSITY, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,492,540)	\$ 6,794,721
Adjustments to reconcile change in net assets to net cash from operating activities:		
Bad debt expense	488,936	152,857
Depreciation	1,987,813	1,960,040
Change in interest rate swap valuation	(123,505)	(141,150)
Net (gain) loss on disposal of property	(435)	(220,963)
Realized/unrealized gains on investments	2,897,804	(5,161,755)
Change in value of split interest agreements	133,729	(268,326)
Contributions restricted for capital and permanent investment	(468,694)	(882,200)
Forgiveness of Payroll Protection Loan	(4,169,417)	-
Changes in operating assets and liabilities		
Student accounts receivable	(473,939)	(269,476)
Student loans receivable	234,956	172,299
Contributions receivable	(251,896)	312,770
Other receivables	(577,121)	(151,005)
Prepaid expenses and other	(305,769)	221,694
Other long-term assets	(171,101)	12,338
Accounts payable	939,864	293,914
Accrued expenses and other	(290,981)	473,711
Deferred revenue	(69,755)	(57,029)
Other long-term liabilities	37,189	(25,443)
Net cash from operating activities	<u>(1,674,862)</u>	<u>3,216,997</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	4,181,172	4,161,709
Purchases of investments	(3,428,817)	(4,194,876)
Proceeds from sale of property and equipment	435	383,925
Purchases of property, plant, and equipment	<u>(6,882,767)</u>	<u>(1,472,358)</u>
Net cash from investing activities	(6,129,977)	(1,121,600)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for capital and permanent investment	468,694	882,200
Maturities of split interest agreements	53,391	40,725
Proceeds from issuance of note payable	4,593,183	-
Repayment of government student loan funds	(105,601)	(73,783)
Repayments on note payable	<u>(1,160,640)</u>	<u>(1,244,422)</u>
Net cash from financing activities	<u>3,849,027</u>	<u>(395,280)</u>
Net change in cash and cash equivalents and restricted cash	(3,955,812)	1,700,117
Cash and cash equivalents and restricted cash, beginning of year	<u>12,222,972</u>	<u>10,522,855</u>
Cash and cash equivalents and restricted cash, end of year	<u>\$ 8,267,160</u>	<u>\$ 12,222,972</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 174,910	\$ 180,094
Purchase of property, plant, and equipment in accounts payable	470,606	250,704

See accompanying notes to financial statements.

SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 – NATURE OF OPERATIONS

Spalding University (the “University”) is accredited by the Southern Association of Colleges and Schools Commission on Colleges to award associates, bachelors, masters, specialist, and doctoral degrees. It is committed to academic excellence in its liberal arts and sciences and in its professional programs. A majority of the University’s students come from Jefferson County, Kentucky and the surrounding region but also includes students from 45 different states and 11 foreign countries.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements of the University have been prepared on the accrual basis of accounting, in conformity with accounting standards generally accepted in the United States of America (“GAAP”). Accordingly, net assets have been grouped into the following two categories:

Net assets without donor restrictions are net assets that are not subject to donor-imposed stipulations. Certain net assets without donor restrictions are designated by the Board of Trustees for internal purposes and are referred to as Board designated.

Net assets with donor restrictions are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature while others are perpetual in nature.

Revenue is reported as an increase in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Net assets are released from restriction when expenses satisfying the restricted purpose are incurred or by occurrence of other events. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

Cash and Cash Equivalents: Cash equivalents include highly liquid investment securities with original maturities of three months or less. At times during the year, such cash and cash equivalents may be in excess of the FDIC insurance level. Restricted cash represents funding for Federal government programs for student loans receivable.

Student Accounts Receivable: Accounts receivable is stated at their unpaid principal balance of the original amount billed to students, net of an allowance for doubtful accounts for the estimated portion that will ultimately be uncollectible. When collection is considered unlikely, accounts are charged off to the allowance. Any subsequent recoveries are added to the allowance. The allowances are based on prior experience and management’s analysis of specific receivables. There is no interest charged on past due accounts.

Student Loans Receivable: The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs and are stated at their unpaid principal balances. Based on an analysis of specific receivables, certain governmental guarantees and prior history, management has determined that an allowance for uncollectible loans is not considered necessary. Student loans receivable are written off when deemed uncollectible and may be assigned to the Department of Education. Recoveries of student loans receivable previously written off are recorded when received.

(Continued)

SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For federal government programs, after a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Interest is not charged to students for Institutional program loans.

Interest income on loans is recorded as restricted income and used to fund the student loan program. Late charges are assessed if payments are not paid by the payment due date and are recognized as they are charged. Student loans receivable are considered to be past due if a payment is not made within 90 days of the payment due date. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the Department of Education.

