University of Dayton

Consolidated Financial Report
June 30, 2020

Contents

RSM US LLP

Independent Auditor's Report

Board of Trustees
University of Dayton
Dayton, Ohio

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of the University of Dayton which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statement of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

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

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

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

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

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

RSM US LLP

Dayton, Ohio
October 27, 2020

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University of Dayton

Consolidated Statements of Financial Position
June 30, 2020 and 2019
(In Thousands)

	2020	2019
Assets		
Cash	$ 53,946	$ 29,679
Accounts receivable - net (Note 3)	56,177	57,457
Pledges receivable - net (Note 3)	40,964	42,867
Inventories, prepaid expenses and other	6,789	7,659
Notes receivable - net (Note 3)	6,760	8,514
Investments and assets held by others (Note 4, 6, 11)	877,889	886,599
Land, buildings, and equipment (Note 7)	748,550	738,016
Total assets	$ 1,791,075	$ 1,770,791
Liabilities		
Accounts payable	$ 19,507	$ 9,697
Accrued payroll and compensated absences	25,385	24,680
Other liabilities	19,905	18,148
Deferred revenue and student deposits	19,733	12,320
Split interest agreement obligations (Note 6)	10,622	11,450
Interest rate swap obligations (Note 9, 11)	14,964	10,727
Indebtedness (Note 8)	379,936	393,819
Accrued postretirement benefits (Note 10)	52,272	46,815
Advances from government for federal loans	5,945	12,518
Total liabilities	548,269	540,174
Net Assets (Note 12)		
Without donor restrictions	890,201	935,659
With donor restrictions	352,088	294,516
Noncontrolling Interest	517	442
Total net assets	1,242,806	1,230,617
Total liabilities and net assets	$ 1,791,075	$ 1,770,791

See notes to consolidated financial statements.

University of Dayton

Consolidated Statement of Activities
Year Ended June 30, 2020
(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	**Total**
Revenues, gains and other support:			
Student tuition and fees	$ 412,713	$ -	**$ 412,713**
Less student aid	(213,080)	-	**(213,080)**
	199,633	-	**199,633**
Private gifts, grants and other (Note 14)	18,699	28,795	**47,494**
Private research contracts	7,946	-	**7,946**
Government grants and contracts	162,221	4,361	**166,582**
Investment return designated for current operations (Note 4)	24,875	8,631	**33,506**
Auxiliary enterprises	86,894		**86,894**
Related entities	18,919	-	**18,919**
	519,187	41,787	**560,974**
Net assets released from restrictions	18,358	(18,358)	**-**
Total revenues, gains, and other support	537,545	23,429	**560,974**
Expenditures:			
Salaries and benefits	304,740	-	**304,740**
Interest expense	15,227	-	**15,227**
Depreciation	35,427	-	**35,427**
Cost of sales	12,244	-	**12,244**
Contract services and maintenance	63,503	-	**63,503**
Supplies	17,472	-	**17,472**
Utilities and communications	10,049	-	**10,049**
Other expenditures	63,768	-	**63,768**
	522,430	-	**522,430**
Change in net assets from operations	15,115	23,429	**38,544**
Other activities:			
Investment return in excess of amounts designated for current operations (Note 4)	(15,762)	4,964	**(10,798)**
Actuarial change in annuities	-	63	**63**
Change in unrealized loss on interest rate swap agreements	(4,237)	-	**(4,237)**
Change in postretirement benefit obligation (Note 10)	(7,806)	-	**(7,806)**
Loss on disposal of real property	(3,577)	-	**(3,577)**
Reclassification of net assets	(29,116)	29,116	**-**
Change in other activities	(60,498)	34,143	(26,355)
Change in net assets	(45,383)	57,572	**12,189**
Less: change in net assets attributable to to the noncontrolling interest	(75)		**(75)**
Change in net assets attributable to the University of Dayton	(45,458)	57,572	**12,114**
Net assets at beginning of year	935,659	294,516	**1,230,175**
Net assets at end of year	$ 890,201	$ 352,088	**$ 1,242,290**

See notes to consolidated financial statements.

University of Dayton

Consolidated Statement of Activities
Year Ended June 30, 2019
(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Student tuition and fees	$ 402,273	$ -	$ 402,273
Less student aid	(201,513)	-	(201,513)
	200,760	-	200,760
Private gifts, grants and other (Note 14)	28,550	19,710	48,260
Private research contracts	7,420	-	7,420
Government grants and contracts	164,702	-	164,702
Investment return designated for current operations (Note 4)	37,087	-	37,087
Auxiliary enterprises	111,210	-	111,210
Related entities	24,984	-	24,984
	574,713	19,710	594,423
Net assets released from restrictions	20,736	(20,736)	-
Total revenues, gains, and other support	595,449	(1,026)	594,423
Expenditures:			
Salaries and benefits	302,161	-	302,161
Interest expense	18,575	-	18,575
Depreciation	33,197	-	33,197
Cost of sales	14,174	-	14,174
Contract services and maintenance	86,979	-	86,979
Supplies	21,032	-	21,032
Utilities and communications	10,602	-	10,602
Other expenditures	77,499	-	77,499
	564,219	-	564,219
Change in net assets from operations	31,230	(1,026)	30,204
Other activities:			
Investment return in excess of amounts designated for current operations (Note 4)	1,267	15,941	17,208
Actuarial change in annuities	-	(674)	(674)
Change in unrealized loss on interest rate swap agreements	(3,282)	-	(3,282)
Gain on exercise of put option	8,680		8,680
Gain on extinguishment of debt	986		986
Change in postretirement benefit obligation (Note 10)	17,239	-	17,239
Net assets released from restrictions	8,434	(8,434)	-
Change in other activities	33,324	6,833	40,157
Change in net assets	64,554	5,807	70,361
Less: change in net assets attributable to to the noncontrolling interest	185		185
Change in net assets attributable to the University of Dayton	64,369	5,807	70,176
Net assets at beginning of year	871,290	288,709	1,159,999
Net assets at end of year	$ 935,659	$ 294,516	$ 1,230,175

See notes to consolidated financial statements.

University of Dayton

Consolidated Statements of Cash Flows
Year Ended June 30, 2020 and 2019
(In Thousands)

		2020		2019
Operating activities:				
Change in net assets	$	12,189	$	70,361
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		35,427		33,197
Amortization		(1,757)		455
Gifts for restricted purposes		(10,811)		(15,311)
Net realized and unrealized losses (gains) on investments		380		(31,959)
Income restricted for long-term investment		(580)		(460)
Gain from exercise of put option		-		(8,680)
Gain on extinguishment of debt		-		(986)
Change in accrued postretirement benefit obligation		5,457		(15,859)
Loss on interest rate swap agreements		4,237		3,282
Cash provided by operating assets and liabilities:				
Decrease (increase) in receivables		3,183		(322)
Decrease in inventories and prepaid expenses and other		870		86
Increase (decrease) in accounts payable, accrued liabilities, and other liabilities		11,444		(11,470)
Increase (decrease) in deferred revenue and student deposits		7,413		(57)
Net cash provided by operating activities		67,452		22,277
Investing activities:				
Income restricted for long term investment		580		460
Proceeds from the sale of investments		334,729		687,514
Purchases of investments		(326,399)		(640,010)
Decrease in notes receivable		1,754		747
Additions of land, buildings and equipment, net of nominal disposals		(45,961)		(70,487)
Net cash used in investing activities		(35,297)		(21,776)
Financing activities:				
(Decrease) increase in advances from government for federal loans		(6,573)		520
Gifts for restricted purposes		10,811		15,311
Proceeds on indebtedness		-		50,755
Premium on bond issuance		-		5,655
Payments on indebtedness		(12,126)		(67,972)
Net cash (used in) provided by financing activities		(7,888)		4,269
Net increase in cash		24,267		4,770
Cash:				
Beginning		29,679		24,909
Ending	$	53,946	$	29,679
Supplemental disclosures of cash flow information:				
Non-cash financing activity (Note 9)				
Assignment of notes payable	$	-	$	(27,315)
Assignment of notes receivable	$	-	$	27,315

See notes to consolidated financial statements.

