

Upper Iowa University and Subsidiaries

Consolidated Financial Statements and
Supplementary Information

June 30, 2022 and 2021

Upper Iowa University and Subsidiaries

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Independent Auditors' Report

To the Board of Trustees of
Upper Iowa University and Subsidiaries

Opinion

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

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, 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 financial statements are available to be issued.

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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.

Baker Tilly US, LLP

Minneapolis, Minnesota
October 13, 2022

Upper Iowa University and Subsidiaries

Consolidated Statements of Financial Position
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 8,452,354	\$ 9,562,742
Cash and cash equivalents, restricted	330,868	352,813
Receivables:		
Student accounts, net of allowance for doubtful accounts of \$2,861,000 and \$4,728,000	2,339,665	3,059,809
Due from federal agencies	105,173	229,374
Other	75,219	176,629
Pledges, net	104,770	20,863
Investments	340,792	344,296
Prepaid expenses	366,635	448,771
Inventories	92,363	70,387
	<u>12,207,839</u>	<u>14,265,684</u>
Noncurrent Assets		
Pledges, net, less current portion	149,443	52,899
Long-term investments	19,782,902	22,684,094
Student loans, net of allowance for doubtful notes	13,473	117,891
Beneficial interest in trusts held by others	4,866,951	5,985,246
Right-of-use assets	3,647,766	-
Land, buildings, library books and equipment, net	71,586,318	73,848,632
	<u>\$ 112,254,692</u>	<u>\$ 116,954,446</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 712,252	\$ 770,528
Accrued wages and related expenses	1,301,095	1,673,470
Accrued expenses	60,631	390,053
Deferred tuition and rent	1,154,546	1,064,319
Post retirement benefit payable, current portion	169,207	139,401
Long-term debt, current portion	1,272,336	-
Operating lease payable, current portion	771,971	-
Finance lease payable, current portion	94,592	134,947
	<u>5,536,630</u>	<u>4,172,718</u>
Long-Term Liabilities		
Long-term debt, net of current portion	69,627,806	68,985,497
Operating lease payable, net of current portion	2,461,853	-
Finance lease payable, net of current portion	179,458	206,671
Post retirement benefit payable, net of current portion	1,127,715	1,122,959
Federal student loan funds refundable	23,506	48,996
	<u>73,420,338</u>	<u>70,364,123</u>
Total long-term liabilities	<u>73,420,338</u>	<u>70,364,123</u>
Total liabilities	<u>78,956,968</u>	<u>74,536,841</u>
Net Assets		
Without donor restrictions	13,559,489	19,899,092
With donor restrictions	19,738,235	22,518,513
	<u>33,297,724</u>	<u>42,417,605</u>
Total net assets	<u>33,297,724</u>	<u>42,417,605</u>
Total liabilities and net assets	<u>\$ 112,254,692</u>	<u>\$ 116,954,446</u>

See notes to consolidated financial statements

Upper Iowa University and Subsidiaries

Consolidated Statement of Activities

Year Ended June 30, 2022

With Comparative Totals for 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating Revenues, Gains and Other Support				
Tuition and fees, net of scholarships and aids				
of \$16,050,997 for 2022 and \$17,366,657 for 2021	\$ 28,675,962	\$ -	\$ 28,675,962	\$ 35,752,429
Government grants	7,722,998	-	7,722,998	5,617,592
Beneficial interest in trusts distribution	270,020	-	270,020	218,038
Private gifts, grants and pledges	271,010	1,527,770	1,798,780	1,048,980
Auxiliary enterprises, sales and services	4,775,065	-	4,775,065	4,871,276
Investment income	2,828	-	2,828	43,131
Endowment spending allocated for operations	220,845	693,229	914,074	888,954
Other revenue	814,277	-	814,277	848,930
	42,753,005	2,220,999	44,974,004	49,289,330
Net assets released from restrictions	1,980,869	(1,980,869)	-	-
Total operating revenues, gains and other support	44,733,874	240,130	44,974,004	49,289,330
Operating Expenses				
Program expenses:				
Instruction	11,939,717	-	11,939,717	14,800,017
Academic support	2,354,682	-	2,354,682	1,634,594
Student services	10,450,423	-	10,450,423	10,580,203
Scholarships and fellowships	3,944,742	-	3,944,742	1,400,619
Auxiliary enterprises	5,545,465	-	5,545,465	5,655,569
Support expenses:				
Institutional support	15,877,746	-	15,877,746	14,618,984
Total operating expenses	50,112,775	-	50,112,775	48,689,986
Change in net assets from operating activities	(5,378,901)	240,130	(5,138,771)	599,344
Nonoperating Activities				
Long-term investment income	(797,493)	(1,593,182)	(2,390,675)	5,077,109
Loss on asset disposal	(13,255)	-	(13,255)	(973,946)
Endowment spending allocated for operations	(220,845)	(693,229)	(914,074)	(888,954)
Private gifts, grants and pledges	-	346,765	346,765	121,300
Change in donor designation	(37,533)	37,533	-	-
Change in beneficial interest in trusts held by others	-	(1,118,295)	(1,118,295)	1,246,410
Change in net assets from nonoperating activities	(1,069,126)	(3,020,408)	(4,089,534)	4,581,919
Change in net assets, before cumulative effect of adoption of new standard	(6,448,027)	(2,780,278)	(9,228,305)	5,181,263
Net Assets, Beginning	19,899,092	22,518,513	42,417,605	37,236,342
Cumulative effect of adoption of new standard	108,424	-	108,424	-
Net Assets, Ending	\$ 13,559,489	\$ 19,738,235	\$ 33,297,724	\$ 42,417,605

