# High Point University

Consolidated Financial Statements
Years Ended May 31, 2022 and 2021

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## Contents

**Independent Auditor's Report**

To the Board of Trustees
High Point University
High Point, North Carolina

**Opinion**

We have audited the accompanying consolidated financial statements of High Point University (the "University"), (a nonprofit organization) and its subsidiaries, which comprise the consolidated statements of financial position as of May 31, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related summary of significant accounting policies and notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2022 and 2021, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

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

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

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

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


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In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Smith Leonard PLLC

High Point, North Carolina
September 30, 2022

# High Point University

## Consolidated Statements of Financial Position

***(Dollars in thousands)***

| *May 31,* | **2022** | 2021 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 59,916** | $ 48,249 |
| Investments | **136,452** | 125,621 |
| Receivables: | | |
| Student - net | **759** | 1,093 |
| Notes from students - net | **-** | 222 |
| Other | **12,271** | 9,112 |
| Notes receivable | **8,193** | 8,195 |
| Pledges receivable - net | **66,984** | 12,120 |
| Prepaid expenses | **1,312** | 757 |
| Assets held for sale | **1,017** | 1,017 |
| Land, buildings, and equipment - net | **763,097** | 734,081 |
| Cash surrender value of life insurance | **6,370** | 6,503 |
| Other assets | **1,740** | 1,609 |
| **Total assets** | **$ 1,058,111** | $ 948,579 |
| **Liabilities and Net Assets** | | |
| **Liabilities:** | | |
| Accounts payable and accrued expenses | **$ 26,694** | $ 26,770 |
| Portion of long-term debt due within one year | **9,307** | 8,838 |
| Portion of finance leases due within one year | **768** | 749 |
| Deferred income and student deposits | **37,484** | 30,388 |
| Deposits held in custody for others | **1,205** | 506 |
| Long-term portion of long-term debt | **102,556** | 111,840 |
| Long-term portion of finance leases | **1,577** | 2,346 |
| Federal and state student loan funding | **57** | 538 |
| **Total liabilties** | **179,648** | 181,975 |
| **Commitments and contingencies** | | |
| **Net Assets:** | | |
| Without donor restrictions | **674,956** | 623,515 |
| With donor restrictions | **203,507** | 143,089 |
| **Total net assets** | **878,463** | 766,604 |
| **Total liabilities and net assets** | **$ 1,058,111** | $ 948,579 |

*See accompanying summary of significant accounting policies and notes to consolidated financial statements.*

# High Point University

## Consolidated Statement of Activities

***(Dollars in thousands)***

| *Year ended May 31, 2022* | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
|---|---|---|---|
| **Operating Revenues** | | | |
| Tuition and fees - net | $ 158,950 | $ - | **$ 158,950** |
| Contributions | 8,740 | | **8,740** |
| Federal, state, and private grants | 3,258 | - | **3,258** |
| Net assets released from restrictions | 10,124 | (10,124) | **-** |
| Auxiliary enterprises: | | | |
| Cafeteria | 37,758 | - | **37,758** |
| Residence Halls | 56,254 | - | **56,254** |
| Other | 1,986 | - | **1,986** |
| Auxiliary enterprises | 95,998 | - | **95,998** |
| Rental income | 1,112 | - | **1,112** |
| Investment income used in operations | 673 | - | **673** |
| Other revenues | 1,125 | - | **1,125** |
| **Total operating revenues** | 279,980 | (10,124) | **269,856** |
| **Operating Expenses** | | | |
| Instruction | 55,931 | - | **55,931** |
| Research | 2,874 | - | **2,874** |
| Operating and maintenance of facilities | 34,704 | - | **34,704** |
| Student services | 34,393 | - | **34,393** |
| Institutional support | 21,019 | - | **21,019** |
| Academic support | 8,238 | - | **8,238** |
| **Total education and general** | 157,159 | - | **157,159** |
| Auxiliary enterprises | 61,015 | - | **61,015** |
| Interest | 2,992 | - | **2,992** |
| Rental expenses | 3,660 | - | **3,660** |
| **Total operating expenses** | 224,826 | - | **224,826** |
| **Change in net assets from operations** | 55,154 | (10,124) | **45,030** |
| **Non-operating activities** | | | |
| Interest and dividends (net of investment fees) | 325 | 1,260 | **1,585** |
| Net realized and unrealized losses | (2,580) | (5,271) | **(7,851)** |
| Capital gifts and grants | 2,181 | 79,310 | **81,491** |
| Change in the value of interest swap rates | 3,342 | - | **3,342** |
| Net assets released from restrictions | 4,850 | (4,850) | **-** |
| Gain on disposal of land, buildings, and equipment | 8 | - | **8** |
| Other non-operating income (expense) | (11,839) | 93 | **(11,746)** |
| **Change in net assets from non-operating activities** | (3,713) | 70,542 | 66,829 |
| **Change in net assets** | 51,441 | 60,418 | **111,859** |
| Net assets - beginning of year | 623,515 | 143,089 | **766,604** |
| Net assets - end of year | $ 674,956 | $ 203,507 | **$ 878,463** |

*See accompanying summary of significant accounting policies and notes to consolidated financial statements.*

# High Point University

## Consolidated Statement of Activities

*(Dollars in thousands)*

| *Year ended May 31, 2021* | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Operating Revenues** | | | |
| Tuition and fees - net | $ 151,938 | $ - | $ 151,938 |
| Contributions | 6,127 | - | 6,127 |
| Federal, state, and private grants | 2,500 | - | 2,500 |
| Net assets released from restrictions | 7,846 | (7,846) | - |
| Auxiliary enterprises: | | | |
| Cafeteria | 33,857 | - | 33,857 |
| Residence Halls | 51,924 | - | 51,924 |
| Other | 511 | - | 511 |
| Auxiliary enterprises | 86,292 | - | 86,292 |
| Rental income | 690 | - | 690 |
| Investment income used in operations | 677 | - | 677 |
| Other revenues | 646 | - | 646 |
| **Total operating revenues** | 256,716 | (7,846) | 248,870 |
| **Operating Expenses** | | | |
| Instruction | 46,944 | - | 46,944 |
| Research | 2,509 | | 2,509 |
| Operating and maintenance of facilities | 30,282 | - | 30,282 |
| Student services | 22,956 | - | 22,956 |
| Institutional support | 19,259 | - | 19,259 |
| Academic support | 7,440 | - | 7,440 |
| **Total education and general** | 129,390 | - | 129,390 |
| Auxiliary enterprises | 51,680 | - | 51,680 |
| Interest | 4,886 | - | 4,886 |
| Rental expenses | 2,013 | - | 2,013 |
| **Total operating expenses** | 187,969 | - | 187,969 |
| **Change in net assets from operations** | 68,747 | (7,846) | 60,901 |
| **Non-operating activities** | | | |
| Interest and dividends (net of investment fees) | 4 | 584 | 588 |
| Net realized and unrealized gains | 760 | 20,000 | 20,760 |
| Capital gifts and grants | 511 | 26,236 | 26,747 |
| Change in the value of interest swap rates | 1,643 | - | 1,643 |
| Net assets released from restrictions | 7,170 | (7,170) | - |
| Gain on disposal of land, buildings, and equipment | 292 | - | 292 |
| Asset impairment charge | (1,242) | - | (1,242) |
| Other non-operating income (expense) | (4,415) | 655 | (3,760) |
| **Change in net assets from non-operating activities** | 4,723 | 40,305 | 45,028 |
| **Change in net assets** | 73,470 | 32,459 | 105,929 |
| Net assets - beginning of year | 550,045 | 110,630 | 660,675 |
| Net assets - end of year | $ 623,515 | $ 143,089 | $ 766,604 |

*See accompanying summary of significant accounting policies and notes to consolidated financial statements.*