Note 1. Description of the Organization

The University of Dayton (the University) is an independent, coeducational institution founded and sponsored by the Society of Mary (the Marianists), a Roman Catholic Institute of Consecrated Life. The University is located in Dayton, Ohio and is one of the nation's largest Catholic institutions of higher learning. Its students are actively recruited from all states, as well as from over one hundred foreign nations. The student population approximates 8,600 undergraduate and 2,600 graduate students. The University awards baccalaureate, masters, and selected doctoral degrees in programs within the College of Arts and Sciences and four professional schools: the School of Business Administration, the School of Education and Health Sciences, the School of Engineering, and the School of Law. Through these academic units and its Research Institute, the University conducts a wide variety of academic and scientific research.

The accompanying consolidated financial statements present the accounts of the following entities, hereafter referred to as the University:

- The University of Dayton;
- Nine legal limited liability companies that own interests in real estate near the University's campus, and of which the University is the sole member;
- UDCI, Ltd., a limited liability company established to hold the University's interests in its operations in China, and of which the University is the sole member;
- The River Park Community Corporation, a separate not for profit corporation engaged in activities related to the University, and of which the University is the sole member;
- 111 River Park, LLC, a wholly owned affiliate of The River Park Community Corporation,
- River Park Development II, LLC, a wholly owned affiliate of The River Park Community Corporation;
- 1414 South Patterson, LLC, a limited liability company established to hold the University's interests in a real estate joint venture, and of which the University is the sole member;
- Dayton Hotel II, LLC and Concord Dayton Hotel II, LLC, both of which are controlled by 1414 South Patterson, LLC and established to own and operate a hotel adjacent to the University's campus: and
- 1401 South Main, LLC, a limited liability company established to hold the University's interests in the real estate and operations of an office building on campus, and of which the University is the sole member.

Note 2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements.

Basis of presentation: The consolidated financial statements include the accounts of all controlled affiliates that are required to be consolidated, and all intercompany transactions and balances have been eliminated. Investments in joint ventures for which the University does not have control or is not the primary beneficiary, but has the ability to exercise significant influence over the operating and financial policies, are accounted for under the equity method. Accordingly, the University's share of net earnings and losses from these ventures is included in the consolidated statements of activities.

Note 2. Summary of Significant Accounting Policies (Continued)

Net assets: Net assets are classified into two categories: without donor restrictions that are free of donor imposed restrictions as well as net assets designated by the governing board; and with donor restrictions, which have donor-imposed restrictions. The latter category has restrictions that will be met either by actions of the University or by the passage of time. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the University.

The expiration of a donor restriction on a contribution or endowment income is recognized in the period in which the restriction expires, and, at that time, the related resources are reclassified to net assets without donor restrictions. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions of long-lived assets, such as land, buildings, or equipment without donor restrictions concerning the use are reported as revenue of the net asset class without donor restrictions. Such gifts are recorded at fair value at the date of donation. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as revenue with donor restrictions. Donor restrictions are considered released upon acquisition of the asset.

Net assets are released from donor restriction by incurring expenses satisfying the restricted purposes, by occurrence of events specified by the donors, or by the change of restrictions specified by the donors. Contributions received with donor restrictions, where the restrictions are met in the same fiscal year, are reported as net assets without donor restrictions.

Related-party transactions: The Marianists are a separate entity from the University. Members of the Marianists may serve on the faculty and staff of the University under employment agreements; however, they are not eligible to participate in the University’s retirement programs. On an annual basis, the University reimburses the Marianists an amount equivalent to the salaries and benefits of employed members. The reimbursement was $1,109 in 2020 and $1,204 in 2019. The University’s intent is to compensate the Marianists at a rate comparable to University employees in similar positions. The Marianists contribute funds to the University, which are recorded as gifts. These gifts were $798 and $301 in 2020 and 2019, respectively. The University has also recorded a pledge of $1,500 from the Marianists in 2018, with $500 received in 2019, $500 received in 2020, and the rest to be received in the next year.

The University is a party to a joint venture agreement with another not for profit entity to perform contract research for the Federal government. The University is a 50% member of this joint venture limited liability company, and also a subcontractor to this entity. The University recognized government contract revenue of $1,570 in 2020 and $3,804 in 2019 from this entity.

Liquidity: Assets and liabilities are listed in their estimated order of liquidity. For accounts with undeterminable liquidity, the University has made additional disclosures in the accompanying notes to the consolidated financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue recognition: Revenue is recognized as performance obligations are satisfied, which are determined based on the nature of the services and goods provided.

Tuition and fees revenue is reported within the fiscal year in which educational services are provided. Income from tuition and fees is recognized at the beginning of the semester when classes begin. Tuition and fees relating to summer sessions that begin after June 30 are recorded in the consolidated statement of financial position as deferred revenue.

Scholarships and fellowships awarded to students for tuition, fees, and room and board are based upon need and merit. These awards include amounts funded by the endowment, research funds, and gifts, and reduce the published price of tuition for students receiving such aid. As such, institutional aid is referred to as a tuition discount and represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student. Institutional aid is netted against tuition and fees in the consolidated statements of activities as follows (in millions):

	2020	2019
Scholarships and fellowships:		
Institutionally funded	$ 205,918	$ 193,246
Externally funded - gifts and grants	7,162	8,267
Total amount netted against tuition and fees revenue	$ 213,080	$ 201,513

Grant and contract revenues are received from various governmental and corporate sources. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or may be a nonreciprocal transaction in which the resources provided are for the benefit of the University, the funding organization's mission, or the public at large. Revenues from exchange transactions are recognized as the performance obligations are met, which is generally as the related costs are incurred.

Conditional promises not reflected in the financial statements, which consist primarily of the difference between the award amount and the revenue recognized for the non-exchange were $211,610 and $158,105 as of June 30, 2020 and 2019, respectively.

Gifts of cash, property, and marketable securities are recorded as revenue at fair value when received. Unconditional pledges are recognized as revenue based on the estimated present value of the future cash flows, net of allowances, when the commitment is received. Pledges made and collected in the same reporting period are recorded when received in the appropriate net asset category. Conditional pledges are recorded as revenue only when donor conditions are substantially met.

Deferred revenue is primarily composed of amounts received for grants and contracts that are not billed on a cost reimbursement basis and student tuition received, but not yet been earned. If services are conducted over a fiscal year-end, deferred revenue is recorded for all revenue related to programs predominately conducted in the next fiscal year.

Future performance obligations will be met within the next fiscal year.

Note 2. Summary of Significant Accounting Policies (Continued)

Auxiliary enterprises include residence halls, food services, retail stores, and athletics. Fee charges are directly related to the costs of services rendered to provide student housing and dining facilities, ticket sales for athletic and community events, parking services, grants from the NCAA and other miscellaneous activities and are recognized as revenue when the services or goods are delivered. These services exist to furnish goods or services to students, faculty, staff, or incidentally to the general public, and fees charged are directly related to, although not necessarily equal to, the cost of the goods or services.

Performance obligations for housing and dining services are delivered over the academic terms. Consequently, revenue from housing and dining services is recognized ratably as services are rendered. Other revenues are directly related to the costs of services rendered and are recognized as revenue when the services or goods are delivered.

Cash and cash equivalents: Cash and cash equivalents include all cash and highly liquid investments that are neither internally nor externally restricted. The University considers highly liquid investments to be cash equivalents when they are both readily convertible to cash and so near to maturity (typically within 90 days) when acquired that their value is not subject to substantial risk due to changes in interest rates. The amount of cash and cash equivalents carried in the consolidated statements of financial position represents fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*.

Accounts receivable, net: Accounts receivable consist of amounts due to the University for tuition, grants and contracts, and other revenue generated by the University. The University has recorded an allowance for doubtful accounts based on management's assessment of collectability while considering historical collection results as well as current business and economic conditions. Amounts are recorded at estimated net realizable value.

Pledges receivable, net: Pledges are recorded as revenue in the year the pledge is made. Unconditional donor pledges to give cash, marketable securities, and other assets are reported using a discounted cash flow approach. The discount rates used range from 0.4% to 7.0% depending on the year the pledge was received. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restriction that limit the use of the donated assets are reported as with donor restrictions support until the donor restriction expires. Most unconditional pledges are designated for scholarships and general operating purposes. An allowance is recorded for amounts deemed uncollectible.

Inventories: Inventories are stated at the lower of cost or market. The auxiliary operations determine cost using the first in, first out method. Facilities determines cost using an average cost method.