See notes to consolidated financial statements

Upper Iowa University and Subsidiaries

Consolidated Statement of Activities

Year Ended June, 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains and Other Support			
Tuition and fees, net of scholarships and aids of \$17,366,657	\$ 35,752,429	\$ -	\$ 35,752,429
Government grants	5,617,592	-	5,617,592
Beneficial interest in trusts distribution	218,038	-	218,038
Private gifts, grants and pledges	1,045,289	3,691	1,048,980
Auxiliary enterprises, sales and services	4,871,276	-	4,871,276
Investment income	43,131	-	43,131
Endowment spending allocated for operations	197,437	691,517	888,954
Other revenue	848,930	-	848,930
	<u>48,594,122</u>	<u>695,208</u>	<u>49,289,330</u>
Net assets released from restrictions	<u>1,158,152</u>	<u>(1,158,152)</u>	<u>-</u>
Total operating revenues, gains and other support	<u>49,752,274</u>	<u>(462,944)</u>	<u>49,289,330</u>
Operating Expenses			
Program expenses:			
Instruction	14,800,017	-	14,800,017
Academic support	1,634,594	-	1,634,594
Student services	10,580,203	-	10,580,203
Scholarships and fellowships	1,400,619	-	1,400,619
Auxiliary enterprises	5,655,569	-	5,655,569
Support expenses:			
Institutional support	14,618,984	-	14,618,984
Total operating expenses	<u>48,689,986</u>	<u>-</u>	<u>48,689,986</u>
Change in net assets from operating activities	<u>1,062,288</u>	<u>(462,944)</u>	<u>599,344</u>
Nonoperating Activities			
Long-term investment income	1,687,818	3,389,291	5,077,109
Loss on asset disposal	(973,946)	-	(973,946)
Endowment spending allocated for operations	(197,437)	(691,517)	(888,954)
Private gifts, grants and pledges	-	121,300	121,300
Change in donor designation	(212,471)	212,471	-
Change in beneficial interest in trusts held by others	-	1,246,410	1,246,410
Change in net assets from nonoperating activities	<u>303,964</u>	<u>4,277,955</u>	<u>4,581,919</u>
Change in net assets	1,366,252	3,815,011	5,181,263
Net Assets, Beginning	<u>18,532,840</u>	<u>18,703,502</u>	<u>37,236,342</u>
Net Assets, Ending	<u>\$ 19,899,092</u>	<u>\$ 22,518,513</u>	<u>\$ 42,417,605</u>

See notes to consolidated financial statements

Upper Iowa University and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (9,119,881)	\$ 5,181,263
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	2,942,812	3,070,070
Amortization of right-of-use assets	798,478	-
Operating lease payments	(947,940)	-
Amortization of debt issuance costs	17,297	17,297
Amortization of bond discount	21,431	21,431
Change in allowance for uncollectible student receivables	(1,867,254)	195,879
Change in allowance for pledges receivable	132	182
(Gain) loss on investments	2,387,847	(5,096,397)
Change in beneficial interest in trusts held by others	1,118,295	(1,246,410)
Accrued interest added to long-term debt during deferment period	1,875,917	318,287
Net loss on asset disposal	13,255	973,946
Loans cancellations, assignments and write-offs	97,792	-
Change in assets, (increase) decrease:		
Student accounts receivable	2,587,398	(401,506)
Other receivables	225,611	(92,949)
Pledges receivable for operations	(160,579)	74,992
Prepaid expenses	82,136	(117,049)
Inventories	(21,976)	19,390
Change in liabilities, increase (decrease):		
Accounts payable	(58,276)	(509,882)
Accrued wages and related liabilities	(372,375)	(37,263)
Accrued expenses	(329,422)	(545,558)
Deferred tuition and rent	90,227	76,242
Deferred revenue	-	(136,364)
Post retirement benefit payable	34,562	429,233
Gifts and grants for long-term investment	(346,765)	(121,300)
	<u>(931,278)</u>	<u>2,073,534</u>
Net cash flows from operating activities		
	<u>(931,278)</u>	<u>2,073,534</u>
Cash Flows From Investing Activities		
Purchase of land, building, library books and equipment	(897,314)	(133,724)
Proceeds from disposition of land, buildings and equipment	-	1,013,600
Purchases of investments	(388,108)	(335,550)
Proceeds from sales of investments	904,957	891,114
Repayments of loans by students, net of refundable advances	(18,864)	(25,931)
	<u>(399,329)</u>	<u>1,409,509</u>
Net cash flows from investing activities		
	<u>(399,329)</u>	<u>1,409,509</u>
Cash Flows From Financing Activities		
Principal repayments of indebtedness	-	(1,752,452)
Payment of lease payable	(128,487)	(114,357)
Gifts and grants received for long-term investment	326,761	274,814
	<u>198,274</u>	<u>(1,591,995)</u>
Net cash flows from financing activities		
	<u>198,274</u>	<u>(1,591,995)</u>
Net change in cash and cash equivalents	(1,132,333)	1,891,048
Cash and Cash Equivalents, Beginning	<u>9,915,555</u>	<u>8,024,507</u>
Cash and Cash Equivalents, Ending	<u>\$ 8,783,222</u>	<u>\$ 9,915,555</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 11,567</u>	<u>\$ 1,662,508</u>
Noncash Investing and Financing Activities		
Purchase of equipment with finance / capital lease proceeds	<u>\$ 60,919</u>	<u>\$ 216,675</u>

See notes to consolidated financial statements

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

1. Significant Accounting Policies

Organization

Founded in 1857, Upper Iowa University (the University) is a private liberal arts University located in Fayette, Iowa. The University provides student-centered undergraduate and graduate educational programs through flexible, multiple delivery systems in an environment in which diversity is respected, encouraged and nurtured. These programs are provided at the Fayette, Iowa campus, at off-campus centers throughout Iowa, Arizona, Illinois, Wisconsin, Kansas, Louisiana and Oklahoma and with on-line curriculum and international programs. The University provides educational programs to more than 6,200 undergraduate and graduate students around the world.

Principles of Consolidation

The consolidated financial statements include the accounts of Upper Iowa University (UIU), UIU Real Estate Foundation, Upper Iowa University - Hong Kong Campus Limited and Upper Iowa – Hong Kong Limited, all wholly owned subsidiaries of Upper Iowa University, as of and for the year ended June 30, 2022 and 2021. All interrelated balances and significant transactions between the various entities have been eliminated in consolidation. Upper Iowa University Hong Kong Limited began the teach out process in the fiscal year ending June 30, 2022.

On December 18, 2015, the UIU Real Estate Foundation, LLC, an Iowa limited liability company (the Foundation) was created with the University as the sole corporate member. In addition, on August 16, 2016, the University entered into a real estate purchase agreement with the Foundation whereas the University shall sell, convey, assign and transfer to the Foundation its real estate assets located in Fayette County, Iowa, legally described within the purchase agreement (the Property) for a price of \$70,900,000 on the closing date of August 28, 2018. At the time of the closing, the Foundation and the University entered into a sale lease-back agreement where the University leased from the Foundation the Property for a term of 26 years.

Foreign currency denominated assets and liabilities are translated into U.S. dollars at the exchange rate existing at the statement of financial position date, and income and expenses are translated at the exchange rate existing at the transaction dates. Exchange gains or losses are included in change in net assets from nonoperating activities.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Foreign operations consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Total assets	\$ -	\$ 187,726
Total liabilities	-	1,137,352
Total operating revenues	715,199	1,234,212
Total net assets (deficit)	-	(949,626)
Total change in net assets	949,626	236,857

Basis of Financial Statements

The accounting policies of the University reflect practices common to universities and are prepared in accordance with accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below.

Net Assets

For the purposes of financial reporting, the University classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

With Donor Restrictions - Net assets subject to donor-imposed restrictions that will be met by action of the University and/or the passage of time or maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes (see Note 3).

Without Donor Restrictions - Net assets not subject to donor-imposed stipulations. The University's Board of Trustees has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Trustees at any time. The Board of Trustees has designated a portion of the University's net assets without donor restrictions for the endowment (see Note 8).