# High Point University

## Consolidated Statements of Cash Flows

***(Dollars in thousands)***

| *Year ended May 31,* | **2022** | 2021 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | **$ 111,859** | $ 105,929 |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by operating activities: | | |
| Depreciation | **32,804** | 31,013 |
| Amortization of bond issuance costs | **99** | 572 |
| Amortization of original issue premium | **(1,048)** | (529) |
| Gain on disposal of land, buildings, and equipment | **(8)** | (292) |
| Asset impairment charge | **-** | 1,242 |
| Contributions of property - net | **(323)** | (162) |
| Provision for doubtful accounts | **158** | 291 |
| Realized and unrealized (gains) losses on investments - net | **6,266** | (21,348) |
| Provision for (distribution of) deferred compensation, net | **(383)** | 20 |
| Change in value of interest rate swaps | **3,342** | 1,643 |
| Proceeds from contributions restricted for investment | | |
| in permanently restricted net assets | **(9,747)** | (6,894) |
| Changes in operating assets and liabilities: | | |
| Receivables | **(2,700)** | 3,152 |
| Pledges receivable | **(54,925)** | 330 |
| Prepaid expenses and other assets | **(552)** | (1,448) |
| Accounts payable and accrued expenses | **(3,338)** | (13,469) |
| Deferred income and student deposits | **7,096** | (6,730) |
| Deposits held in custody for others | **699** | 237 |
| Total adjustments | **(22,560)** | (12,372) |
| **Net cash provided by operating activities** | **89,299** | 93,557 |
| **Cash flows from investing activities** | | |
| Proceeds from contributions restricted for investment | | |
| in permanently restricted assets | **9,747** | 6,894 |
| Purchase of investments, net of sales | **(16,715)** | (24,460) |
| Proceeds from disposal of land, buildings, and equipment | **22** | 375 |
| Purchase of land, buildings, and equipment | **(61,512)** | (50,835) |
| Payments (issuance) of note receivable | **2** | (20) |
| **Net cash used in investing activities** | **(68,456)** | (68,046) |

*See accompanying summary of significant accounting policies and notes to consolidated financial statements.*

# High Point University

## Consolidated Statements of Cash Flows (Concluded)

***(Dollars in thousands)***

| *Year ended May 31,* | | **2022** | | 2021 |
|---|---|---|---|---|
| **Cash flows from financing activities** | | | | |
| Proceeds from issuance of long-term debt, net | | **-** | | 54,055 |
| Payments of long-term debt | | **(7,892)** | | (61,872) |
| Payments on finance leases | | **(749)** | | (730) |
| Change in federal and state student loan funding | | **(481)** | | (195) |
| Change in annuities payable | | **(54)** | | (14) |
| **Net cash used in financing activities** | | **(9,176)** | | (8,756) |
| **Net change in cash and cash equivalents** | | **11,667** | | 16,755 |
| **Cash and cash equivalents**, beginning of year | | **48,249** | | 31,494 |
| **Cash and cash equivalents**, end of year | **$** | **59,916** | $ | 48,249 |

**Supplemental disclosures for cash flows**:

The University paid approximately $3,285 and $4,807 in interest in 2022 and 2021.

The University paid approximately $264 and $458 for income taxes on unrelated business income in 2022 and 2021.

Non-cash investing and financing activities consist of financing the cost of certain assets through a finance lease transaction in the amount of approximately $3,785 in 2021.

A note receivable issued for approximately $8,175 in exchange for a life insurance policy assigned to a key member of management of approximately $5,722 with the difference representing a payable included in accounts payable and accrued expenses in 2021 (Note 15).

*See accompanying summary of significant accounting policies and notes to consolidated financial statements.*

## Summary of Significant Accounting Policies
*(Dollars in thousands)*

**Description of University and Principles of Consolidation**
High Point University (the "University"), based in High Point, North Carolina, was founded in 1924. It is a private liberal arts university, affiliated with the United Methodist Church, offering undergraduate and graduate degrees to approximately 5,900 students. The consolidated financial statements also include the accounts of several limited liability companies (the "LLCs"), which are wholly owned subsidiaries and hold various pieces of real property. All significant inter-entity transactions have been eliminated.

**Basis of Presentation**
The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.

- With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time, as well as those that may be maintained permanently by the University. Generally, the donors of these assets permit the University to use all of or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains, losses, and income on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions between the applicable classes of net assets.

Due to the donor stipulations, gains and losses on investments are generally reported as increases or decreases in net assets with donor restrictions.

**Operations**
Operating revenues consist of items attributable to the University's graduate and undergraduate education programs. Contributions to the University's annual appeal are reported as operating revenue without donor restrictions. All other contributions are reported as non-operating revenue in the appropriate net asset category.

To the extent gifts, investment income, and gains are used for operations, they are classified as gifts and grants and investment income used in operations on the consolidated statements of activities. Other income, consisting of investment earnings on funds held by bond trustees and other items not related to the University's operations, are reported as non-operating revenue.

Expenses associated with the operation and maintenance of the University's facilities, including the applicable portion of depreciation expense, is separately stated on the consolidated statements of activities.

Auxiliary enterprises include a variety of services that enhance the quality of student life on campus. Revenues are displayed in three sections, including fees for housing, dining services, and other revenues. Other auxiliary service enterprise revenues include the bookstore and intercollegiate athletics. Expenses associated with auxiliary enterprise activities are reported as a single total and include the applicable portion of depreciation. This total does not include expenses for operation and maintenance of University facilities.

***(Dollars in thousands)***

**Revenue Recognition**
Substantially all revenues from contracts are recognized over time.

Revenue is recognized when control of the promised goods or services is transferred to students in an amount that reflects the consideration the University expects to be entitled to in exchange for those goods or services as follows:

***Tuition and Fees***
The majority of revenue is derived from tuition and fees, which is recognized on a straight-line basis over the academic term as instruction is delivered. Books and other educational product revenue is recognized when the students receive the tangible items or students receive access to electronic materials. The University reports the revenue on a net basis because the performance obligation is to facilitate a transaction between the student and the University. The performance obligation is met over time as instruction is delivered on a straight-line basis using the number of days in the academic term. Academic term refers to one of the four following academic periods: spring, fall, summer 1 and summer 2. Students who do not complete the academic term and are eligible for a refund of tuition, fees, or auxiliary revenues, receive those amounts within the allowable timetable as defined in the student handbook or according to Federal Title IV funding requirements. These refunds generally occur in the same academic term. The following table provides the components of tuition and fees as of May 31:

| *May 31,* | **2022** | 2021 |
|---|---|---|
| Tuition and fees | **$ 236,197** | $ 214,459 |
| Funded aid | **(10,124)** | (7,846) |
| Unfunded aid | **(67,123)** | (54,675) |
| Tuition and fees - net | **$ 158,950** | $ 151,938 |

***Gifts and Grants***
Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period, are reported as revenues without donor restrictions. Unconditional promises to give that are scheduled to be received after the consolidated statements of financial position date are shown as increases in net assets with donor restrictions and are reclassified to net assets without donor restrictions when the purposes or time restrictions are met.

Unconditional promises to give, subject to donor-imposed stipulations that the corpus be maintained permanently, are recognized as increases in net assets with donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

The University records an allowance for uncollectible pledges receivable based on management's expectations regarding outstanding promises to give and past collection experience. The methodology for calculating the allowance for uncollectible pledges receivable is based on management's review of individually significant outstanding pledges, analysis of the aging of payment schedules for all outstanding pledges, as well as a five-year lookback of actual write-offs and other factors, including current economic conditions. In contrast to unconditional promises, conditional promises are not recorded until donor conditions are met.

**Revenue Recognition (Continued)**

***Gifts and Grants (Concluded)***
The University reports contributions of land, buildings, or equipment as non-operating support without donor restrictions unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as non-operating support without donor restrictions, provided the long-lived assets are placed in service in the same reporting period; otherwise, the contributions are reported as support with donor restrictions until the assets are acquired and placed into service.

Grants for research and other sponsored programs from federal, state, and private foundations are generally subject to restrictions and conditions that must be met before the University is entitled to funding and the University receives most of its grant revenue on a cost reimbursable basis after the restrictions have been met. Additionally, advances from granting agencies are generally considered refundable in the unlikely event specified services are not performed and recorded to deferred revenue until such time that the specified services have been performed allowing for revenue recognition. Revenue from grants is recognized based on the performance objectives in the grant agreement as benchmark objectives of the grant agreement have been completed.