Notes receivable, net: Notes receivable consist of a loan associated with the office and research facility and from student loans under government loan programs. An allowance for doubtful accounts has been recorded based on management's assessment of collectability while considering historical collection results as well as current business and economic conditions. The notes are recorded at estimated net realizable value.

Note 2. Summary of Significant Accounting Policies (Continued)

Investments and assets held by others: The University invests its endowed funds and other funds in a variety of marketable securities and alternative investments. Investments in marketable debt and equity securities are carried at fair market value based on quoted market prices or the last reported sale price on the last business day of the fiscal year.

Alternative investments include limited partnerships, private equity, hedge funds, and real estate partnerships, do not have readily determinable fair values, and are carried at the University's proportionate share of the fund's net asset value used as a practical expedient. Such fair value estimates are based upon the funds' net asset value at its year end, adjusted for any contributions, distributions and earnings between the funds' year end and the University's year end. In management's opinion, the stated values approximate fair value. Due to the inherent uncertainty of valuation, the estimated values may differ from values that would have been used had a readily available market value for the investments existed, and such differences may be material.

The weighted average method is used for purposes of determining gains and losses on the sale of marketable securities. Interest and dividend income is recorded when earned.

The University also holds certain real estate investments that are not readily marketable. These investments are accounted for using the equity method.

In addition, the University has assets held by others which represent the present value of the estimated income the University will receive in the future from beneficial interest in trusts for which third parties serve as the trustees.

Split interest agreements: The University has entered into split interest agreements, including charitable remainder trusts and gift annuities which provide that the University, as trustee, make payments to designated beneficiaries in accordance with the applicable donor's trust or contractual agreement. The University is also the beneficiary of charitable trusts held by third party trustees. Assets held under these agreements are included in investments and are recorded at fair value. At the date of contribution, the University records a split interest agreement obligation to life beneficiaries based on the present value of the estimated payments to designated life beneficiaries. The split interest agreement obligation is recorded as a liability on the consolidated statement of financial position. Obligations under split interest agreements are recorded at the present value of estimated payments (based on actuarially determined life expectancy tables, trust asset growth assumptions, and discount rates ranging from 1.2% to 10.0%). The annual change in the value of the split interest agreement obligation to life beneficiaries is reflected in the consolidated statement of activities and represents the change in actuarial assumptions as well as the revenues and expenses of the trust.

Land, buildings, and equipment: Property and equipment is recorded at cost. Depreciation of buildings, land improvements, and equipment is recorded using the straight-line method over the estimated useful lives of 45 years, 20 years, and 3 to 15 years, respectively. The cost of repairs and maintenance is expensed in the year incurred.

Note 2. Summary of Significant Accounting Policies (Continued)

Derivative instruments: The University has entered into interest rate swap agreements to reduce the costs of and exposure to significant, unanticipated fluctuations caused by interest-rate volatility on certain variable rate debt. The University's goal is to lower (whenever possible) the cost of its borrowed funds. In accordance with the *Accounting for Derivative Instruments* and *Hedging Activities* Topics of the ASC, the University recognizes its derivative financial instruments as either assets or liabilities at fair value in the consolidated statements of financial position. The fair values of the interest rate swaps reflect the present value of the future potential gains or losses if settlement were to take place on the statement of financial position date. The derivative instruments are not designated as a hedging instruments and, therefore, gains and losses on the derivative instruments are recorded as other income (expense) in the consolidated statements of activities during the period of change.

Advances from government for federal loans: Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students. These funds are ultimately refundable to the government and are recorded as a liability in the accompanying consolidated statements of financial position. The Federal Perkins Loan Program expired September 30, 2017 and the University may not disburse Perkins loans to any student on or after October 1, 2017, except for subsequent disbursements of loans first disbursed between June 30, 2017 and September 30, 2017. The University will be liquidating its Federal Perkins Revolving Loan Fund at the direction of the Department of Education.

Income taxes: The University is recognized by the Internal Revenue Service (IRS) as an organization exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code (IRC). The University is a public charity as defined by IRC Section 170(b)(1)(A)(ii). The University is exempt from federal income taxes except to the extent of income derived from unrelated business activities. Unrelated business income is not material to the financial statements. The entities for which the University is the sole member are disregarded for tax purposes. Any activity from these entities is included in the tax return of the University.

The River Park Community Corporation has been recognized by the Internal Revenue Service as a title holding corporation exempt from federal taxation under Section 501(c)(2) of the IRC. The River Park Community Corporation is exempt from federal income taxes except to the extent of income derived from unrelated business activities.

Tax returns filed by the University and River Park Community Corporation are subject to examination by the IRS up to three years from the filing date of each return. Forms 990 and 990T filed by the entities are no longer subject to examination for the years 2017 and prior.

The University completed an analysis of its tax position, in accordance with ASC 740, *Income Taxes*, and determined that no amounts were required to be recognized in the consolidated financial statements as of June 30, 2020 or 2019.

Use of estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates are used to determine the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also are used to determine the reported amounts of revenue, gains, and other support and expenditures during the reporting period. The actual results could differ from these estimates.

Note 2. Summary of Significant Accounting Policies (Continued)

Functional expenses: Expenses have been classified as instruction, administrative and general, libraries, sponsored academic projects, organized research, auxiliary operations, fundraising and related entities (Note 15). These are classified based on direct expenditure where possible. Natural expenses attributable to more than one functional expense category are allocated proportionally by assigned square footage.

Fair value measurements: The University follows the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures,* which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, and as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs utilize quoted market prices in active markets for identical assets or liabilities

Level 2 – Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals

Level 3 – Inputs are unobservable for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The University's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability.

Subsequent events: The University has evaluated and disclosed any subsequent events through October 27, 2020, which is the date the financial statements were issued and made available.

New accounting pronouncements: The following three recently issued accounting pronouncements are currently being evaluated, as described below:

FASB ASU 2016-02, *Leases (Topic 842):* Supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. In May 2020 the issuance of ASU 2020-05, *Revenue from contracts with customers (Topic 606) and Leases (Topic 842)- Effective Dates for Certain Entities* in June, 2020 was issued and deferred the adoption date of the standard which will be effective for the University during the fiscal year ending June 30, 2021.

(In Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

FASB ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, modifies the disclosure requirements on fair value measurements. The University is currently evaluating the impact of the pending adoption of the new standard on the financial statements, which would be effective for the fiscal year ending June 30, 2021.

FASB ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, modifies the presentation and disclosure requirements of contributed nonfinancial assets. The University is currently evaluating the impact of the pending adoption of the new standard on the financial statements, which would be effective for the fiscal year ending June 30, 2022.

FASB ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The University is currently evaluating the impact of the pending adoption of the new standard on the financial statements, which would be effective for the fiscal year ending June 30, 2023.

Note 3. Receivables

Accounts receivable, net: Accounts receivable consist of the following as of June 30:

	2020	2019
Amounts due from students for tuition and other costs	$ 8,441	$ 8,280
Grants and contracts	38,001	38,990
Related entities	5,243	6,306
Other	6,226	5,324
	57,911	58,900
Less: allowance for doubtful accounts	(1,734)	(1,443)
Total accounts receivable, net	$ 56,177	$ 57,457

Pledges receivable, net: Outstanding pledges receivable as of June 30, 2020 and 2019, respectively, are as follows:

	2020	2019
Less than one year	$ 24,679	$ 19,773
One to five years	17,901	22,425
More than five years	2,393	4,386
	44,973	46,584
Less: discount on pledges	(1,878)	(1,461)
Less: allowance for uncollectible pledges	(2,131)	(2,256)
Total pledges receivable, net	$ 40,964	$ 42,867

(In Thousands)

Note 3. Receivables (Continued)

Notes receivable, net: Notes receivable consist of the following as of June 30:

	2020	2019
Student loans under government loan programs	$ 6,408	$ 8,357
Other notes	1,662	1,661
	8,070	10,018
Less: allowance for doubtful accounts for student loans	(1,310)	(1,504)
Total notes receivable, net	$ 6,760	$ 8,514

Note 4. Investments

The carrying value of investments at June 30 is reflected in the following table:

	2020	2019
Cash and cash equivalents	$ 18,138	$ 13,039
Fixed maturity:		
US Treasuries	8	4,518
Mutual funds and pooled accounts		
Domestic	11,925	13,631
International	7,511	8,759
Individual securities		
Domestic	94,067	102,562
Total fixed maturity	113,511	129,470
Equities:		
Mutual funds and pooled accounts:		
Domestic	31,087	38,723
International	189,350	180,281
Individual securities:		
Domestic	227,110	224,708
Total equities	447,547	443,712
Exchange traded commodities and real assets	3,355	3,128
Hedge funds	162,894	167,105
Private equity funds	99,478	96,143
Real estate and real estate funds	30,020	31,132
Assets held by others	1,075	1,070
Other	1,871	1,800
Total	$ 877,889	$ 886,599

(In Thousands)

Note 4. Investments (Continued)

Approximately $846,846 and $851,531 of the carrying value of investments as of June 30, 2020 and 2019, respectively, is invested in the University's long-term investment pool (the pool). The pool includes the University's endowment funds.

