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Financial Statements

June 30, 2021 and 2020

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e e e e [redacted]	1
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Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6

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To the Board of Trustees of
Messiah University

We have audited the accompanying financial statements of Messiah University (the University), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

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Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures are O..... reA s in the

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Messiah University

Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 11,856,922	\$ 9,510,874
Notes and accounts receivable, net	4,430,674	3,126,886
Promises to give, net	3,552,024	6,171,138
Interest receivable	137,591	132,253
Inventories	584,639	595,205
Prepaid expenses and other assets	655,102	494,605
Investments, endowment	140,197,914	129,832,547
Investments, gift annuities and trusts	7,840,911	6,960,602
Investments, other	7,432,640	7,348,997
Loans receivable, students	1,793,982	2,090,509
Deposits with trustee under debt agreements, restricted	6	156
Beneficial interest in perpetual trusts	4,696,722	3,871,156
Right-of-use assets	5,485,637	-
Property and equipment, net	148,479,879	152,206,286
	<u>337,144,643</u>	<u>322,341,214</u>
Total assets	<u>\$ 337,144,643</u>	<u>\$ 322,341,214</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 7,772,447	\$ 10,274,830
Student deposits	2,212,825	2,667,935
Funds held in custody for others	55,868	60,785
Deferred revenue	1,685,017	1,341,806
Annuities payable	4,096,179	3,779,761
Funds held in trust for others	212,625	389,244
Lease liabilities	5,485,637	-
Long-term debt	70,304,450	64,330,488
U.S. government grants refundable	1,493,041	1,879,652
Other liabilities	2,642,557	3,203,701
	<u>95,960,646</u>	<u>87,928,202</u>
Total liabilities	<u>95,960,646</u>	<u>87,928,202</u>
Net Assets		
Without donor restrictions	<u>180,154,319</u>	<u>178,043,091</u>
With donor restrictions:		
Restricted, time and purpose	16,712,308	14,859,887
Restricted, in perpetuity	44,317,370	41,510,034
	<u>61,029,678</u>	<u>56,369,921</u>
Total net assets with donor restrictions	<u>61,029,678</u>	<u>56,369,921</u>
Total net assets	<u>241,183,997</u>	<u>234,413,012</u>
Total liabilities and net assets	<u>\$ 337,144,643</u>	<u>\$ 322,341,214</u>

Net tuition and fees	\$ 58,022,303	\$ -	\$ -	\$ -	\$ 58,022,303
Government grants and appropriations	4,033,959	18,424	-	18,424	4,052,383
Gifts and grants	948,300	1,700,768	-	1,700,768	2,649,068
Capital gifts and grants	-	329,132	-	329,132	329,132
Endowment return designated for operations	7,514,141	2,405,300	-	2,405,300	9,919,441
Investment income	413,790	144,994	-	144,994	558,784
Other sources	1,837,839	4,263	-	4,263	1,842,102
Auxiliary enterprises	17,921,091	-	-	-	17,921,091
Net assets released from restrictions	3,333,776	(3,333,776)	-	(3,333,776)	-
Net assets released from restrictions, capital	2,772,895	(2,772,895)	-	(2,772,895)	-
Total operating revenues	96,798,094	(1,503,790)	-	(1,503,790)	95,294,304
Educational program services:					
Instructional	34,248,137	-	-	-	34,248,137
Academic support	8,521,563	-	-	-	8,521,563
Student services	21,132,410	-	-	-	21,132,410
Public service	1,519,699	-	-	-	1,519,699
Auxiliary enterprises	16,169,668	-	-	-	16,169,668
Supporting services, institutional support	17,002,571	-	-	-	17,002,571
Total operating expenses	98,594,048	-	-	-	98,594,048
Changes in net assets from operating activities	(1,795,954)	(1,503,790)	-	(1,503,790)	(3,299,744)
Endowment and life income gifts	80,029	(32,850)	1,440,345	1,407,495	1,487,524
Endowment investment return, net of amount designated for operations	3,713,961	3,586,992	-	3,586,992	7,300,953
Change in value of beneficial interest in perpetual trusts	-	-	825,566	825,566	825,566
Investment return for trusts and gift annuities	198,568	(79,690)	1,183,461	1,103,771	1,302,339
Change in value of split-interest agreements					

	2021	2020
Cash Flows From Operating Activities		
Changes in net assets	\$ 6,770,985	\$ (10,538,354)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	11,960,338	12,029,958
Accretion		

Institutions participating in Title IV programs are also required by DOE to demonstrate financial responsibility. DOE determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in the regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.5 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of June 30, 2021 and 2020, and for the years then ended, the University's composite score exceeded 1.5.

