



The Methodist University, Inc.

Consolidated Financial Statements
and Reports and Schedules Required by
Government Auditing Standards and the
Uniform Guidance
Years Ended June 30, 2022 and 2021

The Methodist University, Inc.

Consolidated Financial Statements and Reports and Schedules Required
by *Government Auditing Standards* and the Uniform Guidance
Years Ended June 30, 2022 and 2021

The Methodist University, Inc.

Contents

Independent Auditor's Report	3-5
Consolidated Financial Statements	
Consolidated Statements of Financial Position	7
Consolidated Statements of Activities	8-9
Consolidated Statements of Functional Expenses	10
Consolidated Statements of Cash Flows	11-12
Notes to Consolidated Financial Statements	13-43
Supplementary Information	
Financial Responsibility Ratio Supplemental Schedule	45-47
Consolidated Statements of Financial Position - AICPA Audit Guide Fund Group Disaggregation (With Comparative Totals for the Year Ended June 30, 2021)	48
Consolidating Schedules of Financial Position	49
Consolidating Schedules of Activities	50-51
Reports and Schedules Required by <i>Government Auditing Standards</i> and the Uniform Guidance	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	53-54
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	55-57
Schedule of Expenditures of Federal Awards	58
Notes to Schedule of Expenditures of Federal Awards and Disclosures Relative to State Awards	59
Schedule of Findings and Questioned Costs	60-62
Summary Schedule of Prior Audit Findings	63
Management's Corrective Action Plan	64



Tel: 919-754-9370
Fax: 919-754-9369
www.bdo.com

421 Fayetteville Street
Suite 300
Raleigh, NC 27601

Independent Auditor's Report

Financial Affairs Committee
The Methodist University, Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Methodist University, Inc. (the University), which comprise the consolidated statement of financial position as of June 30, 2022, and 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.

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

The 2021 consolidated financial statements of the University were audited by other auditors, whose report dated November 3, 2021 expressed an unmodified opinion on those statements.



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 financial responsibility ratio supplemental schedule, consolidated statements of financial position, consolidating schedules of financial position, and consolidating schedules of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2022, 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, 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.

BDO USA, LLP

November 30, 2022

Consolidated Financial Statements

The Methodist University, Inc.

Consolidated Statements of Financial Position

<i>June 30,</i>	2022	2021
Assets		
Cash and cash equivalents	\$ 7,640,790	\$ 13,142,583
Cash held to fund donor restrictions and debt service	3,915,523	2,391,237
Receivables:		
Students, net	463,947	237,006
Contributions, net	1,496,205	1,061,702
Other	1,061,994	1,251,516
Prepaid expenses and other assets	475,271	519,391
Investments	37,398,214	25,473,940
Student loans receivable, net	165,527	241,920
Right-of-use asset - operating leases	134,884	332,135
Property and equipment, net	79,515,883	79,645,064
Total assets	\$ 132,268,238	\$ 124,296,494
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,024,678	\$ 2,508,341
Deferred revenues	1,669,191	1,536,683
Student deposits	377,950	328,960
Other liabilities	1,179,603	1,507,225
Lease liabilities	572,156	559,635
Debt, net	27,337,394	27,950,730
Interest rate swap agreements	-	508,874
U.S. Government advances for student loans	11,113	25,080
Total liabilities	33,172,085	34,925,528
Net assets:		
Net assets without donor restrictions	72,212,198	67,257,279
Net assets with donor restrictions	26,883,955	22,113,687
Total net assets	99,096,153	89,370,966
Total liabilities and net assets	\$ 132,268,238	\$ 124,296,494

See notes to accompanying consolidated financial statements.

The Methodist University, Inc.

Consolidated Statement of Activities

<i>Year ended June 30, 2022</i>	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues, gains and other support:			
Tuition and fees, net of grants and scholarships of \$24,751,963	\$ 33,711,029	\$ -	\$ 33,711,029
Government contracts and grants	3,684,013	-	3,684,013
Contributions and private grants	3,137,475	793,833	3,931,308
Investment return designated for current operations	62,206	643,124	705,330
Other income	535,001	-	535,001
Sales and services of auxiliary enterprises	10,107,806	-	10,107,806
Net assets released from restrictions	1,322,581	(1,322,581)	-
Total revenues, gains and other support	52,560,111	114,376	52,674,487
Expenses:			
Educational and general instruction	19,472,619	-	19,472,619
Academic support	2,097,224	-	2,097,224
Student services	10,073,928	-	10,073,928
Institutional support	7,385,852	-	7,385,852
Auxiliary enterprises	7,957,323	-	7,957,323
Total expenses	46,986,946	-	46,986,946
Change in net assets from operations	5,573,165	114,376	5,687,541
Other changes:			
Federal aid for students - COVID-19	2,608,540	-	2,608,540
Federal aid disbursed for students - COVID-19	(2,608,540)	-	(2,608,540)
Contributions and private grants	-	8,611,204	8,611,204
Investment return less than amounts designated for current operations	(1,234,717)	(3,523,141)	(4,757,858)
Net income of MUDC	47,073	-	47,073
PPP loan forgiveness	-	-	-
Net assets released from restrictions	568,584	(568,584)	-
Gain on sale of property and equipment	5,600	-	5,600
Unrealized gain on interest rate swap agreements	131,627	-	131,627
Transfers	(136,413)	136,413	-
Increase in net assets	4,954,919	4,770,268	9,725,187
Net assets:			
Beginning	67,257,279	22,113,687	89,370,966
Ending	\$ 72,212,198	\$ 26,883,955	\$ 99,096,153

See notes to accompanying consolidated financial statements.

The Methodist University, Inc.

Consolidated Statement of Activities

<i>Year ended June 30, 2021</i>	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues, gains and other support:			
Tuition and fees, net of grants and scholarships of \$23,162,492	\$ 33,259,083	\$ -	\$ 33,259,083
Government contracts and grants	2,824,575	314,450	3,139,025
Contributions and private grants	468,646	1,254,410	1,723,056
Investment return designated for current operations	63,483	619,612	683,095
Other income	756,264	-	756,264
Sales and services of auxiliary enterprises	9,074,332	-	9,074,332
Net assets released from restrictions	2,722,163	(2,722,163)	-
Total revenues, gains and other support	49,168,546	(533,691)	48,634,855
Expenses:			
Educational and general instruction	19,848,471	-	19,848,471
Academic support	2,157,235	-	2,157,235
Student services	8,449,440	-	8,449,440
Institutional support	6,304,789	-	6,304,789
Auxiliary enterprises	7,691,301	-	7,691,301
Total expenses	44,451,236	-	44,451,236
Change in net assets from operations	4,717,310	(533,691)	4,183,619
Other changes:			
Federal aid for students - COVID-19	1,001,642	-	1,001,642
Federal aid disbursed for students - COVID-19	(1,001,642)	-	(1,001,642)
Contributions and private grants	-	597,581	597,581
Investment return in excess of amounts designated for current operations	1,187,118	3,371,035	4,558,153
Net income of MUDC	46,376	-	46,376
PPP loan forgiveness	5,192,100	-	5,192,100
Net assets released from restrictions	838,276	(838,276)	-
Gain on sale of property and equipment	36,387	-	36,387
Unrealized gain on interest rate swap agreements	232,582	-	232,582
Transfers	(180,419)	180,419	-
Increase in net assets	12,069,730	2,777,068	14,846,798
Net assets:			
Beginning	55,187,549	19,336,619	74,524,168
Ending	\$ 67,257,279	\$ 22,113,687	\$ 89,370,966

See notes to accompanying consolidated financial statements.

The Methodist University, Inc.