***Auxiliary***
Auxiliary revenue consists of cafeteria, residence halls, and other related revenue items. The University reports the revenue on a net basis with the performance obligation being a transaction between the student and the University. The performance obligation is met over time as these services are rendered on a straight-line basis using the number of days in the academic term.

***Deferred Income and Student Deposits***
Revenues are recognized when control of the promised goods or services is transferred to students in an amount that reflects the consideration the University expects to be entitled to receive in exchange for those goods and services. The University applies the five-step revenue model under Accounting Standards Codification ("ASC"), *Revenue from Contracts with Customers* (*Topic 606)* ("Topic 606") to determine when revenue is earned and recognized.

Arrangements with students may have multiple performance obligations. For such arrangements, the University allocates net tuition revenue to each performance obligation based on its relative standalone selling price. The University generally determines standalone selling prices based on prices charged to students and observable market prices. Many students obtain Federal Title IV or other financial aid resulting in the University receiving a significant amount of tuition revenue at the beginning of the academic term. The performance obligation for Federal Title IV funding follows the same recognition model as tuition and fees.

At the start of each academic term or program, a liability (deferred income) is recorded for academic services to be provided and a tuition receivable is recorded for the portion of the tuition not paid in advance. This tuition receivable also includes fees and auxiliary services. Any cash received prior to the start of an academic term or program is recorded as deferred income and student deposits. Some students may be eligible for scholarship awards, the estimated value of which will be realized in the future and is deducted from revenue when earned, based on historical student attendance and completion.

As of May 31, 2022 and 2021, net tuition receivables amounted to approximately $759 and $1,093 and deferred income and student deposits relating to student contracts amounted to approximately $16,950 and $15,236. The University has shown the applicable categories of revenue and costs associated with contracts with students in the consolidated statement of activities under operating revenues and operating expenses. There were no impairment losses recognized for assets related to contracts with in 2022 and 2021. Substantially all the beginning balance tuition receivables and student deposits are recognized as revenue in 2022.

**Revenue Recognition (Concluded)**

***Deferred Income and Student Deposits (Concluded)***
As of May 31, 2022, deferred revenue and student deposits includes approximately $6.2 million of deferred gifts expected to be recognized in a subsequent year.

The University has a contract with a vendor which includes a deferred gift of approximately $14,354 and $15,152 as of May 31, 2022 and 2021 included in deferred income and student deposits on the consolidated statements of financial position, which will be earned over the life of the contract through May 2040 on a straight-line basis.

As the University's performance obligations have an original expected duration of one year or less, the University has applied the practical expedient (as provided in ASC 606-10-50-14) to not disclose the information in ASC 606-10-50-13, which requires disclosure of the amount of the transaction price allocated to the University's performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period and when the entity expects to recognize this amount as revenue. All consideration from contracts with students is included in the transaction price.

***Retail Center (Topic 842)***
The University operates a retail center. Rental revenue from operating leases are recognized on a straight-line basis over the initial terms of the related leases.

The University received reimbursements from tenants for real estate taxes, insurance, common area maintenance, and other recoverable operating expenses as provided in the lease agreements. Tenant reimbursements are recognized when earned in accordance with the tenant lease agreements.

**Cash and Cash Equivalents**
The University considers investments purchased with an original maturity of three months or less to be cash equivalents. The University holds funded financial aid within restricted cash accounts before being disbursed to student accounts. Substantially all the financial aid is disbursed during the academic term.

**Investments**
Investments are reported at fair value. Investments in securities traded on a national exchange are based upon quoted market prices. Certain other nonmarketable securities are valued using current estimates of fair value obtained from the investment manager or general partner in the absence of readily determinable public market values. Such valuations generally reflect discounts for liquidity and consider variables, such as financial performance of investments, including comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. Management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of investments. Because of the inherent uncertainty of valuation for these investments, the investment manager's or general partner's estimate may differ from the values that would have been used had a ready market existed and these differences could be significant.

The agreements underlying participation in nonmarketable investment funds may limit the University's ability to liquidate its interests in such investments for a period of time. Management believes the carrying amount of its nonmarketable securities is a reasonable estimate of fair value as of May 31, 2022 and 2021. See fair value of financial instruments.

**Student Receivables**
Student receivables represent uncollateralized student obligations due under various terms depending on the funding source. Educational funding sources include students, endowed scholarships, and federal and state programs. The carrying amount of student receivables is reduced by an allowance that reflects management's estimate of uncollectible balances. Management reviews each past due balance and sets an allowance based on this analysis and historical collection rates. Management believes the allowance is adequate; however, future write-offs may exceed the recorded allowance (Note 5).

**Other Receivables**
Other receivables include amounts reimbursable to the University for federal financial aid, sales tax refunds, as well as other miscellaneous receivables. Based on the information available, management does not believe an allowance for doubtful accounts is necessary as of May 31, 2022 and 2021. However, actual write-offs could occur in the future and could have a material effect on the results of operations in the period in which such changes or events occur.

**Land, Buildings, Equipment, and Depreciation**
Land, buildings, and equipment above $5,000 are stated at cost if purchased or fair value at the date the property was contributed. Assets are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

| | Years |
|---|---|
| Buildings | 15-40 |
| Equipment | 3-15 |
| Land and building improvements | 15 |

Property held under operating and finance leases are amortized over the lesser of the lease term or the useful life of the property. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation is removed from the accounts and any remaining gain or loss is included in non-operating activities. Repairs and maintenance are charged to expense when incurred.

**Other Assets**
Other assets represent collections and works of art, which management believes will retain value and therefore not depreciated.

**Debt Issuance Costs**
The unamortized debt issuance costs are presented as a reduction of debt on the consolidated statements of financial position (Note 9). Amortization by the effective interest method of these costs is included in interest expense in the consolidated statement of activities.

**Derivatives**
The University utilizes derivative financial instruments to reduce interest rate risks. The University does not hold or issue derivative financial instruments for trading purposes. Accounting standards establish accounting and reporting standards for derivative instruments and hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the consolidated statements of financial position and measure those instruments at fair value. The University does not report earnings and, therefore, does not qualify for hedge accounting under this standard and, as a result, changes in fair value of the instrument are recorded as a change in net assets in the period of change and are included in non-operating activities on the consolidated statements of activities.

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

**Concentrations of Risk**
At various times throughout the year, the University may have cash balances in financial institutions that exceed amounts that are federally insured.

Liquidity risk represents the possibility the University may not be able to rapidly adjust the size of its portfolio holdings at a reasonable price in times of high volatility and financial stress. If the University were forced to dispose of an illiquid investment at an inopportune time, it might be forced to do so at a substantial discount to fair value.

The value of securities held by the University may decline in response to certain economic events, including those events impacting entities whose securities are owned and included in the investment portfolio. Those events impacting valuation may include, but are not limited to, economic changes, market fluctuations, regulatory changes, global and political instability, currency, interest rate, and commodity price fluctuations. The University attempts to manage this risk through diversification, ongoing due diligence of fund managers, and monitoring of economic conditions. From time to time a donor may make a contribution in excess of the ten percent of total contributions in any one fiscal year.

**Fair Value of Financial Instruments**
Financial instruments of the University include cash and cash equivalents, investments, student and pledges receivable, notes receivable, payables, student loan funding, debt agreements, and interest rate swaps. Cash and cash equivalents, investments, assets held for sale, and cash surrender value of life insurance are carried at market values. Pledges receivable are carried at the original amount of the pledge discounted over the period in which the pledge is to be paid, net of an allowance for uncollectibles. The fair value of receivables, payables, and student loan funding approximates the carrying amount because of the short maturity of these instruments. Based upon the current borrowing rates available to the University, estimated fair values of debt instruments approximate their recorded carrying amounts. Fair value of interest rate swaps is estimated based on a valuation model and assumptions taking into account current interest rates and market data. To assist in making this determination, management uses a valuation prepared by the counterparty.

ASC 820 *Fair Value Measurement* requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

A reconciliation of beginning and ending balances of long-term endowment net assets is provided in Note 3.

