



UNIVERSITY OF ST. THOMAS

Financial Statements



Fiscal Year Ended June 30, 2020

With Report of Independent Auditors

UNIVERSITY OF ST. THOMAS
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

**UNIVERSITY OF ST. THOMAS
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
University of St. Thomas
Saint Paul, Minnesota

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Board of Trustees
University of St. Thomas

Opinion

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 5, 2020

UNIVERSITY OF ST. THOMAS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Cash and Cash Equivalents	\$ 12,440,706	\$ 2,876,817
Accounts Receivable, Net	7,755,061	13,376,819
Inventories, Prepaid Expenses, and Other Assets	5,392,421	6,300,331
Contributions Receivable, Net	119,348,707	122,852,026
Student and Other Notes Receivable, Net	3,535,774	4,385,401
Funds Held with Bond Trustees	26,932,350	92,602,591
Investments	665,388,171	670,657,251
Land, Buildings, and Equipment, Net	490,770,912	403,911,782
Total Assets	\$ 1,331,564,102	\$ 1,316,963,018
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 39,585,767	\$ 28,671,709
Unearned Tuition Income	7,787,834	6,347,330
Deposits and Other Liabilities	40,409,255	42,960,969
Assets Held in Custody for Others	986,037	985,747
Annuity Obligations	5,813,938	6,063,550
Bonds Payable	238,255,215	248,714,502
Advances from Federal Government for Student Loans	3,205,759	4,309,727
Total Liabilities	336,043,805	338,053,534
NET ASSETS		
Without Donor Restrictions	451,273,969	446,863,085
With Donor Restrictions	544,246,328	532,046,399
Total Net Assets	995,520,297	978,909,484
Total Liabilities and Net Assets	\$ 1,331,564,102	\$ 1,316,963,018

See accompanying Notes to Consolidated Financial Statements.

UNIVERSITY OF ST. THOMAS
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES						
Tuition and Fees	\$ 334,990,983	\$ -	\$ 334,990,983	\$ 320,680,532	\$ -	\$ 320,680,532
Less: Student Aid	(151,293,754)	-	(151,293,754)	(140,177,275)	-	(140,177,275)
Net Tuition and Fees	183,697,229	-	183,697,229	180,503,257	-	180,503,257
Sales and Services of Auxiliary Enterprises	30,153,659	-	30,153,659	41,962,159	-	41,962,159
Private Gifts and Grants	8,281,889	13,992,043	22,273,932	6,959,786	13,037,463	19,997,249
Grants and Contracts	8,444,700	1,126,104	9,570,804	5,233,351	541,247	5,774,598
Endowment Distributed to Operations	2,933,738	14,009,960	16,943,698	2,708,440	14,663,542	17,371,982
Other Ordinary Investment Income	1,142,437	-	1,142,437	2,497,875	-	2,497,875
Sales and Services of Educational Departments	3,120,041	-	3,120,041	4,398,482	-	4,398,482
Other Revenue	6,300,006	-	6,300,006	5,686,506	-	5,686,506
Net Assets Released from Restrictions	32,288,687	(32,288,687)	-	31,278,805	(31,278,805)	-
Total Operating Revenues	276,362,386	(3,160,580)	273,201,806	281,228,661	(3,036,553)	278,192,108
OPERATING EXPENDITURES						
Instruction and Other Services:						
Instruction	126,658,229	-	126,658,229	130,121,164	-	130,121,164
Auxiliary Enterprises	32,586,032	-	32,586,032	38,115,203	-	38,115,203
Student Activities and Services	33,534,359	-	33,534,359	33,554,395	-	33,554,395
Academic Support	15,242,149	-	15,242,149	15,288,970	-	15,288,970
Libraries	9,473,000	-	9,473,000	9,584,132	-	9,584,132
Public Service	3,125,089	-	3,125,089	3,386,309	-	3,386,309
Research	2,006,041	-	2,006,041	1,345,034	-	1,345,034
Total Instruction and Other Services	222,624,899	-	222,624,899	231,395,207	-	231,395,207
Management and General:						
General Administration and Support Services	31,677,875	-	31,677,875	34,329,504	-	34,329,504
Development	10,164,226	-	10,164,226	10,150,457	-	10,150,457
Total Management and General	41,842,101	-	41,842,101	44,479,961	-	44,479,961
Total Operating Expenditures	264,467,000	-	264,467,000	275,875,168	-	275,875,168
NET OPERATING INCOME (LOSS)	11,895,386	(3,160,580)	8,734,806	5,353,493	(3,036,553)	2,316,940
NONOPERATING ACTIVITIES						
Endowment Gifts	-	37,539,844	37,539,844	-	21,246,118	21,246,118
Endowment Investment Earnings:						
Investment Ordinary Income	524,139	2,653,466	3,177,605	1,013,346	4,171,256	5,184,602
Net Capital (Loss) Gain on Investments	(2,358,576)	(10,474,846)	(12,833,422)	3,257,215	11,794,031	15,051,246
Less: Distributed to Operations	(2,933,738)	(14,009,960)	(16,943,698)	(2,708,440)	(14,663,551)	(17,371,991)
Net Nonoperating Endowment (Loss) Gain	(4,768,175)	(21,831,340)	(26,599,515)	1,562,121	1,301,736	2,863,857
Other Investment Capital (Loss) Gain	(2,210,681)	42,005	(2,168,676)	3,606,008	(49,591)	3,556,417
Gain (Loss) on Disposal of Property and Equipment	5,587	-	5,587	(815,330)	-	(815,330)
Net Unrealized Loss on Interest Rate Exchange Agreement	(511,233)	-	(511,233)	(284,708)	-	(284,708)
Donor Adjustments	-	(390,000)	(390,000)	26,447	(452,928)	(426,481)
Income Tax Reduction	-	-	-	-	368,981	368,981
Net Nonoperating (Loss) Income	(7,484,502)	15,360,509	7,876,007	4,094,538	22,414,316	26,508,854
CHANGE IN NET ASSETS	4,410,884	12,199,929	16,610,813	9,448,031	19,377,763	28,825,794
Net Assets - Beginning of Year	446,863,085	532,046,399	978,909,484	437,415,054	512,668,636	950,083,690
NET ASSETS - END OF YEAR	<u>\$ 451,273,969</u>	<u>\$ 544,246,328</u>	<u>\$ 995,520,297</u>	<u>\$ 446,863,085</u>	<u>\$ 532,046,399</u>	<u>\$ 978,909,484</u>

See accompanying Notes to Consolidated Financial Statements.