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Income earned on donor restricted funds is initially classified as net assets with donor restrictions and is reclassified as net assets without donor restrictions when expenses are incurred for their intended purpose.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Unconditional contributions are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from restrictions between the applicable classes of net assets (see Note 4). Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until they become unconditional, that is, when the conditions on which they depend are met. Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected as reclassification of prior year net assets on the consolidated statement of activities.

A portion of the University's revenue is derived from cost-reimbursable grants and contracts, 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 grant or contract provisions, in the appropriate categories of net assets in accordance with donor restrictions. Amounts received prior to incurring qualifying expenditures, if any, are reported as refundable advances in the statement of financial position. The University has no cost reimbursable grants that have not been recognized at June 30, 2022 and 2021 because qualifying expenditures have not yet been incurred.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues with donor restrictions; the restrictions are considered to be released at the time such long-lived assets are placed in service.

In the absence of donor stipulations or law to the contrary, gains and losses on the investments of a donor-restricted endowment fund are included in net assets with donor restrictions.

Gains and losses on investments of endowment funds without donor restrictions created by a board designation are included in changes in net assets without donor restrictions.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Revenue Recognition and Disaggregation of Revenue

Tuition and Fees Revenue

The University provides academic instruction toward baccalaureate degrees. Tuition and fee revenue is recognized in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely within the first eight weeks of the semester may receive a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. Payments for services are due August 13 for Fall semester and January 6 for the Spring semester. Performance obligations for certain ancillary services are satisfied when the service is performed. The University applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining performance obligations will be satisfied in connection with the completion of the 2021/2022 academic year. The University determines the transaction price based on standard charges for goods and services provided, reduced by discounts relating to institutional scholarships, both funded and unfunded, in accordance with the University's policies.

Auxiliary Revenue

The University also provides auxiliary services, such as residence and food services. The performance obligation of providing access to housing and meals is satisfied ratably over the academic period in which the student chooses to live on campus and purchase a meal plan. Contracts for room and board are combined into a single portfolio of similar contracts. Payment for room and board is required before the start of the academic term. All amounts received prior to the commencement of the academic year, including deposits, are deferred to the applicable period. Students that withdraw from the University within the first 2 weeks of the session may receive a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized.

Cash, Cash Equivalents and Restricted Cash

The University considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents.

Certain cash held by the University is restricted for the Perkins Loan Fund and was \$8,346 and \$30,771 at June 30, 2022 and 2021, respectively. Cash held restricted for the McElroy Loan Fund was \$261,162 and \$260,091 at June 30, 2022 and 2021, respectively.

Cash equivalents restricted for debt service purposes of \$61,360 and \$61,951 as of June 30, 2022 and 2021, respectively, are also reflected as restricted on the consolidated statement of financial position.

Cash, cash equivalents and restricted cash on the consolidated statement of cash flows includes restricted cash and cash equivalents of \$330,868 and \$352,813 and operating cash and cash equivalents of \$8,783,222 and \$9,562,742 at June 30, 2022 and 2021, respectively.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Receivables

Accounts and loans receivable are carried at cost, less an allowance for doubtful accounts. The allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of the collectability of the receivables at the end of each year. It is reasonably possible that changes in this estimate could occur in the near term and that actual results could differ from this estimate. Bad debts are written-off when deemed uncollectible. Interest income on student loan receivables, fees and costs are recognized when incurred. Receivables are generally unsecured.

Inventories

Inventories, consisting of books, clothing, gift items, office supplies and sundries, are valued at the lower of cost or market. The inventory value is determined by specific identification.

Investments

Investments in publicly traded securities are stated at quoted market value. Alternative investments, for which no such quoted market values or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. Changes in fair value are recorded as unrealized gains or losses in the period of change (see Note 7).

Beneficial Interest in Trusts Held by Others

The beneficial interest in trusts held by others and related contribution revenue are recognized at the date the trusts are established for the present value of estimated future payments to be received. Perpetual trusts are valued based upon the market value of the assets contributed to the trusts, which approximates fair value of the beneficial interest in the trusts. The University is entitled to receive annual earnings on its beneficial interest.

Physical Plant and Equipment

Physical plant assets are stated at cost at date of acquisition or market value if donated, less accumulated depreciation. The University typically depreciates its assets on the straight-line basis over estimated useful lives as follows:

Land improvements	20 Years
Buildings	45 Years
Building improvements	20 - 25 Years
Equipment	5 - 15 Years
Library materials	8 Years
Hong-Kong/Malaysia, equipment	1 - 3 Years

Normal repair and maintenance expenses are charged to operations as incurred. Major improvements are capitalized. The University capitalizes physical plant additions and equipment in excess of \$5,000.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Impairment of Long-Lived Assets

The University reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Deferred Tuition and Rent

Certain revenue related to summer and fall courses and programs is deferred and recognized as revenue in the same period the programs are delivered. Students are generally billed for courses and programs prior to the start of the course or program.

Federal Student Loan Funds Refundable

Funds provided by the United States Government under the Federal Perkins Loan Program that were loaned to qualified students. These funds are ultimately refundable to the government and are included as liabilities on the statements of financial position.

Use of Estimates

The preparation of the 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain expenses such as depreciation, amortization, interest, central or administration, communications, media production, information technology and facilities operations and maintenance, have been allocated among the programs and supporting services benefited based on square footage, usage of space or estimates of time and effort (see Note 15).

Income Tax Status

The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the University is not subject to Federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt purposes (unrelated business activities). The University is also exempt from state income taxes. The foreign subsidiaries are taxable entities in the countries they are located. Accrued tax payable and income tax expense are related to the foreign subsidiaries.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2022 and 2021. The University's tax returns are subject to review and examination by federal and state authorities.

Fund-Raising Expenses

Total fund-raising expense for the years ended June 30, 2022 and 2021 was approximately \$635,000 and \$645,000, respectively.

Advertising Costs

Advertising costs are generally expensed as incurred. Advertising expense was approximately \$2,258,000 and \$2,280,000 for the years ended June 30, 2022 and 2021, respectively.

Grants and Direct Loans to Specified Students

Amounts received from state and federal agencies designated for the benefit of specified students, including Federal Pell grants, Iowa tuition grants and Federal direct loans, are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University. As of June 30, 2022 and 2021, the University has amounts due from federal agencies in the amount of \$105,173 and \$229,374, respectively, for grants and direct loans to specified students.