In the absence of observable market prices, the University values its investments using valuation methodologies applied on a consistent basis. For certain investments, little market activity may exist; the determination of fair value is then based on the best information available in the circumstances and may incorporate assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors. Investments for which market prices are not observable include private investments in the equity of operating companies. The fair value of private investments is determined by reference to revenue or private transactions, valuations for comparable companies, recent financing rounds, and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (e.g., multiplying a key performance metric of the investee company, such as revenue by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables. Due to the inherent uncertainty of valuations, the fair values assigned to the investments are estimates and, accordingly, such estimated values may differ from the values that would have been used had an active market for the investments existed, and the differences could be material.

**Tax Status**
High Point University is a not-for-profit organization that is exempt from federal and North Carolina income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation.

The LLCs are treated as partnerships for federal and state income tax purposes. The earnings and losses are included in the tax return of the University. Therefore, no provision for or benefit from income taxes has been included in the accompanying consolidated financial statements.

It is the University's policy to evaluate all significant tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the consolidated financial statements. No material uncertain tax positions were identified in 2022 and 2021. Currently, the statute of limitations remains open subsequent to and including the year ended May 31, 2019; however, no examinations are in process. Any changes in the amount of a tax position, as well as related penalties and interest, will be recognized in the period the change occurs.

**Long-lived Assets**
Long-lived assets, such as property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. Impairment charges recorded in 2022 and 2021 totaled approximately $0 and $1,200.

**Advertising**
Costs incurred for advertising and promotional materials are expensed when incurred.

**Other Non-Operating Income and Expenses**
Other income and expenses are discretionary items not related to the University's primary business function. These expenses include items such as dorm refreshes, property purchased for donation, and purchases of various non-capitalizable equipment as needed.

**Reclassifications**
Certain prior year balances have been reclassified to conform to current year presentation. These reclassifications had no effect on the change in net assets or total net assets as previously reported.

**Subsequent Events**
Management has evaluated events occurring subsequent to the statement of financial position date through September 30, 2022, the date that the consolidated financial statements were available to be issued, determining no events require adjustment to or additional disclosure in the consolidated financial statements, with the exception of Note 16.

*(Dollars in thousands)*

### 1. Liquidity and Availability

Financial assets available for general expenditure within one year of May 31 are as follows:

| *May 31,* | | **2022** | | 2021 |
|---|---|---|---|---|
| Total assets | **$** | **1,058,111** | $ | 948,579 |
| Less: | | | | |
| Land, buildings, and equipment - net | | **763,097** | | 734,081 |
| Investments with donor restrictions | | **107,201** | | 100,473 |
| Cash surrender value of life insurance | | **6,370** | | 6,503 |
| Pledges receivable - long-term | | **65,409** | | 10,698 |
| Restricted cash accounts | | **6,293** | | 7,288 |
| Annuities | | **3,038** | | 3,098 |
| Deferred compensation | | **1,763** | | 2,146 |
| Other assets | | **1,740** | | 1,609 |
| Assets held for sale | | **1,017** | | 1,017 |
| Prepaid expenses | | **1,312** | | 757 |
| Notes from students - net | | **-** | | 222 |
| Notes receivable - donor restricted | | **8,191** | | 8,193 |
| Financial assets available within one year | **$** | **92,680** | $ | 72,494 |

The University manages its financial assets to be available as its operating expenditures, liabilities, and other obligations come due while also striving to maximize the investment of its available funds. In addition to financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the consolidated statements of cash flows which identifies the sources and uses of the University's cash and shows positive cash generated by operations in 2022 and 2021.

### 2. Investments

Investments are recorded at fair value and are comprised of the following at:

| *May 31,* | | **2022** | | 2021 |
|---|---|---|---|---|
| Equities (cost of $68,228 in 2022 and $52,163 in 2021) | **$** | **76,217** | $ | 70,549 |
| Fixed income (cost of $24,845 in 2022 and $21,495 in 2021) | | **23,520** | | 22,235 |
| Alternative (cost of $18,699 in 2022 and $17,007 in 2021) | | **25,503** | | 22,582 |
| Money market funds | | **9,110** | | 7,758 |
| Other | | **2,102** | | 2,497 |
| Total | **$** | **136,452** | $ | 125,621 |

Investments include without donor restrictions and with donor restrictions funds or "endowment" monies of approximately $131,366 and $120,101 as of May 31, 2022 and 2021.

The University paid investment management fees of approximately $523 and $325 in 2022 and 2021.

*(Dollars in thousands)*

### 3. Endowment Funds

As of May 31, 2022, endowment net assets by type of fund comprised:

| | Without Donor Restrictions | With Donor Restrictions | **Total** |
|---|---|---|---|
| Board-designated endowment funds | $ 29,765 | $ - | **$ 29,765** |
| Donor-restricted endowment funds | - | 108,947 | **108,947** |
| Total | $ 29,765 | $ 108,947 | **$ 138,712** |

Certain funds have been board designated for scholarship use.

The following summarizes changes in endowment net assets for the year ended May 31, 2022:

| | Without Donor Restrictions | With Donor Restrictions | **Total** |
|---|---|---|---|
| Endowment net assets, beginning of year | $ 23,094 | $ 104,411 | **$ 127,505** |
| Investment return: | | | |
| Interest and dividends, net of fees | 312 | 1,715 | **2,027** |
| Reinvested income - interest and dividends, net of fees | - | 42 | **42** |
| Net realized and unrealized losses | (2,625) | (5,278) | **(7,903)** |
| Total investment return | (2,313) | (3,521) | **(5,834)** |
| Capital gifts and grants | - | 11,765 | **11,765** |
| Appropriation for expenditure | (260) | (3,703) | **(3,963)** |
| Other transfers | 9,244 | (5) | **9,239** |
| Endowment net assets, end of year | $ 29,765 | $ 108,947 | **$ 138,712** |

As part of the University's ten-year plan to grow the endowment fund, the board has authorized additional contributions to be made to the endowment. As of May 31, 2022 and 2021, the board designated an additional $9,244 and $22,279 to the endowment.

A donor-restricted endowment fund is considered to be underwater if the fair value of the fund is less than either the original gift amount or the amount required to be maintained by the donor or by law. At times, the University may have individual donor-restricted endowment funds that are underwater. The University has a spending policy that permits spending from underwater funds with written consent by the donor. As of May 31, 2022 and 2021, the University identified approximately $414 and $0 of net donor-restricted funds that were underwater.

As of May 31, 2021, endowment net assets by type of fund comprised:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Board-designated endowment funds | $ 23,094 | $ - | $ 23,094 |
| Donor-restricted endowment funds | - | 104,411 | 104,411 |
| Total | $ 23,094 | $ 104,411 | $ 127,505 |

Certain funds have been board-designated for scholarship use.

*(Dollars in thousands)*

### 3. Endowment Funds (Continued)

The following summarizes changes in endowment net assets for the year ended May 31, 2021:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, beginning of year | $ 696 | $ 77,563 | $ 78,259 |
| Investment return: | | | |
| Interest and dividends, net of fees | (4) | 996 | 992 |
| Reinvested income - interest and dividends, net of fees | (1) | 38 | 37 |
| Net realized and unrealized gains | 105 | 19,950 | 20,055 |
| Total investment return | 100 | 20,984 | 21,084 |
| Capital gifts and grants | - | 8,659 | 8,659 |
| Appropriation for expenditure | (30) | (2,741) | (2,771) |
| Other transfers | 22,328 | (54) | 22,274 |
| Endowment net assets, end of year | $ 23,094 | $ 104,411 | $ 127,505 |

***Endowments***

Management has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as with donor restrictions net assets (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.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the University, and (7) the University's investment policies.

In accordance with UPMIFA, if an institution determines that a restriction on funds is impracticable, the institution may release or modify the restriction if the fund has a total value of less than $100, more than 10 years have elapsed since the fund was established, and the institution uses the property in a manner consistent with the charitable purposes expressed in the gift instrument. This process is subject to the oversight of the Attorney General of North Carolina.

***Spending Policy***

The University's current policy states endowment spending shall be calculated by taking a board approved rate, up to 4%, of the average market value over the trailing 12 quarters through the calendar year end preceding the year in which expenditure is planned. The income distribution shall be determined annually as of December 31, based on the University's spending policy and the endowment agreement.