Consolidated Statements of Functional Expenses

Year Ended June 30, 2022

	Instruction	Academic Support	Student Services	Plant Operations and Management	Institutional Support			Auxiliary Enterprises	Total
					Administration	Fundraising	Total		
Salaries and wages	\$ 12,256,368	\$ 849,203	\$ 5,047,687	\$ 2,306,623	\$ 3,248,411	\$ 326,003	\$ 3,574,414	\$ 449,399	\$ 24,483,694
Employee benefits	2,704,087	179,567	1,131,318	723,653	859,827	62,489	922,316	96,946	5,757,887
Insurance	-	2,043	279,143	370,805	131,700	2,402	134,102	2,415	788,508
Miscellaneous	126,664	71	81,131	78,143	170,235	5,410	175,645	55,896	517,550
Supplies and services	830,385	401,234	1,233,067	394,841	1,104,196	108,303	1,212,499	2,041,198	6,113,224
Travel and employee development	178,907	2,905	517,079	2,866	31,289	18,336	49,625	1,197	752,579
Utilities and repairs	124,234	16,399	85,405	2,821,635	701,660	39,334	740,994	109,199	3,897,866
Depreciation	434,685	177,490	184,911	1,876,169	290,269	-	290,269	691,135	3,654,659
Interest, bond fees and amortization	282,301	46,965	151,717	59,421	24,912	3,778	28,690	451,885	1,020,979
Operations and maintenance	2,534,988	421,347	1,362,470	(8,634,156)	223,625	33,673	257,298	4,058,053	-
Total functional expenses	\$ 19,472,619	\$ 2,097,224	\$ 10,073,928	\$ -	\$ 6,786,124	\$ 599,728	\$ 7,385,852	\$ 7,957,323	\$ 46,986,946

Year Ended June 30, 2021

	Instruction	Academic Support	Student Services	Plant Operations and Management	Institutional Support			Auxiliary Enterprises	Total
					Administration	Fundraising	Total		
Salaries and wages	\$ 12,915,310	\$ 857,748	\$ 4,379,296	\$ 2,436,317	\$ 2,928,740	\$ 326,027	\$ 3,254,767	\$ 491,743	\$ 24,335,181
Employee benefits	2,448,553	153,246	968,791	644,446	532,884	76,819	609,703	90,932	4,915,671
Insurance	-	2,103	263,856	331,629	98,791	827	99,618	1,986	699,192
Miscellaneous	102,915	(182)	57,745	79,180	93,350	6,078	99,428	45,807	384,893
Supplies and services	792,024	497,539	890,583	459,419	1,009,846	72,019	1,081,865	1,890,632	5,612,062
Travel and employee development	33,080	443	205,419	3,015	10,043	5,203	15,246	929	258,132
Utilities and repairs	299,615	6,467	76,325	2,352,272	569,720	46,669	616,389	107,391	3,458,459
Depreciation	539,857	187,518	188,536	1,829,228	200,316	-	200,316	712,254	3,657,709
Interest, bond fees and amortization	299,359	49,803	156,309	63,063	78,332	3,989	82,321	479,082	1,129,937
Operations and maintenance	2,417,758	402,550	1,262,580	(8,198,569)	213,162	31,974	245,136	3,870,545	-
Total functional expenses	\$ 19,848,471	\$ 2,157,235	\$ 8,449,440	\$ -	\$ 5,735,184	\$ 569,605	\$ 6,304,789	\$ 7,691,301	\$ 44,451,236

See notes to accompanying consolidated financial statements.

The Methodist University, Inc.
Consolidated Statements of Cash Flows

<i>Years ended June 30,</i>	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 9,725,187	\$ 14,846,798
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,912,425	3,694,958
Gains on sales of property and equipment	(5,600)	(36,387)
Gifts of property and equipment	(3,500)	(16,780)
Contributions restricted for long-term investment	(8,611,204)	(597,581)
Realized and unrealized losses (gains) on investments	4,506,952	(4,926,028)
PPP loan forgiveness	-	(5,192,100)
Unrealized gains on interest rate swap agreement	(131,627)	(232,582)
Changes in assets and liabilities:		
(Increase) decrease in:		
Student accounts receivable	(226,941)	362,088
Contributions receivable	(434,503)	539,272
Other receivables	189,522	(245,145)
Student loans receivable, net	76,393	70,797
Prepaid expenses and other assets	44,120	625,858
Increase (decrease) in:		
Accounts payable and accrued liabilities	(483,663)	(29,058)
Deferred revenues	132,508	114,118
Student deposits	48,990	22,043
Other liabilities	(327,622)	(1,579,687)
Net cash provided by operating activities	8,411,437	7,420,584
Cash flows from investing activities:		
Proceeds from sale of assets	5,600	346,268
Purchases of property and equipment	(3,582,492)	(5,378,957)
Purchases of investments	(43,388,078)	(10,444,529)
Proceeds from sale of investments	26,956,852	11,882,071
Net cash used in investing activities	(20,008,118)	(3,595,147)
Cash flows from financing activities:		
Proceeds from long-term debt	2,072,035	469,942
Payments on long-term debt	(3,050,098)	(2,316,289)
Contributions restricted for long-term investment	8,611,204	597,581
Payments on notes receivable	-	66,015
Decrease in U.S. Government advances for student loans	(13,967)	(4,984)
Net cash provided by (used in) financing activities	7,619,174	(1,187,735)
Net (decrease) increase in cash and cash equivalents	(3,977,507)	2,637,702
Cash and cash equivalents:		
Beginning	15,533,820	12,896,118
Ending	\$ 11,556,313	\$ 15,533,820

The Methodist University, Inc.

Consolidated Statements of Cash Flows (continued)

<i>Years ended June 30,</i>	2022	2021
Presented on consolidated statements of financial position as:		
Cash and cash equivalents	\$ 7,640,790	\$ 13,142,583
Cash held to fund donor restrictions and debt service	3,915,523	2,391,237
Total cash and cash equivalents	\$ 11,556,313	\$ 15,533,820
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,012,034	\$ 1,173,553
Supplemental schedule of noncash financing activities:		
Non-cash PPP loan forgiveness	\$ -	\$ 5,192,100

See notes to accompanying consolidated financial statements.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

1. 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.

2. Significant Accounting Policies

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 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.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

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.

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 Board Designated Endowments, Donor Restrictions and Debt Service

Cash held to fund donor board designated endowments, donor restrictions and debt service consist of amounts to fund board designated endowments, and 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.

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 approximately three 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. Late payment fees are assessed at designated dates based on semester terms. The carrying amounts of student receivables were \$463,947 and \$237,006 at June 30, 2022 and 2021, respectively, and include valuation allowances that reflect management's best estimate of the amounts that will not be collected of \$785,942 and \$1,507,365 at June 30, 2022 and 2021, 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, 2022 and 2021. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

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 6.

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 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.

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

The Methodist University, Inc.

Notes to Consolidated Financial Statements

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 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

Accounting principles generally accepted in the United States of America (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 ended June 30, 2022 and 2021, were \$1,653,602 and \$1,520,092, respectively. The balance of deferred revenues relating to golf shop tournament advance payments and sales for the years ended June 30, 2022 and 2021, were \$8,125 and \$9,563, respectively. Also included in deferred revenues are payments received in advance for rent, totaling \$7,464 and \$7,028 for the years ended June 30, 2022 and 2021, respectively.

Student Deposits

Student deposits represent tuition and dorm reservation fees of \$308,650 and \$271,260 for the years ended June 30, 2022 and 2021, and key, mattress and dormitory damage deposits of \$69,300 and \$57,700 for the years ended June 30, 2022 and 2021, 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.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Contributions

Unconditional contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional contributions 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 consolidated statements of functional expenses report 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.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Accounting Pronouncements Issued and Adopted

In May 2014, the FASB issued Accounting Standards Update (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. The amendments in this ASU are effective for the University's fiscal year 2020-2021 and resulted in additional note disclosures in the University's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. The update required: (i) all leases to be recognized on the balance sheet as lease (right-of-use) assets and lease liabilities and (ii) both quantitative and qualitative disclosures regarding key information about leasing arrangements. Prior to adoption, the University's leases were classified as operating leases, with no lease assets or liabilities recorded. The University transitioned to this accounting change on a modified retrospective basis by recording the cumulative effect of lease assets and liabilities for active leases as of July 1, 2020. As a result of the adoption of the new lease standard on July 1, 2020, the University recorded approximately \$521,664 for both lease liabilities and the corresponding lease assets, net of lease incentives. The lease liabilities were based on the present value of the remaining minimum rental payments using discount rates as of the effective date. There was no impact to the consolidated statements of activities related to the adoption of this standard. The University did not restate comparative periods in transition and elected to use the effective date of July 1, 2020, as the initial date of transition. The University also elected to utilize the package of transition practical expedients, which included not reassessing the following: (i) whether existing contracts contain leases, (ii) the existing classification of leases as operating or financing, or (iii) the initial direct costs of leases. The University did not use hindsight to determine the lease term or include options to extend for leases existing at the transition date. In addition, the University elected not to apply the new lease standard to leases with terms of twelve months or less.