The DOE revised the regulations for financial responsibility effective July 1, 2020. The regulations required the University to provide additional disclosures to assist the DOE in measuring financial responsibility through the composite score of financial ratios.

Pre-implementation property, plant and equipment totaled \$125,088,455 and \$138,160,164 at June 30, 2021 and 2020 respectively. Post-implementation property, plant and equipment with outstanding debt for original purchase totaled \$5,973,962 and \$0 at June 30, 2021 and 2020, respectively. Post-implementation property, plant and equipment without outstanding debt for original purchase totaled \$17,417,462 and \$14,046,122 at June 30, 2021 and 2020, respectively.

Pre-implementation long-term debt for long term purposes totaled \$64,330,488 at June 30, 2021 and 2020. Post-implementation long-term debt for long term purposes totaled \$5,973,962 and \$0 at June 30, 2021 and 2020, respectively. There was no debt associated with operations at June 30, 2021 and 2020.

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Cash and cash equivalents represent highly liquid investments with an original maturity date not exceeding 90 days.

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Student accounts receivable are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on the University's historical losses and periodic review of individual accounts. Student accounts receivable are written off when they are determined to be uncollectible based on management's assessment of individual accounts. Other items included are notes receivable from employees and faculty, grants receivable from federal and state agencies and receivables from unrelated individuals, companies and organizations.

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The student loans receivable primarily represents loans to students funded by advances to the University by the federal government under the Perkins and Nursing Student Loan Programs (the Programs). Such funds may be re-loaned by the University after collection. The Perkins loan program expired on September 30, 2017; after June 30, 2018, no new loans are permitted. Institutions are permitted to liquidate all Perkins loans or continue to service all or some of its outstanding Perkins loans. The University is continuing to service its Perkins loans and is assessing the loan portfolio to determine if certain loans will be assigned to the government, but in the event that the University no longer participates in the O %Oin

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June 30, 2021 and 2020

Contributions with donor-imposed restrictions (for purposes other than capital and those to be held in perpetuity) that are not met in the same year as received are reported as revenues (see Note N#) that e

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The University has entered into a variety of operating leases for student housing facilities, office/classroom space, copiers and other equipment. The obligations associated with these leases have been recognized as a liability in the statements of financial position based on future lease payments, discounted by the incremental borrowing rate.

Lease terms may include options to extend or terminate certain leases. The value of a lease is reflected in the valuation if it is reasonably certain an option to extend or terminate will be exercised.

The University has certain leases that are for periods of 12 months or less. Leases with an initial term of 12 months or less are not recorded on the statements of financial position since the University has elected the practical expedient to exclude these leases from operating right of use asset and lease liabilities. Short-term lease expenses are recognized on a straight-line basis over the lease term as an operating expense.

The University has entered into split-interest agreements with donors primarily consisting of charitable gift annuities and charitable trusts. Assets for which the University serves as trustee are included in assets held in trust. Contribution revenues are recognized at the date the annuities and trusts are established after recording liabilities for the present value of the estimated future annuity payments to be made to the donors and/or other beneficiaries. Such revenues are recorded as increases in net assets with donor restrictions unless the donor has given the University the right to use such assets without restriction. Changes in the value of the associated liabilities are recorded within "change in value of split-interest agreements" throughout the term of the agreements to reflect the current estimated present value of future cash outflows. Contributions arising from split interest agreements amounted to \$309,078 and \$109,833 for the years ended June 30, 2021 and 2020, respectively.

The University is also a beneficiary of certain perpetual trusts held and administered by others. Under the terms of the trust agreements, the University has the irrevocable right to receive a portion of the income earned on trust assets in perpetuity, but never receives the assets held in the trusts. The present values of the estimated future cash receipts from the trusts are recognized as assets

Student-related deferred revenue for billed services not yet performed totaled approximately \$1,300,000 at June 30, 2021, and consists primarily of amounts related to 2021 summer sessions. The University's student deposits at June 30, 2021 include amounts collected but not yet earned of approximately \$2,212,000. These amounts will be recognized as revenue in fiscal 2022 as academic services are provided. Student-related deferred revenue for billed services not yet performed totaled approximately \$1,271,000 at June 30, 2020, and consists primarily of amounts related to 2020 summer sessions. The University's student deposits at June 30, 2020 include amounts collected but not yet earned of approximately \$2,668,000. These amounts were recognized in full as revenue in 2021.