Some of the investments, including the real estate and real estate funds, limited partnerships, hedge funds and private equity investments, have time restrictions on redemption. These restrictions vary from six months to the stated term of the limited partnership, trust, or fund, which may be longer than one year. During this period, the University may not be able to readily sell or convert certain holdings in the pool to cash. Funds that have restrictions on liquidity in excess of one year are approximately $125,333 and $97,075 as of June 30, 2020 and 2019, respectively, and range from two to seven years in duration.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported in the consolidated financial statements.

The following tables summarize the investment return and its classification in the consolidated statements of activities as of June 30:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest earnings	$ 16,636	$ 6,452	$ 23,088
Net realized and unrealized gains (losses)	(7,523)	7,143	(380)
Gross return on investments	9,113	13,595	22,708
Investment return designated for current operations	(24,875)	(8,631)	(33,506)
Investment return in excess of amounts designated for current operations	$ (15,762)	$ 4,964	$ (10,798)

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest earnings	$ 21,895	$ 441	$ 22,336
Net realized and unrealized gains	16,459	15,500	31,959
Gross return on investments	38,354	15,941	54,295
Investment return designated for current operations	(37,087)	-	(37,087)
Investment return in excess of amounts designated for current operations	$ 1,267	$ 15,941	$ 17,208

(In Thousands)

Note 5. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2020 and 2019, comprise the following:

	2020	2019
Financial assets at year end:		
Cash	$ 53,946	$ 29,679
Accounts receivable - net	56,177	57,457
Pledges receivable - net	40,964	42,867
Notes receivable - net	6,760	8,514
Investments and assets held by others	877,889	886,599
Total financial assets	1,035,736	1,025,116
Less amounts not available to meet cash needs for general expenditures within one year:		
Cash restricted for advances from federal loans	(838)	(2,099)
Accounts receivables greater than a year	(3,593)	(5,740)
Pledge payments greater than a year	(36,729)	(32,886)
Notes receivables greater than a year	(6,668)	(8,419)
Investments not available due to contractual restrictions - bond reserves	(2,765)	(4,493)
Investments not available due to donor or board restrictions	(635,671)	(621,193)
Financial assets available to meet cash needs for general expenditures within one year	$ 349,472	$ 350,286

The cash flows of the University vary throughout the fiscal year due to tuition billings as well as concentrated contributions received at calendar year and fiscal year ends. Our practice is to regularly monitor our liquidity needs to meet our operating and other contractual commitments, while optimizing any short-term excess cash investing opportunities. To further manage liquidity, the University also maintains bank lines of credit.

Note 6. Split Interest Agreements

A summary of assets held and related obligations related to split interest agreements as of June 30 follows:

	2020	2019
Assets:		
Charitable remainder trusts	$ 11,656	$ 12,285
Charitable gift annuities	4,173	4,584
Total	$ 15,829	$ 16,869
Liabilities:		
Charitable remainder trusts	$ 8,118	$ 8,781
Charitable gift annuities	2,504	2,669
Total	$ 10,622	$ 11,450
Net:		
Charitable remainder trusts	$ 3,538	$ 3,504
Charitable gift annuities	1,669	1,915
Total	$ 5,207	$ 5,419

(In Thousands)

Note 6. Split Interest Agreements (Continued)

Contributions related to split interest agreements totaled $100 and $0 for the years ended June 30, 2020 and 2019, respectively.

Note 7. Land, Buildings, and Equipment

The following is a summary of land, buildings, and equipment at June 30:

	2020	2019
Buildings	$ 839,555	$ 801,087
Equipment	178,238	167,475
Land and land improvements	111,400	104,407
Library books	83,041	81,040
Renovations-in-progress	10,657	25,833
	1,222,891	1,179,842
Accumulated depreciation	(474,341)	(441,826)
	$ 748,550	$ 738,016

Construction commitments: During 2017, the University committed to renovate and improve the University's athletics arena. The costs of the renovation and improvements to the University's facility are estimated to total $76,200. As of June 30, 2020, the University was contractually committed for construction and architectural services totaling $335. The University had incurred $75,118 of costs through 2020.

During 2019, the University committed to renovating a facility formerly known as the Music Theatre building to house the Computer Science program. The costs of the renovation of the facility are estimated to total $14,300. As of June 30, 2020, the University was contractually committed for construction and architectural services totaling $4,209. The University had incurred $7,352 of costs through 2020.

(In Thousands)

Note 8. Indebtedness

The University finances the construction, renovation, and acquisition of certain facilities through the issuance of debt obligations which may include bonds, bank loans, and other borrowings. Total indebtedness for the years ended June 30 was as follows:

	2020	2019
Notes and term loan:		
Term loan	$ 24,043	$ 24,977
Senior secured note	18,340	19,772
Other various notes	2,157	1,025
Term loan - 1401 S Main	1,980	1,980
Revenue bonds:		
2003, due serially	4,650	8,425
2006, due serially	18,945	21,665
2011A, due serially	14,810	14,810
2013, due serially	50,265	51,825
2015A, due serially	49,775	49,775
2015B, due serially	17,420	18,190
2016A, due serially	28,000	28,000
2016B, due serially	20,870	20,870
2018A, due serially	67,028	68,095
2018B, due serially	47,775	48,775
	366,058	378,184
Net unamortized premium	16,830	18,825
Net unamortized issuance cost	(2,952)	(3,190)
	$ 379,936	$ 393,819

Under the terms of a New Market Tax Credit financing arrangement in 2011, the University borrowed $27,315 under a term loan agreement with a bank. This term loan is unsecured and bears interest at LIBOR plus 1.35% and matures on August 1, 2021, the interest rate has been fixed at 5.16% under the terms of a related swap agreement. The loan required monthly payments of only interest through October 31, 2016. Beginning on November 1, 2016, the University was required to make quarterly principal payments ranging from $199 to $250 through May 1, 2021, $11,500 on June 1, 2021, $254 on August 1, 2021 at maturity.

As part of the New Market Tax Credit financing referred to above, four unrelated community development entities provided debt financing to 111 River Park, LLC, a qualified active low income community business controlled by the University, in order to construct an office and research facility adjacent to its campus. This financing consisted of eight separate qualified low income community investment loans totaling $35,996 which were secured by a mortgage on the real property financed. These loans have interest rates ranging from 3.63% to 4.74%. The loans required payments of interest only through October 31, 2018, and then principal payments of $177 to $1,467 per year from November 1, 2018 through September 30, 2041, with a payment of $14,021 due at final maturity on October 5, 2041.

Note 8. Indebtedness (Continued)

In October 2018, the University completed the unwinding of the New Market Tax Credit financing arrangement upon expiration of the tax credit compliance period. The 111 River Park's notes payable totaling $35,996 were assigned by the note holders. Concurrently, put options were excised in which the University acquired the qualified low income community investment loans. As a result of the assignments and concurrent exercise of the put option, the notes receivable and payable totaling $27,315 were held by its wholly-owned subsidiaries and were settled in full satisfaction. The remaining notes payable totaling $8,680 were forgiven by the qualified low income community investment funds. The University recognized a gain in the amount of $8,680 from the exercise of the put option, which is reflected in other income (expense) in the consolidated statement of activities for the year ended June 30, 2019.

Under the terms of a New Market Tax Credit financing arrangement in 2018, the University borrowed $1,980 under a term loan agreement with a regional new market fund. This term loan is unsecured and bears interest at a fixed rate of 2.92% and matures on November 1, 2025. The loan requires monthly payments of only interest through October 31, 2025. On November 1, 2025, the University is required to make a lump sum principal payment of $1,980.