New Accounting Pronouncements Adopted in the Current Year

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. The University adopted this standard as of July 1, 2021 using a modified retrospective approach. As a result of the adoption, the University recorded right-of-use-assets and operating lease liabilities and expanded disclosures in Note 14. The impact of the adoption was an increase of net assets of \$108,424 which was recorded as a cumulative effect of adoption of new standard on the consolidated statement of activities in 2022.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

2. Liquidity and Availability

The University regularly monitors liquidity to ensure that financial assets are sufficiently available as its general expenditures, liabilities and other obligations come due. The University's financial assets available for general expenditures within one year of the statement of financial position date as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents - operating	\$ 8,452,354	\$ 9,562,742
Receivables due within one year	2,624,827	3,486,675
Current Investments	<u>340,792</u>	<u>344,296</u>
Total financial assets available for general expenditure	<u>\$ 11,417,973</u>	<u>\$ 13,393,713</u>

The majority of the University's liquidity is provided by cash and cash equivalents and receivables. Amounts not available include amounts set aside for long-term investment in the board-designated endowments that could be drawn upon if the governing board approves that action. The University has board designated endowment funds of \$6,072,203 and \$7,083,090 for the year ended June 30, 2022 and 2021, respectively, that are not included in the table above. Although the University does not intend to spend from its board designated endowment funds, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board designated endowment funds could be made available if necessary.

The amounts restricted for debt service of \$61,360 and \$61,951 are not included in the table above, as these amounts are contractually restricted for principal and interest payments. See Note 13 for a discussion of the Workout Agreements the University entered into with the USDA.

3. Restrictions and Limitations on Net Assets Balances

At June 30, 2022 and 2021, the University's net assets without donor restrictions were allocated as follows:

	<u>2022</u>	<u>2021</u>
Operations and plant	\$ 7,320,613	\$ 12,646,125
Board designated endowment funds, long term investments (Note 8)	6,072,203	7,083,090
Debt service restricted cash	61,360	61,951
Student loan programs	<u>105,313</u>	<u>107,926</u>
	<u>\$ 13,559,489</u>	<u>\$ 19,899,092</u>

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Net assets with donor restrictions consist of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Purpose and time restricted:		
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	\$ 560,972	\$ 501,479
McElroy loan funds	358,800	358,614
Endowment funds, accumulated earnings:		
Earnings not yet appropriated for spending (Note 8)	3,699,617	5,986,028
Pledges	254,213	73,762
Total purpose and time restricted	<u>4,873,602</u>	<u>6,919,883</u>
Held in perpetuity:		
Endowment funds (Note 8)	9,997,682	9,613,384
Beneficial interest in funds held by others	4,866,951	5,985,246
Total held in perpetuity	<u>14,864,633</u>	<u>15,598,630</u>
	<u>\$ 19,738,235</u>	<u>\$ 22,518,513</u>

4. Net Assets Released From Restrictions

Net assets were released to operating net assets without donor restrictions from net assets with donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Purpose restriction accomplished:		
Pledge payments and change in allowance	\$ 95,497	\$ 228,688
Scholarships and other	1,885,372	929,464
Total	<u>\$ 1,980,869</u>	<u>\$ 1,158,152</u>

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

5. Pledges Receivable, Net

Pledges receivable include the following unconditional promises to give at June 30:

	<u>2022</u>	<u>2021</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 155,004	\$ 81,500
One to five years	115,000	-
	<u>270,004</u>	<u>81,500</u>
Gross unconditional promises to give		
	<u>270,004</u>	<u>81,500</u>
Less:		
Unamortized discount	(15,791)	(7,606)
Allowance for uncollectible promises		(132)
	<u>\$ 254,213</u>	<u>\$ 73,762</u>
Reported under current assets	\$ 104,770	\$ 20,863
Reported under noncurrent assets	149,443	52,899
	<u>\$ 254,213</u>	<u>\$ 73,762</u>

Pledges receivable due within one year are not discounted. Pledges receivable expected to be collected in more than one year have been discounted using a historic rate of 5.00%. As of June 30, 2022 and 2021, net contributions receivable consisted of \$235,828 and \$52,899, respectively, for plant projects and \$18,385 and \$20,863 for both programs and operations, respectively.

6. Credit Quality of Student Notes Receivable

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2022 and 2021, student loans represented 0.2% of total assets each year.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

At June 30, student loans consisted of the following:

	<u>2022</u>	<u>2021</u>
Federal government programs	\$ 80,499	\$ 183,969
Institutional programs (McElroy)	<u>169,292</u>	<u>170,240</u>
	249,791	354,209
Less allowance for doubtful accounts	<u>(236,318)</u>	<u>(236,318)</u>
Student loans receivable, net	<u>\$ 13,473</u>	<u>\$ 117,891</u>

Federal student loan funds advanced by the Federal government of \$23,506 and \$48,996 at June 30, 2022 and 2021, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. These amounts are partially offset by related receivables from the Federal government.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan program receivables may be assigned to the U.S. Department of Education (ED). Students may be granted deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by ED.

The Extension Act amended section 461 of the Higher Education Act to end the University's authority to make new Perkins Loans after June 30, 2018. The University is not required to assign the outstanding Perkins Loans to the Department of Education or liquidated their Perkins Loan funds due to the wind-down of the Perkins Loan Program. However, the University may choose to liquidate any time in the future. As of June 30, 2022, the University continues to service the Perkins Loan Program.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

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

	<u>2022</u>	<u>2021</u>
Past due loan receivables:		
1-59 days past due	\$ -	\$ 47
60-89 days past due	95	-
90 days to 1 year past due	2,000	13,498
1-5 years past due	30,533	52,078
5+ years past due	84,591	228,072
	<hr/>	<hr/>
Total past due	117,124	293,695
Current loan receivables	<hr/>	<hr/>
	132,667	60,514
Total student loan receivables, gross	<hr/> <hr/>	<hr/> <hr/>
	\$ 249,791	\$ 354,209

7. Investments and Fair Value of Financial Instruments

Investments are comprised of the following at June 30:

	<u>2022</u>	<u>2021</u>
Investments (current):		
Certificates of deposit (cost)	<hr/>	<hr/>
	\$ 313,233	\$ 312,618
Equity	18,189	20,907
Mutual funds	<hr/>	<hr/>
	9,370	10,771
Total investments (current) (fair value)	<hr/>	<hr/>
	27,559	31,678
Total investments (current)	<hr/>	<hr/>
	340,792	344,296
Long-term investments:		
Money market funds	215,943	508,647
Mutual funds	30,968	34,581
Pooled income fixed income funds	6,320,860	4,800,515
Pooled income equity funds	10,876,040	15,641,332
Hedge funds	2,040,991	1,354,711
Private equity funds	<hr/>	<hr/>
	298,100	344,308
Total long-term investments (fair value)	<hr/>	<hr/>
	19,782,902	22,684,094
Total investments	<hr/> <hr/>	<hr/> <hr/>
	\$ 20,123,694	\$ 23,028,390

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

The following schedule summarizes the return on investments during 2022 and 2021 and its classification on the statement of activities.