Most private and government grants and appropriations received by the University are deemed to be nonexchange (nonreciprocal) transactions under the contribution accounting guidance. Under this guidance, revenue related to conditional grants and contracts is recorded when the conditions are met. Most grants and contracts are on a cost reimbursement basis and require the University incur eligible expenses prior to the release of funds. The University reports these grants and contracts as changes in net assets without donor restrictions when restrictions are met in the same period.

From time to time the University receives private grants and contracts that are exchange (reciprocal) transactions. The performance obligation for each grant or contract is deemed to be the research itself and revenue is recognized as the eligible grant activities are conducted. Transaction prices are based on budgets in the award agreement. Exchange contracts are not significant to the University's financial statements.

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The statements of activities present expenses by functional classification. Depreciation of plant assets, interest on long-term debt and expenses incurred for the operation and maintenance of plant facilities are allocated to program and supporting activities based upon proportional occupancy of campus buildings. Costs of other categories were allocated on estimates of time and effort. A summary of functional and natural classification is available at Note 15.

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The University expenses fundraising costs when incurred. Fundraising costs were approximately \$1,677,000 and \$1,729,000 for the years ended June 30, 2021 and 2020, respectively, and are included in institutional support in the statements of activities.

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The preparation of the financial statements in conformity with GAAP 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.

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Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

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The University evaluated subsequent events for recognition or disclosure through October 20, 2021, the date the financial statements were issued.

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Effective July 1, 2020, the University adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* (as amended). Topic 842 was issued to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements. Under the provisions of Topic 842, a lessee is required to recognize a right-of-use asset and lease liability, initially measured at the present value of the remaining lease payments, in the statements of financial position. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the leasing activities.

The University elected the option to apply the transition requirements at the effective date of July 1,

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 The University maintains cash balances in high credit financial institutions in excess of the federally insured limit under the FDIC. The exposure of the University to uninsured balances as of June 30, 2021 and 2020 was approximately \$11,201,000 and \$8,913,000, respectively. Historically, the University has not experienced any losses and management believes it is not exposed to any significant credit risk.

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 Notes and accounts receivable consist of the following as of June 30:

Student balances	\$ 2,218,980	\$ 2,125,991
Student income share agreements	1,108,647	525,690
Employees and faculty	157,923	144,603
University related organizations	21,212	21,251
Federal and state agencies	2,039,354	1,040,364
Other unrelated individuals, companies and organizations	84,558	368,987
Subtotal	5,630,674	4,226,886
Allowance for doubtful accounts	(1,200,000)	(1,100,000)
Notes and accounts receivable, net	\$ 4,430,674	\$ 3,126,886

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 June 30, 2021 and 2020

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 Investments consist of the following as of June 30:

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Money market accounts	\$ 7,956,141	\$ 115,091	\$ 11,946	\$ 8,083,178
Equity funds and common stocks	43,336,327	5,926,038	489,877	49,752,242
Fixed income	62,836,144	1,799,782	6,922,554	71,558,480
Private equity and venture capital	10,093,378	-	-	10,093,378
Accrued net income receivable	717,012	-	8,263	725,275
Local Vista estate development company, including real estate	15,081,689	-	-	15,081,689
Real asset based funds	177,223	-	-	177,223
Total investments	\$ 140,197,914	\$ 7,840,911	\$ 7,432,640	\$ 155,471,465

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Money market accounts	\$ 6,004,276	\$ 49,972	\$ 1,298	\$ 6,055,546
Equity funds and common stocks	36,849,309	3,965,331	2,372,004	43,186,644
Fixed income	61,712,455	1,825,299	4,859,417	68,397,171
Private equity and venture capital	7,328,878	-	-	D4