UNIVERSITY OF ST. THOMAS
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 16,610,813	\$ 28,825,794
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	16,074,623	16,629,098
Amortization of Debt Issuance Costs	190,711	172,573
Net Realized and Unrealized Investment Losses (Gains)	15,002,098	(18,607,663)
Noncash Gifts of Property and Equipment	(396,168)	(124,668)
Contributions Restricted for Long-Term Investment	(43,862,277)	(47,392,086)
Interest and Dividend Income Restricted for Long-Term Investment	(3,177,605)	(5,184,602)
Increase in Allowance for Uncollectible Pledges	427,905	1,049,089
(Gain) Loss on Disposal of Land, Buildings, and Equipment	(5,587)	815,330
Noncash Contributions of Marketable Securities	(3,970,242)	(3,668,032)
Decrease (Increase) in Operating Assets:		
Accounts Receivable, Net	5,621,758	(2,045,994)
Contributions Receivable	3,075,414	27,383,721
Student and Other Notes Receivable	849,627	818,715
Inventories, Prepaids, and Other Assets	907,910	362,773
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	10,914,058	7,413,383
Unearned Tuition Income	1,440,504	(134,527)
Deposits and Other Liabilities	(186,822)	11,067,104
Assets Held in Custody for Others	290	(45,854)
Annuity Obligations	(249,612)	(418,303)
Advances from Federal Government for Student Loans	(1,103,968)	48,958
Net Cash Provided by Operating Activities	18,163,430	16,964,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(132,366,250)	(129,443,452)
Proceeds from Sales and Maturities of Investments	126,603,474	96,332,258
Changes in Assets Held with Bond Trustees, Excluding Net Gains and Losses	65,670,241	(92,573,581)
Expenditures for Land, Buildings, and Equipment	(102,542,162)	(13,442,159)
Proceeds from Sale of Land, Buildings, and Equipment	10,164	20,796
Net Cash Used by Investing Activities	(42,624,533)	(139,106,138)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Endowment, and for Land, Buildings, and Equipment	43,862,277	47,392,086
Proceeds from the Issuance of Bonds Payable	-	80,525,000
Payments on Bonds Payable	(10,454,092)	(10,398,821)
Debt Issuance Costs	(195,906)	(195,906)
Payments on Capital Leases	(2,364,892)	(2,896,064)
Interest and Dividend Income Restricted for Long-Term Investment	3,177,605	5,184,602
Net Cash Provided by Financing Activities	34,024,992	119,610,897
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,563,889	(2,530,432)
Cash and Cash Equivalents - Beginning of Year	2,876,817	5,407,249
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 12,440,706	\$ 2,876,817
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 9,866,143	\$ 7,306,709
Building and Equipment Acquisitions Included Under Accounts Payable and Accrued Expenses	\$ 14,989,683	\$ 5,184,933
Equipment Acquired through Capital Lease Agreements	\$ 3,424,218	\$ 1,227,529

See accompanying Notes to Consolidated Financial Statements.

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Founded in 1885, the University of St. Thomas (the University) is a Catholic university based in the Twin Cities of St. Paul and Minneapolis. The largest private university in Minnesota, the University offers bachelor's degrees in over 100 major fields of study and more than 60 graduate degree programs including masters, education specialist, juris doctor, and doctorates.

Basis of Presentation

The accompanying consolidated statements of the University have been prepared on an accrual basis of accounting.

Net assets and related revenues and expenses are classified into the following two categories based upon the existence or absence of donor-imposed restrictions:

Without Donor Restrictions

Net assets not subject to donor-imposed stipulations. Certain of these amounts have been designated by the board for investment purposes as indicated in the presentation.

With Donor Restrictions

Net assets subject to donor-imposed stipulations that: a) restrict their use to a specific purpose and/or the passage of time; or b) require that they be maintained in perpetuity by the University; generally, the donor of these assets permits the University to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

Revenues are reported as increases in *net assets without donor restrictions* unless use of the related assets is limited by donor-imposed restrictions. Donor-restricted contributions whose restrictions are met in the same year the gift is made are reported as contributions *with donor restrictions* and releases in the current year. Expirations of donor-imposed restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished, and/or the stipulated time period has elapsed, are reported as net assets released from restrictions. Expenses are reported as decreases in *net assets without donor restrictions*. Gains and losses on assets and liabilities are reported as increases or decreases in *net assets without donor restrictions* unless their use is restricted by explicit donor stipulations.

Principles of Consolidation

The consolidated financial statements include the accounts of UST Asset Holdings, LLC, UST Investments Holdings, LLC, Auto Park, LLC and Central Orono, LLC. The University of St. Thomas has both control and an economic interest in the LLCs. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the "University of St. Thomas."

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

All liquid cash investments with an original maturity of three months or less when purchased by the University are considered to be cash equivalents.

Cash equivalents that are held for long-term investment are included in the consolidated statements of financial position as Investments. For example, cash held by endowment investment managers for transactional or strategic purposes, and cash held for the purchase of buildings and equipment, are reported as investments.

Cash held in bank accounts may at times exceed federally insured limits.

Accounts Receivable

Accounts receivable are stated at net realizable value. The University provides an allowance for bad debts using the allowance method, which is based on management judgement considering historic information.

Inventories

Inventories are recorded at the lower of cost or net realizable value with cost determined on a first-in, first-out (FIFO) basis. Inventories consist mainly of books and materials at the campus stores.

Contributions Receivable

Pledges to give that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The pledge value is calculated by using an income approach of applying a discount rate technique in the year in which the pledge is received. The original discount rate determined at the date of the pledge is applied over the duration of each pledge. The discount rates applied range from 0.3% to 6.4%. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Investments

Investments are stated at fair value and include accrued income. Changes in fair value are recorded as unrealized gains or losses in the period of change. Realized gains and losses on sales of securities are generally determined using the average cost method.

Marketable securities are reported at fair value based upon quoted market prices or, when quoted values are not available, are valued based on comparative financial instruments. Limited marketability instruments, which primarily include private equity, hedge funds, and real estate investments, are valued at the quoted market price for securities in which market quotations are readily available or an estimate of fair value as determined in good faith by the general partner. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

In such instances, these investments are measured using the net asset value per share or its equivalent provided by the investee as of March 31, adjusted for cash receipts, cash disbursements, and significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through June 30.

Donated investments are reported at fair market value at the time they are received or their net realizable value.

Funds Held with Bond Trustee

Funds held with bond trustees include investments consisting of primarily United States government obligations.

Fair Value Measurements

The University follows the Financial Accounting Standards Board (FASB) guidance on fair value measurements. Fair value is defined in the guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as pricing source, used in the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs are unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own determination about the assumptions that market participants would use in pricing the assets or liabilities based on the best available information.

The University adopted the standard on disclosures for investments in certain entities that calculate net asset value (NAV) per share or its equivalent, which removes those investments that calculate NAV per share from the fair value disclosure.

Concerning other assets and liabilities not assigned a Level 1-2-3, the market values of receivables, accounts payable and accrued liabilities, and unearned income approximate their carrying values given their short-term nature.

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The fair value of bonds payable was determined using the present value of the future cash flows of debt service payments using Level 2 inputs. The discount rate used was based on the current rate on similar debt issues.