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 692,297	\$ 410,896
Return on investments and other assets	(2,990,247)	4,772,026
Investment expenses	<u>(89,944)</u>	<u>(62,682)</u>
Total gain (loss) on investments	<u>\$ (2,387,894)</u>	<u>\$ 5,120,240</u>
Operating:		
Interest and dividends	<u>\$ 2,828</u>	<u>\$ 43,131</u>
Nonoperating:		
Interest and dividends on endowments	689,516	367,765
Gain (loss) on endowments, net	<u>(3,080,191)</u>	<u>4,709,344</u>
	<u>(2,390,675)</u>	<u>5,077,109</u>
Total return on investments	<u>\$ (2,387,847)</u>	<u>\$ 5,120,240</u>

Fair value is defined in the accounting 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 are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

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 assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entities own data.

Valuation Techniques and Inputs

Level 1 - Level 1 assets include money market funds, mutual funds, equity, pooled income, fixed income funds and pooled income equity funds for which quoted prices are readily available.

Level 3 - Level 3 assets include beneficial interests in trusts held by others for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

Certain alternative investments are measured at fair value using the net asset value (NAV) per share (or its equivalent) of such investment funds as a practical expedient for fair value. The University has estimated the fair value of these funds by using the NAV provided by the investee. Investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirements.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset.

There have been no changes in the techniques and inputs used as of June 30, 2022 and 2021.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

The following table presents information about the University's assets measured at fair value on a recurring basis as of June 30, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments (current):				
Mutual funds	\$ 9,370	\$ 9,370	\$ -	\$ -
Equity	18,189	18,189	-	-
Total investments (current)	<u>27,559</u>	<u>27,559</u>	-	-
Long-term investments:				
Money market funds	215,943	215,943	-	-
Mutual funds	30,968	30,968	-	-
Pooled income, fixed income funds:				
Corporate	2,851,011	2,851,011	-	-
Government	3,287,097	3,287,097	-	-
Mortgage/asset backed	182,752	182,752	-	-
Pooled income, equity funds:				
International	1,705,445	1,705,445	-	-
Growth	5,543,851	5,543,851	-	-
Value	1,797,906	1,797,906	-	-
Emerging market	1,828,838	1,828,838	-	-
Total long-term investments at fair value	<u>17,443,811</u>	<u>17,443,811</u>	-	-
Beneficial interest in trusts held by others	<u>4,866,951</u>	-	-	<u>4,866,951</u>
Total investments by valuation hierarchy	22,338,321	<u>\$ 17,472,438</u>	<u>\$ -</u>	<u>\$ 4,866,951</u>
Investments measured at net asset value:				
Hedge funds	2,040,991	-	-	-
Private equity, international funds	<u>298,100</u>	-	-	-
Total assets at fair value	<u>\$ 24,677,412</u>	-	-	-

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
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The following table presents information about the University's assets measured at fair value on a recurring basis as of June 30, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments (current):				
Mutual funds	\$ 10,771	\$ 10,771	\$ -	\$ -
Equity	20,907	20,907	-	-
Total investments (current)	<u>31,678</u>	<u>31,678</u>	<u>-</u>	<u>-</u>
Long-term investments:				
Money market funds	508,647	508,647	-	-
Mutual funds	34,581	34,581	-	-
Pooled income, fixed income funds:				
Corporate	1,793,016	1,793,016	-	-
Government	2,776,662	2,776,662	-	-
Mortgage/asset backed	230,837	230,837	-	-
Pooled income, equity funds:				
International	2,728,155	2,728,155	-	-
Growth	7,112,742	7,112,742	-	-
Value	2,451,550	2,451,550	-	-
Emerging market	3,348,885	3,348,885	-	-
Total long-term investments at fair value	<u>20,985,075</u>	<u>20,985,075</u>	<u>-</u>	<u>-</u>
Beneficial interest in trusts held by others	5,985,246	-	-	5,985,246
Total investments by valuation hierarchy	27,001,999	<u>\$ 21,016,753</u>	<u>\$ -</u>	<u>\$ 5,985,246</u>
Investments measured at net asset value:				
Hedge funds	1,354,711			
Private equity, international funds	344,308			
Total assets at fair value	<u>\$ 28,701,018</u>			

There were no purchases, issuances or transfers in or out relating to the Level 3 assets during the years ended June 30, 2022 and 2021.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

The Organization uses the net asset value (NAV) as a practical expedient to determine fair value of all underlying investments, which do not have a readily determinable fair value and are in investment companies or similar entities that report their investment assets at fair values.

The following tables list alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category:

	Private Equity International Fund	Real Estate Investment Trust Hedge Fund	Private Equity Hedge Fund
Fair value: June 30, 2021	\$ 344,308	\$ 738,663	\$ 616,048
Fair value: June 30, 2022	\$ 298,100	\$ 1,352,232	\$ 688,760
Significant investment strategy	Offshore diversified private equity pool that includes buyout, real estate, debt, infrastructure and venture capital strategies	1933 Act Nontraded Perpetual Life REIT	Open End Registered Fund of Private Equity
Remaining life	7 years, with 3 possible 1-year extensions	N/A	N/A
Dollar amount of unfunded commitments	\$ 56,176	\$ -	\$ -
Timing to draw down commitments	N/A	N/A	N/A
Redemption terms	None	Up to 2% of NAV monthly, not to exceed 5% of NAV per quarter	Up to 5% of NAV per quarter
Redemption restrictions	N/A	1-year soft lock (5% early redemption fee)	1-year soft lock (2% early redemption fee)

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

8. Endowment

The University's endowment consists of approximately 90 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The University's Board of Trustees has interpreted the Iowa State Prudent Management of Institutional Funds Act (SPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. The University's Board of Trustees has determined it is prudent to preserve the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The University classifies as net assets with donor restrictions (a) the original value of the 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 a donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the University through the Board of Trustee's approval of the annual budget, which is inclusive of the spending rate for its endowment funds established pursuant to the University's spending policy. See Note 1 for further information on net asset classifications.

Funds functioning as endowment have also been established by the Board of Trustees as long-term reserves for operations. Funds functioning as endowment differ from true endowment because any portion of these funds may be expended and accordingly are classified as net assets without donor restrictions.