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Money market accounts	\$ 6,055,546	\$ 6,055,546	\$ -	\$ -
Equity funds and common stocks:				
Domestic	35,694,757	35,694,757	-	-
International	5,196,206	5,196,206	-	-
Emerging markets	377,591	377,591	-	-
Other	1,918,090	1,918,090	-	-
Total equity funds and common stocks	43,186,644	43,186,644	-	-
Fixed income:				
Intermediate term bond mutual funds	59,075,838	59,075,838	-	-
Global fixed income	1,055,193	1,055,193	-	-
Inflation-protected bond mutual funds	218,322	218,322	-	-
Fixed, high yield	337,302	337,302	-	-
Bond fund (including convertibles and other)	7,710,516	-	7,710,516	-
Total fixed income	68,397,171	60,686,655	7,710,516	-
Accrued net income receivable	840,097	790,097	50,000	-
Real assets, held in trust and other (a)	1,217,000	-	-	1,217,000
Subtotal	119,696,458	110,718,942	7,760,516	1,217,000
Alternative investments measured at net asset value:				
Private equity and venture capital	7,328,878	-	-	-
Real asset, based funds	228,935	-	-	-
Total investments and assets held in trust (b)	127,254,271	110,718,942	7,760,516	1,217,000
Deposits with trustee under debt agreements	156	156	-	-
Beneficial interest in perpetual trusts	3,871,156	-	-	3,871,156
	<u>\$ 131,125,583</u>	<u>\$ 110,719,098</u>	<u>\$ 7,760,516</u>	<u>\$ 5,088,156</u>

(a) Real assets, held in trust and other includes real estate owned; fair value is based on market value appraisals using a sales approach, which is a nonrecurring fair value measurement.

- (b) Investments also include member interests in a local real estate development company, totaling \$15,081,689 and \$16,887,875 at June 30, 2021 and 2020, respectively, (including real estate). The University is the sole member of this corporation, which has an independent board. Activity for the current year included capital contributions of approximately \$1,000,000 by the University to the real estate development company. Activity for the prior year included capital contributions of approximately \$860,000 by the University to the real estate development company for the purchase of adjacent property and completion of construction and leasing of units in both phase 1A and 1B of the rental properties. The University reports its investment in the real estate development company using the equity method. In fiscal 2019, the real estate development company obtained taxable bonds to fund its construction projects, with a guarantee from the University to make principal and interest payments, if necessary, through the final maturity of the bonds. The outstanding principal bond balance is \$57,490,000 as of June 30, 2021. The University has not

The fair values of several of the investment instruments classified in the above tables have been estimated using the net asset value of the University's ownership interest in partner's capital. Those are:

Private equity and venture capital: This category includes funds that invest primarily in

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 June 30, 2021 and 2020

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Dividends and interest, net of expense	\$ 3,719,112	\$ 1,407,943	\$ 79,043	\$ 5,206,098
Net realized and unrealized losses	(4,438,163)	(1,218,322)	(230,977)	(5,887,462)
Total return on investments	<u>\$ (719,051)</u>	<u>\$ 189,621</u>	\$ (151,934)	\$ (681,364)

Land		\$ 2,773,740	\$ -	\$ 2,773,740
Improvements	20 years	19,621,834	14,215,503	5,406,331
Buildings	10 - 40 years	251,730,537	130,425,746	121,304,791
Leasehold improvements	5 - 12 years	2,829,397	741,035	2,088,362
Equipment	4 - 20 years	81,191,014	71,859,088	9,331,926
Construction in progress		11,301,136	-	11,301,136
		<u>\$ 369,447,658</u>	<u>\$ 217,241,372</u>	<u>\$ 152,206,286</u>

Depreciation expense totaled \$11,981,192 and \$12,029,958 for the years ended June 30, 2021 and 2020, respectively.

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 Accounts payable and accrued expenses consist of the following at June 30:

Accounts payable	\$ 1,544,929	\$ 1,145,997
Construction payable	680,862	3,509,169
	4,933,057	5,048,632
Other	613,599	571,032
Total	<u>\$ 7,772,447</u>	<u>\$ 10,274,830</u>

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 The University has two unsecured lines of credit with a national and a regional bank in the amounts of \$15,000,000 and \$5,000,000, as of June 30, 2021, and \$10,000,000 and \$5,000,000 as of June 30, 2020. There were no amounts outstanding under either line of credit as of June 30, 2021 or 2020. Both lines of credit bear interest at 1.65 percent above one-month LIBOR with an interest period duration of one day (1.74 percent at June 30, 2021) and are renewed annually.