Subsequent Events

The University has evaluated subsequent events through November 28, 2022, the date through which the consolidated financial statements were available to be issued.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

3. Liquidity and Availability

As of June 30, 2022 and 2021, 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:

<i>June 30,</i>	2022	2021
Total assets at year-end	\$ 132,268,238	\$ 124,296,494
Less amounts not available to be used for general expenditures within one year:		
Non-financial assets	(81,325,018)	(81,438,944)
Endowments subject to donor restrictions	(25,411,720)	(20,357,849)
Board designated endowments	(3,573,652)	(4,048,915)
Net assets subject to purpose restrictions	(1,472,235)	(1,755,838)
Cash-restricted for debt service	(3,023,469)	(1,342,880)
Cash-restricted for the Perkins loan program	(1,523)	(8,081)
Total financial assets available to meet general expenditures within one year	\$ 17,460,621	\$ 15,343,987

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.

As of June 30, 2022 and 2021, board-designated quasi-endowment totals \$3,573,652 and \$4,048,915, 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:

<i>June 30,</i>	2022	2021
Cash and cash equivalents	\$ 6,947,757	\$ 11,354,340
Contributions receivable, net	249,316	145,834
Accounts receivable, net	1,525,941	1,488,522
Investments not encumbered by donor or board restrictions	8,737,606	2,355,291
Total financial assets available to meet general expenditures within one year	\$ 17,460,620	\$ 15,343,987

The Methodist University, Inc.

Notes to Consolidated Financial Statements

4. 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 in 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.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The University's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. Valuation techniques used must maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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

The Methodist University, Inc.

Notes to Consolidated Financial Statements

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 Committee.

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:

Money market funds, equity securities, equity funds, bond funds and exchange traded funds: Securities traded on a national securities exchange (or reported on the NASDAQ global 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 Depositary 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

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, 2022:

	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Financial assets:				
Investments:				
Cash and cash equivalents	\$ 421,693	\$ -	\$ -	\$ 421,693
Domestic equities	16,884,269	-	-	16,884,269
Global equities	3,083,773	-	-	3,083,773
International equities	536,703	-	-	536,703
Fixed Income	12,141,252	-	-	12,141,252
Private real estate	-	-	147,547	147,547
Measured at NAV *:				
Real estate investment trust	-	-	-	2,541,837
Fund of funds	-	-	-	604,009
Private equity	-	-	-	1,037,131
	\$ 33,067,690	\$ -	\$ 147,547	\$ 37,398,214
Financial liabilities:				
Interest rate swaps	\$ -	\$ -	\$ -	\$ -

The Methodist University, Inc.

Notes to Consolidated Financial Statements

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, 2021:

	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Financial assets:				
Investments:				
Cash and cash equivalents	\$ 295,639	\$ -	\$ -	\$ 295,639
Domestic equities	13,158,545	-	-	13,158,545
Global equities	1,302,908	-	-	1,302,908
International equities	1,278,678	-	-	1,278,678
Fixed income	8,068,850	-	-	8,068,850
Private real estate	-	-	147,547	147,547
Measured at NAV *:				
Fund of funds	-	-	-	685,753
Private equity	-	-	-	527,020
	\$ 24,113,620	\$ -	\$ 147,547	\$ 25,473,940
Financial liabilities:				
Interest rate swaps	\$ -	\$ 508,874	\$ -	\$ 508,874

*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 presented in the consolidated statements of financial position.

The following sets forth attributes related to the nature and risk of investment funds whose fair value is estimated using NAV per share as of June 30, 2022 and 2021:

Investment	Fair Value		Unfunded Commitment	Redemption Frequency	Redemption Restrictions	Notice Period
	2022	2021				
Real estate investment trust	\$ 2,541,837	\$ -	\$ -	Monthly	2% of NAV per month and 5% aggregate per quarter	15 Days
Fund of funds	604,009	685,753	523,000	None	N/A	N/A
Private equity	1,037,131	527,020	1,476,000	None	N/A	N/A
	\$ 4,182,977	\$ 1,212,773				

The Methodist University, Inc.

Notes to Consolidated Financial Statements

5. Contributions Receivable

Contributions receivable, net are summarized as follows:

The payment timing of outstanding contributions receivable at June 30, 2022, is estimated to be:

	Without Donor Restrictions	With Donor Restrictions	Total
One year or less	\$ 283,729	\$ 455,453	\$ 739,182
One to five years	830,015	43,630	873,645
More than five years	200,000	-	200,000
Total	1,313,744	499,083	1,812,827
Less:			
Discount for future cash flows	(178,774)	(4,755)	(183,529)
Allowance for uncollectible pledges	(120,423)	(12,670)	(133,093)
Total	\$ 1,014,547	\$ 481,658	\$ 1,496,205

The payment timing of outstanding contributions receivable at June 30, 2021, is estimated to be:

	Without Donor Restrictions	With Donor Restrictions	Total
One year or less	\$ 227,443	\$ 640,064	\$ 867,507
One to five years	198,508	146,104	344,612
More than five years	1,575	1,586	3,161
Total	427,526	787,754	1,215,280
Less:			
Discount for future cash flows	(19,083)	(18,676)	(37,759)
Allowance for uncollectible pledges	(83,700)	(32,119)	(115,819)
Total	\$ 324,743	\$ 736,959	\$ 1,061,702

The Methodist University, Inc.

Notes to Consolidated Financial Statements

6. Other Accounts Receivable

Accounts receivable - other consists of the following at June 30, 2022 and 2021:

<i>June 30,</i>	2022	2021
Sales and use tax	\$ 150,611	\$ 138,966
Accrued interest receivable	336	1,257
Grants receivable	174,708	159,932
Other miscellaneous receivables	734,103	950,557
Payroll and travel advances	100	600
Conferences and camps	2,136	204
Total	\$ 1,061,994	\$ 1,251,516

7. Investments

Investments consist of the following at June 30, 2022 and 2021:

<i>June 30,</i>	2022	2021
Cash and cash equivalents	\$ 421,693	\$ 295,639
Mutual funds:		
Domestic equities	16,884,269	13,158,545
Global equities	3,083,773	1,302,908
International equities	536,703	1,287,678
Fixed income	12,141,252	8,068,850
Private real estate	147,547	147,547
Alternative investments:		
Real estate investment trust	2,541,837	-
Fund of funds	604,009	685,753
Private equity	1,037,131	527,020
	\$ 37,398,214	\$ 25,473,940

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 Methodist University, Inc.

Notes to Consolidated Financial Statements

The following summarizes the investment return:

<i>Years ended June 30,</i>	2022	2021
Interest and dividends	\$ 577,474	\$ 424,160
Net realized and unrealized (losses) gains	(4,506,952)	4,926,028
Investment fees	(123,050)	(108,940)
Investment (loss) income	(4,052,528)	5,241,248
Investment return under spending rate policy	(705,330)	(683,095)
(Deficiency) excess of actual investment return over spending rate policy	\$ (4,757,858)	\$ 4,558,153

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 duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

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, 2022 and 2021, 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.

Endowment fund compositions as of June 30, 2022 and 2021, consist of the following:

<i>June 30,</i>	2022	2021
Cash and cash equivalents	\$ 3,411,726	\$ 9,072,681
Contributions receivable, net	20,910	25,311
Investments	37,300,713	25,376,440
Cash surrender value of life insurance	192,526	190,123
Total	\$ 40,925,875	\$ 34,664,555

<i>June 30,</i>	2022	2021
Designated by the board for endowment	\$ 3,573,652	\$ 4,048,915
With donor restrictions, endowed	25,411,720	20,357,849
Total endowed funds	28,985,372	24,406,764
Without donor restrictions, pooled with endowed funds	11,940,503	10,257,791
Total	\$ 40,925,875	\$ 34,664,555

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Changes in endowment net assets during the years ending June 30, 2022 and 2021, are as follows:

	2022		Total
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	
Changes in endowment net assets:			
Beginning endowment net assets:	\$ 14,306,706	\$ 20,357,849	\$ 34,664,555
Reclassifications	(136,413)	136,413	-
Contributions	-	8,440,599	8,440,599
Investment income	146,861	355,241	502,102
Losses on investments	(1,271,694)	(3,235,258)	(4,506,952)
Spending policy	(62,206)	(643,124)	(705,330)
Transfers	2,530,901	-	2,530,901
<hr/>			
Ending endowment net assets, including other funds pooled with endowed funds	\$ 15,514,155	\$ 25,411,720	\$ 40,925,875

As of June 30, 2022, endowed funds with donor restrictions consisted of funds restricted in perpetuity (in original gifts) of \$23,519,963 and accumulated earnings of \$1,891,757.