The senior secured note is an amortizing loan at a fixed interest rate of 3.98% with a final maturity of December 17, 2026. The proceeds were used to finance the purchase and planned renovation of hotel adjacent to the University's campus; the note is secured by a mortgage on this real estate. Monthly principal payments range from $62 to $189 through November 2026, with a balance of $5,000 due at maturity.

On March 20, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to, amongst other provisions, provide emergency assistance for individuals, families, and businesses affected by the coronavirus pandemic. The CARES Act established the Paycheck Protection Program (PPP), which is administered by the U.S. Small Business Administration (SBA), to provide loans to help offset certain payroll and other operating costs. A subsidiary of the University applied for and was awarded an unsecured PPP loan in the amount of $1,250 on April 20, 2020, calculated on the basis of documented payroll costs. The loan and accrued interest is forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and maintains payroll levels during the subsequent 24 week period.

If the conditions are not met, the University will be required to pay interest at 1%, due on April 20, 2022, with monthly payments of principal and interest totaling $69 beginning November 20, 2020 with any remaining principal and accrued interest due at maturity.

The University uses the proceeds from Revenue Bonds to finance the construction and renovation of facilities related to the University's academic purpose. Revenue Bonds are structured as long-term leases with the State of Ohio Higher Education Facility Commission. Under the terms of these indentures, the buildings and facilities (historical cost totaling over $439,000) are pledged as security, in addition to University revenue and the full faith and credit of the University. Upon repayment of the Revenue Bonds and termination of the leases, ownership of the respective facilities is transferred to the University.

The 2003 Revenue Bonds bear interest at a variable rate based upon the Consumer Price Index plus a stated spread; this rate has been fixed at rates ranging from 4.09% to 4.44% through final maturity in 2024 under the terms of a related swap agreement. Principal payments ranging from $1,100 to $3,775 are due annually through final maturity in 2024.

(In Thousands)

Note 8. Indebtedness (Continued)

The 2006 Revenue Bonds bear interest at variable rates based upon the Consumer Price Index plus a spread; these rates have been fixed at rates ranging from 4.09% to 4.44% through December 1, 2023 under the terms of a related swap agreement. Principal payments ranging from $715 to $5,345 are due annually through final maturity in 2024.

The 2009 Revenue Bonds had interest at fixed rates ranging from 4.0% to 5.5%. Principal payments ranging from $2,335 to $4,170 were due annually through final maturity in 2019.

The 2011A Revenue Bonds bear interest at fixed rates ranging from 4.0% to 5.625%. Principal payments ranging from $685 to $1,775 are due annually through final maturity in 2042.

The 2013 Revenue Bonds bear interest at fixed rates ranging from 3.0% to 5.0%. Principal payments ranging from $1,320 to $3,240 are due annually through final maturity in 2044.

The 2015A Revenue Bonds bear interest at fixed rates ranging from 3.0% to 5.0%. Principal payments ranging from $650 to $5,440 are due annually beginning in 2025 through final maturity in 2046.

The 2015B Revenue Bonds bear interest at fixed rates ranging from 0.9% to 4.335%. Principal payments ranging from $595 to $1,765 are due annually through final maturity in 2036.

The 2016A Revenue Bonds bear interest at variable rates based upon the 1-month LIBOR plus a stated spread; the interest rate has been fixed at 4.30% under the terms of a related swap agreement. Principal payments are ranging from $800 to $2,875 are due annually beginning in 2021 through 2026, with a final principal payment of $21,300 due in 2026.

The 2016B Revenue Bonds bear interest at a fixed rate of 1.99%. Principal payments of $2,735 and $2,875 are due annually in 2025 and 2026, with a final principal payment of $15,260 due in 2027.

The 2018A Revenue Bonds bear interest at fixed rates ranging from 3.0% to 5.0%. Principal payments ranging from $1,015 to $ 4,050 are due annually beginning in 2019 through final maturity in 2049.

The 2018B Revenue Bonds bear interest at fixed rates ranging from 4.0% to 5.0%. Principal payments ranging from $1,000 to $5,115 are due annually beginning in 2019 through final maturity in 2036.

The outstanding bonds do not require mandatory reserves for future payments of principal and interest.

Bond obligations are generally callable by the University and mature at various dates through 2046. Maturities on debt obligations for the next five years and thereafter are:

2021	$ 26,838
2022	26,848
2023	15,244
2023	15,944
2024	17,472
2025 and thereafter	263,712
Total	$ 366,058

Interest expense was $15,227 for 2020 and $18,575 for 2019. Interest capitalized was $41 for 2020 and $140 for 2019. Cash paid for interest was $15,999 for 2020 and $15,990 for 2019.

Note 8. Indebtedness (Continued)

As discussed more fully in Note 9, the University has entered into interest rate swap agreements that fix the interest rates on its variable rate debt.

The University maintains unsecured revolving credit agreements with two banks totaling $40,000. The agreements, which are $20,000 each, are due to expire on December 31, 2020 and February 28, 2022. As of June 30, 2020 and 2019, respectively, the University had no outstanding balances on these lines of credit.

As of June 30, 2020, the University had met all of the covenants required under its bond indentures and bank loans.

Note 9. Interest Rate Swap Obligations

The University uses interest rate swap agreements to manage interest rate risk associated with its variable rate debt. Under these agreements, the University and its counterparty agree to exchange the difference between the fixed and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. The difference between the fixed and variable interest amounts under the swap agreements is recorded as interest expense. The change in fair value of the interest rate swap agreements is recorded as a change in net unrealized gain (loss) on interest rate swap agreements.

In July 2011, the University entered into an interest rate swap agreement with a notional amount of $27,449. This agreement effectively fixed the interest rate on the $27,315 term note. The University receives the one-month LIBOR rate plus a spread of 1.35% and is required to pay a fixed rate of 5.16% through September 30, 2031. The outstanding notional amount of the swap was $24,176 and $25,111 at June 30, 2020 and 2019 respectively. The fair value of this agreement as of June 30, 2020 and 2019 is recorded as a liability of $6,302 and $3,914, respectively in the accompanying consolidated statements of financial position.

In August 2006, the University entered into an interest rate swap agreement with a notional amount of $22,350, with an adjustment to the notional amount at various amounts based on maturity terms within the agreement. The notional amount at June 30, 2020 and 2019 is $4,650 and $8,425, respectively. This agreement effectively fixed the interest rate, for the term of the bonds, on the portion of the $54,100 State of Ohio Higher Education Facility Commission Converted 2003 Revenue Bonds whose interest rate was tied to the CPI at rates ranging from 4.09% to 4.44% for the bonds maturing between the dates of December 1, 2015 and December 1, 2023. The fair value of this agreement as of June 30, 2020 and 2019 is recorded as a liability of $210 and $216, respectively in the accompanying consolidated statements of financial position.

Also in August 2006, the University entered into an interest rate swap agreement with a notional amount of $25,995, with an adjustment to the notional amount at various amounts based on maturity terms within the agreement. The notional amount at June 30, 2020 and 2019 is $18,945 and $21,665, respectively. This agreement effectively fixed the interest rate on the portion of the $72,105 State of Ohio Higher Education Facility Commission, 2006 Revenue Bonds whose interest rate was tied to the Consumer Price Index (CPI) at rates ranging from 4.09% to 4.44% for the bonds maturing between the dates of December 1, 2015 through December 1, 2023. The fair value of this agreement as of June 30, 2020 and 2019 is recorded as a liability of $804 and $793, respectively in the accompanying consolidated statements of financial position.

(In Thousands)

Note 9. Interest Rate Swap Obligations (Continued)

In April 2007, the University entered into an interest rate swap agreement with a notional amount of $28,000. This agreement effectively fixed the interest rate on the $28,000 State of Ohio Higher Education Facility Commission 2002 Variable Rate Revenue Bonds at 3.999% through December 1, 2032. In 2009, the 2002 bonds were retired and replaced with the 2011B Revenue Bonds, which were subsequently retired and replaced with the 2016A Revenue Bonds. In March 2016, the University amended this interest rate swap agreement. Under the revised agreement, the University receives 67% of the one-month LIBOR rate, plus a spread of 0.25% which effectively fixed the rate of the 2016A Bonds at 4.3%. The notional amount at June 30, 2020 and 2019 is $28,000. The fair value of this agreement as of June 30, 2020 and 2019 is recorded as a liability of $7,648 and $5,804, respectively in the accompanying consolidated statements of financial position.