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Long-term debt consists of the following as of June 30:

2001 I-3 Messiah University Revenue Bonds	\$ -	\$ 8,000,000
2001 I-4 Messiah University Revenue Bonds	-	13,600,000
2012 Messiah University Revenue Bonds	3,060,000	4,780,000
2014 Messiah University Revenue Bonds	4,500,000	4,500,000
2015 Messiah University Revenue Bonds	11,385,000	11,385,000

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June 30, 2021 and 2020

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The 2015 Revenue Bonds have interest rates ranging from 3.375 percent to 4.0 percent with principal maturing in various amounts from November 1, 2029 through November 1, 2046. The bonds are

The approximate aggregate amount of principal maturities of debt outstanding as of June 30, 2021 for the five subsequent fiscal years follows:

2022	\$ 1,810,000
2023	2,015,000
2024	2,070,000
2025	2,105,000
2026	2,150,000
Thereafter	<u>61,210,000</u>
Total	<u>\$ 71,360,000</u>

Interest expense on long-term debt was \$2,174,045 in 2021 and \$2,133,050 in 2020, net of capitalized interest of \$104,785 and \$0, respectively.

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The University provides retirement benefits to eligible employees through a defined contribution plan. The University made retirement contributions of \$2,402,592 and \$2,623,503 for the years ended June 30, 2021 and 2020, respectively.

The Board of Trustees of the University has developed a policy 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 of Pennsylvania law, the University classifies as net assets with donor restrictions, restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of

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June 30, 2021 and 2020

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration (i.e., underwater endowments). At June 30, 2020, underwater funds reported in net assets with donor restrictions were \$463,386. There were no underwater funds at June 30, 2021, so no table is displayed for 2021.

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Board-designated funds	\$ 88,106,157	\$ -	\$ -	\$ -	\$ 88,106,157
Donor-restricted funds:					
Underwater fund	-	11,610,626	(463,386)	11,147,240	11,147,240
Other funds	-	24,254,884	6,803,638	31,058,522	31,058,522
Total endowment funds	<u>\$ 88,106,157</u>	<u>\$ 35,865,510</u>	<u>\$ 6,340,252</u>	<u>\$ 42,205,762</u>	<u>\$ 130,311,919</u>

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 Net assets without donor restrictions included the following as of June 30:

Unrestricted promises to give	\$ 165,119	\$ 313,196
Annuity funds	640,584	476,513
Loan funds	837,086	837,086
Funds designated for long-term investment in endowment	92,945,467	88,106,157
Net investment in property and equipment	36,386,881	44,553,753
Designated and other funds available for operations	49,179,182	43,756,386
	<u>\$ 180,154,319</u>	<u>\$ 178,043,091</u>

Net assets with donor restrictions, time and purpose included the following as of June 30:

Unspent balances of restricted gifts:		
The Boyer Center	\$ 37,272	\$ 37,272
School Enrichment	6 430	

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by the donors.

Net assets with donor restrictions to be held in perpetuity are restricted as follows as of June 30:

Investments to be held in perpetuity, the income from which is expendable to support:		
Scholarships and awards	\$ 29,416,525	\$ 27,876,926
Faculty chairs	933,687	933,687
Instruction	52,500	45,060
Faculty development	512,518	512,518
Campus ministries	220,372	210,372
General operations and other purposes	5,489,025	5,904,575

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Not
June 30, 2021 and 2020

Compensation and benefits	\$ 26,719,032	\$ 4,510,174	\$ 9,574,219	\$ 1,238,857	\$ 2,991,713	\$ 12,500,554	\$ 4,542,719	\$ 62,077,268
Services and supplies	2,420,827	2,628,741	5,437,879	345,071	(325,871)	2,301,460	2,099,533	14,907,640
Depreciation and amortization	1,055,298	796,329	2,143,740	24,477	293,027	502,461	7,257,743	12,073,075
Purchases for resale	138,408	736	5,496	(47)	2,671,136	254,907	-	3,070,636
Utilities	407	55,920	1,064	-	20	185,476	2,792,480	3,035,367
Insurance, maintenance and supplies	163,922	8,090	458,017	30,041	900,120	(385,851)	1,048,237	2,222,576
Interest	996,574	25,781	595,998	-	229,243	-	285,454	2,133,050
Other physical plant	5,425,876	1,063,543	2,884,186	270,393	7,769,278	612,890	(18,026,166)	-
								\$ 36,920,344

Future minimum lease payments under operating leases at June 30, 2021 are as follows:

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Years ending June 30:	
2022	\$ 1,820,028
2023	927,849
2024	596,913
2025	608,849
2026	

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June 30, 2021 and 2020

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The University qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes.

The University accounts for uncertainties in income taxes in accordance with authoritative guidance, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold at June 30, 2021 and 2020.

The University's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.