

The Methodist University, Inc.

Consolidated Financial and Compliance Report
June 30, 2020

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RSM US LLP

Independent Auditor's Report

Financial Affairs Committee
The Methodist University, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Methodist University, Inc. and Affiliate (the University), which comprise the consolidated statement of financial position as of June 30, 2020, the related consolidated statements of activities, cash flows and functional expenses for the year then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of the University as a whole. The accompanying supplemental disaggregated consolidated statements of financial position and consolidated schedules of financial position and activities are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedules of expenditures of federal and state awards and financial responsibility schedule are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, North Carolina General Statute 143C-6-23, the North Carolina State Education Assistance Authority, and Title 34 U.S. *Code of Federal Regulations* Part 668 and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The financial statements of the University as of and for the year ended June 30, 2019 were audited by other auditors whose report, dated December 20, 2019, expressed an unmodified opinion on those financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2020, 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 University'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.

RSM US LLP

Raleigh, North Carolina
December 7, 2020

The Methodist University, Inc.

Consolidated Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 4,713,071	\$ 3,559,056
Cash held to fund donor restrictions and debt service	8,183,047	3,003,514
Receivables:		
Students, net	599,094	1,563,472
Contributions, net	1,600,974	1,726,811
Other	1,006,371	494,423
Prepaid expenses and other assets	965,126	435,024
Cash surrender value of life insurance policies	180,123	170,123
Investments	21,985,454	21,017,463
Student loans receivable, net	312,717	330,489
Note receivable	66,015	444,710
Property and equipment, net	78,587,171	81,053,500
	<u>78,587,171</u>	<u>81,053,500</u>
Total assets	\$ 118,199,163	\$ 113,798,585
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,537,399	\$ 2,053,625
Deferred revenues	1,422,565	1,233,261
Student deposits	306,917	345,300
Other liabilities	3,086,912	1,969,535
Obligations under capital leases	270,613	400,484
Debt, net	35,279,069	32,103,255
Interest rate swap agreements	741,456	607,937
U.S. Government advances for student loans	30,064	57,015
	<u>43,674,995</u>	<u>38,770,412</u>
Total liabilities	43,674,995	38,770,412
Net assets:		
Net assets without donor restrictions	55,187,549	56,066,572
Net assets with donor restrictions	19,336,619	18,961,601
	<u>74,524,168</u>	<u>75,028,173</u>
Total net assets	74,524,168	75,028,173
Total liabilities and net assets	\$ 118,199,163	\$ 113,798,585

See notes to consolidated financial statements.

The Methodist University, Inc.

Consolidated Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Tuition and fees	\$ 57,189,437	\$ -	\$ 57,189,437
Less scholarships	(24,401,790)	-	(24,401,790)
Net tuition and fess	32,787,647	-	32,787,647
Government contracts and grants	2,034,719	628,899	2,663,618
Contributions and private grants	421,331	1,080,920	1,502,251
Investment return designated for current operations	62,244	587,661	649,905
Other income	616,210	-	616,210
Sales and services of auxiliary enterprises	8,801,171	-	8,801,171
Net assets released from restrictions	2,319,572	(2,319,572)	-
Total revenues, gains and other support	47,042,894	(22,092)	47,020,802
Expenses:			
Instruction	20,845,491	-	20,845,491
Academic support	2,181,424	-	2,181,424
Student services	9,696,152	-	9,696,152
Institutional support	7,555,031	-	7,555,031
Auxiliary enterprises	7,811,785	-	7,811,785
Total expenses	48,089,883	-	48,089,883
Change in net assets from operations	(1,046,989)	(22,092)	(1,069,081)
Other changes:			
Federal aid for students - CARES Act	923,000	-	923,000
Federal aid disbursed for students - CARES Act	(923,000)	-	(923,000)
Contributions and private grants	-	881,999	881,999
Investment return in excess of (less than) amounts designated for current operations	88,126	(189,990)	(101,864)
Net income of MUDC	44,789	-	44,789
Net assets released from restrictions	322,600	(322,600)	-
Loss on sale of property and equipment	(126,329)	-	(126,329)
Unrealized loss on interest rate swap agreement	(133,519)	-	(133,519)
Transfers	(27,701)	27,701	-
Change in net assets	(879,023)	375,018	(504,005)
Net assets:			
Beginning	56,066,572	18,961,601	75,028,173
Ending	\$ 55,187,549	\$ 19,336,619	\$ 74,524,168

See notes to consolidated financial statements.

The Methodist University, Inc.

Consolidated Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Tuition and fees	\$ 58,377,142	\$ -	\$ 58,377,142
Less scholarships	(23,742,742)	-	(23,742,742)
Net tuition and fees	34,634,400	-	34,634,400
Government contracts and grants	997,967	-	997,967
Contributions and private grants	359,415	997,268	1,356,683
Investment return designated for current operations	65,196	588,476	653,672
Other income	973,785	-	973,785
Sales and services of auxiliary enterprises	10,204,977	-	10,204,977
Net assets released from restrictions	2,094,621	(2,094,621)	-
Total revenues, gains and other support	49,330,361	(508,877)	48,821,484
Expenses:			
Instruction	21,734,147	-	21,734,147
Academic support	2,248,639	-	2,248,639
Student services	10,162,624	-	10,162,624
Institutional support	7,335,340	-	7,335,340
Auxiliary enterprises	8,455,962	-	8,455,962
Total expenses	49,936,712	-	49,936,712
Change in net assets from operations	(606,351)	(508,877)	(1,115,228)
Other changes:			
Contributions and private grants	-	334,131	334,131
Investment return in excess of amounts designated for current operations	300,348	135,826	436,174
Net income of MUDC	39,895	-	39,895
Net assets released from restrictions	43,646	(43,646)	-
Gain on sale of property and equipment	6,134	-	6,134
Unrealized loss on interest rate swap agreement	(111,156)	-	(111,156)
Transfers	(15,305)	15,305	-
Change in net assets	(342,789)	(67,261)	(410,050)
Net assets:			
Beginning	56,409,361	19,028,862	75,438,223
End ing	\$ 56,066,572	\$ 18,961,601	\$ 75,028,173

See notes to consolidated financial statements.

The Methodist University, Inc.

Consolidated Statements of Functional Expenses
Years Ended June 30, 2020 and 2019

	Instruction	Academic Support	Student Services	Plant Operations and Management	Institutional Support			Auxiliary Enterprises	Total 2020
					Administration	Fund Raising	Total		
Salaries and wages	\$ 13,100,062	\$ 864,531	\$ 4,741,961	\$ 2,727,483	\$ 3,020,682	\$ 149,837	\$ 3,170,519	\$ 486,152	\$ 25,090,708
Employee benefits	2,891,448	177,849	1,164,814	800,963	721,429	87,941	809,370	91,177	5,935,621
Insurance	10,028	2,161	292,661	298,080	130,500	9,494	139,994	1,977	744,901
Miscellaneous	79,410	110	61,112	81,719	1,115,256	3,365	1,118,621	29,952	1,370,924
Supplies and services	782,839	422,832	1,204,471	341,506	1,142,353	44,942	1,187,295	1,711,936	5,650,879
Travel and employee development	254,605	6,433	413,876	1,608	43,832	10,532	54,364	213	731,099
Utilities and repairs	271,265	30,231	90,215	2,449,803	521,192	39,703	560,895	211,762	3,614,171
Depreciation	598,579	201,600	196,308	1,679,525	224,217	-	224,217	743,373	3,643,602
Interest, bond fees and amortization	363,225	60,429	194,496	76,517	32,045	4,840	36,885	576,426	1,307,978
Operations and maintenance	2,494,030	415,248	1,336,238	(8,457,204)	219,887	32,984	252,871	3,958,817	-
Total functional expenses	\$ 20,845,491	\$ 2,181,424	\$ 9,696,152	\$ -	\$ 7,171,393	\$ 383,638	\$ 7,555,031	\$ 7,811,785	\$ 48,089,883

	Instruction	Academic Support	Student Services	Plant Operations and Management	Institutional Support			Auxiliary Enterprises	Total 2019
					Administration	Fund Raising	Total		
Salaries and wages	\$ 13,372,609	\$ 825,034	\$ 4,861,474	\$ 2,666,439	\$ 2,986,086	\$ 135,134	\$ 3,121,220	\$ 478,545	\$ 25,325,321
Employee benefits	3,107,400	195,712	1,361,624	794,217	794,644	24,116	818,760	93,160	6,370,873
Insurance	9,343	2,420	300,041	284,687	125,751	9,494	135,245	2,055	733,791
Miscellaneous	88,349	497	93,428	89,206	919,476	6,122	925,598	16,597	1,213,675
Supplies and services	996,857	470,425	1,221,559	362,457	1,174,290	61,571	1,235,861	1,904,873	6,192,032
Travel and employee development	271,909	16,892	530,881	10,158	66,081	6,973	73,054	-	902,894
Utilities and repairs	313,834	36,118	93,550	2,402,954	474,139	24,272	498,411	488,815	3,833,682
Depreciation	670,514	218,289	207,152	1,732,928	232,298	-	232,298	824,357	3,885,538
Interest, bond fees and amortization	411,249	68,467	211,465	87,544	36,505	5,471	41,976	658,205	1,478,906
Operations and maintenance	2,492,083	414,785	1,281,450	(8,430,590)	220,038	32,879	252,917	3,989,355	-
Total functional expenses	\$ 21,734,147	\$ 2,248,639	\$ 10,162,624	\$ -	\$ 7,029,308	\$ 306,032	\$ 7,335,340	\$ 8,455,962	\$ 49,936,712

See notes to consolidated financial statements.

The Methodist University, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (504,005)	\$ (410,050)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,760,445	3,915,885
Losses (gains) on sales of property and equipment	126,329	(6,134)
Gifts of property and equipment	(3,863)	(130,595)
Realized and unrealized gains on investments	(95,436)	(396,685)
Unrealized gain on interest rate swap agreement	133,519	111,156
Changes in assets and liabilities:		
Decrease (increase) in:		
Student accounts receivable	964,378	565,963
Pledges receivable	125,837	508,612
Other receivables	(511,948)	(57,519)
Student loans receivable, net	17,772	29,016
Prepaid expenses and other assets	(530,102)	122,887
Cash surrender value of life insurance policies	(10,000)	(10,000)
Increase (decrease) in:		
Accounts payable and accrued liabilities	483,774	(1,063,009)
Deferred revenues	189,304	556,675
Student deposits	(38,383)	(18,550)
Other liabilities	1,117,377	918,552
Net cash provided by operating activities	5,224,998	4,636,204
Cash flows from investing activities:		
Proceeds from sale of assets	118,134	164,664
Purchases of property and equipment	(1,417,049)	(2,885,345)
Purchases of investments	(18,407,375)	(11,252,519)
Proceeds from sale of investments	17,533,996	13,041,496
Net cash used in investing activities	(2,172,294)	(931,704)
Cash flows from financing activities:		
Proceeds from long-term debt	5,245,939	114,461
Payments on notes payable	(2,316,839)	(2,139,538)
Payments on notes receivable	378,695	37,035
(Decrease) increase in U.S. Government advances for student loans	(26,951)	9,320
Net cash provided by (used in) financing activities	3,280,844	(1,978,722)
Net increase cash and cash equivalents	6,333,548	1,725,778
Cash and cash equivalents:		
Beginning	6,562,570	4,840,707
Ending	\$ 12,896,118	\$ 6,566,485

(Continued)

The Methodist University, Inc.