The determination of the fair value of loan fund receivables, which are federally sponsored student loans with U.S. government-mandated interest rates and repayment terms and subject to significant restrictions, could not be made without incurring excessive costs.

Land, Buildings, and Equipment

Land, building, and equipment acquisitions are stated at cost if purchased, or fair value if gifted, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful life of the related asset.

Asset Retirement Obligations

Asset retirement obligations (ARO) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the University records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The University reduces ARO liabilities when the related obligations are settled.

As of June 30, 2020 and 2019, conditional asset retirement obligations, which are included within Deposits and Other Liabilities in the consolidated statements of financial position, totaled \$3,338,947 and \$3,320,055, respectively. During the fiscal year ended June 30, 2020, the conditional asset retirement obligation decreased by \$18,892 as a result of asbestos removal costs of \$140,100 and accretion of interest of \$158,991.

Changes in management's assumptions regarding settlement dates and settlement methods could have a material effect on the liabilities recorded at June 30, 2020.

Assets Held in Custody for Others

Assets held in custody for others represents primarily investments that are held and administered by the University, but are owned by other nonprofit organizations. These related investments are included within investments in the consolidated statements of financial position.

Annuity Obligations

Some contributions received, such as interests in charitable gift annuity contracts and charitable trusts, have donor-imposed obligations to make payments to the donor or other beneficiaries. Annuity obligations arising from such gifts are established at the time of the contribution using life expectancy actuarial tables and are revalued annually. Actuarial gains and losses resulting from the annual revaluation of annuity obligations are reflected as with donor restriction, consistent with the method used to initially record the contributions.

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tuition and Fee Revenue

The University recognizes student revenue within the fiscal year in which educational services are provided. Discounts in the form of scholarships and financial aid grants, including those funded by the endowment and gifts, are reported as a reduction of student revenues. A discount represents the difference between the stated charge for the academic program and the amount this is billed to the student and/or third parties making payment on behalf of the student.

Educational programs are delivered in the Fall (early September to mid-December), during J-Term (January) and Spring (early February to mid-May), as well as multiple Summer terms. For the Summer terms, revenue is recognized ratably over the terms, with approximately 55% of the revenue for Summer recognized in the current year's consolidated financial statements and 45% of the tuition and fees for Summer recorded as deferred revenue at June 30.

Auxiliary Services Revenue

Auxiliary services exist to furnish goods or services to students, faculty, staff, or incidentally to the general public. Fees charged for auxiliary services are priced to offset the cost of the goods or services provided. The distinguishing characteristic of auxiliary services is that they are managed as an essentially self-supporting activity. Revenues and expenses from auxiliary enterprises are reported as changes in net assets without donor restrictions.

Auxiliary services revenue includes activities for student housing and dining facilities, the campus bookstore, and parking services. A small number of institutional scholarships specifically for defraying the costs of residential services are awarded, which reduce the amount of revenue recognized. Payments for housing and dining services are due by the 19th of the first month of the new academic term, unless they have extended payment terms.

Housing and dining plans are not offered during the summer terms. Performance obligations for housing and dining services are delivered over the academic terms. Consequently, associated revenues are earned and recognized over the course of each term as the services are delivered.

Contributions

Contributions received, including unconditional donor promises, are recognized as revenue when the University receives the donor's commitment. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances for uncollectible pledges. Other gifts are recorded at the fair value at the date of the gift.

Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as with donor restrictions support. Conditional promises are recorded when donor stipulations are substantially met.

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

Consequently, at June 30, 2020 contributions approximating \$35,000,000 for a Science, Technology, Engineering, Arts, and Mathematics (STEAM) complex have not been recognized in the accompanying consolidated statement of activities because the conditions on which they depend have not yet been met. The contribution amounts depend on a number of milestones, including the substantial completion of the complex which is scheduled to open its doors in 2025.

The University reports gifts of land, buildings, and equipment as without donor restriction support unless explicit donor stipulations specify how the donated asset must be used.

Grants and Contracts

A portion of the University's revenue is derived from cost reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the University has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statement of financial position. The University received cost reimbursable grants of \$2,973,155 that have not been recognized at June 30, 2020, because qualifying expenditures have not yet been incurred, with an advance payment of \$1,129,298 recognized in the consolidated statement of financial position as a refundable advance.

Nonoperating Activities

Nonoperating activities reflect transactions of a long-term investment nature including:

- donor-restricted private gifts and grants which are invested in perpetuity,
- endowment investment earnings reinvested, and withdrawals above the spending policy,
- other nonendowment investment gains or losses,
- reclassification of prior gifts among net asset categories due to changes in donor-imposed restrictions,
- nonrecurring fixed asset gains and losses,
- gain (loss) on debt refinancing,
- other transactions that are significant, nonrecurring, and are not accounted for as part of ongoing budgeted operations.

Advertising Expense

Advertising expenditures are expensed as incurred. Advertising expense for the years ended June 30, 2020 and 2019 was \$2,553,212 and \$2,703,147, respectively.

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that change in the values will occur in the near term and that such changes could materially affect the consolidated financial statements.

Income Taxes

The University qualifies as a tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and similar statutes of Minnesota law. However, any unrelated business income may be subject to taxation. The most significant areas that subject the University to unrelated business income tax (UBIT) include conferences and events, rental activities, alternative investments, and other unrelated income.

Subsequent Events

The University has evaluated subsequent events through November 5, 2020, which is the date that the consolidated financial statements were issued.

NOTE 2 ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Student Accounts	\$ 6,278,869	\$ 5,809,698
Less: Allowance for Doubtful Accounts	<u>(2,724,775)</u>	<u>(2,724,775)</u>
Subtotal	3,554,094	3,084,923
Government Grants Receivable	845,236	1,206,078
Other	<u>3,355,731</u>	<u>9,085,818</u>
Total	<u>\$ 7,755,061</u>	<u>\$ 13,376,819</u>

UNIVERSITY OF ST. THOMAS
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NOTE 3 CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are recognized at the estimated present value of the future cash flows net of allowances, in the following timeframe at June 30:

	<u>2020</u>	<u>2019</u>
In One Year or Less	\$ 16,268,726	\$ 31,479,861
Between One Year and Five Years	61,986,674	66,416,448
More than Five Years	<u>60,358,528</u>	<u>46,461,123</u>
Total Face Value of Pledges Outstanding	138,613,928	144,357,432
Discount (to Present Value)	(14,727,030)	(16,539,310)
Allowance for Uncollectible Pledges	<u>(4,538,191)</u>	<u>(4,966,096)</u>
Contributions Receivable	<u>\$ 119,348,707</u>	<u>\$ 122,852,026</u>

NOTE 4 STUDENT AND OTHER NOTES RECEIVABLE, NET

The University participates in the Perkins federal revolving loan program. As of September 30, 2017, the authority for providing new loans under this loan program expired. As a result, the University is only servicing outstanding loans which were issued prior to the expiration date. Funds advanced by the federal government are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. At June 30, 2020 and 2019, student loans represented 0.3% of total assets.