Under UPMIFA, the University is required to practice prudent spending. The University will not distribute income from an endowment fund if its principal market value is less than the historical gift value, unless otherwise directed with written consent from the donor. If there is any additional income that exceeds the ceiling percentage stated in the spending policy, it will be reinvested into the endowment fund as net assets with donor restrictions.

*(Dollars in thousands)*

## 3. Endowment Funds (Concluded)

***Spending Policy (Concluded)***

In establishing this policy, the University considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The University expects the current spending policy to allow its endowment funds to grow at a rate consistent with the University's objective to maintain the purchasing power of the endowment assets, as well as to provide additional growth through investment return.

## 4. Fair Value of Financial Instruments

The following are the assets and liabilities measured at fair value requiring classification as of May 31, 2022:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Equity | $ 76,217 | $ - | $ - | **$ 76,217** |
| Fixed income | 23,520 | - | - | **23,520** |
| Alternative equity | - | - | 25,503 | **25,503** |
| Bank money market funds | 9,110 | - | - | **9,110** |
| Other | 2,095 | - | 7 | **2,102** |
| Fair value of interest rate swap | - | 48 | - | **48** |
| Total | $ 110,942 | $ 48 | $ 25,510 | **$ 136,500** |

The following are the assets and liabilities measured at fair value requiring classification as of May 31, 2021:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Equity | $ 70,549 | $ - | $ - | $ 70,549 |
| Fixed income | 22,235 | - | - | 22,235 |
| Alternative equity | - | - | 22,582 | 22,582 |
| Bank money market funds | 7,758 | - | - | 7,758 |
| Other | 2,490 | - | 7 | 2,497 |
| Total | $ 103,032 | $ - | $ 22,589 | $ 125,621 |
| Liabilities: | | | | |
| Fair value of interest rate swap | $ - | $ 3,294 | $ - | $ 3,294 |

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended May 31, 2022 and 2021:

| | Level 3 Investment Assets | |
|---|---|---|
| | **2022** | 2021 |
| Balance, beginning of year | **$ 22,589** | $ 15,971 |
| Total net gains (losses) in change in net assets | **1,166** | 2,724 |
| Net purchases, sales, issuance, and settlements | **1,755** | 3,894 |
| Transfers into Level 3 | **-** | - |
| Balance, end of year | **$ 25,510** | $ 22,589 |

***(Dollars in thousands)***

### 5. Receivables from Students

Federal Perkins Loans are low-interest federally funded student loans that participating schools make to eligible undergraduate students. High Point University student loans are made from institutional funds to eligible students enrolled at the University. No interest accrues on these student loans while a student is enrolled at least halftime at any accredited school of higher education. The University computes an allowance for doubtful accounts based on payment history of each category below:

| *May 31,* | | **2022** | | 2021 |
|---|---|---|---|---|
| High Point University receivables due from students. Receivables are net of an allowance for doubtful accounts totaling approximately $1,465 and $1,191 as of May 31, 2022 and 2021. | **$** | **759** | $ | 1,093 |
| Perkins Loans receivable due from students, payable in monthly or quarterly minimum installments of $40 or $120. Interest is computed at an annual rate of 5.00%. These loans are unsecured. Receivables are fully reserved as of May 31, 2022 and are net of an allowance for doubtful accounts totaling $72 as of May 31, 2021. | | **-** | | 222 |
| Net total | **$** | **759** | $ | 1,315 |

### 6. Pledges Receivable

Pledges receivable are summarized as follows:

| *May 31,* | | **2022** | | 2021 |
|---|---|---|---|---|
| Less than one year | **$** | **20,621** | $ | 5,074 |
| One year to five years | | **37,227** | | 6,729 |
| Over five years | | **13,115** | | 1,043 |
| | | **70,963** | | 12,846 |
| Less allowance for uncollectible pledges receivable | | **(3,979)** | | (726) |
| Net total | **$** | **66,984** | $ | 12,120 |

Pledges receivable are recorded net of present value discounts of approximately $7,896 and $622 as of May 31, 2022 and 2021. Pledges receivable are being discounted at the rate of 4.00% and 3.25% as of May 31, 2022 and 2021, which remains constant for the life of the pledge. The range of discounts for all pledges outstanding is 3.25% to 5.50% as of May 31, 2022.

As of May 31, 2022 and 2021, the University had conditional promises to give totaling approximately $79,587 and $54,184. These conditional promises, if received, would generally be restricted for plant fund expenditures and scholarships.

*(Dollars in thousands)*

### 7. Assets Held for Sale

The University has decided to sell certain real property and classified this property as held for sale in accordance with ASC 360 *Property, Plant and Equipment*. The property has been valued at the carrying value or fair value less costs to sell as of May 31, 2022 and 2021. In determining fair value, the University considers prices for comparable sales transactions.

The following are the major categories of other assets measured at fair value on a non-recurring basis as of May 31, 2022 and 2021:

| **2022** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Assets held for sale | **$ -** | **$ 1,017** | **$ -** | **$ 1,017** |

| **2021** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Assets held for sale | $ - | $ 1,017 | $ - | $ 1,017 |

The fair value of assets measured on a non-recurring basis using Level 2 inputs are based on a market approach and determined using various methods, including appraisals.

### 8. Land, Buildings, Equipment, and Depreciation

Major classes of land, buildings, and equipment are as follows:

| *May 31,* | **2022** | 2021 |
|---|---|---|
| Buildings | **$ 766,337** | $ 610,754 |
| Equipment | **145,012** | 128,032 |
| Land and building improvements | **83,628** | 61,109 |
| Land | **82,658** | 81,098 |
| Construction in progress (Note 11) | **22,054** | 157,292 |
| | **1,099,689** | 1,038,285 |
| Less accumulated depreciation | **(336,592)** | (304,204) |
| Net land, buildings, and equipment | **$ 763,097** | $ 734,081 |

The allocation of depreciation across functional expenses is based on the square footage of depreciable assets for each functional area as follows:

| *Year ended May 31,* | **2022** | 2021 |
|---|---|---|
| Instruction | **$ 6,805** | $ 7,022 |
| Operating and maintenance of facilities | **1,469** | 1,520 |
| Student services | **692** | 699 |
| Institutional support | **224** | 243 |
| Academic support | **1,327** | 1,368 |
| Auxiliary enterprises | **21,620** | 19,547 |
| Rental expenses | **667** | 614 |
| Total | **$ 32,804** | $ 31,013 |

*(Dollars in thousands)*

### 9. Long-term Debt

Long-term debt consists of the following:

| *May 31,* | | **2022** | | 2021 |
|---|---|---|---|---|
| North Carolina Educational Facility, Bonds of 2015 - described below | **$** | **58,412** | $ | 64,334 |
| North Carolina Educational Facility, Bonds of 2021 - described below | | **43,465** | | 45,435 |
| North Carolina Educational Facility, Bonds of 2021 - unamortized premium | | **8,099** | | 9,147 |
| New Market Tax Credits Financing (Net) - described below (a) | | **2,728** | | 2,728 |
| Debt issuance costs, net of accumulated amortization of approximately $373 and $274 in 2022 and 2021 | | **(841)** | | (966) |
| Total | | **111,863** | | 120,678 |
| Less portion of long-term debt due within one year | | **(9,307)** | | (8,838) |
| Long-term portion of long-term debt | **$** | **102,556** | $ | 111,840 |

The North Carolina Educational Facility Bonds of 2015 are payable in varying annual installments ranging from $1,000 to $7,453 through May 2033. Interest is paid in varying semi-annual installments at the variable rate of 82.65% of one-month LIBOR, plus 0.98%. The bond is secured by substantially all assets of the University.

Under an amended and restated promissory note on the Bonds of 2015, interest is paid in monthly installments at a variable rate of 79.00% of one-month LIBOR, plus 0.87% or 1.51% as of May 31, 2022. The bond amortization runs through December 2032 with a maturity/put date of October 2028. The University has an early payment option with no penalty.