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2020 and 2019

	2020		2019
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Presented on consolidated statements of financial position as:			
Cash and cash equivalents	\$ 4,713,071	\$	3,559,056
Cash held to fund donor restrictions and debt service	8,183,047		3,003,514
			<hr/>
	\$ 12,896,118	\$	6,562,570
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See notes to consolidated financial statements.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of activities: The Methodist University, Inc. (the University) is a private, co-educational, liberal arts university located in Fayetteville, North Carolina with approximately 2,000 students. Established in 1956, the purpose of the University is to provide an undergraduate and graduate education firmly grounded in the liberal arts tradition that nurtures moral values and ethical decision making; to provide distinctive professional and graduate programs that complement the undergraduate programs; to provide educational and cultural services and resources to the community; and to prepare students for a variety of careers and educational pursuits.

A summary of the University's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of Methodist University Development Corporation (MUDC), a wholly owned subsidiary of the University established in May 1996 to develop and lease certain commercial real estate owned by the University. All significant inter-organization balances and transactions have been eliminated in consolidation.

Basis of accounting: The accompanying consolidated financial statements of the University have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP).

Basis of presentation: The consolidated financial statements have been prepared on the accrual basis of accounting and are presented in accordance with the Not-for-Profit Entities Topic (Topic 958) of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). In preparing its financial statements, net assets and revenues, expenses, gains, and losses are classified based on existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the mission of the University. All revenues, gains, and losses that are not restricted by donors are included in this classification. These net assets may be used at the discretion of the University's management and the Board of Trustees. The use of some net assets without donor restrictions may be further limited by board designations, including quasi-endowment or other designations.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor stipulations may be temporary in nature; met either by actions of the University and/or the passage of time. Other donor stipulations are perpetual in nature including the portion of time restricted perpetual endowment funds that are subject to an enacted version of the North Carolina Uniform Prudent Management of Institutional Funds Act (UPMIFA) and donor imposed stipulations on net assets that are to be used for a specific purpose, preserved and not sold, or if sold, reinvested in other similar assets. Such assets primarily include the University's endowment funds.

Revenues are reported as increases 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. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless use is restricted by donor stipulations or law.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Cash and cash equivalents: Cash includes currency and deposits or other accounts with financial institutions that may be deposited or withdrawn without any restrictions or penalties. Cash equivalents include resources invested in money market funds and certificates of deposit with original maturities of three months or less. The University maintains its cash and cash equivalents with several financial institutions covered by the Federal Depository Insurance Corporation (FDIC). At times, deposits maintained within these financial institutions may be in excess of the FDIC-insured limit. Management believes the risk associated with these bank accounts is minimal.

Cash held to fund donor restrictions and debt service: Cash held to fund donor restrictions and debt service consist of amounts collected that remain unspent from donor contributions for building construction, scholarships and awards, and future program expenses, as well as, debt service reserve funds held by bond trustee and proceeds received from the Paycheck Protection Program.

Receivables: Student accounts receivable include obligations from students in the normal course of operations, including tuition billing, and related fees. Student receivables are stated at the amount billed, less an allowance for doubtful accounts, and are uncollateralized. All previous semester charges must be paid before new semester charges can be processed. New semester charges are due four weeks prior to the start of classes each semester. The University offers various credit plans to its students allowing payment terms over extended months, or a one-half payment by the initial due date, and one-half thirty days later. On occasion, other similar payment arrangements may be structured at the discretion of the Director of Student Accounts. Interest accrues on student accounts at eighteen percent at designated dates based on semester terms. The carrying amounts of student receivables were \$559,094 and \$1,563,472 at June 30, 2020 and 2019, respectively, and include valuation allowances that reflect management's best estimate of the amounts that will not be collected of \$2,036,683 and \$1,381,500 at June 30, 2020 and 2019, respectively. The allowance is determined based on historical experience applied to an aging of accounts. Student receivables are written-off when deemed uncollectible. Recoveries of student receivables previously written off are recorded when received.

Contributions receivable are stated at present value, net of an allowance for uncollectible contributions receivable. The allowance is based on an analysis of specific promises made and upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity. Contributions to be received after one year are discounted at 5% for each of the years ended June 30, 2020 and 2019. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Other receivables include amounts due from grantor agencies, the North Carolina Department of Revenue for sales tax refunds, and other outside entities as appropriate. Management estimates amounts to be fully collectible, and therefore no allowance has been recorded. Further details of other receivables are disclosed in Note 5.

Investments: Investments are generally reported at fair value based upon quoted market prices. 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 received by gift are recorded at fair value at the date of donation. In the case of certain less marketable investments, fair value is established by using the net asset value (NAV) of each investment fund as provided by the investment fund manager.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

The University's investments include various types of investment securities which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term could materially affect the University's investment balance reported in the consolidated statements of financial position.

Securities transactions, interest and dividends: Securities transactions are recorded on a trade-date basis. Realized gains and losses on securities transactions, determined on a specific identification basis and the difference between the cost and fair value of investments are included in the total return on investments and are included in excess (deficiency) of actual investment return over (under) spending rate policy and other investment income (loss) in the accompanying consolidated statements of activities. Interest income is recognized under the accrual basis. Dividend income is recognized on the ex-dividend date.

Student loans receivable, net: Student loans receivable, net includes amounts due under the Federal Perkins Loan Program. Federal Perkins loans are low- interest federally funded student loans that participating schools make to eligible undergraduate students. Interest on these loans is computed at an annual rate of 5%. The loans are unsecured.

Also included in student loans receivable, net are notes due from students provided institutional loans under the University's MU Mile loan program.

Notes receivable: Notes receivable consists of a note, in the original amount of \$280,000, for the sale of real estate that had been held for investment by the University. Principal and interest are payable in monthly installments of \$1,500, with the remaining principal balance of \$41,366 to be paid on July 5, 2022. The outstanding balance due at June 30, 2020 and 2019, was \$66,015 and \$77,000 respectively. Interest received on this note amounted to \$6,115 and \$6,385 for the years ended June 30, 2020 and 2019, respectively.

Notes receivable also consists of a note, in the original amount of \$400,000, for the sale of real estate at King's Grant Golf and Country Club that had been held for investment by Methodist University Development Corporation, a wholly owned subsidiary. The note called for monthly-accrued interest payments of 5%, commencing on January 1, 2017 and continuing through December 31, 2017. The note then transitioned to 24 monthly payments of principal and accrued interest in monthly installments of \$3,500 commencing on January 1, 2018 and continuing through December 1, 2019. A final balloon payment of all outstanding principal and accrued interest was due and payable in full on January 1, 2020. The outstanding balance due at June 30, 2020 and 2019, was \$0 and \$367,711, respectively. Interest received on this note amounted to \$12,415 and \$18,920 for the years ended June 30, 2020 and 2019, respectively.

Property and equipment, net: It is the University's policy to capitalize property and equipment valued over \$1,000. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Property and equipment donated with explicit restrictions on use and contributions of cash that must be used to acquire property and equipment are reported as with donor restrictions. In the absence of donor stipulations regarding how long donated assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired assets are placed in service. The University reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets (3 to 50 years).

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

The University evaluates, on an ongoing basis, the carrying value of property and equipment based on estimated future undiscounted cash flows. In the event such cash flows are not expected to be sufficient to cover the carrying value of the assets, the assets are written down to fair value.

Debt issuance costs: GAAP requires that bond issue costs be capitalized and amortized to expense using the effective interest method. Amortization is recorded within interest expense. Debt issuance costs are presented net of debt.

Deferred revenues: Deferred revenues include payments received in advance for tuition and golf shop tournament advance payments and sales. The balance of deferred revenues relating to advance tuition for the years ending June 30, 2020 and 2019, were \$1,405,365 and \$1,227,097, respectively.

Student deposits: Student deposits represent tuition and dorm reservation fees of \$233,617 and \$270,650 for the years ended June 30, 2020 and 2019, and key, mattress and dormitory damage deposits of \$73,300 and \$74,650 for the years ended June 30, 2020 and 2019, respectively.

Interest rate swap agreements: Interest rate swap agreements, which are used by the University to manage interest rate exposure, are carried at fair value, as estimated by discounting an estimate of the amounts of interest to be paid and an estimate of the amounts of interest to be received during the swap agreement periods. The change in the fair value is recorded in the consolidated statements of activities as a gain or loss on interest rate swap agreements.

Operating and nonoperating activities: The consolidated statements of activities report the change in net assets from operating and nonoperating activities. Operating revenues consist of substantially all of the activity of the University except for certain items specifically considered to be of a nonoperating nature. Nonoperating activities include contributions restricted for capital expenditures and donor-restricted endowment contributions, investment return not used in current operations, gain (loss) on interest rate swap, net assets released from restrictions for capital expenditures and significant items of an unusual or nonrecurring nature.

Contributions: Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions, on which the donor imposes no restrictions, are reported as increases in net assets without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions.

At the time donor-imposed restrictions are met, restricted contributions are reclassified to net assets without donor restrictions. A restriction expires when the stipulated time has passed, when the stipulated purpose has been fulfilled, or both. Contributions received with donor-imposed restrictions are reported as without donor restrictions when the donor-imposed restriction are satisfied in the same reporting period as the receipt of the contribution. Contributions of long-lived assets or contributions restricted for acquisition of long-lived assets are released from restrictions when the asset is acquired or placed in service.

Functional allocation and natural classification of expenses: Expenses are primarily reported in the consolidated statements of activities in categories recommended by the National Association of College and University Business Officers. The University's primary program service is instruction. Expenses reported as academic support, student services, plant operations and management, institutional support and auxiliary enterprises are incurred in support of this primary program service.

The Methodist University Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

The consolidated statements of functional expenses reports certain natural expense classifications that are attributable to one or more functional expense categories. Depreciation of property and equipment, interest expense and maintenance and certain other expenses are allocated to program and supporting activities based on periodic inventories of facilities. Costs of certain other expenses were allocated based on estimates of time and effort.

Income taxes: The University is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code (IRC). Management evaluated the University's tax positions and concluded that the University had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provision of the Income Taxes Topic of the FASB ASC. The University files a Form 990-T in accordance with applicable U.S. federal regulations.

Use of estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Accounting pronouncement issued and adopted: In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Receivable and Contributions Made*, which provides guidance on whether transactions subject to other guidance (generally ASC 606). ASU 2018-08 will be effective for fiscal years beginning after December 15, 2018, with early adoption permitted. ASU 2018-08 should be applied on a modified prospective basis whereby it is applied to agreements that are not completed as of the effective date, or entered into after the effective date. The University adopted the provisions of ASU 2018-08 in fiscal year 2020. The adoption of this ASU did not materially impact the financial statements and related disclosures.