At June 30, student and other notes receivable consisted of the following:

	<u>2020</u>	<u>2019</u>
Perkins Loan Program	\$ 3,001,244	\$ 3,850,871
Other Notes Receivable	<u>534,530</u>	<u>534,530</u>
Total Student and Other Notes Receivable	<u>\$ 3,535,774</u>	<u>\$ 4,385,401</u>

At June 30, the following amounts were past due under the Perkins student loan program:

	<u>1 - 60 Days Past Due</u>	<u>60 - 90 Days Past Due</u>	<u>90+ Days Past Due</u>	<u>Total Past Due</u>
2020	\$ 16,111	\$ 31,090	\$ 340,617	\$ 387,818
2019	30,224	16,287	392,220	438,731

Federal Perkins Loans that are originated and serviced properly under Department of Education regulations can be assigned to the Department of Education when deemed no longer collectible. The University is not aware of any material amount of loans not properly originated or serviced under Department of Education regulations. As a result, no allowance for doubtful accounts has been recorded against these note receivables.

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 INVESTMENTS

The following table summarizes the value of investments at June 30:

	<u>2020</u>	<u>2019</u>
Cash Equivalents	\$ 59,888,614	\$ 53,371,504
Public Equities	264,786,515	292,202,715
Fixed Income	105,830,815	66,833,314
Real Assets	50,436,438	66,679,963
Marketable Alternatives	75,580,234	85,041,448
Private Equity	108,865,555	106,528,307
Total Market Value	<u>\$ 665,388,171</u>	<u>\$ 670,657,251</u>

The University investments include operating as well as endowment and other long-term assets. Operating cash is invested in mutual funds, the majority of which is invested in U.S. Treasury obligations. The University's long-term assets are invested in a diversified asset allocation approach, within defined limits, which maintains exposure to global equity, fixed income, real assets, hedge funds, and private equity through a partnership with external investment managers operating through a variety of investment vehicles including separate accounts, commingled funds, mutual funds, and limited partnerships.

Real assets includes commercial real estate currently leased to the city of Minneapolis. Real estate is recorded at its donated appraised value of \$15,661,608. The accumulated depreciation of the real estate at June 30, 2020 and 2019 was \$587,310 and \$195,770, respectively.

The components of investments and investment earnings are summarized below as of June 30:

	<u>2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Investment Earnings:			
Interest and Dividends	\$ 1,666,576	\$ 2,653,466	\$ 4,320,042
Capital Losses	(4,569,257)	(10,432,841)	(15,002,098)
Total Investment Results	<u>\$ (2,902,681)</u>	<u>\$ (7,779,375)</u>	<u>\$ (10,682,056)</u>
	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Investment Earnings:			
Interest and Dividends	\$ 3,511,221	\$ 4,171,256	\$ 7,682,477
Capital Gains	6,863,223	11,744,440	18,607,663
Total Investment Results	<u>\$ 10,374,444</u>	<u>\$ 15,915,696</u>	<u>\$ 26,290,140</u>

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

The following table presents the University's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at June 30:

	2020			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Assets:				
Funds Held with Bond Trustees:				
Cash Equivalents	\$ 26,932,350	\$ -	\$ -	\$ 26,932,350
Fixed Income	-	-	-	-
Total Funds Held with Bond Trustees	<u>26,932,350</u>	<u>-</u>	<u>-</u>	<u>26,932,350</u>
Investments:				
Cash Equivalents	59,888,614	-	-	59,888,614
Public Equities	79,886,756	9,946,511	325,000	90,158,267
Fixed Income	105,616,144	214,671	-	105,830,815
Private Equity	-	-	2,492,900	2,492,900
Total Investments	<u>245,391,514</u>	<u>10,161,182</u>	<u>2,817,900</u>	<u>258,370,596</u>
Total Assets	<u>\$ 272,323,864</u>	<u>\$ 10,161,182</u>	<u>\$ 2,817,900</u>	<u>\$ 285,302,946</u>
Liabilities:				
Interest Rate Swap Agreements	<u>\$ -</u>	<u>1,906,586</u>	<u>\$ -</u>	<u>\$ 1,906,586</u>
	2019			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Assets:				
Funds Held with Bond Trustees:				
Cash Equivalents	\$ 92,601,443	\$ -	\$ -	\$ 92,601,443
Fixed Income	-	1,148	-	1,148
Total Funds Held with Bond Trustees	<u>92,601,443</u>	<u>1,148</u>	<u>-</u>	<u>92,602,591</u>
Investments:				
Cash Equivalents	53,371,504	-	-	53,371,504
Public Equities	69,303,433	10,195,345	325,000	79,823,778
Fixed Income	66,589,494	243,820	-	66,833,314
Private Equity	-	-	2,623,486	2,623,486
Total Investments	<u>189,264,431</u>	<u>10,439,165</u>	<u>2,948,486</u>	<u>202,652,082</u>
Total Assets	<u>\$ 281,865,874</u>	<u>\$ 10,440,313</u>	<u>\$ 2,948,486</u>	<u>\$ 295,254,673</u>
Liabilities:				
Interest Rate Swap Agreements	<u>\$ -</u>	<u>1,395,352</u>	<u>\$ -</u>	<u>\$ 1,395,352</u>

The following table presents the reconciliation to the consolidated statements of financial position for financial instruments as of June 30:

	2020	2019
Investments Measured at Fair Value	<u>\$ 258,370,596</u>	<u>\$ 202,652,082</u>
Investments Measured at Net Asset Value	<u>407,017,575</u>	<u>468,005,169</u>
Total	<u>\$ 665,388,171</u>	<u>\$ 670,657,251</u>

UNIVERSITY OF ST. THOMAS
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NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table provides a summary of changes in fair value of the University's Level 3 financial assets for the years ended June 30:

	Public Equities	Private Equity	Total
Balance as of July 1, 2018	\$ 325,000	\$ 2,589,130	\$ 2,914,130
Unrealized Capital Loss	-	(25,000)	(25,000)
Purchases and Other Acquisitions	-	59,356	59,356
Balance as of June 30, 2019	325,000	2,623,486	2,948,486
Unrealized Capital Loss	-	(130,586)	(130,586)
Balance as of June 30, 2020	<u>\$ 325,000</u>	<u>\$ 2,492,900</u>	<u>\$ 2,817,900</u>

Net Asset Value

The fair value of certain investments has been estimated using the net asset value (NAV) as reported by the management of the fund. FASB guidance allows for the use of the NAV as a "practical expedient" to estimate the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the University's interest in the fund. The University generally considers a redemption period of 90 days or less to be near term.