Endowment net asset composition by type of fund consists of the following as of June 30, 2022:

	With Donor Restrictions			Total	Total Funds June 30, 2022
	Without Donor Restrictions	Original Gift Value	Accumulated Gain (Losses)		
Board-designated endowment funds	\$ 6,072,203	\$ -	\$ -	\$ -	\$ 6,072,203
Donor-restricted endowment funds	-	9,997,682	3,699,617	13,697,299	13,697,299
Total endowment net assets	<u>\$ 6,072,203</u>	<u>\$ 9,997,682</u>	<u>\$ 3,699,617</u>	<u>\$ 13,697,299</u>	<u>\$ 19,769,502</u>

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
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Endowment net asset composition by type of fund consists of the following as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions		Total	Total Funds June 30, 2020
		Original Gift Value	Accumulated Gain (Losses)		
Board-designated endowment funds	\$ 7,083,090	\$ -	\$ -	\$ -	\$ 7,083,090
Donor-restricted endowment funds	-	9,613,384	5,986,028	15,599,412	15,599,412
Total endowment net assets	<u>\$ 7,083,090</u>	<u>\$ 9,613,384</u>	<u>\$ 5,986,028</u>	<u>\$ 15,599,412</u>	<u>\$ 22,682,502</u>

Changes in endowment net assets for the year ended June 30, 2022 are as follows:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 7,083,090	\$ 15,599,412	\$ 22,682,502
Investment return	(790,042)	(1,593,182)	(2,383,244)
Contributions	-	346,765	346,765
Change in donor designation	-	37,533	37,533
Appropriation of endowment assets for Operating expenditures	(220,845)	(693,229)	(914,074)
Endowment net assets, end of year	<u>\$ 6,072,203</u>	<u>\$ 13,697,299</u>	<u>\$ 19,769,502</u>

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 5,592,729	\$ 12,567,867	\$ 18,160,596
Investment return	1,687,818	3,389,291	5,077,109
Contributions	-	121,300	121,300
Change in donor designations	-	212,471	212,471
Appropriation of endowment assets for Operating expenditures	(197,457)	(691,517)	(888,974)
Endowment net assets, end of year	<u>\$ 7,083,090</u>	<u>\$ 15,599,412</u>	<u>\$ 22,682,502</u>

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gifts contributed to each endowment fund. There were no deficiencies of this nature as of June 30, 2022 and 2021.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that strive to provide a source of income for spending that is reasonably stable and predictable from year-to-year, while seeking to preserve capital, maintain the purchasing power of the endowment assets and prudently earn the highest possible rate of return consistent with the University's ability to accommodate risk. Endowment assets include those assets of donor-restricted funds that the University intends to hold indefinitely or for a donor-specified period(s) as well as board-designated funds. Under this policy the endowment assets are invested in a manner that is intended to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds annual distributions with acceptable levels of risk.

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). Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make quarterly distributions, while growing the funds if possible, in order to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board of Trustees designates only a portion of the University's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. In developing its spending policy, the University considers certain of the following factors which it determines relevant:

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; and
7. The investment policies of the University.

The University has a policy of appropriating for distribution the interest and dividend income generated from the investments quarterly. In establishing this policy, the University considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which are to be maintained in perpetuity because of donor-restrictions and the possible effects of inflation. The University expects the current spending policy to allow its endowment funds to grow over the long-term, which is consistent with the University's objective to maintain the purchasing power of the endowment assets, as well as to provide additional real growth through new gifts and investment return.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

The Board has authorized that the amount to be allocated to operations from the endowment fund be determined by applying a spending rate of 5% to the average of the fair value of the endowment investments for the trailing 3 years as of June 30. This amount will be distributed annually.

9. Property, Plant and Equipment

At June 30, 2022 and 2021, property, plant and equipment consisted of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,942,634	\$ 1,942,634
Artwork	760,254	760,254
Construction in process	729,535	130,454
Land improvements	8,873,406	8,803,711
Buildings and improvements	98,038,981	97,882,493
Equipment and vehicles	13,077,459	13,339,301
Library materials	1,573,477	1,573,477
Leasehold improvements	193,609	193,609
UIU Hong Kong leasehold improvements and equipment	-	18,174
	<u>125,189,355</u>	<u>124,644,107</u>
Less accumulated depreciation	<u>(53,603,037)</u>	<u>(50,795,475)</u>
	<u>\$ 71,586,318</u>	<u>\$ 73,848,632</u>

Construction in process as of June 30, 2022 consists of HVAC upgrades of \$27,959, Baker Hebron renovations of \$29,112, Football Stadium renovations of \$646,159 and IT projects of \$26,305.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
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10. Contingencies

The University is subject to the usual contingencies in the normal course of operations relating to the performance of its task under the various services delivered. Management has recorded an estimate for loss contingencies that have been deemed both probable and estimable. In the opinion of management, the ultimate settlement of litigation, claims and disputes in process will not be material to the consolidated financial position of the University.

In order to participate in the various Federal Title IV financial aid programs, the U.S. Department of Education requires private nonprofit institutions to demonstrate financial responsibility by meeting certain ratio requirements.

The University is contingently liable in connection with claims and contracts, including those currently in litigation arising in the normal course of its activities. In the opinion of management, the results of these matters will not have a significant impact on the consolidated financial statements.

11. Deferred Revenue

The change in the University's deferred revenue related to funds received under a food service financial agreement for the years ended June 30, 2021 is composed of the following:

	<u>2021</u>
Balance, beginning of year	\$ 136,364
Portion of agreement earned	<u>(136,364)</u>
Balance, end of year	<u>\$ -</u>

12. Retirement Plans and Postretirement Health Benefits

Retirement Plans

The University has a contributory defined contribution retirement plan for employees. The plan is administered by Teachers' Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF) for both academic and nonacademic personnel. Substantially all employees who have completed one year of service (which includes at least 1,000 hours of service) are eligible to participate in the University's contribution after meeting certain eligibility requirements. The University contributed \$249,325 and \$261,354 to the plan in 2022 and 2021, respectively.

Under the University's defined contribution retirement plans, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of those contributions.

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Postretirement Health Benefits

The University provides funds for postretirement healthcare benefits of eligible retirees. In order to participate, benefits eligible employees must retire from the University at age 59½ or older with at least 5 years of service. Benefits terminate at age 65. These benefits are funded on a pay as you go basis. Effective February 1, 2013, this was frozen and no new members are eligible for this benefit plan.

Accrued postretirement benefit obligation recognized in the statement of financial position are as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Current liabilities	\$ 169,207	\$ 139,401
Noncurrent liabilities	<u>1,127,715</u>	<u>1,122,959</u>
Accrued postretirement benefit obligation	<u>\$ 1,296,922</u>	<u>\$ 1,262,360</u>

It is reasonably possible that changes in the recorded liability could occur in the near term and that actual benefits could differ from the estimates and could have a material impact on the financial statements.

At June 30, 2022, there are ten retirees receiving benefits. Benefits expected to be paid for each of the five years subsequent to June 30, 2022 for these retirees are estimated to be \$90,000, \$70,000, \$56,000, \$31,000 and \$13,600, respectively. Contributions expected to be paid to the plan during the next fiscal year are recorded as a current liability as noted in the table above.