At June 30, 2022 and 2021, student loans represented 1.0% and 1.3% of total assets, respectively. At June 30, student loans consisted of the following:

	<u>2022</u>	<u>2021</u>
Federal government programs	\$ 788,695	\$ 1,017,726
Institutional programs	<u>60,832</u>	<u>66,757</u>
Student loans receivable, net	<u>\$ 849,527</u>	<u>\$ 1,084,483</u>

The University participates in the Federal Perkins Loan Program and the Nursing Student Loan Program. The Federal Perkins Loan Program expired on September 30, 2017. No new Perkins loans can be issued after June 30, 2018. The availability of funds for loans under the Nursing Student Loan Program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of approximately \$1,146,127 and \$1,251,728 as of June 30, 2022 and 2021, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

At June 30, 2022 and 2021, the following amounts were past due under student loan programs:

	<u>1-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90+ Days Past Due</u>	<u>Total Past Due</u>
USDE – Perkins				
2022	\$ 7,271	\$ 2,947	\$ 106,754	\$ 116,972
2021	493	415	49,204	50,112
DHHS – Nursing				
2022	\$ 39,392	\$ 51,372	\$ 162,321	\$ 253,085
2021	49,808	62,903	103,233	215,944

Amounts due under the Perkins and Nursing loan programs are guaranteed by the government, thus, no reserves are placed on any past due balances under those programs.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments: Investment securities are carried at fair value (see Note 13 for discussion of fair value), determined by quoted market prices. Receipt of donated investments is recorded at the fair value of the investment at the time of the donation. Gains and losses on investments sold are determined on a specific identification basis.

The University primarily invests in fixed income securities (including obligations of the U.S. Government and government agencies), fixed income mutual funds, publicly-traded stocks, and equity mutual funds. These investment securities are subject to the risks common to financial markets, including interest rate risks, credit risks, and overall market risks, all of which could affect the value of the investments in the future.

As noted in Note 12, the University adopted the *Uniform Prudent Management of Institutional Funds Act* (“UPMIFA”) in fiscal year 2011. Under UPMIFA, net appreciation on endowment fund investments, whose income is otherwise unrestricted as to use, is reported as net assets with donor restrictions restricted by purpose or passage of time until appropriated for expenditure by the University, unless the donor has permanently restricted such net appreciation in perpetuity. In cases where the donor has placed temporary restrictions on the use of the income from endowed gifts, related net appreciation is subject to those restrictions and is reported as a part of net assets with donor restrictions until the restriction has been met.

Property, Plant, and Equipment: Property, plant, and equipment are recorded at cost at date of acquisition or fair value at date of gift. They are being depreciated over the estimated useful lives of the assets on the straight-line method. Property, plant, and equipment with a unit cost of \$1,000 and volume purchases with a cost of \$4,000 or more and an estimated useful life of greater than one year are capitalized. Routine repairs and maintenance are charged to operating expenses in the period in which the expense is incurred.

The estimated useful lives are as follows:

Buildings and improvements	40 - 60 years
Equipment, fixtures, and vehicles	4 - 30 years

The University reviews long-lived assets subject to depreciation and amortization, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. If this review were to result in the conclusion that the carrying value of long-lived assets would not be recoverable, then a write down of the assets would be recorded through a charge to net assets equal to the difference in the fair value of the assets and their carrying value. There was no impairment loss recognized for the years ended June 30, 2022 and 2021.

Investments Held in Perpetual Trusts: The University is the beneficiary of three irrevocable trusts managed by other entities. The first, held by PNC Wealth Management, lists Spalding as 1/3 beneficiary of the trust’s dividend and interest income, which has been restricted by the donor to be used for the School of Nursing Program. The second trust, held by the Community Foundation of Louisville, lists Spalding as 1/2 beneficiary of the trust’s dividend and interest income, however, the donor has not restricted the use of this income. The third held by U.S. Trust, lists Spalding as 1/3 beneficiary of the trust’s dividend and interest income, which has been restricted by the donor to be used for a Spalding Student of Italian descent. The investments in these trusts are reported at fair value, determined by the University’s proportionate interest in trust.

(Continued)

SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in Charitable Remainder Trusts: Interests in charitable remainder trusts represents the fair value of the interests that the University has in irrevocable trusts that have been established by donors with the University named as the beneficiary.

Revenue Recognition: Net tuition revenues consisted primarily of tuition, net of scholarships, and fees derived from courses taught by the University. Tuition revenue was recognized pro-rata over the applicable period of instruction. A contract was entered into with a student and covered a course or semester. Revenue recognition occurred once a student started attending a course. The University had no costs that were capitalized to obtain or to fulfill a contract with a customer.

Auxiliary revenues include primarily the following operations: food service, student housing and community health services. Charges to students for board and lodging are substantially billed and collected at the beginning of each semester. Associated revenues are earned and recognized over the course of each semester as these services are delivered.