Investments in certain entities that calculate NAV per share (or its equivalent) as of June 30:

Redemption Frequency	2020			
	Net Asset Value	Unfunded Commitments	Redemption Notice Period	Redemption Restrictions
Daily/Weekly:				
Public Equities	\$ 22,505,910	\$ -	3 Days	
Total Daily/Weekly	22,505,910	-		
Monthly:				
Public Equities	60,702,781	-	6-30 Days	
Real Assets	4,640,929	-	30 Days	
Marketable Alternatives	19,560,446	-	5-30 Days	
Total Monthly	84,904,156	-		
Quarterly:				
Public Equities	77,359,305	-	60 Days	
Real Assets	13,650,556	-	60 Days	
Marketable Alternatives	15,793,613	-	60-90 Days	
Total Quarterly	106,803,474	-		
Annual:				
Public Equities	4,626,434	-	120 Days	
Marketable Alternatives	29,022,052	-	60-90 Days	One fund has a side pocket
Total Annual	33,648,486	-		
Two or More Years:				
Public Equities	9,433,818	4,530,000	NA	
Real Assets	32,144,953	-	NA	
Marketable Alternatives	65,890	-	60-90 Days	One fund has a side pocket
Marketable Alternatives	11,138,233	2,207,344	NA	Two funds have holdbacks
Private Equity	106,372,655	87,255,103	NA	
Total Two or More Years	<u>159,155,549</u>	<u>93,992,447</u>		
Total Level 2 and Level 3 with NAV Per Share	<u>\$ 407,017,575</u>	<u>\$ 93,992,447</u>		

UNIVERSITY OF ST. THOMAS
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NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

Investments in certain entities that calculate NAV per share (or its equivalent) as of June 30:

Redemption Frequency	2019		Redemption Notice Period	Redemption Restrictions
	Net Asset Value	Unfunded Commitments		
Daily/Weekly:				
Public Equities	\$ 21,560,284	\$ -	3 Days	
Total Daily/Weekly	21,560,284	-		
Monthly:				
Public Equities	100,139,340	-	6-30 Days	
Real Assets	13,676,619	-	30 Days	
Marketable Alternatives	24,926,621	-	5-30 Days	
Total Monthly	138,742,580	-		
Quarterly:				
Public Equities	66,141,188	-	60 Days	
Real Assets	16,317,924	-	60 Days	
Marketable Alternatives	11,663,466	-	60-90 Days	
Total Quarterly	94,122,578	-		
Annual:				
Public Equities	15,004,306	-	120 Days	
Marketable Alternatives	25,165,777	-	60-90 Days	One fund has a side pocket
Total Annual	40,170,083	-		
Two or More Years:				
Public Equities	9,533,819	15,041,177	NA	
Real Assets	36,685,420	-	NA	
Marketable Alternatives	441,515	-	60-90 Days	One fund has a side pocket
Marketable Alternatives	22,844,068	457,344	NA	Two funds have holdbacks
Private Equity	103,904,821	101,313,995	NA	
Total Two or More Years	173,409,643	116,812,516		
Total Level 2 and Level 3 with NAV Per Share	\$ 468,005,168	\$ 116,812,516		

NOTE 7 DERIVATIVE INSTRUMENTS

The University uses interest rate swaps as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate swaps are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate swaps are recognized as either assets or liabilities on the consolidated statements of financial position and are measured at fair value. Interest rate swaps are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the consolidated statements of activities.

In February 2006, the University entered into a forward interest rate swap agreement having a notional amount of \$12,300,000. This swap was utilized to reduce the volatility risk for a portion of the University's variable interest rate exposure on debt issue Series Six-H. The Series Six-H bond issue has been refinanced twice since 2006, most recently in 2017 by the 2017C bonds. The swap remains outstanding, but the notional amount reduces annually to match the amortization of the 2017C bonds. The swap has a notional value of \$9,610,000 and \$10,260,000 as of June 30, 2020 and 2019, respectively. Under the swap agreement, the counterparty will pay the University a variable interest rate equal to 67% of the three-month London Interbank Offered Rate (LIBOR) and the University will pay the counterparty a fixed rate of 3.553% for a term that ends October 1, 2032.

UNIVERSITY OF ST. THOMAS
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JUNE 30, 2020 AND 2019

NOTE 7 DERIVATIVE INSTRUMENTS (CONTINUED)

An investment manager retained by the University has been authorized to use certain financial derivative instruments. Specifically, equity futures are used to invest cash in equities and/or obtain equity market exposure. In addition, commodity futures contracts are also utilized to obtain market index exposure. The University's derivative instruments involve varying degrees of risk of loss in excess of the amount recognized in the consolidated statements of financial position arising from potential changes in market prices. The market value of the derivative contracts was \$5,959,774 and \$13,081,604 as of June 30, 2020 and 2019, respectively. Net gains (losses) from these derivative contracts is summarized as follows:

	<u>2020</u>	<u>2019</u>
Investment Gain (Loss)	<u>\$ 1,862,920</u>	<u>\$ (92,949)</u>

In addition, the University, through its investment activities, is indirectly involved in such activities as trading in futures, forward contracts, and other derivative products. Derivatives are used to adjust portfolio risk exposure. While these instruments may contain varying degrees of risk, the University's risk with respect to such transactions is limited to its respective share in each investment pool.

NOTE 8 LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment and related accumulated depreciation at June 30 consist of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 36,879,986	\$ 36,879,986
Land Improvements	13,120,208	13,050,157
Buildings	503,499,655	497,060,331
Equipment, Library Books, Art Objects	140,145,127	139,024,677
Cost of Land, Buildings, and Equipment	<u>693,644,976</u>	<u>686,015,151</u>
Less: Accumulated Depreciation	<u>(305,869,515)</u>	<u>(293,725,039)</u>
Land, Buildings, and Equipment, Net of Depreciation	387,775,461	392,290,112
Add: Construction-in-Progress	102,995,451	11,621,670
Land, Buildings, and Equipment, as Reported	<u>\$ 490,770,912</u>	<u>\$ 403,911,782</u>

NOTE 9 UNEARNED TUITION INCOME

Unearned tuition income of \$7,787,834 and \$6,347,330 as of June 30, 2020 and 2019, respectively, represents performance obligations associated with payments received for each academic year's summer terms that usually begin in late-May to early-June and end in mid-July to late-August.