Note 10. Retirement Plans

The University sponsors a defined contribution retirement plan that includes substantially all of its full-time employees. The University purchases individual retirement annuities through Teachers Insurance and Annuity Association (TIAA) to fund retirement benefits. The University contributes between 2.5% and 9% of an eligible employee's salary into such annuities, depending upon the employee's contribution levels and years of service. University contributions into participant accounts vest ratably over the participant's first four years of service. The University has no unfunded pension obligation because its required plan contributions are funded on a current basis. The cost to fund these benefits was $10,465 in 2020 and $12,810 in 2019.

Through salary reduction agreements, employees may contribute additional amounts on a tax-deferred basis with a preferred investment provider, in accordance with limitations under the Internal Revenue Code of 1986, as amended.

The University also provides health care benefits to retired faculty and staff hired before January 1, 2014; this benefit is not available to employees hired after that date. Faculty and staff are eligible for this benefit if they have either worked 20 years and attained age 55, or worked 10 years and attained age 60, while in service with the University. The plan is contributory and contains other cost-sharing features such as deductibles and co-insurance; contributions by plan participants were $1,398 in 2020 and $1,178 in 2019. The University makes amounts available to retirees to purchase health care insurance under this plan and the accrued liabilities associated with this plan have been recorded on the University's financial statements in accordance with generally accepted accounting principles. During 2019, the plan was amended replacing the Medicare Supplement plan with a Medicare Advantage plan.

Postretirement benefit expense related to the Plan includes the following components as of June 30:

	2020	2019
Service cost of benefits earned	$ 1,010	$ 1,108
Interest cost on liability	1,433	2,390
Amortization of net loss	(2,534)	(513)
Net periodic postretirement benefit cost	$ (91)	$ 2,985

(In Thousands)

Note 10. Retirement Plans (Continued)

A summary of the components of the changes in the projected benefit obligations and funded status of the Plan as of June 30 is as follows:

	2020	2019
Change in projected benefit obligations:		
Projected benefit obligation, beginning of year	$ 46,815	$ 62,674
Service cost	1,010	1,108
Interest cost	1,433	2,390
Actuarial (gain) loss	5,245	(2,397)
Benefits paid	(2,231)	(1,605)
Amendment	-	(15,355)
Projected benefit obligation, end of year	52,272	46,815
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	-	-
Employer contributions	2,231	1,605
Benefits paid	(2,231)	(1,605)
Fair value of plan assets, end of year	-	-
Net liability on the statements of financial position	$ 52,272	$ 46,815

A summary of the components recognized in net assets without donor restrictions for the years ended June 30 is as follows:

	2020	2019
Actuarial (loss) gain	$ (5,272)	$ 2,397
Prior service cost	(1,706)	15,355
Amortization of net loss	(828)	(513)
	$ (7,806)	$ 17,239

There are unrecognized actuarial gains of $21,337 and $29,143 included in net assets without donor restrictions at June 30, 2020 and 2019, respectively, which have not yet been recognized in the net periodic benefit cost.

The following weighted-average assumptions were used to determine the postretirement benefit obligation and the postretirement benefit cost as of June 30:

	2020	2019
Weighted-average discount rate used to determine the projected benefit obligation	2.18%	3.15%
Weighted-average discount rate assumption used to determine the net periodic benefit cost	3.15%	3.93%

(In Thousands)

Note 10. Retirement Plans (Continued)

The University used the RPH-2019 Total Dataset Mortality Table fully generational using scale MP-2019 in determining its obligation.

The health care cost trend rate assumption significantly affects the projected benefit obligation and the change in the postretirement benefit obligation reported in the consolidated financial statements. The model is based on long-term projections of Gross Domestic Product per capita and National Health Expenditures per capita. These inputs are based on assumptions from the University's actuaries. The model does not specifically include an administrative cost trend. Rather, administrative costs are incorporated with the medical assumptions.

The following health care cost trend rates were assumed in the determination of the postretirement benefit obligation and net periodic benefit cost as of June 30:

	2020	2019
Initial year trend:		
Combined trend pre-Medicare	6.60%	6.60%
Combined trend post-Medicare	7.40%	7.40%
Combined ultimate trend for pre-1994 and grandfathered retirees:		
Pre-Medicare	4.50%	4.50%
Post-Medicare	4.10%	4.10%
Combined ultimate trend for non-grandfathered participants and post-1994 retirees:		
Pre-Medicare	5.00%	4.50%
Post-Medicare	No Trend	No Trend
Year that rates reach the ultimate trend rate	2041	2040

A one-percentage point change in the assumed health care cost trend rate would have the following effect on the postretirement benefit obligation as of June 30, 2020, and the net periodic benefit cost:

	1.00% Increase	1.00% Decrease
Effect on postretirement benefit obligation	$ 240	$ (207)
Effect on net periodic benefit cost	4,402	(3,837)

The following benefit payments, which reflect expected future service and the effect of the Medicare subsidy, as appropriate, are expected to be paid over the next ten years:

Year ending:	
2021	$ 2,978
2022	3,179
2023	3,243
2024	3,258
2025	3,321
2026–2030	16,447

Note 11. Fair Value of Financial Instruments

The University records investments in cash and cash equivalents, equity securities and equity and bond mutual funds at their current fair values based on quoted market prices in active markets for identical assets, which is consistent with Level 1 in the fair value hierarchy.

The University records its investments in U.S. government treasuries, exchange traded commodities and real estate at their current fair values based on quoted market prices in markets that are not active for all significant inputs, which is consistent with Level 2 in the fair value hierarchy. Following is the summary of the inputs and valuation techniques used as of June 30, 2020 and 2019 for valuing Level 2 investments:

Investments	Input	Valuation Technique
Cash equivalents	Broker/Dealer	Market
US Treasuries	Broker/Dealer	Market
Exchange traded commodities and real assets	Broker/Dealer	Market

The University also holds investments in private equity funds, real estate and real estate funds, hedge funds and other investments that are not publicly traded but are valued at a net asset value per unit, or its equivalent. The University records its portion of these funds at the reported net asset value of its ownership interest in partner capital as reported by the general partner or fund manager, and as such, these investments have been excluded from the fair value hierarchy. Due to the inherent uncertainty of valuation, the estimated fair values may differ from values that would have been used had a readily available market value for the investments existed, and such differences could be material.

The University also holds certain real estate investments that it accounts for using the equity method. As such, these investments are also excluded from the fair value hierarchy.

The University has an interest rate swap and fair value is provided by valuation experts using externally developed models that consider observable and unobservable market parameters due to limited market activity of the instruments.

(In Thousands)

Note 11. Fair Value of Financial Instruments (Continued)

The following table summarizes the recorded amount of assets and liabilities by class of asset/liability recorded at fair value on a recurring basis:

	2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Cash equivalents	$ 642	$ 17,496	$ -	$ 18,138
US Treasuries	5	3	-	8
Fixed maturity:				
Mutual funds				
Domestic	11,925			11,925
International	7,511			7,511
Individual securities:				
Domestic		94,067		94,067
Equities:				
Mutual funds:				
Domestic	31,087	-	-	31,087
International	189,350	-	-	189,350
Individual securities:				
Domestic	227,110	-	-	227,110
Assets held by others [b]	-	-	1,075	1,075
Guaranteed investment contract	-	-	1,871	1,871
	467,630	111,566	2,946	582,142
Investments reported at fair value based on net asset value and equity method:				
Private equity funds [a]				99,478
Real estate and real estate funds [a]				21,471
Real assets [a]				3,355
Hedge funds [a]				162,894
Real estate - equity method				8,549
Total investments at fair value	$ 467,630	$ 111,566	$ 2,946	$ 877,889
Liabilities				
Interest rate swap obligation	$ -	$ 14,964	$ -	$ 14,964

(In Thousands)

Note 11. Fair Value of Financial Instruments (Continued)

	2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Cash equivalents	$ 480	$ 12,559	$ -	$ 13,039
US Treasuries	25	4,493	-	4,518
Fixed maturity:				
Mutual funds				
Domestic	13,631	-	-	13,631
International	8,759	-	-	8,759
Individual securities:				
Domestic	-	102,562	-	102,562
Equities:				
Mutual funds:				
Domestic	38,723	-	-	38,723
International	180,281	-	-	180,281
Individual securities:				
Domestic	224,708	-	-	224,708
Assets held by others [(b)]	-	-	1,070	1,070
Guaranteed investment contract	-	-	1,800	1,800
	466,607	119,614	2,870	589,091
Investments reported at fair value based on net asset value and equity method:				
Private equity funds [(a)]				96,143
Real estate and real estate funds [(a)]				23,654
Real assets [(a)]				3,128
Hedge funds [(a)]				167,105
Real estate - equity method				7,478
Total investments at fair value	$ 466,607	$ 119,614	$ 2,870	$ 886,599
Liabilities				
Interest rate swap obligation	$ -	$ 10,727	$ -	$ 10,727

(a) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value (or its equivalent) as a practical expedient and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

(b) The fair value of benefit interests in trusts held by others (perpetual trusts) are based on quoted prices of the underlying assets held by trustees. Due to restrictions on these assets that do not allow the University redemption rights, fair value is deemed to be based on Level 3 inputs.