	2021		Total
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	
Changes in endowment net assets:			
Beginning endowment net assets:	\$ 5,614,284	\$ 16,269,720	\$ 21,884,004
Reclassifications	(180,419)	180,419	-
Contributions	-	536,676	536,676
Investment income	91,013	271,315	362,328
Gains on investments	1,206,697	3,719,331	4,926,028
Spending policy	(63,483)	(619,612)	(683,095)
Transfers	7,638,614	-	7,638,614
<hr/>			
Ending endowment net assets, including other funds pooled with endowed funds	\$ 14,306,706	\$ 20,357,849	\$ 34,664,555

As of June 30, 2021, endowed funds with donor restrictions consisted of funds restricted in perpetuity (in original gifts) of \$14,922,324 and accumulated earnings of \$5,435,525.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

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 \$553,623 and \$0 at June 30, 2022 and 2021, 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.

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, 2022 and 2021, student loans are as follows:

<i>June 30,</i>		2022		2021
Federal Perkins loan program	\$	5,695	\$	13,137
Institutional loans		328,255		349,255
		<u>333,950</u>		<u>362,392</u>
Less allowance for doubtful accounts:				
Beginning of the year		(120,472)		(72,172)
Decrease		(47,951)		(48,300)
End of year		<u>(168,423)</u>		<u>(120,472)</u>
Student loans receivable, net	\$	<u>165,527</u>	\$	<u>241,920</u>

The Methodist University, Inc.

Notes to Consolidated Financial Statements

10. Property and Equipment

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

<i>June 30,</i>	Useful Life (in years)	2022	2021
Land	-	\$ 1,518,601	\$ 1,518,601
Land improvements	15-25	11,369,332	11,317,330
Lease improvements	10	7,980	7,980
Buildings	50	85,095,605	83,900,963
Building improvements	25	19,541,067	18,915,715
Commercial building and improvements	5-50	1,730,996	1,730,996
Vehicles	5	1,209,161	803,131
Library books	12	2,367,701	2,349,364
Plant equipment	5-10	12,546,985	12,194,353
Computer equipment	3-5	6,200,517	4,838,837
Works of Art	-	164,614	164,614
Construction in progress	-	1,678,558	2,252,569
		143,431,117	139,994,453
Accumulated depreciation		(63,915,234)	(60,349,389)
Total property and equipment - net		\$ 79,515,883	\$ 79,645,064

Construction in progress at June 30, 2022 and 2021, consists of the following:

Project Description	Estimated Date of Completion	2022	2021
Reeves Renovation/Worship Center	Various	\$ 1,418,515	\$ 1,294,715
WiFi and Cable Upgrades	Feb-22	-	686,438
Softball Field House	Feb-22	-	239,821
Others	Various	260,043	31,595
Total		\$ 1,678,558	\$ 2,252,569

Depreciation expense totaled \$3,654,659 and \$3,657,709 for the years ended June 30, 2022 and 2021, respectively.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2022 and 2021, are as follows:

<i>June 30,</i>		2022		2021
Accounts payable	\$	509,367	\$	821,870
Accrued interest		344,267		335,234
Salaries and wages, benefits and payroll taxes		273,415		166,661
Faculty Early Retirement Plan		16,720		303,984
Accrued vacation		880,909		880,592
	\$	2,024,678	\$	2,508,341

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. For the year ended June 30, 2021, the University extended the FERP offer with the provision for a one-time benefit of 50% 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. As of June 30, 2022 and 2021, the FERP liability was \$16,720 and \$303,984, respectively.

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.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

12. Other Liabilities

Other liabilities at June 30, 2022 and 2021, are as follows:

<i>June 30,</i>		2022		2021
Agency obligations	\$	213,505	\$	247,878
Refundable advances - exchange transactions		965,940		1,259,347
Income taxes payable		157		-
Total other liabilities	\$	1,179,602	\$	1,507,225

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.

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, 2022 and 2021, the unamortized balance of these refundable advances was \$895,627 and \$1,172,784, 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, 2022 and 2021, the unamortized balance of these refundable advances was \$50,000 and \$60,000, 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, 2022 and 2021, the unamortized balance of these refundable advances was \$20,313 and \$26,563, respectively.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

13. Operating Lease Commitments

The University leases a variety of equipment under operating leases that will expire in various years through 2024. The University's lease liability was approximately \$134,884 and \$332,135 as of June 30, 2022 and 2021, respectively. This liability is based on the present value of the remaining minimum rental payments using a discount rate that is based on the University's incremental borrowing rate. The lease asset was \$134,884 and \$332,135 as of June 30, 2022 and 2021, respectively. This asset includes right of use assets equaling the lease liability, net of prepaid rent and deferred rents that existed as of the adoption of the new lease standard.

At June 30, 2022, the future minimum lease commitments under non-cancelable operating leases are as follows:

<i>Years ending June 30,</i>	Total
2023	118,908
2024	15,976
	<u>\$ 134,884</u>

Total lease expense for 2022 and 2021 totaled \$264,525 and \$270,522, respectively.

14. Obligation Under Finance Leases

The University has entered into various lease agreements for computers and other equipment. The leases expire at various dates through June 30, 2025 with lease obligations recorded in other liabilities in the statements of financial position. For financial reporting purposes, minimum lease payments have been capitalized.

Property held under capital leases at June 30, 2022 and 2021, is as follows:

<i>June 30,</i>	2022	2021
Computers and equipment	\$ 752,517	\$ 752,789
Less accumulated amortization	(315,245)	(525,289)
Total	<u>\$ 437,272</u>	<u>\$ 227,500</u>

Amortization of assets under capital leases is included in depreciation expense and amount to \$60,040 and \$71,580 for the years ended June 30, 2022, and 2021, respectively.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Future minimum lease payments under capital leases and the net present value of the future minimum lease payments for the next five years are as follows:

<i>Years ending June 30,</i>		Total
2023	\$	131,708
2024		106,933
2025		82,571
2026		71,776
2027		44,284
	\$	437,272

Total interest cost incurred related to the obligation under capital leases totaled \$21,278 and \$15,775 for the years ended June 30, 2022 and 2021, respectively.

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, 2022 and 2021, were \$0 and \$12,695,000, 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.

These bonds were refunded with the Series 2021 Fixed Rate Educational Facilities Revenue Bond on December 8, 2021.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

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, 2022 and 2021, were \$0 and \$14,900,000, 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.

These bonds were refunded with the Series 2021 Fixed Rate Educational Facilities Revenue Bond on December 8, 2021.

Series 2021 Educational Facilities Revenue Bond: The University issued its Series 2021 Fixed Rate Educational Facilities Revenue Bonds on December 8, 2021. The purpose of the Series 2021 Bond issue was to refund the Series 2012 and Series 2014 Bonds, to fund a debt service reserve fund, and to pay certain expenses incurred in connection with the issuance of the 2021 Bonds. The par amount of the bonds was \$28,055,000. The Series 2021 Bonds have defined interest rate of 4.0%, payable semiannually, and mature at various dates through 2034. B.C.Ziegler and Company d/b/a Ziegler Capital Markets Group served as the underwriter. Truist Bank serves as trustee. Collateral for the bond is a deed of trust on the University campus. The total outstanding balance at June 30, 2022 was \$25,820,000.

The proceeds of the bond were used to finance the Series 2012 and Series 2014 Educational Facilities Revenue Bonds and a note payable with Truist Bank. The total debt refinanced amounted to \$27,595,000. Proceeds were also used to fund a debt service reserve fund in the amount of \$3,023,419 and issuance costs of \$593,577.