The following table presents our revenues disaggregated by the nature of transfer of services for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Undergraduate programs	\$ 14,591,333	\$ 17,767,714
Graduate programs	14,685,313	14,130,209
Less: scholarships and fellowships	<u>(5,615,010)</u>	<u>(5,866,981)</u>
Net tuition revenues	23,661,636	26,030,942
Board and lodging	1,210,531	887,392
Auxiliary revenues	<u>1,006,903</u>	<u>917,214</u>
Total revenue from contracts with customers	<u>\$ 25,879,070</u>	<u>\$ 27,835,548</u>

The University presents amounts expended for scholarships and fellowships as a reduction of tuition and fees revenue in the statement of activities and changes in net assets. Scholarships and fellowships are funded from both net assets without donor restrictions and with donor restrictions of the University. During fiscal 2022, \$5,615,010 was expended for scholarships and fellowships, of which \$411,898 was funded from net assets with donor restrictions. During fiscal 2021, \$5,866,981 was expended for scholarships and fellowships, of which \$352,505 was funded from net assets with donor restrictions.

The University's receivables represented unconditional rights to consideration from its contracts with students. Once a student is invoiced, payment is due prior to the start of classes. Included in each invoice to the student were all educational related items including tuition, net of scholarships, student housing, and food service. The University's contract liabilities were reported as deferred revenue and student deposits in the statement of financial position. Deferred revenue and student deposits in any period represented the excess of tuition, fees, and other student payments received as compared to amounts recognized as revenue on the statement of activities and were reflected as liabilities in the accompanying statement of financial position. Some of the University's education programs had starting and ending dates that differ from its fiscal year end. Therefore, at the end of the fiscal year end, a portion of revenue from these programs was not yet earned.

(Continued)

SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The University had identified a performance obligation associated with the provision of its educational instruction and other educational services, housing services, and other academic related services and used the output measure for recognition as the period of time over which the services were provided to our students. The University had identified performance obligations related to its dining services and student housing and recognized revenue at the point in time services were provided to its customers. The University maintained an institutional tuition refund policy, which provided for all or a portion of tuition to be refunded if a student withdrew during stated refund periods. If a student withdrew at a time when only a portion, or none of the tuition was refundable, then in accordance with its revenue recognition policy, the University continued to recognize the tuition that was not refunded pro-rata over the applicable period of instruction. The University did not record revenue on amounts that were refunded.

Deferred Revenue from Contracts with Customers: Deferred revenue from contracts with customers represents payments received in advance for which services have not been performed as of June 30, 2022. The balance of deferred revenue at June 30, 2022, less any refunds issued, will be recognized as revenue over the academic term beginning July 1, 2022, as services are rendered. The following table represents deferred revenue related to tuition and auxiliary services:

	Balance at July 1, <u>2021</u>	Cash Received in Advance of <u>Performance</u>	Revenue Recognized <u>2021</u>	Balance at June 30, <u>2022</u>
Deferred revenue tuition	\$ 534,574	\$ 23,509,156	\$ (23,661,636)	\$ 382,094
Deferred revenue room and board	<u>351,700</u>	<u>989,022</u>	<u>(906,297)</u>	<u>434,425</u>
Total deferred revenue	<u>\$ 886,274</u>	<u>\$ 24,498,178</u>	<u>\$ (24,567,933)</u>	<u>\$ 816,519</u>

	Balance at July 1, <u>2020</u>	Cash Received in Advance of <u>Performance</u>	Revenue Recognized <u>2020</u>	Balance at June 30, <u>2021</u>
Deferred revenue tuition	\$ 717,353	\$ 25,848,163	\$ (26,030,942)	\$ 534,574
Deferred revenue room and board	<u>225,950</u>	<u>776,175</u>	<u>(650,425)</u>	<u>351,700</u>
Total deferred revenue	<u>\$ 943,303</u>	<u>\$ 26,624,338</u>	<u>\$ (26,681,367)</u>	<u>\$ 886,274</u>

In-Kind Contributions: The University records various types of in-kind support, including contributed professional services, advertising, and materials. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses.

Tax Exempt Status: The University is a not-for-profit corporation and has been recognized by the Internal Revenue Service to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits or liabilities will be recognized only if the tax position would “more-likely-than-not” be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit or liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit or liability will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2022 and 2021 and does not expect this to change in the next 12 months.

The University would recognize interest and penalties to uncertain tax positions in interest and income tax expense, respectively. The University does not have amounts accrued for interest or penalties as of June 30, 2022 and 2021.

Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Functional Allocation of Expenses: The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain items have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, plant operations and depreciation, which are allocated on a square footage basis. See Note 15 – Schedule of Functional Expenses.