The University paid approximately $188 in costs associated with the issuance of the Bonds of 2015. Such costs are being amortized using the effective interest method over the length of the loan agreement. Accumulated amortization as of May 31, 2022 and 2021 was approximately $130 and $115.

The North Carolina Educational Facility Bonds of 2021 were issued at a premium and are payable in varying annual installments ranging from $1,970 to $6,665 through May 2034. Interest is paid in semi-annual installments at varying stated fixed rates ranging from 3.00% to 5.00%. The all-in true interest cost is approximately 2.00% with a net present value savings of approximately $12,300. The bond is secured by an Indenture of Trust. (b)

The Bonds of 2021 were issued at a premium in the amount of approximately $9,147. This premium is being amortized over the contractual term of the debt agreement using the effective interest method. The unamortized portion of the premium as of May 31, 2022 and 2021 was approximately $8,099 and $9,147.

The University paid approximately $502 in costs associated with the issuance of the Bonds of 2021. Such costs are being amortized using the effective interest method over the length of the loan agreement. Accumulated amortization as of May 31, 2022 and 2021 was approximately $58 and $0.

The New Market Tax Credit QLICI Loan B is payable in varying annual installments ranging from $34 to $135 through May 2046. Interest is paid in varying semi-annual installments at 1.25%. (a)

The University paid approximately $525 in costs associated with the issuance of the New Market Tax Credit QLICI Loan B. Such costs are being amortized using the effective interest method over the length of the loan agreement. Accumulated amortization as of May 31, 2022 and 2021 was approximately $186 and $159.

*(Dollars in thousands)*

### 9. Long-term Debt (Concluded)

(a) The University entered into a financing arrangement with an investor using new market tax credits ("NMTC Financing"). In connection with the NMTC Financing, the University loaned $8,022 to CARE for High Point, Inc., a non-profit corporation leverage lender, who then provided the funds to Investment Fund, LLC (the "Fund"). A third-party NMTC investor invested $2,728 in the Fund in exchange for new market tax credits. As part of the NMTC Financing, the Fund invested those funds into a qualified Sub-CDE, LLC ("CDE"). The CDE loaned High Point University substantially all of the proceeds of investments made in them by the Fund, net of fees of $525, in the aggregate amount of $10,225 ("Project Loans"). High Point University then executed and delivered to the CDE a loan agreement evidenced by: (1) a promissory note for a leverage loan in the amount of $8,022 and (2) a promissory note for the NMTC equity loan of $2,728 along with a community benefits agreement.

(b) On March 18, 2021, the University issued $45,435 of Education Facilities Revenue Bonds with an original issuance premium of $9,147. This bond issuance affects the amounts due under many of the existing debt facilities as described below. The following bonds were refunded with this issuance: Bonds of 2011 $14,250; Bonds of 2012 $39,805. The remainder of the bond issuance will be used to reimburse issuance costs. No new debt was incurred with the Bonds of 2021, as this was strictly a refunding bond issuance to refinance debt.

The new market tax credits have a seven-year compliance period. In connection with making the leverage loan, CARE for High Point, Inc. entered into an investment fund put and call agreement with the tax credit investor. In the event the tax credit investor does not exercise its option, CARE for High Point, Inc. has the right and option, but not the obligation, to purchase all of the interest (the "Investment Fund Call") for 90 calendar days following the expiration of the put exercise period. If CARE for High Point, Inc. does not exercise the option, the University must satisfy the NMTC equity loan.

The University executed a promissory note for a revolving line of credit at a financial institution to provide additional liquidity as necessary due to uncertainties surrounding COVID-19 (Note 17). The line of credit had a maximum borrowing of $35,000, matured in December 2021, and bore interest at one-month LIBOR plus 1.75%. The agreement also contained an accordion facility up to an additional $15,000. The University paid approximately $104 in costs associated with the execution of the line of credit and never drew on the line.

As of May 31, 2022, the aggregate amounts of long-term debt maturing in each of the next five years and thereafter are as follows:

| *Year ending May 31,* | | |
|---|---|---|
| 2023 | $ | **8,399** |
| 2024 | | **8,577** |
| 2025 | | **8,898** |
| 2026 | | **9,345** |
| 2027 | | **9,646** |
| Thereafter | | **59,740** |
| Total | | **104,605** |
| Unamortized premium | | **8,099** |
| Debt issuance costs, net | | **(841)** |
| Total debt | $ | **111,863** |

In addition, certain of the above agreements contain financial covenants relating to debt service and various non-financial covenants.

*(Dollars in thousands)*

### 10. Leases

On June 1, 2020, the University adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, as amended, which replaced all previous guidance on leases. The guidance requires recognition of rights and obligations arising from lease contracts as assets and liabilities on the consolidated statement of financial position.

***Operating Leases***
The University has commitments under various operating lease agreements for equipment which are all of short-term nature under the University's policy. The University does not have material long-term commitments for operating leases as of May 31, 2022 and 2021 that would be subject to the provisions of FASB ASC 842 that would require recording a right of use operating asset and liability.

Approximate minimum future rental payments under non-material operating leases are as follows as of May 31, 2022:

| *Year ending May 31,* | | |
|---|---|---|
| 2023 | $ | **114** |
| 2024 | | **52** |
| 2025 | | **7** |
| 2026 | | **1** |
| Total | $ | **174** |

Rent expense from operating lease agreements amounted to approximately $105 and $98 in 2022 and 2021.

***Finance Leases***
The University leases various equipment under finance leases, which have a capitalized cost of approximately $3,839 and $3,839 with related depreciation of approximately $1,534 and $522 as of May 31, 2022 and 2021, and are included in land, buildings, and equipment, net in the consolidated statements of financial position. Payments ranging from approximately $1 to $810 are due annually through May 2025, with interest rates ranging from 3.25% to 5.5% per annum. The agreements contain a fair value option to purchase the underlying assets at the end of the lease terms.

Minimum future lease payments are as follows as of May 31, 2022:

| *Year ending May 31,* | | |
|---|---|---|
| 2023 | $ | **844** |
| 2024 | | **834** |
| 2025 | | **819** |
| Total minimum lease payments | | **2,497** |
| Less amount representing interest | | **(152)** |
| Present value of minimum lease payments | | **2,345** |
| Less current portion | | **(768)** |
| Long-term obligation | $ | **1,577** |

*(Dollars in thousands)*

## 10. Leases (Concluded)

***Lessor***

The University leases certain property to tenants under operating leases with initial terms expiring through December 2044, which are included in land, buildings, and equipment, net in the consolidated statements of financial position. The determination of whether an arrangement is a lease is made at the lease's inception. The University's leases do not provide options for lessees to purchase the assets. Under ASC Topic 842, a contract is a lease if it conveys the right to control the use of the identified asset for a period of time in exchange for consideration. The University reassesses the determination of whether an arrangement is a lease if the terms and conditions of the contract are changed.

Many of the University's contracts include services to maintain the related assets on behalf of the lessees as well as taxes assessed and collected on the leased property. The University has elected to apply the practical expedient that allows property leases and their associated maintenance services to be accounted for as a single operating lease component. The University has determined the property lease is predominant in these contracts and is accounting for the combined property and maintenance components as an operating lease under Topic 842. As a result, the University reports the property lease and maintenance service revenues as a single line in the consolidated statements of activities.

The approximate future minimum lease payments to be received from noncancelable operating leases as of May 31, 2022 are:

| *Year ending May 31,* | | |
|---|---|---|
| 2023 | $ | **412** |
| 2024 | | **347** |
| 2025 | | **340** |
| 2026 | | **318** |
| 2027 | | **280** |
| Thereafter | | **4,033** |
| Total | **$** | **5,730** |

Total cost of the leased assets as of May 31, 2022 and 2021 is $4,932 and $9,501, with a carrying value of approximately $4,566 and $9,016. This includes land, land improvements, and buildings. Total accumulated depreciation associated with the University's leased assets is approximately $366 and $485 as of May 31, 2022 and 2021. Certain lease agreements provide for contingent rentals based on sales in excess of specified levels. In 2022 and 2021, there were no contingent rental revenues earned.