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

Note payable - Truist Bank: Note payable - Truist, 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, 2021, was \$245,000. As noted above, this note was satisfied in full with the proceeds from the Series 2021 Educational Facilities Revenue Bond issuance.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Balances outstanding at June 30 consist of:

<i>June 30,</i>	2022	2021
Series 2012 Educational Facilities Revenue Bonds	\$ -	\$ 12,695,000
Series 2014 Educational Facilities Revenue Bonds	-	14,900,000
Series 2021 Educational Facilities Revenue Bonds	25,820,000	-
Note payable - Truist	-	245,000
Vehicle loans - Ford Motor Credit / Kia	10,155	18,500
	25,830,155	27,858,500
Plus unamortized bond premium	2,098,693	327,312
Less unamortized bond issue costs	(591,454)	(235,082)
Total	\$ 27,337,394	\$ 27,950,730

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

<i>Years ended June 30,</i>	Total
2023	\$ 1,923,676
2024	2,026,479
2025	2,145,000
2026	2,265,000
2027	2,390,000
Thereafter	15,080,000
	\$ 25,830,155

Total interest costs incurred related to bonds and notes payable were \$719,079 and \$1,005,729 for the years ended June 30, 2022 and 2021, respectively.

Bond administrative costs and fees totaled \$22,855 and \$19,241 for the years ended June 30, 2022 and 2021, respectively. Amortization of debt issuance costs totaled \$257,766 and \$37,249 for the years ended June 30, 2022 and 2021, respectively.

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 Truist 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 Methodist University, Inc.

Notes to Consolidated Financial Statements

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 swap expired in 2020. The original notional value of the swap with Truist 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 Truist Bank on a semi-annual basis through the maturity of the swap agreement on March 1, 2024. The Truist Bank swap had a current notional value of \$0 and \$7,450,000 at June 30, 2022 and 2021, respectively. The swap was terminated and satisfied in full in conjunction with the Series 2021 Fixed Rate Educational Facilities Revenue Bond issuance on December 8, 2021.

The net fair value of the interest rate swap was a liability of \$0 and \$508,874 at June 30, 2022 and 2021, respectively, and is shown as a liability on the consolidated statement of financial position.

17. Net Assets

Net assets without donor restrictions at June 30, 2022 and 2021, are as follows:

<i>June 30,</i>	2022	2021
Undesignated	\$ 17,032,213	\$ 12,073,665
Net investment in plant	51,606,333	51,134,699
Designated by the Board for Endowment	3,573,652	4,048,915
Total net assets without donor restrictions	\$ 72,212,198	\$ 67,257,279

Net assets with donor restrictions at June 30, 2022 and 2021, are as follows:

<i>June 30,</i>	2022	2021
Endowment funds restricted in perpetuity	\$ 23,519,963	\$ 14,992,324
Endowment funds, accumulated gains and other	1,891,757	5,435,525
Contributions and grants for scholarships, operations and construction projects	990,577	948,879
Contributions receivable, net	481,658	736,959
Total net assets with donor restrictions	\$ 26,883,955	\$ 22,113,687

The Methodist University, Inc.

Notes to Consolidated Financial Statements

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:

<i>Years ended June 30,</i>	2022	2021
Scholarships	\$ 831,690	\$ 845,098
Awards	98,165	106,362
Construction projects	568,584	838,276
Program expenses and other	392,726	1,770,703
Total net assets released from restrictions	\$ 1,891,165	\$ 3,560,439
Reconciliation to statement of activities:		
Release to net assets from operations	\$ 1,322,581	\$ 2,722,163
Release to net assets from nonoperating activity	568,584	838,276
	\$ 1,891,165	\$ 3,560,439

19. Auxiliary Enterprises

The University's auxiliary enterprise operations for the years ended June 30, 2022 and 2021, are summarized as follows:

	2022				
	Residence		Commercial		Total
	Halls	Cafeteria	Leasing (MUDC)	Other	
Revenues	\$ 5,944,307	\$ 3,807,414	\$ 86,343	\$ 269,742	\$ 10,107,806
Expenses:					
Direct expenses	519,772	2,033,816	22,587	180,075	2,756,250
Depreciation	549,512	101,822	39,284	517	691,135
Allocation of interest	389,912	32,671	-	29,302	451,885
Allocation of plant operations	3,501,150	255,571	-	301,332	4,058,053
Total expenses	4,960,346	2,423,880	61,871	511,226	7,957,323
Net auxiliary income (loss)	\$ 983,961	\$ 1,383,534	\$ 24,472	\$ (241,484)	\$ 2,150,483

The Methodist University, Inc.

Notes to Consolidated Financial Statements

	2021					Total
	Residence		Commercial		Other	
	Halls	Cafeteria	Leasing (MUDC)			
Revenues	\$ 5,447,924	\$ 3,346,134	\$ 81,218	\$ 199,056	\$ 9,074,332	
Expenses:						
Direct expenses	540,854	1,843,563	21,227	223,800	2,629,444	
Depreciation	569,558	102,892	39,284	520	712,254	
Allocation of interest	413,411	34,604	-	31,043	479,058	
Allocation of plant operations	3,340,097	279,571	-	250,877	3,870,545	
Total expenses	4,863,920	2,260,630	60,511	506,240	7,691,301	
Net auxiliary income (loss)	\$ 584,004	\$ 1,085,504	\$ 20,707	\$ (307,184)	\$ 1,383,031	

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 \$196,436 and \$29,536 for the years ended June 30, 2022 and 2021, respectively. After one year of service, the University contributes a discretionary 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 2% and 0% for the years ended June 30, 2022 and 2021, respectively. The employee has the option of contributing an additional amount up to the maximum allowed by the law. There is no vesting period.

21. Net Tuition and Sales and Services of Auxiliary Enterprises

Tuition revenue and discounts: Tuition and fees for instruction, net of scholarships and fellowships are substantially billed and collected prior to the end of each semester. Revenues are earned and recognized over the course of each semester as educational services are delivered. Accounts and notes receivable from students from services provided from contracts are disclosed in the consolidated financial statements. The portion of tuition revenue for the summer terms that is earned subsequent to the years ended June 30, 2022 and 2021, is recognized as tuition revenue in the following fiscal year. Tuition revenue earned for summer courses, which cross fiscal year-end, is immaterial to the consolidated financial statements.

Student financial aid in the form of scholarships and fellowships is reflected as contra-tuition revenue in the consolidated statements of activities.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

Disaggregated information concerning tuition and fees by type of student is as follows:

<i>Years ended June 30,</i>	2022	2021
Undergraduate (net of scholarships and fellowships of \$24,720,481 in 2022 and \$23,081,271 in 2021)	\$ 21,612,654	\$ 22,218,339
Graduate (net of scholarships and fellowships of \$17,338 in 2022 and \$53,515 in 2021)	4,310,422	3,737,426
Doctoral (net of scholarships and fellowships of \$14,144 in 2022 and \$27,706 in 2021)	7,787,953	7,303,318
Total tuition and fees (net of scholarships and fellowships of \$24,751,963 in 2022 and \$23,162,492 in 2021)	\$ 33,711,029	\$ 33,259,083

Sales and services of auxiliary enterprises: The University's sales and services of auxiliary enterprises consist principally of goods and services to the campus community, such as residence and dining halls, retail food services, campus store operations, facility rental, and camps and conferences. Revenues and expenses from auxiliary enterprises are reported as changes in net assets without donor restrictions.

Charges to students for campus residence and dining services are substantially billed and collected prior to the end of each semester. Associated revenues are earned and recognized over the course of each semester as these services are delivered. Accounts receivable from students for these services are reported in the consolidated financial statements.

Disaggregated information concerning sales and services of auxiliary enterprises by type of goods and/or service is as follows:

<i>Years ended June 30,</i>	2022	2021
Residence halls	\$ 5,944,307	\$ 5,447,924
Food service and vending	3,807,414	3,346,134
Campus store	159,998	145,907
Camps and conferences	19,744	649
Rental income	176,343	133,718
Total sales and services of auxiliary enterprises	\$ 10,107,806	\$ 9,074,332

The Methodist University, Inc.

Notes to Consolidated Financial Statements

22. Financial Aid (Tuition Discount)

The University awards financial aid on the basis of academic merit, need and leadership. Gross tuition discounts were 42.3% and 41.0% for the years ended June 30, 2022 and 2021, respectively. The unfunded discount rate was 40.6% and 38.0% for each of the years ended June 30, 2022 and 2021, 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.

	2022		2021	
	Dollars	Percentage	Dollars	Percentage
Unfunded discount	\$ 23,735,303	40.6%	\$ 21,450,308	38.0%
Funded discount	1,016,660	1.7%	1,712,184	3.0%
Total	\$ 24,751,963	42.3%	\$ 23,162,492	41.0%
Gross tuition	\$ 58,462,992		\$ 56,421,575	

23. Related Party Transactions

Contributions receivable from trustees at June 30, 2022 and 2021, amounted to \$456,698 and \$841,846, respectively.