Related Party Transactions: Related party transactions are reviewed by the University and disclosed to the extent deemed material. Certain members of the Board of Trustees have receivables with the University of \$19,500 as of June 30, 2022 and \$30,500 as of June 30, 2021. These receivables are included with contribution receivables on the Statement of Financial Position. Related party receivables are reviewed for collectability on an annual basis.

(Continued)

SPALDING UNIVERSITY, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022 and 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Coronavirus Funding: The University received funding through the Higher Education Emergency Relief Fund (HEERF), via a federal funding for coronavirus response. A summary of the funds is provided below:

	<u>2022</u>	<u>2021</u>
HEERF Awards Received		
HEERF Awards for Student Portion	\$ -	\$ 2,292,956
HEERF Awards for Institutional Portion	-	2,993,739
HEERF Awards for Strengthening Institutions Program (SIP)	<u>152,010</u>	<u>139,161</u>
Total HEERF Grants Received	<u>\$ 152,010</u>	<u>\$ 5,425,856</u>
HEERF Funds Utilized		
Student Grants	\$ 1,710,544	\$ 708,556
Student Bad Debt Forgiveness	712,256	147,968
General expenditures for online instruction and COVID mitigation	<u>1,272,994</u>	<u>672,334</u>
	<u>\$ 3,695,794</u>	<u>\$ 1,528,858</u>

At June 30, 2022 \$927,199 of HEERF awards were still available. All of these funds are expected to be utilized within one year. In the coming year, the University will continue to operate on a hybrid basis, offering both online and face-to-face instruction as deemed appropriate. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted. The revenue associated with grant programs is classified as sponsored programs on the Statement of Activities.

Reclassifications: Certain reclassifications have been made to the prior year financial statements to conform to the current year financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2022 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2022. Management has performed their analysis through December 15, 2022, the date the financial statements were available to be issued.

(Continued)

SPALDING UNIVERSITY, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022 and 2021

NOTE 3 – INVESTMENTS

Investments at June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Money market funds	\$ 389,028	\$ 1,801,876
Domestic common stocks:		
Energy	461,678	361,353
Basic materials	273,153	318,010
Industrials	1,015,801	1,328,242
Consumer discretionary	1,069,026	1,346,687
Consumer staples	792,773	840,197
Financials	1,252,769	1,529,151
Technology	2,835,526	3,168,045
Healthcare	2,097,448	1,843,547
Telecommunications	1,200,442	1,924,019
Utilities	434,224	429,040
Obligations of the U.S. government and government agencies	2,374,393	2,454,717
Corporate bonds	3,087,903	2,069,779
Fixed income mutual funds	1,022,660	1,395,737
Equity mutual funds	<u>3,721,217</u>	<u>4,867,800</u>
 Total investments	 <u>\$ 22,028,041</u>	 <u>\$ 25,678,200</u>

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Conditional contributions, which are those with a barrier and right of return/release are recorded as revenue when the underlying conditions are substantially met. Contributions to be received within one year are recorded at their fair value. Contributions due after one year are recorded after discounting at the present value of the future cash flows. Contributions receivable are reviewed annually to determine if an allowance for uncollectible contributions receivable is needed. Based upon management's judgment, considering such factors as prior collection history, type of contribution, and nature of fund-raising activity, an allowance for uncollectible contributions receivable of \$348,841 and \$315,701 were recorded as of June 30, 2022 and 2021, respectively. Unconditional promises to give in the amount of \$2,875 and \$10,000 were written off in 2022 and 2021, respectively.

(Continued)

SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 4 – CONTRIBUTIONS RECEIVABLE (Continued)

Contributions receivable are scheduled to be received over the following periods as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 645,264	\$ 346,609
One to five years	<u>883,524</u>	<u>895,804</u>
Total contributions receivable	1,528,788	1,242,413
Less:		
Allowance for uncollectible promises to give	348,841	315,701
Discounting to present value	<u>29,082</u>	<u>27,743</u>
	1,150,865	898,969
Less current portion	<u>498,027</u>	<u>258,536</u>
Total long-term portion	<u>\$ 652,838</u>	<u>\$ 640,433</u>

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 11,110,434	\$ 11,016,264
Buildings and improvements	43,998,880	43,692,921
Leasehold improvement	666,676	605,067
Equipment, fixtures and vehicles	19,680,666	19,254,273
Construction in progress	<u>7,355,234</u>	<u>1,363,638</u>
	82,811,890	75,932,163
Less accumulated depreciation	<u>35,165,259</u>	<u>33,180,486</u>
Total property, plant, and equipment, net	<u>\$ 47,646,631</u>	<u>\$ 42,751,677</u>

NOTE 6 – LINE OF CREDIT

During 2020, the University entered into a revolving line of credit agreement (the "Agreement"), with a commercial bank. Under the Agreement, the University had a \$2,000,000 line bearing interest at LIBOR plus 0.5%. The line of credit is secured by a money market account held by the same bank and matures in July 2022. There were no amounts borrowed at June 30, 2022.