## 11. Commitments and Contingencies

***Retirement Plan***

The University has a Section 403(b) contributory retirement plan covering all non-student employees. Participation in the plan is mandatory. Previously, the University contributed to the plan a maximum of 5% of the participant's compensation. The University reinstituted the voluntary match of up to 3% and now will contribute a maximum of 8% of the participant's compensation, with 5% being mandatory and up to an additional 3% based on participant contribution. The University's expense was approximately $3,023 and $2,357 in 2022 and 2021.

### 11. Commitments and Contingencies (Continued)

***Self-Insured Health Care Plan***

The University is self-insured for its employee health benefits program. As of May 31, 2022 and 2021, the University is liable for claims up to $135 and $120 per employee annually and aggregate claims up to approximately $7,743 and $7,885 annually. Self-insurance claim costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported.

The cost of such benefits was approximately $6,919 and $5,487 in 2022 and 2021. Taking the full cost of the medical plan into consideration (including fixed costs and the accrued claims costs listed here), total plan costs in 2022 and 2021 were approximately $8,231 and $6,771. The University has an accrual of approximately $464 and $483 as of May 31, 2022 and 2021 for claims incurred but not reported, which is included in accounts payable and accrued expenses on the consolidated statements of financial position.

***Deferred Compensation Plan***

The University sponsors a non-qualified deferred compensation plan for a key employee. Under the plan, the participant will receive a lump-sum retirement benefit at intervals chosen by the key employee based on a benefit formula specified in the plan. Total deferred compensation liability related to this plan is approximately $1,763 and $1,245 as of May 31, 2022 and 2021 and is included in accounts payable and accrued expenses in the consolidated statements of financial position with the corresponding asset included in investments. The plan provides for an annual contribution of 60% of the key employee's annual rate of salary and can be increased at the discretion of the University. The next scheduled vesting date for the plan is December 31, 2022.

The University sponsored a non-qualified deferred compensation plan for a key employee as part of their compensation package with a vesting date of June 1, 2022. The employee is no longer employed by the University as of February 2022 and as part of the separation agreement, the non-qualified deferred compensation was considered fully vested and paid out in March 2022. Funding for the plan began in June 2018. The deferred executive compensation asset and liability related to the plan was approximately $0 and $901 as of May 31, 2022 and 2021, which were included in investments and in accounts payable and accrued expenses in the consolidated statements of financial position.

***Life Insurance Arrangements***

The University owns and maintains endorsement split-dollar and universal life insurance arrangements on behalf of a key employee. The amount of the cash surrender value included on the consolidated statements of financial position is approximately $6,370 and $6,503 as of May 31, 2022 and 2021. The face amount of the split-dollar life policies totals $25,000. The face amount of the universal life policies totals $60,000. As of May 31, 2022, the University has expected future premium commitments of approximately $817 for the split-dollar life insurance policies and $5,288 for universal life policies (Note 15).

***Employment Agreement***

The University entered into a five-year employment agreement with a key employee effective June 1, 2017, which provides for annual compensation for each of the five years during the term as defined in the agreement. The current agreement is effective through May 2022; provided, however, the term shall be automatically extended for two additional one-year extensions unless either the University or the key employee elect otherwise. Upon approval by the Board of Trustees, in July 2019, the University and the key employee amended the foregoing employment agreement to extend its term for five additional years (through May 31, 2027) with two additional one-year extensions (June 1, 2027 - May 31, 2028 and June 1, 2028 - May 31, 2029).

*(Dollars in thousands)*

## 11. Commitments and Contingencies (Concluded)

***Capital Commitments***
Currently, the University has expended approximately $22,054 for buildings and other structures, which are classified as construction in progress as of May 31, 2022. Construction in progress includes, but is not limited to, a new parking deck structure; tiny houses; panther commons dormitory; dormitory houses; parkway commons renovations; and nursing program renovations. The University has a future commitment in the amount of approximately $60,215 related to the expected costs to complete the items currently in construction in progress.

As of May 31, 2022, the University had future commitments in the amount of approximately $4,196 related to outstanding capital calls on alternative investments.

***Pledges Payable***
Pledges payable included in accounts payable and accrued expenses in the consolidated statements of financial position are summarized as follows:

| *May 31,* | | **2022** | | 2021 |
|---|---|---|---|---|
| Less than one year | **$** | **20** | $ | - |
| One year to five years | | **55** | | - |
| Net total | **$** | **75** | $ | - |

Pledges payable are recorded net of present value discounts of approximately $5 as of May 31, 2022 and are included in accounts payable and accrued expenses in the consolidated statements of financial position. As of May 31, 2022 and 2021, pledges payable is being discounted at the rate of 4.00%, which remains constant for the life of the pledge.

***Litigation***
The University is involved in various legal actions arising in the normal course of operations. It is management's opinion, based on the facts currently known and after consulting with counsel, that the resolution of these matters will not materially affect the University's consolidated financial position or the future results of its operations.

*(Dollars in thousands)*

## 12. Net Assets

Net assets are available for the following purposes:

| *May 31,* | | **2022** | | 2021 |
|---|---|---|---|---|
| **Without donor restrictions** | | | | |
| Net investment in plant | **$** | **70,685** | $ | 10,595 |
| Designated by the board - Quasi endowment | | **29,765** | | 23,094 |
| Undesignated | | **574,506** | | 589,826 |
| Total net assets without donor restrictions | | **674,956** | | 623,515 |
| **With donor restrictions** | | | | |
| **Donor restricted endowments perpetual in nature:** | | | | |
| Scholarships | | **85,868** | | 74,060 |
| **Subject to expenditures for specified purpose:** | | | | |
| Plant expenditures | | **77,506** | | 24,716 |
| Endowment - cumulative gains - net | | **23,078** | | 30,350 |
| Annual scholarship gifts | | **10,984** | | 8,497 |
| Annuity fund | | **1,664** | | 1,676 |
| **Subject to passage of time:** | | | | |
| Time restricted pledges receivable | | **4,407** | | 3,790 |
| Total net assets with donor restrictions | | **203,507** | | 143,089 |
| **Total net assets** | **$** | **878,463** | $ | 766,604 |

A portion of the University's endowment is unrestricted as Quasi endowments. These funds are held for the support of community events, student scholarships, and general operating expenses. The University's Quasi endowments were valued at $29,765 and $23,094 as of May 31, 2022 and 2021.

Net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Net assets released from restrictions were as follows:

| *May 31,* | | **2022** | | 2021 |
|---|---|---|---|---|
| **Operating:** | | | | |
| Scholarships | **$** | **10,124** | $ | 7,846 |
| Total operating | | **10,124** | | 7,846 |
| **Non-Operating:** | | | | |
| Building and equipment | | **1,417** | | 3,460 |
| CARES Act | | **3,430** | | 2,573 |
| Change in passage of time restriction/other | | **3** | | 1,137 |
| Total non-operating | | **4,850** | | 7,170 |
| **Total released from restrictions** | **$** | **14,974** | $ | 15,016 |

*(Dollars in thousands)*

## 13. Operating Expenses by Function and Nature and Revenue Disaggregated Data

Operating expenses by function and nature for the year ended May 31, 2022:

| | Program Expenses | Management and General | Fundraising | Total Expenses |
|---|---|---|---|---|
| Salaries and wages | $ 56,823 | $ 10,988 | $ 2,016 | **$ 69,827** |
| Benefits | 10,557 | 1,805 | 439 | **12,801** |
| Advertising | 4,106 | - | - | **4,106** |
| Services | 40,979 | 22,986 | 649 | **64,614** |
| Supplies | 13,854 | 7,244 | 203 | **21,301** |
| Occupancy and utilities | 10,066 | 6,314 | - | **16,380** |
| Depreciation | 31,913 | 892 | - | **32,805** |
| Interest | - | 2,992 | - | **2,992** |
| Total | $ 168,298 | $ 53,221 | $ 3,307 | **$ 224,826** |

Operating expenses by function and nature for the year ended May 31, 2021:

| | Program Expenses | Management and General | Fundraising | Total Expenses |
|---|---|---|---|---|
| Salaries and wages | $ 47,981 | $ 9,336 | $ 2,074 | $ 59,391 |
| Benefits | 9,278 | 1,969 | 375 | 11,622 |
| Advertising | 2,186 | - | - | 2,186 |
| Services | 31,066 | 14,545 | 260 | 45,871 |
| Supplies | 8,983 | 8,769 | 172 | 17,924 |
| Occupancy and utilities | 9,560 | 5,516 | - | 15,076 |
| Depreciation | 30,156 | 857 | - | 31,013 |
| Interest | - | 4,886 | - | 4,886 |
| Total | $ 139,210 | $ 45,878 | $ 2,881 | $ 187,969 |

The University allocates a percentage of the president's salary across all functional areas based on an estimate of time and effort. The allocation of time is 10% program expense, 70% management and general, and 20% fundraising. Additionally, the Senior VP of Institutional Advancement has his time allocated as 5% management and general and 95% fundraising. All other University expenses are directly attributable to specific programs, management and general, and fundraising. Therefore, the preparation of the consolidated table of functional expenses does not require further estimation for allocation of expenses by functional category.