The University leases certain copier equipment from a company owned by one of the University's trustees. Payments under these leases totaled \$145,580 and \$130,201 for the years ended June 30, 2022 and 2021, respectively.

24. Commitments and Contingencies

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.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

25. COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health 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 area in which the University operates. In response to the pandemic, the U.S. federal government has enacted a number of policies to provide fiscal stimulus to the economy and relief to those affected by this global disaster.

On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. On December 27, 2020, the *Coronavirus Response and Relief Supplemental Appropriations Act* (CRRSAA) was enacted to supplement and extend the purpose of the CARES Act. As part of the CARES and CRRSAA Acts, \$14 billion and \$21 billion was provided to the Office of Postsecondary Education for the creation of the Higher Education Emergency Relief Fund I (HEERF I) and the Higher Education Emergency Relief Fund II (HEERF II), respectively.

Under the provisions of the CARES Act (HEERF I), no less than 50% of HEERF funds received by an institution must be used to provide emergency financial aid to students. Under the provisions of CRRSAA (HEERF II), institutions are required to provide at least the same amount of funding in financial aid grants to students as was required under the CARES Act. The institutional portion of the HEERF I and II awards could be used for various costs associated with COVID-19 and/or to supplement certain lost revenues resulting from COVID-19, based on guidance provided by the Department of Education.

The student and institutional awards expended are recognized as revenues and reported in COVID-19 grants and government assistance in the statements of activities in each respective year.

On March 11, 2021, the *American Rescue Plan* (ARP) was enacted to provide additional funding under the same provisions as CRRSAA and CARES. As part of the ARP, \$40 billion was provided to the Office of Postsecondary Education for the creation of the Higher Education Emergency Relief Fund III (HEERF III). HEERF III provides additional funding to institutions for emergency financial aid grants to students as well as funding to support institutional costs related to the pandemic.

The University recognized revenue from HEERF funds in the amount of \$5,343,982 during the year ended June 30, 2022, which consisted of student awards of \$2,608,540 and institutional awards of \$2,735,442.

The Methodist University, Inc.

Notes to Consolidated Financial Statements

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. 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 applied for full forgiveness of its loan during the year ended June 30, 2021 and received approval of its application in June of 2021. Accordingly, the University derecognized its liability for the PPP loan and recorded non-operating income in fiscal 2021. 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.

The University recognized revenue from HEERF funds in the amount of \$3,808,310 during the year ended June 30, 2021, which consisted of student awards of \$1,001,642 and institutional awards of \$2,806,668.

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.

Supplementary Information

The Methodist University, Inc.

Financial Responsibility Ratio Supplemental Schedule

June 30, 2022

Financial Statement and Financial Statement Line Item or Footnote Disclosure	Expendible Net Assets	Financial Statement Line Item Amount	Amount Used for Ratio
Primary Reserve Ratio			
Consolidated Statement of Financial Position - Net assets without donor restrictions	Net assets without donor restrictions		\$ 72,212,198
Consolidated Statement of Financial Position - Net assets without donor restrictions	Net assets with donor restrictions		26,883,955
Note 17 to the Consolidated Financial Statements - Net Assets	Net assets with donor restrictions; restricted in perpetuity		23,519,963
N/A	Annuities with donor restrictions		-
N/A	Term endowments with donor restrictions		-
N/A	Life income funds with donor restrictions		-
Note 23 to the Consolidated Financial Statements - Related Party Transactions	Secured and unsecured related party receivable	\$ 456,698	
Note 23 to the Consolidated Financial Statements - Related Party Transactions	Unsecured related party receivable		456,698
Consolidated Statement of Financial Position - Property and equipment, net	Property, plant and equipment, net, including construction in progress	79,515,883	
Note 10 to the Consolidated Financial Statements - Property and Equipment	Property, plant and equipment; pre-implementation, leases grandfathered		68,863,861
Note 15 to the Consolidated Financial Statements - Long-Term Debt	Property, plant and equipment; post-implementation - with outstanding debt for acquisition		412,922
Note 10 to the Consolidated Financial Statements - Property and Equipment	Property, plant and equipment: post- implementation - without outstanding debt for acquisition		8,560,542
Note 10 to the Consolidated Financial Statements - Property and Equipment	Construction in progress		1,678,558
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 15 to the Consolidated Financial Statements - Long Term Debt	Intangible assets		591,454
N/A	Post-employment and pension liabilities		-
Consolidated Statement of Financial Position - Debt, net	Long-term debt; for long term purposes	27,337,394	
Consolidated Statement of Financial Position - Debt, net	Long-term debt; for long term purposes pre-implementation, debt grandfathered		27,337,394
Consolidated Statement of Financial Position - Debt, net	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	-	-
Consolidated Statement of Financial Position - ROU asset - operating leases	Right of use asset lease obligation; post- implementation	-	134,884
Total Expendible Net Assets			\$ 22,214,665

The Methodist University, Inc.

Financial Responsibility Ratio Supplemental Schedule

June 30, 2022

Financial Statement and Financial Statement Line Item or Footnote Disclosure	Expendible Net Assets	Financial Statement Line Item Amount	Amount Used for Ratio
Expenses and Losses			
Consolidated Statement of Activities -			
Total expenses	Total expenses without donor restrictions		46,986,946
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 Statements of Activities -			
Transfers	Other losses - transfers	136,413	
N/A	Pension-related changes other than net periodic pension costs	-	
	Non-operating and net investment loss		136,413
Consolidated Statements of Activities -			
Investment return	Investment loss, net investment return appropriated for spending		1,234,717
	Pension-related changes other than net periodic costs		-
Total expenses and losses			\$ 48,358,076
Equity Ratio			
Modified Net Assets			
Consolidated Statement of Financial			
Position - Net assets without donor restrictions	Net assets without donor restrictions		72,212,198
Consolidated Statement of Financial			
Position - Net assets with donor restrictions	Net assets with donor restrictions		26,883,955
Note 15 to the Consolidated Financial Statements - Long Term Debt	Intangible assets		591,454
Note 23 to the Consolidated Financial Statements - Related Party Transactions	Secured and Unsecured related party receivable	456,698	
Note 23 to the Consolidated Financial Statements - Related Party Transactions	Unsecured related party receivable		456,698
Total modified net assets			\$ 98,048,001
Modified Assets			
Consolidated Statement of Financial			
Position - Total assets	Total assets		\$ 132,268,238
N/A	Lease right-of-use asset; pre-implementation, leases grandfathered		
N/A	Lease right-of-use liability; pre-implementation, leases grandfathered		
Note 15 to the Consolidated Financial Statements - Long Term Debt	Intangible assets		591,454
Note 23 to the Consolidated Financial Statements - Related Party Transactions	Secured and Unsecured related party receivable	456,698	-
Note 23 to the Consolidated Financial Statements - Related Party Transactions	Unsecured related party receivable		456,698
Total modified assets			\$ 131,220,086

The Methodist University, Inc.

Financial Responsibility Ratio Supplemental Schedule

June 30, 2022

Financial Statement and Financial Statement Line Item or Footnote Disclosure	Expendible Net Assets	Financial Statement Line Item Amount	Amount Used for Ratio
Net Income Ratio			
<u>Change in Net Assets Without Donor Restrictions</u>			
Consolidated Statements of Activities - Change in net assets	Change in Net Assets Without Donor Restrictions; increase (decrease)		\$ 4,954,919
<u>Total Revenue and Gains</u>			
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	53,128,695	
Consolidated Statement of Activities - Investment return designated for current operations	Net investment return appropriated for spending	62,206	
Consolidated Statement of Activities - operations and investment return in excess of amounts designated for current operations	Total net investment return, including investment return appropriated for spending	-	
N/A	Change in value of split-interest agreements	-	
Consolidated Statement of Activities - Net income of MUDC, unrealized gain on interest rate swap agreement, Gain on sale of property and equipment	Other gains	184,300	
N/A	Pension-related changes other than net periodic pension	-	
Total revenues and gains without donor restrictions			\$ 53,250,789

The Methodist University, Inc.
Consolidated Statements of Financial Position -
AICPA Audit Guide Fund Group Disaggregation
Year Ended June 30, 2022