(Continued)

SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 7 – NOTES PAYABLE

In April 17, 2019, the University entered into a tax-exempt note payable with PNC Bank, National Association in the amount of \$5,555,000. Interest was payable at 68% of daily LIBOR plus a 0.95%, not to exceed 15% per annum. The interest rate was 1.74% and .95% at June 30, 2022 and 2021, respectively. Principal payments and interest expense totaled \$1,110,000 and \$27,389, respectively, during the year ended June 30, 2022, and \$1,060,000 and \$35,593, respectively, during the year ended June 30, 2021. The note payable requires the University to meet certain financial covenants that are due bi-annually, 180 days after . The University was not in compliance with all financial covenants at June 30, 2021, but received a bank waiver. The University was not in compliance with financial covenants as of December 31, 2021, but received a bank waiver.

Principal payments required are as follows:

<u>Year ending June 30,</u>	<u>Note Payable</u>
2023	\$ 1,160,000
2024	<u>1,215,000</u>
Total principal payments	<u>\$ 2,375,000</u>

In April of 2020 the University secured a term loan with PNC Bank Nation Association under the Paycheck Protection Program (PPP Loan). This loan was used to retain workers, maintain payroll, and make utility payments due to the Coronavirus Public Health Emergency. The PPP Loan is unsecured and guaranteed by the U.S. Small Business Administration (SBA). The University received forgiveness of the PPP supported loan of \$4,169,417 during the year ended June 30, 2022.

The table below reflects the activity of the PPP Loan:

	<u>Note Payable</u>
Initial funded PPP Loan as of April 2020	\$ 4,619,700
Repayment by University	(184,422)
Conversion of PPP Loan to term loan with PNC	<u>(265,861)</u>
PPP loan as of June 30, 2021	<u>\$ 4,169,417</u>

The PPP loan balance at June 30, 2021 was forgiven by the SBA in October of 2021.

The \$ 265,861 term loan with PNC National Association has a term of 5 years from the date of the original receipt of the PPP Loan April 15, 2020. The interest rate on this loan is 1%. There were no payments due or interest expense for FY June 30. 2021. Principal payments and interest expense totaled \$50,640 and \$3,786, respectively, during the year ended June 30, 2022.

Principal payments required are as follows:

<u>Year ending June 30,</u>	<u>Term Loan With PNC</u>
2023	\$ 75,960
2024	75,960
2025	<u>63,301</u>
Total principal payments	<u>\$ 215,221</u>

(Continued)

SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 7 – NOTES PAYABLE (Continued)

In November 2021, the University secured a promissory note with Republic Bank in the amount of \$6,000,000 for purposes of construction of the Physical Therapy Building. The interest rate was 2.8% at June 30, 2022. A total amount of \$4,593,183 was drawn down on the note as of June 30, 2022, and interest expense totaled \$42,622 for the year ended June 30, 2022. This note is secured by a mortgage on the Physical Therapy Building and associated furnishing, fixtures, equipment and software related to the operations of the mortgaged property.

Principal payments required are as follows:

Year ending June 30,	<u>Republic Bank Promissory Note</u>
2023	\$ 263,957
2024	462,636
2025	475,758
2026	489,252
Thereafter	<u>2,901,580</u>
Total principal payments	<u>\$ 4,593,183</u>

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS

The University entered into an interest rate swap agreement with JPMorgan Chase on February 19, 2008 to reduce its exposure to adverse fluctuations in the market interest rates on the Series 2003 Bonds. During the year ended June 30, 2009, JPMorgan Chase agreed to transfer ownership of the agreement to US Bank in conjunction with the refunding of the Series 2003 Bonds and issuance of the Series 2008 Bonds in October 2008. In April of 2019, US Bank, National Association agreed to transfer the ownership of the interest rate swap agreement to PNC Bank, National Association through a novation agreement in conjunction with the refunding of outstanding bonds. The notional amount of the swap agreement was \$2,375,000 and \$3,485,000 at June 30, 2022 and 2021, respectively, and will decrease as principal payments on the tax-exempt note are made. Under the interest rate swap agreement, the University will pay PNC Bank interest calculated at a fixed rate of 3.79% based on the notional amount. PNC Bank will, in turn, pay the University interest calculated on the notional amount using a variable rate equal to 68% of LIBOR. In accordance with the interest rate swap agreement, payments between the University and PNC Bank are netted and a net settlement amount is paid monthly.