Accounting pronouncements issued, not yet adopted: In May 2014, the FASB issued ASU 2014-09. The amendments in this Update create *Topic 606, Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in *Topic 604, Revenue Recognition*, including most industry-specific revenue recognition guidance in *Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts*, and create new *Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers*. The core principal of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which provides a limited deferral of the effective dates to provide immediate, near-term relief as a result of the Coronavirus Disease 2019 (COVID-19) pandemic which is adversely affecting the global economy and causing significant and widespread business and capital market disruptions. The amendments in this Update defer the effective date for one year for each standard, resulting in an effective date for Topic 606 to be in fiscal year 2021 for the University. Management is currently evaluating the impact of this standard on its consolidated financial statements.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. The amendments in this ASU supersede the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees will be required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. The new standard is effective for fiscal years beginning after December 15, 2021 with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Management is currently evaluating the impact this standard will have on the University's consolidated financial statements.

Reclassification: Certain prior year balances were reclassified to conform to the current year presentation, with no effect on net assets or the change in net assets.

Subsequent Events: The University has evaluated subsequent events through December 7, 2020, the date through which the consolidated financial statements were available to be issued.

Note 2. Liquidity and Availability

As of June 30, 2020 and 2019, financial assets and liquidity resources available within one year for operating expenses, scheduled principal and interest payments on debt and capital construction costs not financed with debt were as follows:

	2020	2019
Total assets at year-end	\$ 118,199,163	\$ 113,798,585
Less amounts not available to be used for general expenditures within one year:		
Non-financial assets	(79,912,274)	(83,023,249)
Endowments subject to donor restrictions	(16,269,720)	(15,888,399)
Board designated endowments	(3,166,635)	(2,722,966)
Net assets subject to purpose restrictions	(2,985,587)	(1,867,914)
Cash-restricted for debt service	(1,342,746)	(1,342,746)
Cash-restricted for the Perkins loan program	(9,601)	(43,352)
Total financial assets available to meet general expenditures within one year	<u>\$ 14,512,600</u>	<u>\$ 8,909,959</u>

The University's cash flow has seasonal variations during the year attributable to tuition billing and annual bond principal payments. In addition, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The university regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable securities and a line of credit.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 2. Liquidity and Availability (Continued)

As of June 30, 2020 and 2019, board-designated quasi-endowment totals \$3,166,634 and \$2,722,966, respectively. Although the University does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available, if necessary, at the discretion of the Board.

Financial assets available to meet general expenditures within one year consist of the following:

	2020	2019
Cash and cash equivalents	\$ 9,516,796	\$ 3,537,777
Contributions receivable, net	841,240	908,189
Accounts receivable, net	1,605,465	2,057,895
Investments not encumbered by donor or board restrictions	2,549,099	2,406,098
Total financial assets available to meet general expenditures within one year:	<u>\$ 14,512,600</u>	<u>\$ 8,909,959</u>

Note 3. Fair Value Measurements

The University follows the provisions of the Fair Value Measurement Topic of the FASB ASC for financial assets and liabilities. This Topic applies to all financial assets and liabilities that are being measured and reported on a fair value basis, establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements. The Fair Value Measurement Topic requires that fair value measurements be classified and disclosed in one of the following three categories:

- Level 1:** Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2:** Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3:** Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

In determining the appropriate levels, the University performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable to the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

Note 3. Fair Value Measurements (Continued)

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments.

The University has established valuation processes and procedures for Level 3 investments to ensure proper reporting within the fair value hierarchy and in accordance with GAAP. The University's management is responsible for the valuation processes and procedures of the Level 3 investments, including the development of written valuation policies and procedures, conducting periodic reviews of the valuation policies and determining the proper and consistent application of the valuation policies. Management's involvement with the valuation process consists of individuals who report to the University's Finance and Investment Committees.

A description of the valuation techniques applied to the University's major categories of assets and liabilities measured at fair value on a recurring basis follows:

Domestic equities, global equities, international equities and fixed income: Securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy. Certain foreign securities may be measured at fair value using a pricing service that considers the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments, such as American depository receipts, financial futures, exchange traded funds and the movement of certain indices of securities based on a statistical analysis of the historical relationship and are categorized in Level 2. Preferred stock and other equities traded in active markets or valued by reference to similar instruments are also categorized in Level 2.

Private real estate: The University's privately held real estate is valued at an estimated market value, which approximates fair value and are categorized in Level 3.

Interest rate swaps: The University's interest rate swaps are receive-variable, pay-fixed interest rate swaps based on a LIBOR swap rate. The LIBOR swap rate is observable at commonly quoted intervals for the full term of the swap and, therefore, is considered a Level 2 financial instrument. The Fair Value Measurement Topic states that the fair value measurement of a liability must reflect the nonperformance risk of the entity. Therefore, the effect of the University's creditworthiness has also been factored into the fair value measurement of the interest rate swaps in a liability position.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

Level 1 instruments carried at fair value, and Level 2 and Level 3 instruments carried at estimated fair value, are comprised of the following at June 30, 2020:

	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Financial assets:				
Investments:				
Cash and cash equivalents	\$ 798,983	\$ -	\$ -	\$ 798,983
Domestic equities	10,983,195	-	-	10,983,195
Global equities	971,824	-	-	971,824
International equities	941,360	-	-	941,360
Fixed Income	7,456,690	-	-	7,456,690
Private real estate	-	-	140,412	140,412
Measured at NAV*:				
Fund of funds	-	-	-	463,318
Private equity	-	-	-	229,672
	<u>\$ 20,353,069</u>	<u>\$ -</u>	<u>\$ 140,412</u>	<u>\$ 21,985,454</u>
Financial liabilities:				
Interest rate swaps	\$ -	\$ 741,456	\$ -	\$ 741,456

Level 1 instruments carried at fair value, and Level 2 and Level 3 instruments carried at estimated fair value, are comprised of the following at June 30, 2019:

	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Financial assets:				
Investments:				
Cash and cash equivalents	\$ 487,456	\$ -	\$ -	\$ 487,456
Domestic equities	9,753,750	-	-	9,753,750
Global equities	183,360	-	-	183,360
International equities	3,085,622	-	-	3,085,622
Fixed Income	6,850,370	-	-	6,850,370
Private real estate	-	-	108,500	108,500
Measured at NAV*:				
Private equity	-	-	-	548,405
	<u>\$ 20,360,558</u>	<u>\$ -</u>	<u>\$ 108,500</u>	<u>\$ 21,017,463</u>
Financial liabilities:				
Interest rate swaps	\$ -	\$ 607,937	\$ -	\$ 607,937

*In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presents in the consolidated statements of financial position.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 4. Contributions Receivable

Contributions receivable, net are summarized as follows:

The payment timing of outstanding contributions receivable at June 30, 2020, is estimated to be:

	Without Donor Restrictions	With Donor Restrictions	Total
One year or less	\$ 892,930	\$ 196,696	\$ 1,089,626
One to five years	-	671,288	671,288
More than five years	-	3,401	3,401
Total	892,930	871,385	1,764,315
Less:			
Discount for future cash flows	-	(81,553)	(81,553)
Allowance for uncollectible pledges	(51,690)	(30,098)	(81,788)
Total	\$ 841,240	\$ 759,734	\$ 1,600,974

The payment timing of outstanding contributions receivable at June 30, 2019, is estimated to be:

	Without Donor Restrictions	With Donor Restrictions	Total
One year or less	\$ 979,653	\$ 151,756	\$ 1,131,409
One to five years	-	863,873	863,873
More than five years	-	5,508	5,508
Total	979,653	1,021,137	2,000,790
Less:			
Discount for future cash flows	-	(165,514)	(165,514)
Allowance for uncollectible pledges	(71,464)	(37,001)	(108,465)
Total	\$ 908,189	\$ 818,622	\$ 1,726,811

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 5. Other Accounts Receivable

Accounts receivable- other consists of the following at June 30, 2020 and 2019:

	2020	2019
Sales and use tax	\$ 93,328	\$ 126,760
Accrued interest receivable	910	365
Grants receivable	724,550	140,670
Other miscellaneous receivables	183,545	212,898
Payroll and travel advances	3,438	8,344
Conferences and camps	600	5,386
Total	<u>\$ 1,006,371</u>	<u>\$ 494,423</u>

Note 6. Investments

Investments consist of the following at June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 798,983	\$ 487,456
Mutual funds:		
Domestic equities	10,983,195	10,295,414
Global equities	971,824	420,124
International equities	941,360	2,309,334
Fixed income	7,456,690	6,848,230
Alternative investments:		
Fund of funds	463,318	-
Private equity	229,672	548,405
Private real estate	140,412	108,500
	<u>\$ 21,985,454</u>	<u>\$ 21,017,463</u>

All investments are subject to risk of loss or decline in value. As such, it is at least reasonably possible that changes in the values of investments will occur in the near term, and that such changes could materially affect the amount reported in the University's consolidated financial statements.

The following summarizes the investment return for the years ended June 30, 2020 and 2019:

	2020	2019
Interest and dividends	\$ 553,227	\$ 802,986
Net realized and unrealized gains	95,436	396,685
Investment fees	(100,622)	(109,825)
Investment income	548,041	1,089,846
Investment return under spending rate policy	(649,905)	(653,672)
Excess (deficiency) of actual investment return over spending rate policy	<u>\$ (101,864)</u>	<u>\$ 436,174</u>

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 7. Notes Receivable

Notes receivable consists of a note, in the original amount of \$280,000, for the sale of real estate that had been held for investment by the University. Principal and interest are payable in monthly installments of \$1,500, with the remaining principal balance of \$41,366 to be paid on July 5, 2022. The outstanding balance due at June 30, 2020 and 2019, was \$66,015 and \$77,000 respectively. Interest received on this note amounted to \$6,115 and \$6,385 for the years ended June 30, 2020 and 2019, respectively.

Notes receivable also consists of a note, in the original amount of \$400,000, for the sale of real estate at King's Grant Golf and Country Club that had been held for investment by Methodist University Development Corporation, a wholly owned subsidiary. The note called for monthly-accrued interest payments of 5%, commencing on January 1, 2017 and continuing through December 31, 2017. The note then transitioned to 24 monthly payments of principal and accrued interest in monthly installments of \$3,500 commencing on January 1, 2018 and continuing through December 1, 2019. A final balloon payment of all outstanding principal and accrued interest was due and payable in full on January 1, 2020. The outstanding balance due at June 30, 2020 and 2019, was \$0 and \$367,711, respectively. Interest received on this note amounted to \$12,415 and \$18,920 for the years ended June 30, 2020 and 2019, respectively.