UNIVERSITY OF ST. THOMAS
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NOTE 10 BONDS PAYABLE

Bonds payable consists of the following at June 30:

<u>Description</u>	<u>2020</u>	<u>2019</u>
MHEFA Revenue Bonds, Series 2019 Payable through 2044, interest at 4% to 5%, uncollateralized, proceeds used for 1st and 2nd year housing	\$ 80,525,000	\$ 80,525,000
MHEFA Revenue Bonds, Series 2017A Payable through 2037, interest at 3% to 5%, uncollateralized, proceeds used for Anderson Student Center	57,625,000	59,050,000
MHEFA Revenue Bonds, Series Eight-L Payable through 2039, interest at 3% to 5%, uncollateralized, proceeds used to advance refund Series 6W and 6X, original proceeds used for Anderson Athletic and Recreation Complex and Anderson Parking Facility	48,860,000	50,615,000
MHEFA Revenue Bonds, Series Seven-U Payable through 2027, interest at 4% to 5%, uncollateralized, proceeds used to advance refund Series 5L and 5Z, original proceeds used for School of Law building, Schulze Hall and Terrence Murphy Hall	16,090,000	17,670,000
MHEFA Revenue Notes, Series Seven Z Payable through 2034, interest at 2.77%, uncollateralized, proceeds used to refund Series Five-Y, original proceeds used for Flynn Hall	15,977,593	16,972,593
MHEFA Revenue Bonds, Series Eight-M Payable through 2022, interest at 4%, uncollateralized, proceeds used to advance refund Series 6I, original proceeds used for Opus Hall, Morrison Hall and the Science and Engineering Center	5,250,000	7,925,000
MHEFA Variable Rate Demand Revenue Bonds, Series 2017C Payable through 2032, variable interest rate (not to exceed 15%), uncollateralized, proceeds used to refund Series Six-H, original proceeds used for McNeely Hall	9,610,000	10,260,000

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 10 BONDS PAYABLE (CONTINUED)

<u>Description</u>	<u>2020</u>	<u>2019</u>
MHEFA Variable Rate Demand Revenue Bonds, Series 2017B		
Payable through 2025, variable interest rate (not to exceed 15%), uncollateralized, proceeds used to refund Series Four-O and Five-C, original bond proceeds used for Science and Engineering Center, John Roach Center, Morrison Hall, and other additions	\$ 5,240,000	\$ 6,810,000
Total Face Value of Long-Term Debt	239,177,593	249,827,593
Less: Debt Issuance Costs	(922,378)	(1,113,091)
Total Face Value of Long-Term Debt, Net of Costs	<u>\$ 238,255,215</u>	<u>\$ 248,714,502</u>
 Approximate Market Value of Long-Term Debt	 <u>\$ 272,316,591</u>	 <u>\$ 281,822,613</u>

Interest expense was \$6,848,565 and \$7,312,963 for the years ended June 30, 2020 and 2019, respectively.

As of June 30, 2020, the variable interest rate associated with the above variable debt issues, and the associated interest rate swap agreements, was approximately 1.0%.

The annual maturities for bonds payable at June 30, 2020 are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2021	\$ 11,099,000
2022	11,005,000
2023	10,665,000
2024	11,337,000
2025	11,854,000
Thereafter	183,217,593
Total	<u>\$ 239,177,593</u>

The University has a line of credit of \$30,000,000 with interest at 1.25% plus the greater of (i) zero percent or (ii) the one-month LIBOR rate which expires on March 31, 2021. At June 30, 2020 and 2019, the University had no borrowings under the line of credit.

NOTE 11 ENDOWMENT

The University's endowment consists of over 400 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, 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.

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The board of trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as donor-restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

Changes in endowment net assets for the years ended June 30 are as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets as of July 1	\$ 98,100,928	\$ 442,510,207	\$ 540,611,135
Investment Return:			
Investment Ordinary Income	524,139	2,653,466	3,177,605
Realized and Unrealized Capital Loss	(2,358,576)	(10,474,846)	(12,833,422)
Total Investment Loss	(1,834,437)	(7,821,380)	(9,655,817)
Release of Spending Policy	(2,933,738)	(14,009,960)	(16,943,698)
Contributions and Adjustments	-	37,539,844	37,539,844
Other Adjustments, Net	(85,553)	(534,754)	(620,307)
Endowment Net Assets as of June 30	<u>\$ 93,247,200</u>	<u>\$ 457,683,957</u>	<u>\$ 550,931,157</u>

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 ENDOWMENT (CONTINUED)

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets as of July 1	\$ 99,308,124	\$ 419,402,143	\$ 518,710,267
Investment Return:			
Investment Ordinary Income	1,013,346	4,171,256	5,184,602
Realized and Unrealized Capital Gain	3,257,215	11,794,031	15,051,246
Total Investment Gain	4,270,561	15,965,287	20,235,848
Release of Spending Policy	(2,708,440)	(14,663,551)	(17,371,991)
Contributions and Adjustments	-	21,246,118	21,246,118
Withdrawal from Quasi-Endowment to Operations	(2,200,000)	-	(2,200,000)
Other Adjustments, Net	(569,317)	560,210	(9,107)
Endowment Net Assets as of June 30	<u>\$ 98,100,928</u>	<u>\$ 442,510,207</u>	<u>\$ 540,611,135</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment fund and continued appropriation for certain programs that was deemed prudent by the governing body.

As of June 30, 2020, deficiencies of this nature together have an original gift value of \$42,375,644, a current fair value of \$40,550,986 and a deficiency of \$1,327,751. As of June 30, 2019, deficiencies of this nature together have an original gift value of \$2,136,595, a current fair value of \$1,824,658 and a deficiency of \$311,937. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in net assets with donor restrictions.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to minimize the volatility of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a representative benchmark, while assuming an appropriate level of investment risk. The University expects its endowment funds, over time, to provide a real rate of return sufficient to meet the University's spending policy, net of fees. Actual returns in any given year may vary from this amount.

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 ENDOWMENT (CONTINUED)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University follows an endowment spending policy that authorizes spending of a percentage of the 12-month rolling average market value of most endowments. This percentage is established annually for each endowment by the President of the University. The average aggregate spending rate approximated 4% in 2020 and 2019. The intent of the spending policy is to provide a resource to fund expenditures in accordance with the donor's wishes and at the same time, increase endowment fund value as a protection against inflation.

NOTE 12 NET ASSET SUMMARY AND RELEASES

Net assets at June 30 consisted of the following:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment:			
Donor-Restricted for:			
Student Financial Aid	\$ -	\$ 188,562,659	\$ 188,562,659
Instruction and Other Related Activities	-	269,121,298	269,121,298
Total Donor-Restricted Endowments	-	457,683,957	457,683,957
Board-Designated for Educational and General Operations	93,247,200	-	93,247,200
Total Endowment	93,247,200	457,683,957	550,931,157
Operations:			
Current Unrestricted Operations	10,191,932	-	10,191,932
Gifts and Grants for Instructional Programs, Financial Aid, and Research	31,131,959	63,221,895	94,353,854
Long-Term Support of Educational and General Operations	90,555,491	-	90,555,491
Total Operations	131,879,382	63,221,895	195,101,277
Buildings and Equipment:			
Net Value of Buildings and Equipment	210,800,542	-	210,800,542
Funds for Building Projects	15,346,846	11,337,547	26,684,393
Total Buildings and Equipment	226,147,388	11,337,547	237,484,935
Other:			
Annuity Trust Agreements	-	12,002,929	12,002,929
Total	\$ 451,273,969	\$ 544,246,328	\$ 995,520,297