In accordance with GAAP, the University recorded the decrease in fair value of the interest rate swap agreement of \$123,505 and \$141,150 at June 30, 2022 and 2021, respectively, in other income in the University's statements of activities. The fair value of the swap agreement liability was \$24,568 and \$148,073 as of June 30, 2022 and 2021, respectively. The net settlement from the swap agreement is included in interest expense, which is allocated across the expense classifications in the statements of activities. For the years ended June 30, 2022 and 2021, the net settlements resulted in an increase to interest expense in the amounts of \$95,029 and \$138,704, respectively.

NOTE 9 – SELF-FUNDED HEALTH INSURANCE

The University's medical plan is self-funded. The University provides medical benefits for all eligible employees through the use of self-funding, employee contributions, and stop-loss insurance coverage. The amounts funded by the University are based on claims processed and submitted for payment on a weekly basis by a third-party plan administrator.

(Continued)

SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 9 – SELF-FUNDED HEALTH INSURANCE (Continued)

The University purchased stop-loss liability insurance policies (reinsurance) that reimburse the University for individual participant claims paid in excess of \$80,000 and aggregate claims in excess of \$1,974,048.

The University's expense for self-funded medical benefits, and the related administrative costs and insurance costs for the years ended June 30, 2022 and 2021 was \$1,839,161 and \$1,871,626, respectively. As of June 30, 2022 and 2021, \$250,000 and \$300,000, respectively, were accrued for self-insurance of expected claims incurred as of the statement of net position date.

NOTE 10 – EMPLOYEE BENEFIT PLAN

The University participates in the Standard Defined Contribution Retirement Plan (the "Plan"). All eligible employees are able to contribute voluntary funds to the Plan on the first of the month, following hire date.

Beginning in August 2020, as a cost-saving measure to address challenges brought on by the COVID-19 pandemic and enrollment decline, the University elected to suspend its retirement plan match for employees. This reduction was taken as a temporary measure that was partially restored subsequent to year end.

For the year ended June 30, 2021, a University contribution in the amount of 2.50% of gross salary for all eligible employees begins 6 months after the employee's hire date, regardless of whether the employee voluntarily contributes to the Plan. Additionally, all voluntary contributions to the Plan by employees are matched by the University up to 5.0% of gross salary. Matching contributions also begin 6 months after hire date.

Total employee benefit plan expense for the Plan was \$663,519 and \$115,182 for the years ended June 30, 2022 and 2021, respectively.

Effective August 2021, the University restored the 2.50% contribution for all eligible employees. Additionally, all voluntary contributions to the Plan by employees are matched by the University up to 2.50% of the gross salary.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions restricted by purpose or passage of time are available for the following purposes at June 30, 2022 and 2021:

<u>Program</u>	<u>2022</u>	<u>2021</u>
Academic support and research	\$ 671,746	\$ 761,354
General operations	118,199	205,202
Institutional support	860,657	988,076
Instruction	4,117,639	4,292,814
Operation and maintenance of physical plant	1,010,697	514,896
Student financial aid	9,430,666	11,585,673
Student services	<u>589,778</u>	<u>838,661</u>
	<u>\$ 16,799,382</u>	<u>\$ 19,186,676</u>

(Continued)

SPALDING UNIVERSITY, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022 and 2021

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets with donor restrictions are restricted to investment in perpetuity, the income of which is expendable to support the following purposes at June 30, 2022 and 2021:

<u>Program</u>	<u>2022</u>	<u>2021</u>
Academic support and research	\$ 438,778	\$ 448,828
General operations	484,567	623,608
Institutional support	30,356	30,356
Instruction	1,948,509	1,948,509
Operation and maintenance of physical plant	2,830	2,830
Student financial aid	9,667,845	9,586,411
Student services	<u>104,160</u>	<u>104,160</u>
	<u>\$ 12,677,045</u>	<u>\$ 12,744,702</u>

Assets released from restriction were categorized as follows during the years ended June 30, 2022 and 2021:

<u>Program</u>	<u>2022</u>	<u>2021</u>
Academic support	\$ 66,852	\$ 14,964
General operations	-	47,034
Institutional support	4,245,124	1,779,900
Instruction	1,168,897	803,172
Operation and maintenance of physical plant	210,246	207,766
Student financial aid	487,996	346,105
Student services	<u>535,213</u>	<u>149,699</u>
	<u>\$ 6,714,328</u>	<u>\$ 3,348,640</u>

NOTE 12 – ENDOWMENT COMPOSITION

The University's endowment primarily consists of a fund held at Stock Yards Bank. Endowment net asset as of June 30, 2022 and 2021 are \$22,595,678 and \$26,379,566, respectively, and are all net assets with donor restrictions.