Note 8. Endowment and Similar Funds

The University's endowment consists of approximately 220 individual funds established for a variety of educational purposes. The endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, 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. The Board of Trustees of the University have interpreted the North Carolina enacted version of the Uniform Prudent Management of Institutional Funds Acts (NC 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, the University retains 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 retained in perpetuity is subject to appropriation for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

1. The donation and preservation of the fund
2. The purposes of the organization 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 organization
7. The investment policies of the organization

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 8. Endowment and Similar Funds (Continued)

The University has adopted investment 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. 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). External investment managers are employed to oversee the endowment and tasked with the objective to achieve a total rate of return that is above the median performance of a universe of similarly managed funds over a one year and moving annualized three, five and ten year time period. Toward this end, these firms target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University has implemented a spending policy designed to stabilize annual spending levels while preserving the real value of the endowment over time. In accordance with the University's investment policy, a predetermined endowment-spending rate consistent with the University's total return objective has been established and approved by the Board of Trustees. Should endowment yields in any given year prove to be insufficient to support this policy, the Board of Trustees, at its discretion, may direct university reserves be utilized to fund the spending policy rather than endowment returns. Endowment yields exceeding the amounts necessary to maintain this objective are reinvested in the endowment. The endowment-spending rate for the years ended June 30, 2020 and 2019, was 4.5%. The spending rate is calculated as a percentage of the endowment fund's average fair value over the prior twelve quarters through December 31 of the preceding fiscal year in which the distribution is planned.

	2020	2019
Cash and cash equivalents	\$ 117,105	\$ 559,063
Contributions receivable, net	64,743	59,096
Investments	21,866,834	20,421,507
Cash surrender value of life insurance	180,123	170,123
Amounts due to other funds	(344,801)	(128,661)
Total	<u>\$ 21,884,004</u>	<u>\$ 21,081,128</u>

Endowment fund compositions as of June 30, 2020 and 2019, consist of the following:

	2020	2019
Designated by the Board for Endowment	\$ 3,166,635	\$ 2,722,966
Without Donor Restrictions, pooled with endowed funds	2,447,649	2,469,847
With Donor Restrictions, endowed	16,269,720	15,888,315
Total	<u>\$ 21,884,004</u>	<u>\$ 21,081,128</u>

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 8. Endowment and Similar Funds (Continued)

Changes in endowment net assets during the years ending June 30, 2020 and 2019, are as follows:

	2020		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Changes in endowment net assets:			
Beginning endowment net assets:	\$ 5,192,813	\$ 15,888,315	\$ 21,081,128
Reclassifications	(27,701)	27,701	-
Contributions	-	543,610	543,610
Investment income	107,965	374,508	482,473
Gains on investments	72,189	23,247	95,436
Spending policy	(62,244)	(587,661)	(649,905)
Transfers	331,262	-	331,262
Ending endowment net assets	<u>\$ 5,614,284</u>	<u>\$ 16,269,720</u>	<u>\$ 21,884,004</u>

As of June 30, 2020, endowed funds with donor restrictions consisted of funds restricted in perpetuity (in original gifts) of \$14,162,180 and accumulated earnings of \$2,107,540.

	2019		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Changes in endowment net assets:			
Beginning endowment net assets:	\$ 6,275,216	\$ 15,446,776	\$ 21,721,992
Reclassifications	(15,305)	15,305	-
Contributions	300	290,846	291,146
Investment income	128,356	441,430	569,786
Gains on investments	114,251	282,434	396,685
Spending policy	(65,196)	(588,476)	(653,672)
Transfers	(1,244,809)	-	(1,244,809)
Ending endowment net assets	<u>\$ 5,192,813</u>	<u>\$ 15,888,315</u>	<u>\$ 21,081,128</u>

As of June 30, 2019, endowed funds with donor restrictions consisted of funds restricted in perpetuity (in original gifts) of \$13,546,254 and accumulated earnings of \$2,342,061.

From time to time, declines in the fair value of endowment fund investments may result in the fair value of an individual endowment fund being less than its principal amount as determined using the historic dollar cost method. These funds are classified as underwater endowments. These deficiencies amounted to \$3,486 and \$255 at June 30, 2020 and 2019, respectively. In accordance with GAAP, deficiencies of this nature reduce net assets with donor restrictions. The University has interpreted UPMIFA to permit spending from underwater endowments. Accordingly, the University will continue to make funds available to spend from these underwater endowments as calculated based on the spending policy. Should endowment yields in any given year prove to be insufficient to support this policy, the Board of Trustees, at its discretion, may direct university reserves be utilized to fund the spending policy rather than endowment returns.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 9. Financing Receivables, Students

The University makes uncollateralized loans to students based on financial need through a federal government loan program and institutional resources. The University participates in the Perkins federal revolving loan program, wherein the university acts as an agent for the federal government in administering the loan program. Funds advanced by the federal government for use in this program are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position (U.S. government advances for student loans). 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.

The University provides uncollateralized institutional loans to students with a demonstrated need through the MU Mile loan program. Allowances for doubtful accounts are established by considering a variety of factors including prior collection experience, analysis of past due loans, the financial condition of specific borrowers and other current economic factors which could influence the ability of loan recipients to repay amounts due. Institutional loan balances are written-off only when they are deemed to be permanently uncollectible.

At June 30, 2020 and 2019, student loans are as follows:

	2020	2019
Federal Perkins loan program	\$ 24,320	\$ 37,818
Institutional loans	360,569	367,627
	<u>384,889</u>	<u>405,445</u>
Less allowance for doubtful accounts:		
Beginning of the year	(74,956)	(39,814)
Decrease (increase)	2,784	(35,142)
End of year	<u>(72,172)</u>	<u>(74,956)</u>
Student loans receivable, net	<u>\$ 312,717</u>	<u>\$ 330,489</u>

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 10. Property and Equipment

Property and equipment at June 30, 2020 and 2019, consists of the following:

	Useful Life (in years)	2020	2019
Land	-	\$ 1,682,504	\$ 1,682,504
Land improvements	15-25	8,468,719	8,205,272
Lease improvements	10	7,980	7,980
Buildings	50	83,466,470	83,466,470
Building improvements	25	17,893,505	17,617,369
Commercial building and improvements	5-50	1,730,996	1,730,996
Faculty housing	50	117,029	259,567
Vehicles	5	817,838	755,468
Library books	12	2,343,688	2,340,791
Plant equipment	5-10	12,225,839	12,276,764
Computer equipment	3-5	5,636,167	5,611,211
Works of Art	-	164,614	164,614
Construction in progress	-	2,296,263	1,803,422
		136,851,612	135,922,428
Accumulated depreciation		(58,264,441)	(54,868,928)
Total property and equipment - net		\$ 78,587,171	\$ 81,053,500

Construction in progress at June 30, 2020 and 2019, consists of the following:

Project Description	Estimated Date of Completion	2020	2019
Reeves Renovation/Worship Center	Various	\$ 1,294,715	\$ 1,294,715
Drainage Study	Nov-20	285,194	97,882
Aramark Project	Aug-20	337,393	-
Others	Various	378,961	410,825
Total		\$ 2,296,263	\$ 1,803,422

Depreciation expense totaled \$3,643,602 and \$3,885,538 for the years ended June 30, 2020 and 2019, respectively.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2020 and 2019, are as follows:

	2020	2019
Accounts payable	\$ 720,132	\$ 629,119
Accrued interest	378,849	444,718
Salaries and wages, benefits and payroll taxes	308,515	269,884
Faculty Early Retirement Plan	290,248	-
Vacation	839,655	709,904
	<u>\$ 2,537,399</u>	<u>\$ 2,053,625</u>

Faculty early retirement plan: For the year ended June 30, 2020, the University offered a Faculty Early Retirement Plan (FERP) that enabled tenured faculty, who had attained a minimum age of 62 and whose age plus years of full-time service at the University equaled at least 72, to apply for early retirement. For those faculty members that entered into a contractual agreement with the University under the FERP, the University will provide a one-time benefit of 70% of the faculty member's base salary as of June 30 of the calendar year immediately preceding the date of separation, in addition to certain benefits. The FERP liability recorded during the year ended June 30, 2020, was \$ 290,248.

Compensated absences: Eligibility for vacation is based on continuous service with the University. Employees earn vacation based on their employment status and length of service. The maximum number of accumulated vacation days an employee may accrue is 22. Vacation time may be used or paid at time of separation.

The University also provides two additional paid days off each year, which are designated as personal leave or float days. The personal leave days must be used within the calendar year and will not carry over into the next calendar year. Since the University has no obligation for the accumulated personal leave until it is taken, no liability for unpaid personal leave has been recorded in the consolidated financial statements.

Sick leave is provided at the rate of one day per month. The University's sick leave policy allows the accumulation of sick leave without limit. Sick leave does not vest. Since the University has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been recorded in the consolidated financial statements.

Note 12. Other Liabilities

Other liabilities at June 30, 2020 and 2019, are as follows:

	2020	2019
Agency obligations	\$ 273,902	\$ 123,374
Room and board credits	1,260,256	-
Refundable advances - exchange transactions	1,552,754	1,846,161
Total other liabilities	<u>\$ 3,086,912</u>	<u>\$ 1,969,535</u>

Agency obligations: Agency obligations arise from the collection or acceptance of cash or other assets for the account of third parties, such as clubs or other University affiliated groups. These balances result from transactions processed on behalf of the third parties and have no effect on net assets.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 12. Other Liabilities (Continued)

COVID room and board credits: The University calculated pro-rated credit adjustments for charges relating to unused housing and meals, in the amount of \$1,366,340, for residential students who vacated the campus residence halls as of March 23, 2020. The room and board credits for graduating seniors, in the amount of \$106,084, were applied to their student accounts on April 16, 2020. The room and board credits for returning students will be applied equally against the fall and spring semesters of the 2020-2021 academic year.

Refundable advances - exchange transactions: On July 3, 2013, the University entered into an exchange transaction with a supplier for cafeteria services effective May 12, 2013. Under the agreement, the University consented to a 10-year contract with the service provider. The contract was modified in September 2017 to extend the contract an additional five years. Under the exchange agreement, the supplier made a financial commitment to the University in an amount of \$2,720,737 with the stipulation that the monies be expended on specific capital purchases. The financial commitment was made in three segments: (i) \$1,470,737 expended in the Summer 2013; (ii) \$44,712 expended in the Summer 2017, and (iii) \$1,205,288 expended in the Summer 2018. The financial commitments for segments (i) and (ii) shall be amortized on a straight-line basis over a period equal to the number of months remaining until June 30, 2023. The financial commitment for segment (iii) shall be amortized on a straight-line basis over a period equal to the number of months remaining until June 30, 2028. The agreement further stipulates that should either party terminate the agreement before the expiration of the contract term, the University will return the unamortized portion of the financial commitment, plus all accrued but unbilled interest, as of the date of expiration or termination. At June 30, 2020 and 2019, the unamortized balance of these refundable advances was \$1,449,941 and \$1,727,099, respectively.

On June 22, 2017, the University entered into an exchange transaction with a supplier for exclusive rights to product sales effective July 1, 2017. Under the agreement, the University consented to a 10-year contract with the supplier in exchange for a financial commitment of \$100,000. At June 30, 2020 and 2019, the unamortized balance of these refundable advances was \$70,000 and \$80,000, respectively.