(With Comparative Totals for the Year Ended June 30, 2021)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	2022	2021
Assets						
Cash and cash equivalents	\$ 4,870,439	\$ 1,523	\$ 2,400,890	\$ 367,938	\$ 7,640,790	\$ 13,142,583
Restricted cash and cash equivalents	892,054	-	-	3,023,469	3,915,523	2,391,237
Amounts due from other funds	-	-	1,010,835	1	1,010,836	8,414,345
Receivables:						
Students, net	463,947	-	-	-	463,947	237,006
Contributions, net	1,475,295	-	20,910	-	1,496,205	1,061,702
Other	1,026,161	336	-	35,497	1,061,994	1,251,516
Prepaid expenses and other assets	243,958	-	192,526	38,787	475,271	519,391
Investments	-	-	37,300,714	97,500	37,398,214	25,473,940
Student loans receivable, net	159,832	5,695	-	-	165,527	241,920
Right-of-use asset - operating leases	134,884	-	-	-	134,884	332,135
Property and equipment, net	-	-	-	79,515,883	79,515,883	79,645,064
Total assets	\$ 9,266,570	\$ 7,554	\$ 40,925,875	\$ 83,079,075	\$ 133,279,074	\$ 132,710,839
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued liabilities	\$ 1,680,411	\$ -	\$ -	\$ 344,267	\$ 2,024,678	\$ 2,508,341
Amounts due to other funds	1,010,836	-	-	-	1,010,836	8,414,345
Deferred revenues	1,661,727	-	-	7,464	1,669,191	1,536,683
Student deposits	377,950	-	-	-	377,950	328,960
Other liabilities	213,505	-	-	966,098	1,179,603	1,507,225
Obligations under capital leases	134,884	-	-	437,272	572,156	559,635
Debt, net	-	-	-	27,337,394	27,337,394	27,950,730
Interest rate swap agreements	-	-	-	-	-	508,874
U.S. Government advances for student loan	-	11,113	-	-	11,113	25,080
Total liabilities	5,079,313	11,113	-	29,092,495	34,182,921	43,339,873
Net assets:						
Net assets (deficit) without donor restrictions	2,715,022	(3,559)	15,514,155	53,986,580	72,212,198	67,257,279
Net assets with donor restrictions	1,472,235	-	25,411,720	-	26,883,955	22,113,687
Total net assets	4,187,257	(3,559)	40,925,875	53,986,580	99,096,153	89,370,966
Total liabilities and net assets	\$ 9,266,570	\$ 7,554	\$ 40,925,875	\$ 83,079,075	\$ 133,279,074	\$ 132,710,839

The Methodist University, Inc.
Consolidating Schedules of Financial Position
June 30, 2022

	2022				2021			
	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	\$ 7,276,879	\$ 363,911	\$ -	\$ 7,640,790	\$ 12,865,968	\$ 276,615	\$ -	\$ 13,142,583
Restricted cash and cash equivalents	3,915,523	-	-	3,915,523	2,391,237	-	-	2,391,237
Receivables:								
Students, net	463,947	-	-	463,947	237,006	-	-	237,006
Contributions, net	1,496,205	-	-	1,496,205	1,061,702	-	-	1,061,702
Other	1,061,994	-	-	1,061,994	1,251,516	-	-	1,251,516
Prepaid expenses and other assets	436,484	38,787	-	475,271	480,259	39,132	-	519,391
Investments	38,364,919	-	(966,705)	37,398,214	26,393,572	-	(919,632)	25,473,940
Student loans receivable, net	165,527	-	-	165,527	241,920	-	-	241,920
Right-of-use asset - operating leases	134,884	1,773,336	(1,773,336)	134,884	332,135	1,863,208	(1,863,208)	332,135
Property and equipment, net	78,944,254	571,629	-	79,515,883	79,034,150	610,914	-	79,645,064
Total assets	\$ 132,260,616	\$ 2,747,663	\$ (2,740,041)	\$ 132,268,238	\$ 124,289,465	\$ 2,789,869	\$ (2,782,840)	\$ 124,296,494
Liabilities and Net Assets								
Liabilities:								
Accounts payable and accrued liabilities	\$ 2,024,678	\$ -	\$ -	\$ 2,024,678	\$ 2,508,341	\$ -	\$ -	\$ 2,508,341
Deferred revenues	1,661,727	7,464	-	1,669,191	1,529,654	7,029	-	1,536,683
Student deposits	377,950	-	-	377,950	328,960	-	-	328,960
Other liabilities	1,179,445	158	-	1,179,603	1,507,225	-	-	1,507,225
Obligations under capital leases	572,156	1,773,336	(1,773,336)	572,156	559,635	1,863,208	(1,863,208)	559,635
Debt, net	27,337,394	-	-	27,337,394	27,950,730	-	-	27,950,730
Interest rate swap agreements	-	-	-	-	508,874	-	-	508,874
U.S. Government advances for student loans	11,113	-	-	11,113	25,080	-	-	25,080
Total liabilities	33,164,463	1,780,958	(1,773,336)	33,172,085	34,918,499	1,870,237	(1,863,208)	34,925,528
Net assets:								
Net assets without donor restrictions	72,212,198	966,705	(966,705)	72,212,198	67,257,279	919,632	(919,632)	67,257,279
Net assets with donor restrictions	26,883,955	-	-	26,883,955	22,113,687	-	-	22,113,687
Total net assets	99,096,153	966,705	(966,705)	99,096,153	89,370,966	919,632	(919,632)	89,370,966
Total liabilities and net assets	\$ 132,260,616	\$ 2,747,663	\$ (2,740,041)	\$ 132,268,238	\$ 124,289,465	\$ 2,789,869	\$ (2,782,840)	\$ 124,296,494

The Methodist University, Inc.

Consolidating Schedules of Activities

Year ended June 30, 2022	The Methodist University, Inc.	Methodist University Development Corp.	Eliminations	Total
Operating revenues, gains and other support:				
Tuition and fees, net of scholarships of \$24,751,963	\$ 33,711,029	\$ -	-	\$ 33,711,029
Government contracts and grants	3,684,013	-	-	3,684,013
Contributions and private grants	3,931,308	-	-	3,931,308
Investment return designated for current operations	705,330	-	-	705,330
Other income	534,994	7	-	535,001
Sales and services of auxiliary enterprises	10,021,463	272,343	(186,000)	10,107,806
Total revenues, gains and other support	52,588,137	272,350	(186,000)	52,674,487
Operating expenses and losses:				
Educational and general instruction	19,575,204	-	(102,585)	19,472,619
Academic support	2,114,275	-	(17,051)	2,097,224
Student services	10,129,064	-	(55,136)	10,073,928
Institutional support	7,396,265	-	(10,413)	7,385,852
Auxiliary enterprises	7,896,267	225,277	(164,221)	7,957,323
Total operating expenses and losses	47,111,075	225,277	(349,406)	46,986,946
Change in net assets from operations	5,477,062	47,073	163,406	5,687,541
Other changes:				
Federal aid for students - CARES Act	2,608,540	-	-	2,608,540
Federal aid disbursed for students - CARES Act	(2,608,540)	-	-	(2,608,540)
Contributions and private grants	8,611,204	-	-	8,611,204
Investment return less than amounts designated for current operations	(4,547,379)	-	(210,479)	(4,757,858)
Net income of MUDC	47,073	-	-	47,073
Gain on sale of fixed assets	5,600	-	-	5,600
Unrealized gain on interest rate swap agreements	131,627	-	-	131,627
Change in net assets	9,725,187	47,073	(47,073)	9,725,187
Net assets:				
Beginning	89,370,966	919,632	(919,632)	89,370,966
Ending	\$ 99,096,153	\$ 966,705	\$ (966,705)	\$ 99,096,153

The Methodist University, Inc.