(In Thousands)

Note 11. Fair Value of Financial Instruments (Continued)

The table below represents quantitative information about significant unobservable inputs related to investments reported at fair value using the practical expedient.

	2020			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)*	Redemption Notice Period
Private equity funds [(a)]	$ 99,478	$ 135,253	n/a	n/a
Real estate and real estate funds [(b)]	21,471	20,398	n/a	n/a
Real assets [(c)]	3,355	446	n/a	n/a
Hedge funds - Equity long/short [(d)]	32,803	-	monthly, quarterly	30-60 days
Hedge funds - Event driven [(e)]	34,348	-	quarterly	45-90 days
Hedge funds - Global opportunities [(f)]	10,474	-	monthly, quarterly	3-45 days
Hedge funds - Relative value [(g)]	66,147	-	quarterly, annually	60-90 days
Hedge funds - Multi-strategy [(h)]	19,122	-	quarterly, annually	65-90 days
Total	$ 287,198	$ 156,097		

	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)*	Redemption Notice Period
Private equity funds [(a)]	$ 96,143	$ 96,303	n/a	n/a
Real estate and real estate funds [(b)]	23,654	6,199	n/a	n/a
Real assets [(c)]	3,128	446	n/a	n/a
Hedge funds - Equity long/short [(d)]	31,542	-	monthly, quarterly	30-60 days
Hedge funds - Event driven [(e)]	33,804	-	quarterly	45-90 days
Hedge funds - Global opportunities [(f)]	17,557	-	monthly, quarterly	3-45 days
Hedge funds - Relative value [(g)]	66,061	-	quarterly, annually	60-90 days
Hedge funds - Multi-strategy [(h)]	18,141	-	quarterly, annually	65-90 days
Total	$ 290,030	$ 102,948		

**Redemptions may be subject to an initial and/or rolling one to three year lock up or investor/fund level gate.*

[(a)] This class includes several private equity funds engaging venture capital, buyout and turnaround investments in U.S. and European companies. These funds may hold publicly traded securities as well as other securities that do not have a readily determinable market value. Investments in publicly traded securities are generally valued at quoted market prices in active markets. Investments without readily determinable quoted market prices in active markets are valued by the fund managers or valuation committees; such valuation estimates consider cost data, restrictions affecting marketability, operating results, the financial condition of the underlying portfolio company and prices determined by using recent observable transaction information for similar investments or transactions. The nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. It is anticipated that the underlying assets of the fund would be liquidated over the next 7 to 10 years and it is probable that all of the investments in this class will be sold at an amount different from the reported net asset value at June 30, 2020.

Note 11. Fair Value of Financial Instruments (Continued)

(b) Real estate funds class includes several funds that invest primarily in U.S. commercial real estate properties. The holdings in these funds are valued by the fund managers or valuation committees; such valuation estimates consider cost data, restrictions affecting marketability, operating results, the financial condition of the underlying property and prices determined by using recent observable transaction information for similar purchase, sale or financing transactions. These investments cannot be redeemed with the fund. The nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund.

(c) Real assets are held in a private real estate investment trust that invests in commercial timberland properties. The trust's holdings are valued by fund manager or valuation committees by using recent observable transaction information for similar holdings or transactions. These investments cannot be redeemed with the fund. The nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund.

(d) Long-short strategies seek to profit by taking positions in equities and generally involve fundamental analysis in the investment decision process. Managers in these strategies tend to be "stock pickers" and typically manage market exposure by shifting allocations between long and short investments depending on market conditions and outlook. Long-short strategies may comprise investments in one or multiple countries, including emerging markets and one or multiple sectors.

(e) Event driven strategies involve investing in opportunities created by significant transaction events, such as spin-offs, mergers and acquisitions, and reorganizations. These strategies include risk arbitrage, distressed situations investing, special situations, opportunistic investing, and activism.

(f) Global opportunities strategies seek to exploit opportunities in various global markets. Portfolio managers employing these strategies have a broad mandate to invest in those markets and instruments which they believe provide the best opportunity. A portfolio manager employing a global macro strategy may take positions in currencies, sovereign bonds, global equities, and equity indices or commodities.

(g) Relative value strategies seek to profit by exploiting pricing inefficiencies between related instruments while remaining long-term neutral to directional price movements in any one market. These strategies include, but are not limited to: Convertible Bond Arbitrage, Fixed Income Arbitrage, Options Arbitrage, Pairs Trading, and multiple "Market Neutral" strategies.

(h) Multi-strategy funds dynamically allocate their assets among a variety of investment strategies to capture systematic inefficiencies and idiosyncratic opportunities across asset classes and market cycles. The various investment strategies employed include those detailed above. These investments include a commitment based investment in a renewable energy fund focused on the development, operation, and management of various solar projects.

(In Thousands)

Note 11. Fair Value of Financial Instruments (Continued)

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value for the years ended June 30:

	Assets Held by Others	Guaranteed Investment Contract	Total
Balance at July 1, 2019	$ 1,070	$ 1,800	$ 2,870
Total gains or losses for the period included in earnings (or changes in net assets)	52	53	105
Purchase	-	226	226
Sales	(47)	(208)	(255)
Balance at June 30, 2020	$ 1,075	$ 1,871	$ 2,946

	Assets Held by Others	Guaranteed Investment Contract	Total
Balance at July 1, 2018	$ 1,062	$ 1,646	$ 2,708
Total gains or losses for the period included in earnings (or changes in net assets)	38	55	93
Purchase	-	191	191
Sales	(30)	(92)	(122)
Balance at June 30, 2019	$ 1,070	$ 1,800	$ 2,870

There were no significant transfers in and out of Level 1, 2, or 3 during the period ending June 30, 2020 or 2019.

The carrying amount of cash, accounts receivable, and deferred income and student deposits approximates fair value because of the short duration of these financial instruments.

A reasonable estimate of the fair value of the notes receivable and advances from government for federal loans could not be made because the notes receivable are not saleable and can only be assigned to the United States government or its designees. It is not practical to estimate the fair value of grants and contracts receivable since they contain federally mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

The carrying amount of pledges receivable approximates fair value as these donations are recorded at the net present value of the amount pledged.

The fair value of indebtedness is approximately $402,872 as of June 30, 2020. For fixed-rate debt, the fair market value is based on an estimate of the prevailing market yield and resulting price for each maturity of debt. The market yield is impacted by several factors including credit, length of maturity, coupon, and optional redemption provisions. Variable rate debt that is callable by the borrower at any time is generally valued at par.