*(Dollars in thousands)*

## 13. Operating Expenses by Function and Nature and Revenue Disaggregated Data (Concluded)

***Revenue Disaggregated Data***

The following table presents the University's revenue from contracts with students disaggregated by material revenue categories:

| | 2022 | 2021 |
|---|---|---|
| **Undergraduate** | | |
| Tuition and fees | **$ 197,055** | $ 177,183 |
| Funded aid allowance | **(9,619)** | (7,359) |
| Unfunded aid allowance | **(59,915)** | (49,380) |
| Cafeteria, residence halls, and other | **86,068** | 77,763 |
| Total undergraduate | **213,589** | 198,207 |
| **Graduate** | | |
| Tuition and fees | **39,131** | 37,263 |
| Funded aid allowance | **(505)** | (487) |
| Unfunded aid allowance | **(7,208)** | (5,296) |
| Cafeteria, residence halls, and other | **8,920** | 8,523 |
| Total graduate | **40,338** | 40,003 |
| **Miscellaneous** | | |
| Tuition and fees | **12** | 13 |
| Cafeteria, residence halls, and other | **1,009** | 7 |
| Total miscellaneous | **1,021** | 20 |
| **Total** | **$ 254,948** | $ 238,230 |

## 14. Derivative

The University has executed a derivative financial instrument in the ordinary course of business but does not use this derivative instrument for trading purposes. The instrument is an interest rate swap agreement designed to decrease the variable rate exposure associated with the University's debt. A swap agreement with an effective date of October 22, 2015 was entered into with a financial institution and has a notional amount of $58,412 and $64,334 as of May 31, 2022 and 2021. The fair value was an asset of approximately $48 as of May 31, 2022 and a liability of $3,294 as of May 31, 2021 and is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position. The gain on the change in fair value was approximately $3,342 and $1,643 in 2022 and 2021 and is separately stated in the consolidated statements of activities.

## 15. Related Party Transactions

The University conducts business with various board and committee members. The University follows its conflict-of-interest policy when conducting business with such related parties. Amounts paid to related parties for debt payments, services rendered, and purchases made was approximately $22,349 and $21,876 in 2022 and 2021.

Related party pledge receivables are approximately $64,345 and $2,468 as of May 31, 2022 and 2021.

Contributed services from related parties in 2022 and 2021 for programming, management, fundraising, and marketing are approximately $689 and $925.

The University has a related party note receivable with a key employee. The University assigned a split-dollar life insurance policy to the employee in December 2020. The note receivable is an interest free note to reimburse the University for premiums paid on the employee's behalf for the split-dollar life insurance policy and is secured by the split-dollar life insurance policy. There is no payment schedule on the note receivable, and it is due upon the execution of the life insurance policy. The outstanding balance of the note receivable is approximately $8,175 as of May 31, 2022 and 2021 with premiums payable of approximately $817 and $1,635 included in accounts payable and accrued expenses on the consolidated statements of financial position as of May 31, 2022 and 2021.

## 16. Subsequent Events

Subsequent to May 31, 2022 through the issuance of the consolidated financial statements, the University has made various purchases of properties, which total approximately $3,144.

The addition of a School of Dentistry at High Point University will lead to the future acquisition of dental practices over the next few years. These dental practices will function as teaching facilities for the dental students. Dental practice investment is expected to be substantial in the beginning years, and is expected to yield a long-term positive ROI.

## 17. COVID-19

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

In January 2021, the University was awarded $3,731 in the Higher Education Emergency Relief Fund (HEERF II) through the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act. $1,303 of the award was to provide emergency financial aid grants to students impacted by the coronavirus pandemic. As part of the application process, students were given the option to choose to receive the grant funds refunded directly to them or if they authorize the University to apply the grant funds to any outstanding balance on their account. The remaining $2,428 of the HEERF II funding received was used to offset lost revenue from crediting room and board charges for the Spring 2020 semester after March 13, 2020, the date of the President's proclamation.

## 17. COVID-19 (Concluded)

In May 2021, the University was awarded $6,861 from the Higher Education Emergency Relief Fund (HEERF III) through the Under the American Rescue Plan (ARP) Act. $3,430 of the award was to provide emergency financial aid grants to students impacted by the coronavirus pandemic. The remaining $3,430 of the HEERF III funding received was to be used to offset lost revenue from crediting room and board charges for the Spring 2020 semester, expenses incurred to monitor and suppress the coronavirus, and expenses associated with conducting outreach on the University's financial aid appeal process due to unemployment or other financial hardships students and their families may have incurred. As of May 31, 2022, the University has awarded all provided HEERF funding to eligible students.

The University has recognized approximately $35 and $159 in 2022 and 2021 related to Employee Retention Tax Credits recorded as a reduction of payroll tax expense on the consolidated statement of activities. Though allowed by the CARES Act, in 2022 and 2021, the University did not defer any employer portion of Social Security payroll tax.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Management is actively monitoring the impact on the University's operations, students, faculty, and staff. However, management is unable to estimate the effects of the COVID-19 outbreak on the University, and it may have a material effect on future results of operations, financial condition, or liquidity.

## 18. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13*, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which eliminates previous thresholds for recording credit losses on financial instruments (including receivables) and requires the University to utilize an expected credit loss model. For the University, the amendments are effective for fiscal years beginning after December 15, 2022. Management is currently assessing the impact this guidance may have on the University's future consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which simplifies hedge accounting by aligning an entity's hedge accounting with its risk management activities. This guidance permits more flexibility in hedging non-financial and financial risk components and reduces complexity in fair value hedges of interest rate risk; eliminates the requirement to separately measure and report hedge ineffectiveness and present the earnings effect of the hedging instrument in the same income statement line as the hedged item; eases certain documentation and assessment requirements; and modifies the accounting for components excluded from the assessment of hedge effectiveness. For the University, the guidance, as amended, is effective for fiscal years beginning after December 15, 2020, with early application permitted. Management adopted this standard in 2022 with no material impact on the consolidated financial statements.

In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, which* requires presentation of contributed nonfinancial assets as a separate line item in the statements of activities as well as increased disclosures about such assets. This ASU is effective for fiscal years beginning after June 15, 2021, with early application permitted. Management is currently assessing the impact this guidance may have on the University's future consolidated financial statements.

### 18. Recent Accounting Pronouncements (Concluded)

In March 2020, the FASB issued ASU No. 2020-04*, Reference Rate Reform (Topic 848); Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and in January 2021, issued ASU No. 2021-01, *Reference Rate Reform (Topic 848), Reference Rate Reform*, to assist entities with the potential impacts to the transition from referencing the London Interbank Offered Rate ("LIBOR") and transition to new reference rates. These ASUs provide temporary optional expedients and exceptions for applying generally accepted accounting principles to affected debt contracts, hedging relationships, and other transactions. The amendments in these updates are effective for all entities as of March 12, 2020 through December 31, 2022. Management continues to evaluate the optional relief guidance provided within these ASUs, has reviewed its debt securities, bank facilities, and derivative instruments and continues to evaluate commercial contracts that may utilize LIBOR as the reference rate. The University will continue its assessment and monitor regulatory developments during the LIBOR transition period and is assessing the impact this guidance may have on the University's future consolidated financial statements.