On March 29, 2017, the University entered into an exchange transaction with a supplier for bookstore services effective March 30, 2017. Under the agreement, the University consented to a five-year contract with the service provider in exchange for a financial commitment of \$50,000. At June 30, 2020 and 2019, the unamortized balance of these refundable advances was \$32,813 and \$39,063, respectively.

Note 13. Lease Commitments and Total Rental Expense

The University leases a variety of equipment under operating leases that will expire in various years through 2023. Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2020, for each of the next five years and in aggregate are:

Years ending June 30:	
2021	\$ 231,061
2022	204,922
2023	98,784
2024	-
2025	-
	<u>\$ 534,767</u>

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 13. Lease Commitments and Total Rental Expense (Continued)

Following is a summary of equipment rental expense for the years ended June 30, 2020 and 2019, under all operating leases:

	2020	2019
Server equipment	\$ 223,828	\$ 268,230
Golf course equipment	-	3,448
Building maintenance equipment	59,345	55,897
Other equipment rentals	35,799	34,987
Total	<u>\$ 318,972</u>	<u>\$ 362,562</u>

Note 14. Obligation Under Capital Leases

The university has entered into various lease agreements for computers and other equipment. The leases expire at various dates through June 30, 2023. For financial reporting purposes, minimum lease payments have been capitalized.

Property held under capital leases at June 30, 2020 and 2019, is as follows:

	2020	2019
Computers and related equipment	\$ 701,114	\$ 855,451
Less accumulated amortization	430,501	454,967
Total	<u>\$ 270,613</u>	<u>\$ 400,484</u>

Amortization of assets under capital leases is included in depreciation expense and amounted to \$127,652 and \$120,023 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments under capital leases and the net present value of the future minimum lease payments for the next four years at June 30, 2020, are approximately as follows:

Years ending June 30:		
2021		\$ 137,478
2022		88,481
2023		40,184
2024		4,470
		<u>\$ 270,613</u>

Total interest costs incurred related to the obligation under capital leases totaled \$17,278 and \$20,448 for the years ended June 30, 2020 and 2019, respectively.

Note 15. Long-Term Debt

Series 2012 Educational Facilities Revenue Bond: The University issued its Series 2012 Fixed Rate Educational Facilities Revenue Bonds on August 29, 2012. The purpose of the Series 2012 Bond issue was to pay the costs of constructing improvements on the University's campus, to refinance certain obligations of the University, the proceeds of which were used to pay the costs of constructing improvements on the University's campus, to fund a debt service reserve fund, and to pay certain expenses incurred in connection with the issuance of the 2012 Bonds. The par amount of the bonds was \$16,875,000. The Series 2012 Bonds have defined, but varying interest rates ranging from 2.5% to 5.0%, payable semiannually, and mature at various dates through 2034. Wachovia Securities, Inc. served as the underwriter. Branch Banking and Trust serves as trustee. Collateral for the bond is a deed of trust on the University campus. The total outstanding balances at June 30, 2020 and 2019, were \$13,410,000 and \$14,100,000, respectively.

The proceeds of the bond were used to refinance all or a portion of loans with Wells Fargo Bank, NA, the proceeds of which were used to finance the construction of a new residence hall, the construction of a Greek Village residence hall and a medical lab and lecture hall, and a loan with Branch Banking and Trust, the proceeds of which were used to construct a football locker and office facility. The total debt refinanced amounted to \$10,927,450. Proceeds were also used to fund a debt service reserve fund in the amount of \$1,342,500, construct improvement projects in the amount of \$4,998,961 and issue costs of \$344,219.

In connection with the issuance of bonds, the University has agreed to certain restrictive covenants, including the attainment of various financial ratios.

Series 2014 Educational Facilities Revenue Bond: The University issued its Series 2014 Variable Rate Educational Facilities Revenue Bond on October 23, 2014. The purpose of the Series 2014 Bond issue was to refund the Series 2005 Bonds and fund a portion of the construction costs for a Health Sciences Building and certain expenses incurred with the issuance of the 2014 Bonds. The par amount of the bond was \$22,640,000. Interest accrues at 67% of the one-month LIBOR plus 1.55%. The bonds have mandatory sinking fund payments with a final maturity on March 1, 2030. The financing is a direct purchase bond purchased by STI Institutional & Government, Inc., a Delaware general-purpose corporation. Collateral for the bond is a deed of trust on the University campus. The total outstanding balances at June 30, 2020 and 2019, were \$16,230,000 and \$17,500,000, respectively.

The proceeds of the bond were used to refund the outstanding balance of the Series 2005 Educational Facilities Revenue Bond in the amount of \$17,920,000, and issue costs of \$220,000. The remaining \$4,500,000 was used to fund a portion of construction cost of the McLean Health Sciences building.

In connection with the issuance of bonds, the University has agreed to certain restrictive covenants, including the attainment of various financial ratios.

Note payable – SunTrust: Note payable – SunTrust, dated October 23, 2014, in the original amount of \$726,177, is a credit facility issued to refinance the note payable with Wells Fargo Bank for the purchase of a 51% ownership interest in a local golf course, which was subsequently sold. The note bears interest at the one-month LIBOR rate plus 1.55%, and is payable in 10 annual fixed payments with the final installment on March 1, 2024. This credit facility is cross-collateralized and cross-defaulted to the University's obligations under the Series 2014 Educational Facilities Revenue Bond. The total outstanding balance at June 30, 2020 and 2019, were \$322,000 and \$397,000, respectively.

Vehicle loan – Ford Motor Credit: Vehicle loan – Ford Motor Credit is a vehicle loan dated July 18, 2014 in the original amount of \$34,429. The note, bearing interest at 6.24%, is payable in 60 equal monthly payments of \$671.20, beginning August 15, 2014. The total outstanding balances at June 30, 2020 and 2019, were \$0 and \$546, respectively.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 15. Long-Term Debt (Continued)

Vehicle Loan – Kia Motors Finance: Vehicle Loan – Kia Motors Finance is a vehicle loan dated July 30, 2019 in the original amount of \$32,980. The note, bearing interest at 3.90%, is payable in forty-eight equal monthly payments of \$743 beginning August 14, 2019. The total outstanding balances at June 30, 2020 and 2019, were \$26,527 and \$0, respectively.

Balances outstanding at June 30 consist of:

	<u>2020</u>	<u>2019</u>
Series 2012 Educational Facilities Revenue Bonds	\$ 13,410,000	\$ 14,100,000
Series 2014 Educational Facilities Revenue Bonds	16,230,000	17,500,000
Note payable - SunTrust	322,000	397,000
Vehicle loans - Ford Motor Credit / Kia	26,527	546
Payroll Protection Program (PPP) Loan (See Note 24)	5,192,100	-
	<u>35,180,627</u>	<u>31,997,546</u>
Plus unamortized bond premium	370,773	494,883
Less bond issue costs	272,331	389,174
Total	<u>\$ 35,279,069</u>	<u>\$ 32,103,255</u>

Principal requirements relating to total debt for the next five years are approximately as follows:

Years ending June 30:	
2021	\$ 2,130,026
2022	7,404,445
2023	2,315,677
2024	2,400,479
2025	2,415,000
Thereafter	18,515,000
	<u>\$ 35,180,627</u>

Total interest costs incurred related to bonds and notes payable were \$1,154,056 and \$1,409,387 for the years ended June 30, 2020 and 2019, respectively.

Bond administrative costs and fees totaled \$19,800 and \$18,597 for the years ended June 30, 2020 and 2019, respectively. Amortization of debt issuance costs totaled \$116,843 and \$30,347 for the years ended June 30, 2020 and 2019, respectively.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 16. Obligation under Interest Rate Swap Agreement

In connection with the Series 2014 Educational Facilities Revenue Bond, the University hedged its interest rate exposure by investing in two long-term interest rate swap agreements with Bank of America and SunTrust Bank. The University selected the combination of a variable rate bond issue and long-term interest rate swap agreements to obtain fixed rate financing at the lowest available cost at the time of the transactions. The net settlement amount incurred on the swaps is included in interest expense. The fair value of the interest rate swaps is the estimated amount the University would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counterparties.

The original notional value of the swap with Bank of America at the effective date of March 21, 2000 was \$9,940,000. The University received 70% of LIBOR and made payments of 5.085% settling with Bank of America on a quarterly basis, until the maturity of the swap agreement on March 1, 2020. The Bank of America swap had a current notional value of \$2,030,000 at June 30, 2019. The swap expired in 2020. The original notional value of the swap with SunTrust Bank at the effective date of October 23, 2014 was \$6,535,500. The University receives 67% of LIBOR and makes payments of 2.76% settling with SunTrust Bank on a semi-annual basis through the maturity of the swap agreement on March 1, 2024. The SunTrust Bank swap had a current notional value of \$8,115,000 and \$6,720,000 at June 30, 2020 and 2019, respectively.

The net fair value of the interest rate swaps was a liability of \$741,456 and \$607,937 at June 30, 2020 and 2019, respectively, and is shown as a liability on the consolidated statement of financial position. The University is exposed to credit loss risk, in relation to its long-term interest rate swaps, in the event of nonperformance by the counterparties. However, the University does not anticipate nonperformance by the counterparties.

Note 17. Net Assets

Net assets without donor restrictions at June 30, 2020 and 2019, are as follows:

	2020	2019
Undesignated	\$ 52,020,914	\$ 53,343,606
Designated by the Board for Endowment	3,166,635	2,722,966
Total net assets without donor restrictions	<u>\$ 55,187,549</u>	<u>\$ 56,066,572</u>

Net assets with donor restrictions at June 30, 2020 and 2019, are as follows:

	2020	2019
Endowment funds restricted in perpetuity	\$ 14,162,180	\$ 13,546,254
Endowment funds, accumulated gains and other	2,107,540	2,342,145
Contributions and grants for scholarships, operations and construction projects	2,307,165	2,254,580
Contributions receivable, net	759,734	818,622
Total net assets with donor restrictions	<u>\$ 19,336,619</u>	<u>\$ 18,961,601</u>

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 18. Net Assets Released From Restrictions

The following schedule summarizes restricted net assets used in accordance with donor-imposed restrictions for the University's operations during the years ended June 30, 2020 and 2019:

	2020	2019
Scholarships	\$ 836,702	\$ 904,788
Awards	74,508	77,679
Construction projects	322,600	43,646
Program expenses and other	1,408,362	1,112,738
Total net assets released from restrictions	<u>\$ 2,642,172</u>	<u>\$ 2,138,851</u>
Reconciliation to statement of activities:		
Release to net assets from operations	\$ 2,319,572	\$ 2,094,621
Release to net assets from nonoperating activity	322,600	43,646
	<u>\$ 2,642,172</u>	<u>\$ 2,138,851</u>

Note 19. Auxiliary Enterprises

The University's auxiliary enterprise operations for the years ended June 30, 2020 and 2019, are summarized as follows:

	2020				
	Residence Halls	Cafeteria	Commercial Leasing (MUDC)	Other	Total
Revenues	\$ 5,460,023	\$ 3,082,897	\$ 77,351	\$ 180,900	\$ 8,801,171
Expenses:					
Direct expenses	605,478	1,704,491	21,470	201,730	2,533,169
Depreciation	594,867	103,607	42,907	1,992	743,373
Allocation of interest	501,610	41,986	-	32,830	576,426
Allocation of plant operations	3,444,619	288,391	-	225,807	3,958,817
Total expenses	<u>5,146,574</u>	<u>2,138,475</u>	<u>64,377</u>	<u>462,359</u>	<u>7,811,785</u>
Net auxiliary income (loss)	<u>\$ 313,449</u>	<u>\$ 944,422</u>	<u>\$ 12,974</u>	<u>\$ (281,459)</u>	<u>\$ 989,386</u>

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 19. Auxiliary Enterprises (Continued)

	2019				Total
	Residence Halls	Cafeteria	Commercial Leasing (MUDC)	Other	
Revenues	\$ 6,349,515	\$ 3,571,562	\$ 73,667	\$ 210,233	\$ 10,204,977
Expenses:					
Direct expenses	933,502	1,882,490	19,399	148,654	2,984,045
Depreciation	662,259	111,368	46,530	4,200	824,357
Allocation of interest	567,851	47,617	-	42,737	658,205
Allocation of plant operations	3,441,367	288,326	-	259,662	3,989,355
Total expenses	5,604,979	2,329,801	65,929	455,253	8,455,962
Net auxiliary income (loss)	\$ 744,536	\$ 1,241,761	\$ 7,738	\$ (245,020)	\$ 1,749,015

Note 20. Retirement Plan

The University has a defined contribution retirement plan for academic and nonacademic personnel. The plan has no post service benefits or further liabilities beyond the periodic contribution for each participating employee. Total contributions by the University were \$1,278,007 and \$1,295,718 for the years ended June 30, 2020 and 2019, respectively. After one year of service, the University contributes a percentage of the employee's salary to the Teachers Insurance and Annuity Association Retirement and College Retirement Equities Fund (TIAA-CREF) or other approved retirement funds. The University's contribution was 6% for both years ended June 30, 2020 and 2019. The employee has the option of contributing an additional amount up to the maximum allowed by the law. There is no vesting period. As of June 30, 2020, the University temporarily suspended its contributions to the plan.

Note 21. Financial Aid (Tuition Discount)

The University awards financial aid on the basis of academic merit, need and leadership. Gross tuition discounts were 42.7% and 40.7% for the years ended June 30, 2020 and 2019, respectively. The unfunded discount rate was 40.0% and 38.1% for each of the years ended June 30, 2020 and 2019, respectively. Funded tuition discounts are derived from endowment, private gifts and federal and state aid. Unfunded tuition discounts are derived from the general operating revenues of the University.

	2020		2019	
	Dollars	Percentage	Dollars	Percentage
Unfunded discount	\$ 22,857,616	40.0%	\$ 22,213,148	38.1%
Funded discount	1,544,174	2.7%	1,529,594	2.6%
Total	\$ 24,401,790	42.7%	\$ 23,742,742	40.7%
Gross tuition	\$ 57,189,438		\$ 58,377,142	

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 22. Related Party Transactions

Pledges receivable from trustees at June 30, 2020 and 2019, amounted to \$1,174,164 and \$1,282,948, respectively.

The University leases certain copier equipment from a company owned by one of the University's trustees. Payments under these leases totaled \$149,483 and \$154,128 for the years ended June 30, 2020 and 2019, respectively.

Note 23. Commitments and Contingencies

Open contracts for the construction of physical properties amounted to \$1,943,360 and \$285,952 at June 30, 2020 and 2019, respectively.

The University is involved in various legal actions occurring in the normal course of activities. While the final outcomes cannot be determined at this time, management is of the opinion that the resolution of these matters will not have a material adverse effect on the University's financial position.

Certain federal and state funded financial programs are subject to special audit. In accordance with specific regulatory requirements these examinations are conducted by the auditors for the University. The reports on said examinations are submitted to both the University and the U.S. Department of Education, which has the authority to determine liabilities as well as to limit, suspend, or terminate federal and state student aid programs.

Other federal and state programs are also subject to audit. Such audits could result in claims against the resources of the University. No provision has been made for any liabilities, which may arise from such audits since the amounts, if any, cannot be determined at this date.

Note 24. COVID-19 and CARES Act

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical areas in which the University operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst the provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

As part of the CARES Act, \$14 billion was provided to the Office of Postsecondary Education for the creation of the Higher Education Emergency Relief Fund (HEERF). HEERF provides funding to institutions for emergency financial aid grants to students as well as funding to support the costs of shifting classes online and other institutional costs incurred related to the pandemic.

Under the provisions of the CARES Act, no less than fifty percent of HEERF funds received by an institution must be used to provide emergency financial aid to students. The University received total funds of approximately \$2 million in aid under the provisions of the CARES Act.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Note 24. COVID-19 and CARES Act (Continued)

In June 2020, the University received \$5,192,100 under the Paycheck Protection Program (PPP). The note matures in 2022 with an interest rate of 1% per annum. Principal and interest payments must be paid every month beginning seven months from the date of initial disbursement. The PPP may be forgiven, in whole or part, provided that the forgiveness documentation complies with the PPP rules and regulations, including without limitation that not more than 25% of the PPP amount be used for non-payroll costs. The University remains responsible under the PPP for any amounts not forgiven by the Small Business Administration (SBA). The University is accounting for the PPP note as debt under ASC 470.

The University plans to apply for full forgiveness of its loan in December 2020; however, no assurances can be given regarding whether such application will be approved in part or full. The application and supporting documentation will be subject to review by both the lender and the SBA prior to any forgiveness. Additional reviews and/or audits by the SBA of the application and supporting documentation may occur for a period of up to six years following initial approval of forgiveness by the SBA.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the University.

The Methodist University, Inc.

Financial Responsibility Ratio Supplemental Schedule
June 30, 2020

Financial Statement & Financial Statement Line Item or Footnote Disclosure	Financial Statement Line Item Amount	Amount Used for Ratio
Primary Reserve Ratio		
Expendable Net Assets		
Consolidated Statement of Financial Position - Net assets without donor restrictions	Net assets without donor restrictions	\$ 55,187,549
Consolidated Statement of Financial Position - Net assets with donor restrictions	Net assets with donor restrictions	19,336,619
Note 17 to the Consolidated Financial Statements - Net Assets	Net assets with donor restrictions; restricted in perpetuity	14,162,180
N/A	Annuities with donor restrictions	-
N/A	Term endowments with donor restrictions	-
N/A	Life income funds with donor restrictions	-
N/A	Secured and unsecured related party receivable	-
N/A	Unsecured related party receivable	-
Consolidated Statement of Financial Position - Property and equipment, net	Property, plant and equipment, net, including construction in progress	78,587,171
N/A	Property, plant and equipment; pre-implementation, leases grandfathered	-
Note 15 to the Consolidated Financial Statements - Long-Term Debt	Property, plant and equipment; post-implementation - with outstanding debt for acquisition	30,357,582
Note 10 to the Consolidated Financial Statements - Property and Equipment	Property, plant and equipment: post-implementation - without outstanding debt for acquisition	45,933,326
Note 9 to the Consolidated Financial Statements - Property and Equipment	Construction in progress	2,296,263
N/A	Lease right of use assets, net	-
N/A	Lease right of use assets; pre-implementation, leases are grandfathered	-
N/A	Lease right of use assets; post-implementation	-
Note 14 to the Consolidated Financial Statements - Long Term Debt	Intangible assets	272,331
N/A	Post-employment and pension liabilities	-
Consolidated Statement of Financial Position - Debt, net	Long-term debt; for long term purposes	30,357,582
Consolidated Statement of Financial Position - Debt, net	Long-term debt; for long term purposes pre-implementation, debt grandfathered	30,357,582
N/A	Long-term debt; for long term purposes post implementation	-
N/A	Line of Credit for Construction in progress	-
N/A	Right of use asset lease obligation	-
N/A	Right of use asset lease obligation; pre-implementation, leases grandfathered	-
N/A	Right of use asset lease obligation; post-implementation	-
Total Expendable Net Assets		11,860,068

The Methodist University, Inc.

Financial Responsibility Ratio Supplemental Schedule (Continued)
June 30, 2020

Total Expenses and Losses			
Consolidated Statement of Activities - Total operating expenses and losses	Total expenses without donor restrictions		48,089,883
N/A	Investment loss, net investment return appropriated for spending	-	
N/A	Other components of net periodic pension costs	-	
N/A	Change in value of split interest agreements	-	
Consolidated Statement of Activities - Loss on sale of fixed assets, Unrealized loss on interest rate swap agreement and Transfers	Other losses	287,549	
N/A	Pension-related changes other than net periodic pension costs	-	
	Non-operating and net investment loss		287,549
	Investment loss, net investment return appropriated for spending		-
	Pension-related changes other than net periodic costs		-
Total expenses and losses			48,377,432

Equity Ratio			
Modified Net Assets			
Consolidated Statement of Financial Position - Net assets without donor restrictions	Net assets without donor restrictions		55,187,549
Consolidated Statement of Financial Position - Net assets with donor restrictions	Net assets with donor restrictions		19,336,619
Note 14 to the Consolidated Financial Statements - Long Term Debt	Intangible assets		272,331
N/A	Secured and Unsecured related party receivable	-	
N/A	Unsecured related party receivable		-
Total modified net assets			74,251,837
Modified Assets			
Consolidated Statement of Financial Position - Total assets	Total assets		118,199,163
N/A	Lease right-of-use asset; pre-implementation, leases grandfathered		-
N/A	Lease right-of-use liability; pre-implementation, leases grandfathered		-
Note 14 to the Consolidated Financial Statements - Long Term Debt	Intangible assets		272,331
N/A	Secured and Unsecured related party receivable	-	
N/A	Unsecured related party receivable		-
Total modified assets			117,926,832

The Methodist University, Inc.

Financial Responsibility Ratio Supplemental Schedule (Continued)
June 30, 2020

Net Income Ratio			
Change in Net Assets Without Donor Restrictions			
Consolidated Statement of Activities - Change in net assets	Change in Net Assets Without Donor Restrictions; increase (decrease)		(879,023)
Total Revenue and Gains			
Consolidated Statement of Activities - Total revenue and gains and Net assets released from restrictions	Total revenue without donor restrictions, including net assets released from restrictions	47,365,494	
Consolidated Statement of Activities - Investment return designated for current operations	Net investment return appropriated for spending	62,244	
Consolidated Statement of Activities - Investment return designated for current operations and investment return in excess of amounts designated for current operations	Total net investment return, including investment return appropriated for spending	150,370	
N/A	Change in value of split-interest agreements	-	
Consolidated Statement of Activities - Net income of MUDC	Other gains	44,789	
N/A	Pension-related changes other than net periodic pension	-	
Total revenues and gains without donor restrictions			\$ 47,498,409

The Methodist University, Inc.