Consolidating Schedules of Activities

<i>Year ended June 30, 2021</i>	The Methodist University, Inc.	Methodist University Development Corp.	Eliminations	Total
Operating revenues, gains and other support:				
Tuition and fees, net of scholarships of \$23,162,493	\$ 33,259,083	\$ -	\$ -	\$ 33,259,083
Government contracts and grants	3,139,025	-	-	3,139,025
Contributions and private grants	1,723,056	-	-	1,723,056
Investment return designated for current				
Investment return designated for current operations	683,095	-	-	683,095
Other income	756,264	-	-	756,264
Sales and services of auxiliary enterprises	8,993,114	267,218	(186,000)	9,074,332
Total revenues, gains and other support	48,553,637	267,218	(186,000)	48,634,855
Operating expenses and losses:				
Educational and general instruction	19,950,604	-	(102,133)	19,848,471
Academic support	2,174,240	-	(17,005)	2,157,235
Student services	8,502,775	-	(53,335)	8,449,440
Institutional support	6,315,145	-	(10,356)	6,304,789
Auxiliary enterprises	7,633,961	220,842	(163,502)	7,691,301
Total operating expenses and losses	44,576,725	220,842	(346,331)	44,451,236
Change in net assets from operations	3,976,912	46,376	160,331	4,183,619
Other changes:				
Federal aid for students - CARES Act	1,001,642	-	-	1,001,642
Federal aid disbursed for students - CARES Act	(1,001,642)	-	-	(1,001,642)
Contributions and private grants	597,581	-	-	597,581
Investment return in excess of amounts designated for current operations	4,764,860	-	(206,707)	4,558,153
Net income of MUDC	46,376	-	-	46,376
PPP loan forgiveness	5,192,100	-	-	5,192,100
Gain on sale of fixed assets	36,387	-	-	36,387
Unrealized loss on interest rate swap agreement	232,582	-	-	232,582
Change in net assets	14,846,798	46,376	(46,376)	14,846,798
Net assets:				
Beginning	74,524,168	873,256	(873,256)	74,524,168
Ending	\$ 89,370,966	\$ 919,632	\$ (919,632)	\$ 89,370,966

Reports and Schedules Required by *Government Auditing
Standards* and the Uniform Guidance



Tel: 919-754-9370
Fax: 919-754-9369
www.bdo.com

421 Fayetteville Street
Suite 300
Raleigh, NC 27601

Independent Auditor's 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*

Financial Affairs Committee
The Methodist University, Inc.

We have audited, in accordance with the 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, the consolidated financial statements of The Methodist University, Inc. (the University), which comprise the University's consolidated statement of financial position as of June 30, 2022, and 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 November 30, 2022.

Report on 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 consolidated 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 or significant deficiencies may exist that were not identified.

Report on 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 consolidated 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*.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.



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 University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

November 30, 2022



Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Financial Affairs Committee
The Methodist University, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The Methodist University, Inc.'s (the University) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2022. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the University's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the University's federal programs.



Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the University's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the University's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the University's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the University's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the University's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The University is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The University's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.



Report on 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 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 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 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

February 16, 2023

The Methodist University, Inc.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Department of Education:			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007	n/a	\$ 273,696
Federal Work-Study Program	84.033	n/a	172,126
Federal Perkins Loans	84.038	n/a	-
Federal Pell Grant Program	84.063	n/a	2,944,943
Federal Direct Student Loans	84.268	n/a	22,439,264
Total Student Financial Assistance Cluster			25,830,029
Education Stabilization Fund - Higher Education			
Emergency Relief Fund ("HEERF")			
Pass-through from the North Carolina State Education Assistance Authority			
COVID-19 Governor's Emergency Education Relief Fund	84.425C	30-06-25	107,923
COVID-19 HEERF Student Aid Portion	84.425E	n/a	2,608,140
COVID-19 HEERF Institutional Aid Portion	84.425F	n/a	2,587,637
COVID-19 HEERF Strengthening Institutions Program	84.425M	n/a	230,313
Total Education Stabilization Fund			5,534,013
Total Department of Education			31,364,042
Department of Health and Human Services:			
Nurse Education, Practice Quality and Retention Grants	93.359	n/a	295,441
Total Department of Health and Human Services			295,441
Total Expenditures of Federal Awards			\$ 31,659,483

The accompanying notes are an integral part of this schedule.

The Methodist University, Inc.

Notes to Schedule of Expenditures of Federal Awards and Disclosures Relative to State Awards Year Ended June 30, 2022

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The Methodist University, Inc. under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of The Methodist University, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Methodist University, Inc.

2. Summary of Significant Accounting Policies

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.

3. Indirect Cost Rate

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

4. Loans Outstanding

The Methodist University, Inc. has \$5,695 in loan balances outstanding at June 30, 2022, under the Federal Perkins Loan Program, Assistance Listing Number 84.038. This loan program is also included in the federal expenditures presented in the Schedule.

5. Subrecipients

There were no program funds passed through the University to subrecipients during the year ended June 30, 2022.

6. State Awards

During fiscal 2022, the University awarded \$3,038,821 in North Carolina Need Based Scholarships, which is funding received from the state of North Carolina. Such funds were considered direct and material to the University.

The Methodist University, Inc.

Schedule of Findings and Questioned Costs Year Ended June 30, 2022

Section I—Summary of Auditor’s Results

Financial Statements

Type of report the auditor 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? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Type of auditor’s report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X yes _____ No

Identification of major federal programs:

CFDA Number(s)

84.007, 84.033, 84.038, 84.063, 84.268

84.425C, 84.425E, 84.425F, 84.425M

Name of Federal Program or Cluster

Student Financial Assistance Cluster

Education Stabilization Fund- Higher Education Emergency Relief Fund

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X yes _____ no

The Methodist University, Inc.

Schedule of Findings and Questioned Costs Year Ended June 30, 2022

Section II—Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements related to the financial statements for which *Government Auditing Standards* requires reporting.

No financial statement audit findings that are required to be reported were identified.

The Methodist University, Inc.

Schedule of Findings and Questioned Costs Year Ended June 30, 2022

Section III—Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by 2 CFR 200.516(a) (for example, significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs, and significant instances of abuse).

FINDING 2022-001

Federal Program Information: Student Financial Assistance Cluster (Various ALN's)

Criteria or Specific Requirement: *N. Special Test and Provisions - Disbursements To or On Behalf of Students - Direct Loan* - If a student received financial aid while attending one or more other institutions, schools are required to request financial aid history using the National Student Loan Data System (NSLDS) Student Transfer Monitoring Process. Under this process, a school informs NSLDS about its transfer students. NSLDS will "monitor" those students on the school's "inform" list and "alert" the school of any relevant financial aid history changes. A school must wait 7 days after it "informs" NSLDS about a transfer student before disbursing Title IV aid to that student (34 CFR 668.19).

Condition: The University did not inform NSLDS of a certain transfer student.

Cause: Administrative oversight.

Effect or Potential Effect: The University did not follow the NSLDS Student Transfer Monitoring Process.

Questioned Costs: None.

Context: For 1 of 6 transfer students tested, the University did not add the student to its NSLDS Transfer Monitoring List as required.

Identification as a Repeat Finding: There was no similar finding identified during the prior year.

Recommendation: We recommend the University enhance its procedures over transfer monitoring to ensure that all mid-year transfer students are added to the NSLDS Transfer Monitoring List.

Views of Responsible Officials: Going forward, this has been corrected using "Tasks" in PowerFAIDS, which will identify mid-year transfer students, alerting the financial aid staff to enter the student into the "NSLDS Mid-Year Transfer" section in PowerFAIDS and transmitting the file to NSLDS.



Summary Schedule of Prior Audit Findings
Year Ended June 30, 2022

FINDING 2021-001

Type of Finding:

Federal award finding.

Federal Program Information:

Student Financial Assistance Cluster

Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):

Federal regulation 34 CFR 685.309 states 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 University did not report students' status changes accurately and within the required timeframe.

Status of Finding as of June 30, 2022:

Corrective action was taken.

FINDING 2021-002

Type of Finding:

Federal award finding.

Federal Program Information:

Student Financial Assistance Cluster

Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):

Federal regulation 34 CFR 690.63 states that Federal Pell Grants should be awarded based upon the payment and disbursement schedules published by the Department of Education for each award year and includes formulas for calculating awards for payment period.

Condition:

The University did not disburse a student's Pell award in a timely manner.

Status of Finding as of June 30, 2022:

Corrective action was taken. 5400 Ramsey Street / Fayetteville, NC 28311-1498
Office of the Controller
1.800.488.7110 / 1.910.630.7539 / FAX: 1.910.630.7306 / www.methodist.edu



Management's Corrective Action Plan
Year Ended June 30, 2022

FINDING 2022-001

Name of Responsible Individual: Bonnie Adamson

Corrective Action: Going forward, this has been corrected using "Tasks" in PowerFAIDS, which will identify mid-year transfer students, alerting the financial aid staff to enter the student into the "NSLDS Mid-Year Transfer" section in PowerFAIDS and transmitting the file to NSLDS.

Anticipated Completion Date: February 2023