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 12 NET ASSET SUMMARY AND RELEASES (CONTINUED)

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment:			
Donor-Restricted for:			
Student Financial Aid	\$ -	\$ 164,514,511	\$ 164,514,511
Instruction and Other Related Activities	-	277,995,696	277,995,696
Total Donor-Restricted Endowments	-	442,510,207	442,510,207
Board-Designated for Educational and General Operations	98,100,928	-	98,100,928
Total Endowment	98,100,928	442,510,207	540,611,135
Operations:			
Current Unrestricted Operations	6,773,148	-	6,773,148
Gifts and Grants for Instructional Programs, Financial Aid, and Research	29,785,636	60,144,161	89,929,797
Long-Term Support of Educational and General Operations	98,462,325	-	98,462,325
Total Operations	135,021,109	60,144,161	195,165,270
Buildings and Equipment:			
Net Value of Buildings and Equipment	202,912,485	-	202,912,485
Funds for Building Projects	10,828,563	16,963,522	27,792,085
Total Buildings and Equipment	213,741,048	16,963,522	230,704,570
Other:			
Annuity Trust Agreements	-	12,428,509	12,428,509
Total	<u>\$ 446,863,085</u>	<u>\$ 532,046,399</u>	<u>\$ 978,909,484</u>

At June 30, 2020 and 2019, the University's net assets with donor restrictions were allocated as follows:

	2020	2019
With Donor Restrictions		
Purpose and Time Restriction:		
Operations	\$ 63,221,895	\$ 60,144,161
Endowment	104,882,218	121,950,138
Annuity Trust Agreements	12,002,929	12,428,509
Plant Acquisitions	11,337,547	16,963,522
Contributions Receivable	13,963	13,963
Total Purpose and Time Restricted	<u>\$ 191,458,552</u>	<u>\$ 211,500,293</u>
Held in Perpetuity:		
Endowment	292,803,131	261,488,640
Annuity Trust Agreements	186,936	197,883
Contributions Receivable	59,797,709	58,859,583
Total Held in Perpetuity	<u>\$ 352,787,776</u>	<u>\$ 320,546,106</u>
Total Net Assets With Donor Restrictions	<u>\$ 544,246,328</u>	<u>\$ 532,046,399</u>

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 NET ASSET SUMMARY AND RELEASES (CONTINUED)

Net assets with donor restrictions were released from donor restrictions by incurring expenses, which satisfied the restricted purpose, or by the occurrence of other events specified by donors in the following manner at June 30:

	<u>2020</u>	<u>2019</u>
Purpose Restrictions Accomplished:		
Instructional Activities, Student Financial Aid, and Other Purposes	\$ 20,783,025	\$ 23,143,976
Unrestricted Donor Pledges Received for Education and General Operations	3,831,661	5,374,958
Buildings and Equipment	<u>7,674,001</u>	<u>2,759,871</u>
Total Restrictions Released	<u>\$ 32,288,687</u>	<u>\$ 31,278,805</u>

NOTE 13 LIQUIDITY

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investments of its available funds. As of June 30, the following assets and liquidity resources could be made available within one year to meet general expenditures:

	<u>2020</u>	<u>2019</u>
Financial Assets:		
Cash and Cash Equivalents	\$ 11,554,721	\$ 1,518,024
Accounts Receivable	5,852,451	7,781,580
Contributions Receivable	16,268,726	31,479,861
Subsequent Year's Endowment Payout	15,952,317	15,160,099
Other Investments Appropriated for Current Use	<u>69,231,912</u>	<u>71,048,528</u>
Total Financial Assets Available Within One Year	118,860,127	126,988,092
Liquidity Resources:		
Bank Line of Credit	<u>30,000,000</u>	<u>10,000,000</u>
Total Financial Assets and Liquidity Resources Available Within One Year	<u>\$ 148,860,127</u>	<u>\$ 136,988,092</u>

The University's endowment fund consist of donor endowment and quasi-endowment funds. Quasi-endowed funds are amounts that could be available to spend from the corpus, although that is not the intention of the board.

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 14 RETIREMENT BENEFITS

Retirement benefits are provided for substantially all full-time employees. Under this 403(b) retirement plan, the University makes contributions of a defined percentage of covered payroll. Contributions charged to operations for these benefits were \$9,148,852 and \$10,101,734 for the years ended June 30, 2020 and 2019, respectively.

NOTE 15 FUNCTIONAL ALLOCATION OF EXPENSES

The University's primary program service is academic instruction. Expenses reported as auxiliary enterprises, student activities and services, academic support, libraries, public service and research are incurred in support of this primary program activity. Expenses are directly coded to programs or support services whenever possible. Natural expense attributable to more than one functions expense category are allocated using a variety of cost allocation techniques, such as square feet and time and effort.

Expenses by functional classification for the years ended June 30 consist of the following:

	2020			Total
	Program	Institutional Support	Fundraising	
Compensation	\$ 155,842,039	\$ 24,980,941	\$ 8,517,128	\$ 189,340,108
Supplies	14,448,963	437,747	191,336	15,078,046
Utilities, Rent, and Repairs	10,890,481	700,503	108,858	11,699,842
Professional Services	6,625,514	1,679,940	503,552	8,809,006
Insurance, Licenses, and Other	9,163,358	2,172,936	593,011	11,929,305
Travel	4,198,782	357,095	131,628	4,687,505
Depreciation	14,645,906	1,312,329	116,388	16,074,623
Interest	6,809,856	36,384	2,325	6,848,565
Total Expenses per Statement of Activities	<u>\$ 222,624,899</u>	<u>\$ 31,677,875</u>	<u>\$ 10,164,226</u>	<u>\$ 264,467,000</u>

	2019			Total
	Program	Institutional Support	Fundraising	
Compensation	\$ 153,549,398	\$ 26,244,164	\$ 8,211,669	\$ 188,005,231
Supplies	17,576,361	645,511	121,791	18,343,663
Utilities, Rent, and Repairs	13,254,759	1,492,985	145,224	14,892,968
Professional Services	10,516,482	2,464,694	726,477	13,707,653
Insurance, Licenses, and Other	7,975,323	1,510,177	688,061	10,173,561
Travel	6,040,678	625,877	143,477	6,810,032
Depreciation	15,202,709	1,314,387	112,002	16,629,098
Interest	7,279,497	31,709	1,756	7,312,962
Total Expenses per Statement of Activities	<u>\$ 231,395,207</u>	<u>\$ 34,329,504</u>	<u>\$ 10,150,457</u>	<u>\$ 275,875,168</u>

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 16 RELATED PARTY TRANSACTIONS

Pledges totaling \$66,653,404 and \$49,614,082 for the years ended June 30, 2020 and 2019, respectively, from board of trustee members are included in the statements of financial position as Contribution Receivable.

A board member is related to a company that has provided building design and construction services. Any contracts entered into were approved in accordance with the board of trustees' conflict of interest policy.