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The following is a reconciliation of the benefit obligation and the value of plan assets at June 30:

	<u>2022</u>	<u>2021</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 1,262,360	\$ 833,127
Service cost	57,708	45,725
Interest cost	34,587	35,784
Actuarial loss (gain)	27,234	396,944
Benefits paid	<u>(84,967)</u>	<u>(49,220)</u>
Projected benefit obligation at end of year	<u>1,296,922</u>	<u>1,262,360</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Employer contribution	84,967	49,220
Benefits paid	<u>(84,967)</u>	<u>(49,220)</u>
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Funded status:		
Unfunded status at end of year	<u>\$ (1,296,922)</u>	<u>\$ (1,262,360)</u>

The estimated interest cost and service cost for the year ending June 30, 2022, are as follows:

Components of net periodic benefit cost:	
Service cost	\$ 57,708
Interest cost	34,587
Amortization of net (gain) loss	<u>-</u>
Net periodic pension cost	<u>\$ 92,295</u>

The above assumptions and calculations are based on census data as of June 30, 2021 and other information as of the measurement date for the plan. The unfunded status above represents the obligation for the retirees and the current service cost for eligible employees at June 30, 2022. A 7.0% per annum medical trend rate was assumed. A discount rate and expected return on plan assets of 2.90% per annum was used to determine the net periodic benefit cost.

The effect of a 1% increase in the assumed medical trend rate would increase the service and interest costs by approximately \$7,017. Increasing the assumed medical trend rate by 1% would increase the accumulated postretirement benefit obligation as of June 30, 2022, by approximately \$77,557.

Upper Iowa University and Subsidiaries

Notes to Consolidated Financial Statements
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13. Long-Term Debt

Long-term debt consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
USDA Notes payable (issued August 2018)	\$ 69,557,958	\$ 69,557,958
Accrued interest during deferment period	2,194,204	318,287
Discount on Notes	(471,494)	(492,925)
Unamortized issuance costs on Notes	(380,526)	(397,823)
Net long-term debt	70,900,142	68,985,497
Long-term debt, current portion	1,272,336	-
Long-term debt, long-term portion	<u>\$ 69,627,806</u>	<u>\$ 68,985,497</u>

On August 28, 2018, the University entered into a loan with the United States Department of Agriculture (USDA) in the amount of \$75,028,000, whereas the proceeds paid off the University's 2016 Bonds. The proceeds from the 2016 Bonds are in an escrow fund which had legally defeased the University's 2010 and 2012 Bonds. At June 30, 2022, the estimated balance outstanding on these legally defeased bonds was \$19,545,000 and the balance in the escrow account was \$20,569,868. The USDA loan bears an interest rate of 2.75%, with monthly principle and interest payments of \$336,561 through December 2048. The USDA loan is secured by a mortgage on the Fayette campus assets with an approximate carrying value of \$69,038,861 as of June 30, 2022. The USDA loan requires that the University will maintain a debt service coverage ratio of at least 1.10. The University was out of compliance with this ratio for the years ended June 30, 2022. As such, the loan agreement required the University to provide the State Office with quarterly financial reports, semester/quarterly enrollment figures and a fiscal strategy report, which documents the University's plan to achieve the debt service coverage ratio requirement in the future.

On May 21, 2020, the University entered into a Workout Agreement with the USDA in order to defer payments on the above noted loan as a result of the COVID-19 pandemic. The Workout Agreement stated that payments were made as previously scheduled from May 2020 through April 2021; however, were funded from the reserve account. There will be a payment deferral of principal and interest for a five-month period beginning May 2021. Regular payments were scheduled to begin October 28, 2021. On June 17, 2021, the University entered into an additional Workout Agreement deferring payments until October 28, 2022. During the deferment period, interest will continue to accrue at 2.75%. At the end of the deferment period the accrued interest balance will be added to the outstanding loan balance and the loan re-amortized.

Upper Iowa University and Subsidiaries

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Future principal payments on the USDA notes payable (including deferred interest) as of June 30, 2022 are as follows:

Years ending June 30:	
2023	\$ 1,272,336
2024	1,737,740
2025	1,786,135
2026	1,835,878
2027	1,887,005
Thereafter	<u>63,233,068</u>
Total	<u>\$ 71,752,162</u>

Costs of issuance of \$480,122 and the debt discount of \$600,080 are deferred and amortized over the term of the debt. Accumulated amortization of the discount and issuance costs at June 30, 2022 and 2021 is \$228,182 and \$189,454, respectively. Future amortization is expected to approximate \$38,800 annually.

14. Leases

The University leases office space in Fayette and certain equipment under financing leases. The financing lease obligations are secured by the leased equipment. Right of use assets under financing leases totaled \$264,480 as of June 30, 2022.

The University leases space for classes and offices at various centers that expire at various dates through October 2027. These leases generally contain renewal options and require the University to pay executory costs such as maintenance and insurance. Right of use assets under operating leases totaled \$3,383,286 as of June 30, 2022.

The lease costs for the year ended June 30, 2022 are:

Finance lease cost:	
Amortization	\$ 142,647
Interest on lease liabilities	23,102
Operating lease cost	<u>1,015,375</u>
Total lease costs	<u>\$ 1,181,124</u>

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Other required information relating to the College's leases for the year ended May 31, 2022 are:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	\$ (23,102)
Financing cash flows from finance leases	(128,487)
Operating cash flows from operating leases	(947,940)
Weighted-average remaining lease term:	
Finance leases	3.01 Years
Operating leases	4.34 Years
Weighted-average discount rate:	
Finance leases	9.24%
Operating leases	6.00%

Future minimum lease payments as of June 30, 2022, are as follows:

	<u>Financing</u>	<u>Operating</u>
Years ending May 31:		
2023	\$ 107,914	\$ 909,424
2024	107,914	832,592
2025	64,969	742,359
2026	24,617	562,406
2027	-	422,427
Thereafter	-	122,025
	<u>305,414</u>	<u>3,591,233</u>
Total minimum lease payments		
	(31,364)	(357,409)
Less amount representing interest		
	<u>\$ 274,050</u>	<u>\$ 3,233,824</u>
Present value of net minimum lease payments		

Upper Iowa University and Subsidiaries

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15. Expenses by Nature and Function

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the University.

Expenses by nature and function for the year ended June 30, 2022, including the following:

	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Institutional Support</u>
Salaries and wages	\$ 7,663,975	\$ 853,401	\$ 4,271,574	\$ 5,706,294
Employee benefits	1,383,493	200,585	1,195,721	2,331,181
Occupancy & utilities				
Supplies	424,721	295,781	2,073,809	4,927,120
Student aid				97,792
Other outside services	119,958	174,203	440,417	1,390,819
Depreciation and amortization	768,663	177,157	808,390	466,436
Interest	503,127	115,958	529,130	305,305
Subtotal	10,863,937	1,817,085	9,319,041	15,224,947
Occupancy and maintenance allocation	1,075,780	247,940	1,131,382	652,799
Hong Kong Campus Ltd	-	-	-	-
Hong Kong Limited	-	289,657	-	-
Total	<u>\$ 11,939,717</u>	<u>\$ 2,354,682</u>	<u>\$ 10,450,423</u>	<u>\$ 15,877,746</u>
	<u>Scholarships & Fellowships</u>	<u>Auxiliary Services</u>	<u>Occupancy & Maintenance</u>	<u>Total Expenses</u>
Salaries and wages	\$ -	\$ 79,634	\$ 822,094	\$ 19,396,973
Employee benefits	-	21,286	297,112	5,429,377
Occupancy & utilities	-	393,367	2,471,824	2,865,191
Supplies	-	216,109	359,317	9,061,000
Student aid	3,944,742	-	-	3,944,742
Other outside services	-	2,629,505	168,260	4,923,162
Depreciation and amortization	-	722,166	-	2,942,812
Interest	-	472,692	-	1,926,212
Subtotal	3,944,742	4,534,759	4,118,607	49,823,118
Occupancy and maintenance allocation	-	1,010,706	(4,118,608)	-
Hong Kong Campus Ltd	-	-	-	-
Hong Kong Limited	-	-	-	289,657
Total	<u>\$ 3,944,742</u>	<u>\$ 5,545,464</u>	<u>\$ -</u>	<u>\$ 50,112,775</u>