Consolidated Statements of Financial Position
AICPA Audit Guide Fund Group Disaggregation
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	2020	2019
Assets						
Cash and cash equivalents	\$ 4,390,338	\$ 9,601	\$ 117,105	\$ 196,027	\$ 4,713,071	\$ 3,559,056
Restricted cash and cash equivalents	6,840,301	-	-	1,342,746	8,183,047	3,003,514
Amounts due from other funds	344,801	-	-	-	344,801	400,125
Receivables:						
Students, net	599,094	-	-	-	599,094	1,563,472
Contributions, net	1,536,231	-	64,743	-	1,600,974	1,726,811
Other	969,745	910	-	35,716	1,006,371	494,423
Prepaid expenses and other assets	926,713	-	-	38,413	965,126	435,024
Cash surrender value of life insurance policies	-	-	180,123	-	180,123	170,123
Investments	10,120	-	21,866,834	108,500	21,985,454	21,017,463
Student loans receivable, net	288,397	24,320	-	-	312,717	330,489
Note receivable	66,015	-	-	-	66,015	444,710
Property and equipment, net	-	-	-	78,587,171	78,587,171	81,053,500
Other assets	-	-	-	-	-	-
Total assets	\$ 15,971,755	\$ 34,831	\$ 22,228,805	\$ 80,308,573	\$ 118,543,964	\$ 114,198,710
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued liabilities	\$ 2,157,700	\$ -	\$ -	\$ 379,699	\$ 2,537,399	\$ 2,053,625
Amounts due to other funds	-	-	344,801	-	344,801	400,125
Deferred revenues	1,416,093	-	-	6,472	1,422,565	1,233,261
Student deposits	306,917	-	-	-	306,917	345,300
Other liabilities	6,726,258	-	-	1,552,754	8,279,012	1,969,535
Obligations under capital leases	-	-	-	270,613	270,613	400,484
Debt, net	-	-	-	30,086,969	30,086,969	32,103,255
Interest rate swap agreements	-	-	-	741,456	741,456	607,937
U.S. Government advances for student loans	-	30,064	-	-	30,064	57,015
Total liabilities	10,606,968	30,064	344,801	33,037,963	44,019,796	39,170,537
Net assets:						
Net assets without donor restrictions	2,297,888	4,767	5,614,284	47,270,610	55,187,549	56,066,572
Net assets with donor restrictions	3,066,899	-	16,269,720	-	19,336,619	18,961,601
Total net assets	5,364,787	4,767	21,884,004	47,270,610	74,524,168	75,028,173
Total liabilities and net assets	\$ 15,971,755	\$ 34,831	\$ 22,228,805	\$ 80,308,573	\$ 118,543,964	\$ 114,198,710

The Methodist University, Inc.

Consolidating Schedules of Financial Position
June 30, 2020 and 2019

	2020				2019			
	The Methodist University, Inc.	Methodist University Development Corp.	Eliminations	Total	The Methodist University, Inc.	Methodist University Development Corp.	Eliminations	Total
Assets								
Cash and cash equivalents	\$ 4,521,323	\$ 191,748	\$ -	\$ 4,713,071	\$ 3,539,765	\$ 19,291	\$ -	\$ 3,559,056
Restricted cash and cash equivalents	8,183,047	-	-	8,183,047	3,003,514	-	-	3,003,514
Receivables:								
Students, net	599,094	-	-	599,094	1,563,472	-	-	1,563,472
Contributions, net	1,600,974	-	-	1,600,974	1,726,811	-	-	1,726,811
Other	1,006,152	219	-	1,006,371	492,865	1,558	-	494,423
Prepaid expenses and other assets	926,713	38,413	-	965,126	396,774	38,250	-	435,024
Cash surrender value of life insurance policies	180,123	-	-	180,123	170,123	-	-	170,123
Investments	22,858,710	-	(873,256)	21,985,454	21,845,931	-	(828,468)	21,017,463
Student loans receivable, net	312,717	-	-	312,717	330,489	-	-	330,489
Note receivable	66,015	-	-	66,015	359,329	367,711	(282,330)	444,710
Property and equipment, net	77,936,973	650,198	-	78,587,171	80,360,394	693,106	-	81,053,500
Total assets	\$ 118,191,841	\$ 880,578	\$ (873,256)	\$ 118,199,163	\$ 113,789,467	\$ 1,119,916	\$ (1,110,798)	\$ 113,798,585
Liabilities and Net Assets								
Liabilities:								
Accounts payable and accrued liabilities	\$ 2,536,549	\$ 850	\$ -	\$ 2,537,399	\$ 2,050,670	\$ 2,955	\$ -	\$ 2,053,625
Deferred revenues	1,416,093	6,472	-	1,422,565	1,227,098	6,163	-	1,233,261
Student deposits	306,917	-	-	306,917	345,300	-	-	345,300
Other liabilities	8,279,012	-	-	8,279,012	1,969,535	-	-	1,969,535
Obligations under capital leases	270,613	-	-	270,613	400,484	-	-	400,484
Debt, net	30,086,969	-	-	30,086,969	32,103,255	282,330	(282,330)	32,103,255
Interest rate swap agreements	741,456	-	-	741,456	607,937	-	-	607,937
U.S. Government advances for student loans	30,064	-	-	30,064	57,015	-	-	57,015
Total liabilities	43,667,673	7,322	-	43,674,995	38,761,294	291,448	(282,330)	38,770,412
Net assets:								
Net assets without donor restrictions	55,187,549	873,256	(873,256)	55,187,549	56,066,656	828,468	(828,468)	56,066,656
Net assets with donor restrictions	19,336,619	-	-	19,336,619	18,961,517	-	-	18,961,517
Total net assets	74,524,168	873,256	(873,256)	74,524,168	75,028,173	828,468	(828,468)	75,028,173
Total liabilities and net assets	\$ 118,191,841	\$ 880,578	\$ (873,256)	\$ 118,199,163	\$ 113,789,467	\$ 1,119,916	\$ (1,110,798)	\$ 113,798,585

The Methodist University, Inc.

Consolidating Statement of Activities
Year Ended June 30, 2020

	The Methodist University, Inc.	Methodist University Development Corp.	Eliminations	Total
Revenues, gains and other support:				
Tuition and fees	\$ 57,189,437	\$ -	\$ -	\$ 57,189,437
Less scholarships	(24,401,790)	-	-	(24,401,790)
Net tuition and fess	32,787,647	-	-	32,787,647
Government contracts and grants	2,663,618	-	-	2,663,618
Contributions and private grants	1,502,251	-	-	1,502,251
Investment return designated for current operations	649,905	-	-	649,905
Other income	615,762	446	-	616,208
Sales and services of auxiliary enterprises	8,723,820	263,351	(186,000)	8,801,171
Total revenues, gains and other support	46,943,003	263,797	(186,000)	47,020,800
Expenses:				
Instruction	20,949,606	-	(104,115)	20,845,491
Academic support	2,198,759	-	(17,335)	2,181,424
Student services	9,751,934	-	(55,782)	9,696,152
Institutional support	7,565,587	-	(10,556)	7,555,031
Auxiliary enterprises	7,745,619	231,429	(165,265)	7,811,783
Total expenses	48,211,505	231,429	(353,053)	48,089,881
Change in net assets from operations	(1,268,502)	32,368	167,053	(1,069,081)
Other changes:				
Federal aid for students - CARES Act	923,000			
Federal aid disbursed for students - CARES Act	(923,000)			
Contributions and private grants	881,999	-	-	881,999
Investment return in excess of amounts designated for current operations	97,557	12,419	(211,840)	(101,864)
Net income of MUDC	44,789	-	-	44,789
Loss on sale of property and equipment	(126,329)	-	-	(126,329)
Unrealized loss on interest rate swap agreement	(133,519)	-	-	(133,519)
Change in net assets	(504,005)	44,787	(44,787)	(504,005)
Net assets:				
Beginning	75,028,173	828,468	(828,468)	75,028,173
Ending	\$ 74,524,168	\$ 873,255	\$ (873,255)	\$ 74,524,168

The Methodist University, Inc.

Consolidating Statement of Activities
Year Ended June 30, 2019

	The Methodist University, Inc.	Methodist University Development Corp.	Eliminations	Total
Revenues, gains and other support:				
Tuition and fees	\$ 58,377,142	\$ -	\$ -	\$ 58,377,142
Less scholarships	(23,742,742)	-	-	(23,742,742)
Net tuition and fees	34,634,400	-	-	34,634,400
Government contracts and grants	997,967	-	-	997,967
Contributions and private grants	1,356,683	-	-	1,356,683
Investment return designated for current operations	653,672	-	-	653,672
Other income	973,521	264	-	973,785
Sales and services of auxiliary enterprises	10,131,310	259,667	(186,000)	10,204,977
Total revenues, gains and other support	48,747,553	259,931	(186,000)	48,821,484
Expenses:				
Educational and general				
Instruction	21,840,282	-	(106,135)	21,734,147
Academic support	2,266,304	-	(17,665)	2,248,639
Student services	10,217,200	-	(54,576)	10,162,624
Institutional support	7,346,111	-	(10,771)	7,335,340
Auxiliary enterprises	8,386,886	238,979	(169,903)	8,455,962
Total expenses	50,056,783	238,979	(359,050)	49,936,712
Change in net assets from operations	(1,309,230)	20,952	173,050	(1,115,228)
Other changes:				
Contributions and private grants	334,131	-	-	334,131
Investment return in excess of amounts designated for current operations	630,176	18,943	(212,945)	436,174
Net income of MUDC	39,895	-	-	39,895
Gain on sale of property and equipment	6,134	-	-	6,134
Unrealized loss on interest rate swap agreement	(111,156)	-	-	(111,156)
Change in net assets	(410,050)	39,895	(39,895)	(410,050)
Net assets:				
Beginning	75,438,223	788,573	(788,573)	75,438,223
Ending	\$ 75,028,173	\$ 828,468	\$ (828,468)	\$ 75,028,173

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards and North Carolina General Statute 143C-6-23**

Independent Auditor's Report

Financial Affairs Committee
The Methodist University, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Methodist University, Inc. and Affiliate (the University), which comprise the consolidated statement of financial position as of June 30, 2020, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 7, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and North Carolina General Statute 143C-6-23.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and North Carolina General Statute 143C-6-23 in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Raleigh, North Carolina
December 7, 2020

**Report on Compliance for Each Major Federal Program
and Each Major State Program and on Internal Control Over Compliance
Required by the Uniform Guidance, North Carolina General Statute 143C-6-23
and the North Carolina State Education Assistance Authority**

Independent Auditor's Report

Financial Affairs Committee
The Methodist University, Inc.

Report on Compliance for Each Major Federal Program and Each Major State Program

We have audited The Methodist University, Inc. and Affiliate's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement*, the requirements described in North Carolina General Statute 143C-6-23 and the North Carolina State Education Assistance Authority (NCSEAA) that could have a direct and material effect on each of the University's major federal programs and its major state program for the year ended June 30, 2020. The University's major federal programs and major state program are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the University's major federal program and major state program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); North Carolina General Statute 143C-6-23 and the NCSEAA. Those standards, the Uniform Guidance, North Carolina General Statute 143C-6-23 and the NCSEAA require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or major state program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and the major state program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Major Federal Program and Major State Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and its major state program for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002. Our opinion on the major federal program and major state program is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program and major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, North Carolina General Statute 143C-6-23, and the NCSEAA, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance, North Carolina General Statute 143C-6-23, and the NCSEAA. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Raleigh, North Carolina
January 21, 2021

The Methodist University, Inc.

**Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2020**

Grantor / Pass-through Grantor / Program Title	CFDA Number	Federal Programs	State Programs	Matching Funds
Department of Education:				
Direct Programs:				
Student Financial Assistance Cluster:				
Federal Direct Student Loans	84.268	\$ 19,725,592	\$ -	\$ -
Federal Pell Grant Program	84.063	2,855,463	-	-
Federal Work-Study Program	84.033	269,680	-	-
Federal Supplemental Educational Opportunity Grants	84.007	170,365	-	56,788
Federal Perkins Loan - Federal Capital Contributions (Note E)	84.038	-	-	-
Department of Health and Human Services:				
Direct Program:				
Scholarships for Health Professions Students from Disadvantaged Background	93.925	600,000	-	-
Total Student Financial Assistance Cluster		<u>23,621,100</u>	<u>-</u>	<u>56,788</u>
Department of Defense:				
Direct Programs:				
Military Tuition Assistance	Unknown	169,325	-	-
ROTC Scholarship	Unknown	320,997	-	-
Total Department of Defense		<u>490,322</u>	<u>-</u>	<u>-</u>
N.C. State Education Assistance Authority:				
Direct Programs:				
N.C. Need-Based Scholarship Program	N/A	-	2,908,920	-
Coronavirus Relief Fund		-	53,894	-
Forgivable Education Loans for Service Program	N/A	-	192,000	-
Total N.C. State Education Assistance Authority		<u>-</u>	<u>3,154,814</u>	<u>-</u>
N.C. Department of Human Resources:				
Direct Program:				
Vocational Rehabilitation for Disabled Veterans	N/A	-	94,098	-
N.C. Department of Veteran Affairs:				
Direct Program:				
Veteran's Affairs Dependents Scholarship	N/A	-	66,500	-
Department of Education:				
Direct Programs:				
COVID-19 Education Stabilization Fund - Student	84.425E	923,300	-	-
COVID-19 Education Stabilization Fund - Institutional	84.425F	150,934	-	-
Total COVID-19 Education Stabilization Fund		<u>1,074,234</u>	<u>-</u>	<u>-</u>
		<u>\$ 25,185,656</u>	<u>\$ 3,315,412</u>	<u>\$56,788</u>

See notes to schedule of expenditures of federal and state awards.

The Methodist University, Inc.

Notes to Schedule of Expenditures of Federal and State Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state grant activity of Methodist University (the University) under programs of the federal and state governments for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), North Carolina General Statute 143C-6-23 and the North Carolina State Education Assistance Authority. Because this Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University.

For the Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Work Study (FWS), the expenditures listed are only the federal share.

Also, the grants reflect transaction for the year ended June 30, 2020, irrespective of the year of grant award and, accordingly, the Schedule does not include a full year's activity for grants awarded or terminated on dates not coinciding with the aforementioned fiscal year.

Note 2. Summary of Significant Accounting Policies for Federal and State Award Expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Expenditures for student financial aid programs are recognized as incurred and include the federal share of students' FSEOG program and FWS program earnings, Federal Pell grants, certain other federal financial aid grants for students, loan disbursements and administrative cost allowances, where applicable.

Note 3. Indirect Cost Rate

The University has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4. State Awards

The North Carolina Need-Based Scholarship Program is a state program having compliance requirements identified as having a direct and material effect on the consolidated financial statements.

Note 5. Loan Activity

At June 30, 2020, the University had the following loan balances outstanding. Loans made during the year are included in the federal expenditures presented in the Schedule.

Perkins Loan Program:

Total advances to students during the year ended June 30, 2020	\$ -
Balance of outstanding loans as of June 30, 2020	<u>\$ 37,819</u>

The Methodist University, Inc.

Notes to Schedule of Expenditures of Federal and State Awards

Note 5. Loan Activity (Continued)

The Federal Perkins Loan Program expired September 30, 2017, and fiscal year 2018 was the last year that the University could award Perkins loans based on guidance from the Department of Education. The University will be liquidating its Federal Perkins Revolving Loan Fund at the direction of the Department of Education. The liquidation will likely involve the University assigning all eligible outstanding loans to the Department of Education and the remittance of federal share of remaining Perkins cash assets to the Department of Education.

The Methodist University, Inc.

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2020**

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? X Yes No

Identification of major federal programs:

<u>CFDA #</u>	<u>Name of Federal Program</u>
Student Financial Assistance Cluster:	
84.007	Federal Supplemental Education Opportunity Grants
84.268	Federal Direct Student Loans
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan - Federal Capital Contributions
84.063	Federal Pell Grant Program
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds

Education Stabilization Fund:

84.425E	COVID-19 Education Stabilization Fund - Student
84.425F	COVID-19 Education Stabilization Fund - Institutional

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

(Continued)

The Methodist University, Inc.

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2020**

State Awards

Internal control over major state programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Yes No

Identification of major state programs:

North Carolina Need-Based Scholarship Program

Section II. Financial Statement Findings

None reported.

Section III. Federal Award Findings and Questioned Costs

Compliance Findings – Other Matters

Finding 2020-001: Enrollment Reporting

Identification of the federal program: U.S. Department of Education, Student Financial Aid Cluster

Criteria or specific requirement: Federal regulation 34 CFR 685.309 state that the institution shall accurately report a change in a student's enrollment status directly to the lender or guarantee agency within 30 days if a student has graduated, withdrawn, or ceased to be enrolled (or failed to enroll) at least half-time and the school does not expect to submit its next Roster File to NSLDS within 60 days.

Condition: The College did not report students' status changes accurately and within the required timeframe.

Known questioned costs: None.

Context: Based on a sample of 47 students, 1 student's status change was reported with the incorrect withdrawal date and 18 students' status changes were not reported within the required timeframe. It was also determined that all students, who graduated in Spring 2020, did not have their student status changes reported within the required timeframe.

Effect: Changes in student's enrollment were not reported timely and accurately.

Cause: The College did not have procedures in place to report all students' status changes in a timely and accurate manner.

Recommendation: The College should implement procedures to ensure that student status changes are reported in a timely and accurate manner for students who receive federal loans.

Views of responsible officials: Refer to the College's Corrective Action Plan.

(Continued)

The Methodist University, Inc.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2020

Section III. Federal Award Findings and Questioned Costs (Continued)

Finding 2020-002: Gramm-Leach-Bliley Act

Identification of the federal program: U.S. Department of Education, Student Financial Aid Cluster

Criteria or specific requirement: The Gramm-Leach-Bliley Act (Public Law 106-102) requires financial institutions to explain their information-sharing practices to their customers and to safeguard sensitive data. The Federal Trade Commission considers Title IV-eligible institutions that participate in Title IV Educational Assistance Programs as “financial institutions” and subject to the Gramm-Leach-Bliley Act (16 CFR313.3(k)(2)(vi). Under an institution’s Program Participation Agreement with the Department of Education and the Gramm-Leach-Bliley Act, schools must protect student financial aid information, with particular attention to information provided to institutions by the Department or otherwise obtained in support of the administration of the federal student financial aid programs.

Condition: The University does not have a policy in place documenting specific risks identified in relation to the Gramm-Leach-Bliley Act, or safeguards to address identified risks.

Known questioned costs: None.

Context: The University does not have sufficient documentation to evidence compliance with these requirements.

Effect: The University is not in compliance with the requirement to follow the Gramm-Leach-Bliley Act.


Cause: Lack of understanding of formal documentation required for (i) risks identified and (ii) safeguards to such risks.

Recommendation: The University should implement a policy to ensure it follows the Gramm-Leach-Bliley Act requirements.

Views of responsible officials: Refer to the University’s Corrective Action Plan.

Section IV. State Award Findings and Questioned Costs

None reported.



**METHODIST
UNIVERSITY**
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2020

Identifying Number: 2020-001

Finding: Federal regulation 34 CFR 685.309 state that the institution shall accurately report a change in a student's enrollment status directly to the lender or guarantee agency within 30 days if a student has graduated, withdrawn, or ceased to be enrolled (or failed to enroll) at least half-time and the school does not expect to submit its next Roster File to NSLDS within 60 days. Based on a sample of 47 students, 1 student's status change was reported with the incorrect withdrawal date and 18 students' status changes were not reported within the required timeframe. It was also determined that all students, who graduated in Spring 2020, did not have their student status changes reported within the required timeframe.

Corrective Actions Taken or Planned: Management agrees with the findings and understands the requirements and reporting timelines associated with student enrollment status changes. The incident involving one student was an oversight in which the Registrar's Office mistakenly entered an incorrect date. However, to address the potential for inconsistent reporting dates amongst the various campus offices in the future, the current withdrawal worksheet completed by the Office of Student Accounts that is shared with both the Registrar and Financial Aid offices will be updated to include an additional field that specifically indicates a student's withdrawal date, as determined by the Office of Student Accounts. This process will be used to ensure the dates reported by the various campus offices are consistent. Furthermore, we will compare the withdraw dates in the submission file to the registration record prior to submitting the report to NSLDS through the National Student Clearinghouse.

Per the University's policy and procedures, students who graduate are reported to the NSLDS within one week of graduation. Due to extenuating circumstances encountered this year with COVID-19 and the necessity to transition to a remote working environment, the Registrar's Office did not realize the graduating students were not included in the final submission report for the Spring 2020. We will create a checklist to make sure that all students as required are included in future submissions.

Anticipated Completion Date: Immediately

University Official Responsible for Corrective Action: University Registrar

Identifying Number: 2020-002

Finding: The Gramm-Leach-Bliley Act (Public Law 106-102) requires financial institutions to explain their information-sharing practices to their customers and to safeguard sensitive data. The Federal Trade Commission considers Title IV-eligible institutions that participate in Title IV Educational Assistance Programs as "financial institutions" and subject to the Gramm-Leach-Bliley Act (16 CFR313.3(k)(2)(vi). Under an institution's Program Participation Agreement with the Department of Education and the Gramm-Leach-Bliley Act, schools must protect student financial aid information, with particular attention to information provided to institutions by the Department or otherwise obtained in support of the administration of the federal student financial aid programs. The University does not have a policy in place documenting specific risks identified in relation to the Gramm-Leach-Bliley Act, or safeguards to address identified risk.

Corrective Actions Taken or Planned:

Management agrees with the findings and understands the requirements to perform and document specific risk assessments in relation to the Gramm-Leach-Bliley Act. Management plans to address this by:

1. Identify and assign an Information Security Program Coordinator to implement and maintain an Information Security Program.
2. Create and implement an Institutional Information Security Program for highly critical and private financial and related information, inclusive of customer (student) financial information (covered data).

Anticipated Completion Date: start on immediately and completed no later than 6/30/2021

University Official Responsible for Corrective Action: University CFO and CIO