The University provides administrative support to the St. Paul Seminary through accounting assistance, access to the University's administrative computer systems to record financial transactions, building maintenance and utility services, general access to the University computer network, and other support functions. In addition, the St. Paul Seminary provides subsidies to the University for operations of the Saint Paul Seminary School of Divinity of the University of St. Thomas. The receivable due from the St. Paul Seminary was \$1,292,089 and \$2,504,225 for the years ended June 30, 2020 and 2019, respectively. This receivable balance is included on the consolidated statements of financial position.

NOTE 17 LEASES

The University has entered into both operating and capital leases for facilities, equipment, and vehicles. The lease terms generally range from one month to 18 years with options to renew at varying times. The gross amount of equipment recorded as a capital leases was \$11,002,966 and \$11,498,617 at June 30, 2020 and 2019, respectively. Accumulated depreciation for equipment recorded under capital leases was \$6,633,479 and \$7,365,964 at June 30, 2020 and 2019, respectively.

The lease payments for the years ended June 30, 2020 and 2019 were \$2,674,372 and \$3,347,028, respectively.

Minimum lease payment commitments as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2021	\$ 2,477,648	\$ 1,675,918
2022	1,406,173	1,661,143
2023	632,003	1,517,902
2024	50,604	1,455,976
2025	-	1,289,907
Thereafter through 2034	-	12,820,805
Total Future Commitments	<u>4,566,428</u>	<u>20,421,651</u>
Less: Amount Representing Interest	<u>(196,953)</u>	<u>-</u>
Present Value of Future Minimum Lease Payments	<u>\$ 4,369,475</u>	<u>\$ 20,421,651</u>

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 17 LEASES (CONTINUED)

The University has an operating lease with escalating payments during the lease term that ends in 2034. As a result, a deferred rent payable of \$4,807,172 is recorded at June 30, 2020 for the difference between the actual payments and the straight-line rent expense. The capital lease obligation, and deferred rent payable, are included within Deposits and Other Liabilities in the statement of financial position.

On August 14, 2018, the University was gifted Auto Park, LLC, which is a fully owned, consolidated entity of the University of St. Thomas. Auto Park, LLC, is comprised of building structure housing a 600-stall parking garage and three storefront retail spaces located in downtown Minneapolis. The University of St. Thomas leases 300 of the 600 parking spots with the remainder of the spots being monthly contract parking or daily parking.

The future minimum lease payments for Auto Park, LLC are as follows:

<u>Year Ending June 30,</u>	<u>Operating Lease</u>
2021	\$ 1,066,026
2022	1,108,667
2023	1,153,014
2024	1,199,134
2025	1,247,100
Thereafter through 2034	<u>12,820,805</u>
Total	<u>\$ 18,594,746</u>

NOTE 18 COMMITMENTS AND CONTINGENCIES

In the normal course of operations, the University is subject to various claims and lawsuits. Additionally, amounts received and expended under various federal and state programs are subject to audit by government agencies. In management's opinion, the ultimate resolution of these contingencies would not have a significant adverse effect upon the overall consolidated financial position, operations, or cash flows of the University.

During 2020, the University entered into agreements with various parties in connection with construction of the following building projects:

	<u>Estimated Total Cost</u>	<u>Project Costs Incurred as of June 30, 2020</u>
1st Year Housing	\$ 49,374,418	\$ 45,263,852
2nd Year Housing	30,694,126	29,180,593
Dorm Renovations	5,534,820	4,674,766
Chapel Renovation	1,896,846	1,775,949
Totals	<u>\$ 87,500,210</u>	<u>\$ 80,895,160</u>

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 18 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The University is self-insured with respect to certain workers' compensation costs. The University's stop-loss insurance limits the University's liability to \$500,000 per incident and \$1,964,937 in aggregate per year.

The University has a self-insured health benefit plan that covers active employees who elect to participate. Total claims and stop-loss provision costs, less premium payments from participants, were \$12,623,410 and \$13,702,440 for the fiscal years ended June 30, 2020 and 2019, respectively. The University carries stop-loss insurance coverage that limits the University's claim liability to \$200,000 for each individual on an annual basis, with an aggregate claim liability of \$22,525,699 for 2020.

In the normal course of operations, the University is subject to various claims and lawsuits. Additionally, amounts received and expended under various federal and state programs are subject to audit by government agencies. In management's opinion, the ultimate resolution of these contingencies would not have a significant adverse effect upon the overall consolidated financial position, operations, or cash flows of the University.

NOTE 19 COVID-19

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

Impact to Operations

The COVID-19 outbreak began impacting the University in mid-February 2020 with the shutdown of the University's Rome campus and the University's study abroad students returning to the United States. Subsequently, the University announced that all courses for the Spring 2020 semester would go online beginning March 16, 2020. This was followed by a notice of the closure of University dorms on March 25, 2020, in which all resident students were required to leave the dorms except for a limited number of students who had no alternate housing options. Accordingly, the University proceeded in issuing prorated room and board refunds to the impacted students.

During the fiscal year ended June 30, 2020, the University had estimated lost revenues and additional expenses of approximately \$9,900,000 due to the COVID-19 outbreak. Lost revenues include room, board, parking, seminars, general auxiliaries and conference and events services revenues and increased expenses include transitioning to online education and additional cleaning expenses. The University implemented a number of mitigating strategies to offset the \$9,900,000 million impact. These included CARES Act Higher Education Emergency Relief Funds used to offset room and board credits, furloughing of employees, employee pay decreases (scaled based on annual pay) and retirement contribution suspensions. Additional cost saving measures included implementing a hiring freeze, suspension of University-sponsored travel, reduction in discretionary spending across the University and deferred spending on capital projects.

UNIVERSITY OF ST. THOMAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 19 COVID-19 (CONTINUED)

Liquidity Considerations

The University's lowest cash point occurs in August as summer session receipts taper off and the fall term has not yet been billed. Due to the unanticipated room and board refunds issued to students in April 2020, the University took a number of measures to ensure that there would be adequate liquidity throughout this low point. In June 2020 the University increased the line of credit from \$10,000,000 to \$30,000,000. As of June 30, 2020, the University had no borrowings under the line of credit. In addition, the University also performed a debt issuance of \$9,100,000 that was finalized subsequent to year-end to cover plant project costs for projects that were being short term financed from the University's working capital. These measures, coupled with the operating mitigation strategies mentioned above, have and will continue to assist the University in maintaining adequate liquidity.

Endowment impact

The University's net endowment investment return was (2.2%) for the year ended June 30, 2020, as compared to 3.8% for the year ended June 30, 2019. As COVID-19 continues, there is further potential for market volatility that will impact endowment returns. The University is committed to actively monitoring and managing the endowment during these volatile times.

Management believes the University is taking appropriate actions to mitigate the negative impact the pandemic is causing. However, the full impact of COVID-19 is unknown and cannot be fully estimated as the pandemic continues to be ongoing.