Upper Iowa University and Subsidiaries

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

	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Institutional Support</u>
Salaries and wages	\$ 9,147,436	\$ 517,034	\$ 4,161,624	\$ 5,474,457
Employee benefits	1,639,487	122,883	1,133,165	2,628,652
Occupancy & utilities	-	-	-	-
Supplies	409,190	317,780	2,499,596	3,697,153
Student aid	-	-	-	-
Other outside services	65,559	18,987	283,527	1,315,091
Depreciation and amortization	880,823	178,251	813,327	469,404
Interest	568,686	115,084	525,109	303,062
Subtotal	12,711,181	1,270,019	9,416,348	13,887,819
Occupancy and maintenance allocation	1,260,440	255,073	1,163,855	671,708
Hong Kong Campus Ltd	-	-	-	59,457
Hong Kong Limited	828,396	109,502	-	-
Total	<u>\$ 14,800,017</u>	<u>\$ 1,634,594</u>	<u>\$ 10,580,203</u>	<u>\$ 14,618,984</u>
	<u>Scholarships & Fellowships</u>	<u>Auxiliary Services</u>	<u>Occupancy & Maintenance</u>	<u>Total Expenses</u>
Salaries and wages	\$ -	\$ 86,740	\$ 873,159	\$ 20,260,450
Employee benefits	-	39,316	321,488	5,884,951
Occupancy & utilities	-	375,477	2,723,774	3,099,251
Supplies	-	335,138	330,461	7,589,318
Student aid	1,400,619	-	-	1,400,619
Other outside services	-	2,584,677	141,366	4,409,247
Depreciation and amortization	-	726,195	-	3,068,000
Interest	-	468,854	-	1,980,795
Subtotal	1,400,619	4,616,397	4,390,248	47,692,631
Occupancy and maintenance allocation	-	1,039,172	(4,390,248)	-
Hong Kong Campus Ltd	-	-	-	59,457
Hong Kong Limited	-	-	-	937,898
Total	<u>\$ 1,400,619</u>	<u>\$ 5,655,569</u>	<u>\$ -</u>	<u>\$ 48,689,986</u>

Depreciation expense of \$2,070 for the year ended June 30, 2021 included in the subsidiaries financial statements has not been allocated.

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16. Related-Party Transactions

As of June 30, 2022 and 2021, approximately \$200,000 and \$20,000, respectively, of contributions receivable were due from members of the Board of Trustees. Contribution revenue from members of the Board of Trustees totaled approximately \$938,900 and \$140,900 and for the years ending June 30, 2022 and 2021, respectively. Board members are not compensated.

17. Concentrations

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable, contributions receivable (see Note 5) and notes receivable. Cash, cash equivalents and investment holdings are concentrated in a limited number of financial institutions and amounts in excess of FDIC and similar coverages are subject to the usual risks of balances in excess of those limits. The University has not experienced any losses on such accounts and management believes the University is not exposed to any significant credit risk related to those accounts. Investments are diversified in order to reduce credit risk. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

18. Higher Education Emergency Relief Funding

The Coronavirus Aid, Relief and Economics Security (CARES) Act provided budgetary relief to higher education institutions. Congress set aside approximately \$14.25 billion of the \$30.75 billion allotted to the Education Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF I). In the Spring of 2020 each institution received one grant comprised of two parts. Under the legislation, no less than 50% of the full grant was to be used for direct emergency aid to students. The remaining portion of the full grant was to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Institutions were given one calendar year from the date. Approximately \$100,000 of the HEERF I funds was recognized during the year ended June 30, 2021. The remaining amounts were recognized in the previous year. In addition, the Organization recognized approximately \$110,000 of funds received under the HEERF I Strengthening Institutions Program (SIP) during the year ended June 30, 2021.

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On December 27, 2020 the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) was signed into law which authorized the Higher Education Emergency Relief Fund II (HEERF II). In total, the CRRSAA authorizes \$81.88 billion in support for education, in addition to the \$30.75 billion expeditiously provided last spring through the CARES Act. Congress expanded the allowable uses for supplemental awards and new awards made under the CRRSAA and for unspent CARES Act funds, subject to certain limitations. In addition, the CRRSAA requires that an institution receiving funding provide the "same amount" in financial aid grants to students from the new CRRSAA funds that it was required or which it would have been required to provide under its original CARES Act Student Aid Portion award. The University was awarded approximately \$4,773,000 of HEERF II funding. As of June 30, 2021, of the student relief portion of the grant, approximately \$1,105,000 was expended and recognized as government grants revenue and student aid expense during the year ended June 30, 2021. The institutional portion of \$3,482,000 was received and recognized during the year ended June 30, 2021 as the barriers to recognition were met during that fiscal year. In addition, the Organization recognized approximately \$186,000 of funds received under HEERF II SIP during the year ended June 30, 2021.

The Higher Education Emergency Relief Fund III (HEERF III) was authorized by the American Rescue Plan (ARP), signed into law on March 11, 2021, providing \$39.6 billion in support to institutions of higher education to serve students and ensure learning continues during the COVID-19 pandemic. The University was awarded approximately \$7,303,000 of HEERF III funds during fiscal year 2021. The Organization incurred eligible expenses and recognized revenue of approximately \$45,000 during the year ended June 30, 2021. The remaining amount of the HEERF III grant has been recognized during the year ended June 30, 2022 as the barriers to recognition had not yet been met as of June 30, 2021. The student relief portion of the grant, approximately \$3,945,000 was expended and recognized as government grants revenue and student aid expense during the year ended June 30, 2022. The institutional portion of \$3,021,000 was received and recognized during the year ended June 30, 2022 as the barriers to recognition were met during that fiscal year. In addition, the Organization recognized approximately \$293,000 of funds received under HEERF III SIP during the year ended June 30, 2022.

A total of approximately \$7,259,000 and \$5,028,000 of HEERF Funds was recognized during June 30, 2022 and 2021, respectively.

19. Subsequent Events

The University has evaluated subsequent events through October 13, 2022, which is the date that the financial statements were approved and issued.