(In Thousands)

Note 12. Nature and Amount of Net Assets

Net assets without donor restrictions at June 30 are designated for the following:

	2020	2019
Without donor restrictions:		
Board-designated endowment	$ 346,914	$ 345,677
Net investment in plant	327,787	287,892
Undesignated	215,500	302,090
Total net assets without donor restrictions	$ 890,201	$ 935,659

Net assets with donor restrictions at June 30 are restricted for the following purposes or periods:

	2020	2019
Net assets restricted for specified purpose or passage of time:		
Instruction	$ 46,601	$ 24,782
Administrative and general	6,779	4,505
Organized research	1,116	120
Libraries	4,899	4,361
Student aid	51,684	47,290
Auxiliary enterprises	11,401	813
Pledges receivable including capital gifts for construction	21,090	15,100
Total specified purpose or time restrictions	143,570	96,971
Net assets restricted perpetually:		
Instruction	64,837	61,643
Administrative and general	13,225	13,018
Organized research	2,604	2,574
Libraries	4,627	4,608
Student aid	105,607	99,607
Auxiliary enterprises	926	924
Pledges receivable	16,692	15,171
Total restricted perpetually	208,518	197,545
Total net assets with donor restrictions	$ 352,088	$ 294,516

Note 13. Endowment Funds

The University's endowment consists of donor restricted endowment funds and unrestricted board-designated or quasi endowment funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to require the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanent endowments (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanent endowments is classified as unrestricted or donor restricted in accordance with UPMIFA and donor stipulations. Also in accordance with the University's interpretation of UPMIFA and absent specific donor restrictions on an endowed fund, the Board may appropriate the realized and unrealized net appreciation in the fair value of the assets of that fund for uses and purposes of the fund.

From time to time, the fair value of assets associated with the individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with accounting standards, deficiencies of this nature are reported in net assets with donor restrictions. As of June 30, 2020 and 2019, funds with an original gift value of $17,279 and $11,085 were "underwater" by $1,152 and $919, respectively.

The long-term objective of the University's investment portfolio is to generate a return which is sufficient to provide funding for programs supported by its endowment. To accomplish this objective, the University seeks to earn the greatest total return possible consistent with its general risk tolerance and a diversified asset allocation strategy. To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that includes equity-based investments to achieve its long-term objectives within prudent risk constraints.

The University uses a hybrid method to calculate the amount it appropriates from its endowment each year (the appropriation). A portion of the appropriation is based on the prior year's appropriation plus an inflationary factor. The remaining portion of the appropriation is calculated by computing a return on the average of the previous twenty quarters ending market value computed at December 31 each year for the fiscal year beginning the following July 1. The amount appropriated is bound by a floor of 3.5% and a ceiling of 5.5% of the previous December 31 fair values for the endowment funds.

In accordance with UPMIFA the University has appropriated funds where the purpose restriction has not yet been met. These net assets are classified as with donor restrictions and will be released upon satisfaction of the donor restriction. The amount of appropriated but unspent funds included in net assets with donor restrictions totaled $16,782 at June 30, 2020.

(In Thousands)

Note 13. Endowment Funds (Continued)

The University has the following endowment-related activities:

	Changes in Endowment Net Assets		
	Without Donor Restrictions	With Donor Restriction	Total
Endowment net assets at July 1, 2019	$ 345,677	$ 257,428	$ 603,105
Investment return:			
Investment income	6,210	141	6,351
Net appreciation (depreciation) (realized and unrealized)	5,675	3,495	9,170
Contributions	42	9,290	9,332
Other (additions and deletions to endowment)	-	-	-
Appropriation of endowment assets for expenditure	(10,690)	(8,631)	(19,321)
Endowment net assets at June 30, 2020	$ 346,914	$ 261,723	$ 608,637

	Changes in Endowment Net Assets		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at July 1, 2018	$ 326,752	$ 240,559	$ 567,311
Investment return:			
Investment income	9,983	160	10,143
Net appreciation (depreciation) (realized and unrealized)	7,526	17,626	25,152
Contributions	589	7,517	8,106
Other (additions and deletions to endowment)	12,687	-	12,687
Appropriation of endowment assets for expenditure	(11,860)	(8,434)	(20,294)
Endowment net assets at June 30, 2019	$ 345,677	$ 257,428	$ 603,105

(In Thousands)

Note 13. Endowment Funds (Continued)

The composition of net assets, by type, of endowment funds at June 30 is as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 261,723	$ 261,723
Board-designated endowment funds	346,914	-	346,914
	$ 346,914	$ 261,723	$ 608,637

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 257,428	$ 257,428
Board-designated endowment funds	345,677	-	345,677
	$ 345,677	$ 257,428	$ 603,105

Note 14. Private Gifts, Grants, and Other

Private Gifts, Grants, and Other include the following:

	Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Gifts	$ 3,111	$ 28,795	$ 31,906
Miscellaneous income	15,588		15,588
	$ 18,699	$ 28,795	$ 47,494

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Gifts	$ 3,970	$ 19,722	$ 23,692
Sponsored projects	12,434		12,434
Miscellaneous income	12,134		12,134
Transfers between restrictions	12	(12)	-
	$ 28,550	$ 19,710	$ 48,260

(In Thousands)

Note 15. Expense Summary

The University's expenses classified by natural classification, for the years ended June 30, 2020 and 2019 are summarized as follows:

2020	Instruction	Administrative and General	Libraries	Organized Research	Auxiliary Enterprises	Fundraising	Related entities	Total
Salaries and benefits	$ 123,076	$ 44,416	$ 4,834	$ 84,101	$ 36,543	$ 6,935	$ 4,835	$ 304,740
Interest expense	3,052	881	570	737	9,066	-	921	15,227
Depreciation	8,280	865	1,120	3,000	17,074	-	5,088	35,427
Cost of sales	1	10	-	-	11,399	-	834	12,244
Contract services and maintenance	5,155	9,746	747	31,364	14,149	510	1,832	63,503
Supplies	2,905	1,875	227	7,393	4,271	61	740	17,472
Utilities and communications	1,671	1,888	378	844	4,820	7	441	10,049
Other expenditures	16,114	10,265	302	20,800	11,008	1,302	3,977	63,768
Total expenses	$ 160,254	$ 69,946	$ 8,178	$ 148,239	$ 108,330	$ 8,815	$ 18,668	$ 522,430

2019	Instruction	Administrative and General	Libraries	Organized Research	Auxiliary Enterprises	Fundraising	Related Entities	Total
Salaries and benefits	$ 126,784	$ 44,555	$ 5,699	$ 72,658	$ 37,831	$ 7,884	$ 6,750	$ 302,161
Interest expense	3,392	841	767	2,102	9,348	-	2,125	18,575
Depreciation	7,348	1,355	1,103	3,055	15,469	-	4,867	33,197
Cost of sales	32	8	2	4	12,978		1,150	14,174
Contract services and maintenance	7,262	9,518	949	45,635	20,716	793	2,106	86,979
Supplies	3,111	1,879	171	10,078	4,689	80	1,024	21,032
Utilities and communications	2,075	968	476	1,125	5,441	33	484	10,602
Other expenditures	20,357	18,585	313	24,301	7,073	1,515	5,355	77,499
Total expenses	$ 170,361	$ 77,709	$ 9,480	$ 158,958	$ 113,545	$ 10,305	$ 23,861	$ 564,219

Note 16. Consolidated Entities

Hotel operations: The University is a member of a joint venture to own a local hotel adjacent to its campus. The University is a 90% partner in this venture.

The University recorded the following assets, liabilities, and equity on its books at June 30:

	2020	2019
Assets:		
Land, buildings and equipment	$ 34,087	$ 36,585
Liabilities and equity:		
Senior secured note	19,589	19,772
Controlling interest - University net assets	3,155	3,977
Noncontrolling interest	517	442

Note 17. Coronavirus Pandemic

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the University operates. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the University.

Note 18. Financial Responsibility

In 2019 the Department of Education revised certain provisions of the 34 Code of Federal Regulations Section 668.172 which applies to the University. As a result of the revision the University is disclosing certain information to facilitate compliance with the provisions of Section 668.172 provided as follows:

Property, plant and equipment, net: The Department of Education has defined pre-implementation property, plant and equipment as assets acquired as of June 30, 2019 less any assets resulting from capital leases entered into between December 15, 2018 and June 30, 2019. All subsequently acquired assets are deemed post-implementation property, plant and equipment. As of June 30, 2020, the University has pre-implementation property, plant and equipment net of depreciation totaling $738,016. As of June 30, 2020, the University has post-implementation property, plant and equipment net of depreciation totaling $783,976.

Debt: The Department of Education has defined pre-implementation debt as debt acquired as of June 30, 2019, and any debt acquired subsequent to June 30, 2019 is defined as post-implementation debt. As of June 30, 2020, the entire outstanding bonds payable balance is deemed pre-implementation debt.