Changes in endowment net assets for year ended June 30, 2022:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 26,379,566
Net appreciation (net realized and unrealized gains/losses)	(2,897,804)
Investment income, net	103,896
Contributions	10,020
Appropriation of endowment assets for expenditures	<u>(1,000,000)</u>
Endowment net assets, end of year	<u>\$ 22,595,678</u>

(Continued)

SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 12 – ENDOWMENT COMPOSITION (Continued)

Changes in endowment net assets for year ended June 30, 2021:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 20,916,319
Net appreciation (net realized and unrealized gains/losses)	5,161,568
Investment income, net	525,706
Contributions	475,973
Appropriation of endowment assets for expenditures	<u>(700,000)</u>
Endowment net assets, end of year	<u>\$ 26,379,566</u>

Interpretation of Relevant Law: Effective in July 2010, the *Uniform Prudent Management of Institutional Funds Act* (“UPMIFA”) was adopted by the Commonwealth of Kentucky. The University interprets 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. As a result of this interpretation, the University classifies as net assets with donor restrictions restricted in perpetuity (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 to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions restricted in perpetuity is classified as net assets with donor restrictions restricted by purpose or passage of time until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In addition, UPMIFA provides for allowing certain Board restricted net assets to be considered as endowment. Beneficial interests in trusts in the amount of \$1,139,755 and \$1,326,875 as of June 30, 2022 and 2021, respectively, are included in the University’s endowment, but are not subject to UPMIFA requirements.

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 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
- (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. University assets include those assets of donor restricted funds that the University must hold in perpetuity or for a donor specified period(s), as well as Board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

(Continued)

NOTE 12 – ENDOWMENT COMPOSITION (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy: The University has a policy of appropriating up to 5.5% of its endowment fund's average fair value over the previous twelve quarters. The distribution calculation is based on the twelve quarters ending December 31 prior to the applicable fiscal year end in order for budgeted income amounts to be determined. In establishing the policy, the University considered the long term expected return on its endowment funds. Accordingly, over the long term, the University expects the current spending policy to allow its endowment funds to maintain the purchasing power of the original gift.

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the value of the original gift. Deficiencies of this nature that are in excess of related amounts are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2022 and 2021.

Endowment fund principal, unless otherwise directed by the donor, shall not be disbursed except for emergency situations. In order to make a principal disbursement, a two-thirds majority vote by the University's Board of Trustees will be required.

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the University's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are described below:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of domestic common stocks, obligations of the U.S. Government and government agencies and fixed income and equity mutual funds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

The fair value of corporate bonds is calculated based on market prices of similar securities (Level 2 inputs).

The fair value of the beneficial interests in the perpetual trust assets (or any type of beneficial interest) is based on a valuation model that calculates the present value of estimated distributed income. The valuation model incorporates the fair value of investment holdings which are readily marketable securities valued at quoted prices and incorporates assumptions that market participants would use in estimating future distributed income. The University does not have the ability to redeem the investment within 90 days (Level 3 inputs).

(Continued)

SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The University is able to compare the valuation model inputs and results to widely available published industry data for reasonableness.

Derivative contracts are valued using quoted market prices and significant other observable inputs. The University's only such financial instrument is an interest rate swap contract. Interest rate swaps do not have observable market quotes. For this financial instrument, the University's swap counterparty provides an annual valuation using the difference between the fixed rate paid by the University and the counterparty's comparative market interest rate forecast discounted at the swap yield curve. The models are based on observable inputs for forward interest rates and discount rates. As such, these derivative instruments are classified within Level 2 of the fair value hierarchy.

Assets measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at June 30 Using</u>		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2022</u>			
Assets			
Domestic common stocks	\$ 11,432,839	\$ -	\$ -
Obligations of U.S. Government and government agencies	2,374,393	-	-
Corporate bonds	-	3,087,904	-
Fixed income mutual funds	1,022,660	-	-
Equity mutual funds	3,721,217	-	-
Beneficial interests in trusts	<u>-</u>	<u>-</u>	<u>1,139,755</u>
Total	<u>\$ 18,551,109</u>	<u>\$ 3,087,904</u>	<u>\$ 1,139,755</u>
Liabilities			
Interest rate swap	<u>\$ -</u>	<u>\$ 24,568</u>	<u>\$ -</u>
<u>2021</u>			
Assets			
Domestic common stocks	\$ 13,088,291	\$ -	\$ -
Obligations of U.S. Government and government agencies	2,454,717	-	-
Corporate bonds	-	2,069,779	-
Fixed income mutual funds	1,395,737	-	-
Equity mutual funds	4,867,800	-	-
Beneficial interests in trusts	<u>-</u>	<u>-</u>	<u>1,326,875</u>
Total	<u>\$ 21,806,545</u>	<u>\$ 2,069,779</u>	<u>\$ 1,326,875</u>
Liabilities			
Interest rate swap	<u>\$ -</u>	<u>\$ 148,073</u>	<u>\$ -</u>

(Continued)

SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2022 and 2021:

	Beneficial Interests <u>In Trusts</u>
Beginning balance, July 1, 2020	\$ 1,099,274
Distributions	(40,725)
Realized and unrealized gains	<u>268,326</u>
Ending balance, June 30, 2021	<u>\$ 1,326,875</u>
Beginning balance, July 1, 2021	\$ 1,326,875
Distributions	(53,391)
Realized and unrealized gains (losses)	<u>(133,729)</u>
Ending balance, June 30, 2022	<u>\$ 1,139,755</u>

NOTE 14 – COMMITMENTS AND CONTINGENCIES

From time to time, the University is involved in legal actions arising in the ordinary course of its activities. A legal reserve in the amount of \$150,000 as of June 30, 2022 and 2021, was established for pending and possible litigation. It is the opinion of management that the ultimate liabilities, if any, with respect to these matters will not materially affect the financial position and operations of the University.

The University is currently participating in grant programs from various departments and agencies of the federal government. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. University management believes disallowances, if any, will not have a material adverse effect on the University's financial position.

The estimated cost to complete construction projects under contract was \$418,746 and \$5,104,658 as of June 30, 2022 and 2021, respectively.

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SPALDING UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 15 – SCHEDULE OF FUNCTIONAL EXPENSES

Expenses by function and purpose for year ended June 30, 2022 are summarized below:

	<u>Program Service</u>	<u>Management and General</u>	<u>Fundraising Activities</u>	<u>Total 2022</u>
Faculty and staff salaries	\$ 14,463,633	\$ 2,751,488	\$ 269,847	\$ 17,484,968
Payroll taxes and benefits	2,833,985	1,179,788	58,086	4,071,859
Professional services	1,394,321	1,100,460	13,090	2,507,871
Instructional resources	167,105	-	-	167,105
Technology and communication	14,934	1,276,254	5	1,291,193
Travel and entertainment	715,682	40,253	4,966	760,901
Professional development	33,843	4,219	392	38,454
Facilities, maintenance and utilities	2,688,629	56,335	7,317	2,752,281
Marketing	97,731	494,329	12,926	604,986
Dues, subscriptions and memberships	116,423	69,308	1,450	187,181
Insurance	50,653	221,301	-	271,954
Interest expense	178,583	2,599	513	181,695
Sponsored program stipends	444,430	-	-	444,430
Student COVID support	-	1,710,544	-	1,710,544
Depreciation	1,953,755	28,445	5,613	1,987,813
Supplies and other expenses	<u>1,315,388</u>	<u>863,645</u>	<u>4,326</u>	<u>2,183,359</u>
	<u>\$ 26,469,095</u>	<u>\$ 9,798,968</u>	<u>\$ 378,531</u>	<u>\$ 36,646,594</u>

Expenses by function and purpose for year ended June 30, 2021 are summarized below:

	<u>Program Service</u>	<u>Management and General</u>	<u>Fundraising Activities</u>	<u>Total 2021</u>
Faculty and staff salaries	\$ 13,449,920	\$ 2,483,508	\$ 228,462	\$ 16,161,890
Payroll taxes and benefits	2,344,057	1,304,427	46,147	3,694,631
Professional services	813,098	804,371	6,457	1,623,926
Instructional resources	187,571	-	-	187,571
Technology and communication	10,588	1,105,123	7	1,115,718
Travel and entertainment	304,372	10,890	(5,225)	310,037
Professional development	17,720	(3,588)	-	14,132
Facilities, maintenance and utilities	2,349,201	33,618	6,466	2,389,285
Marketing	4,840	453,870	7,128	465,838
Dues, subscriptions and memberships	102,739	144,377	559	247,675
Insurance	50,973	203,742	7	254,722
Interest expense	184,983	2,693	531	188,207
Sponsored program stipends	450,337	-	-	450,337
Student COVID support	-	709,765	-	709,765
Depreciation	1,926,457	28,048	5,535	1,960,040
Supplies and other expenses	<u>969,020</u>	<u>832,663</u>	<u>5,384</u>	<u>1,807,067</u>
	<u>\$ 23,165,876</u>	<u>\$ 8,113,507</u>	<u>\$ 301,458</u>	<u>\$ 31,580,841</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 16 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 8,023,121	\$ 11,965,594
Student accounts receivable	544,033	559,030
Other receivables available for general expenditure	1,062,013	400,913
Endowment spending rate distribution	1,000,000	700,000
Less: Board designated funds	(1,300,000)	(400,000)
Less: Other donor restricted funds unavailable for general expenditures within one year	<u>(1,131,799)</u>	<u>(883,538)</u>
	<u>\$ 8,197,368</u>	<u>\$ 12,341,999</u>

The University endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

As part of the University liquidity management plan, structure financial assets to be available as the general expenditures, liabilities and other obligations become due. In addition, the University invests cash in excess of daily requirements in short-term investments, CDs, and money market funds.