Audited Financial Statements

Sistema Universitario Ana G. Méndez, Incorporado
As of and For the Years Ended July 31, 2021 and 2020
With Report of Independent Auditors

Building a better working world

Sistema Universitario Ana G. Méndez, Incorporado

Financial Statements

Years Ended July 31, 2021 and 2020

Contents

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Report of Independent Auditors

The Board of Directors of
Sistema Universitario Ana G. Méndez, Incorporado

Report on the Financial Statements

We have audited the accompanying financial statements of Sistema Universitario Ana G. Méndez, Incorporado (the "Institution"), which comprise the statements of financial position as of July 31, 2021 and 2020, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Sistema Universitario Ana G. Méndez, Incorporado as of July 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2016-02, Leases

As discussed in Note 5 to the financial statements, the Institution adopted ASU 2016-02, Leases (Topic 842), effective August 1, 2020. ASU 2016-02, Leases (Topic 842), amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on the statement of financial position. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Financial Responsibility Supplemental Schedule as required by the U.S. Department of Education is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated November 29, 2021, on our consideration of Sistema Universitario Ana G. Méndez, Incorporado's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sistema Universitario Ana G. Méndez, Incorporado's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sistema Universitario Ana G. Méndez, Incorporado's internal control over financial reporting and compliance.

Ernst + Young LLP

November 29, 2021

Stamp No. E458251 of the Puerto Rico
Society of Certified Public Accountants
was affixed to original of this report.

Sistema Universitario Ana G. Méndez, Incorporado

Statements of Financial Position

	July 31 2021	July 31 2020
Assets		
Cash and cash equivalents	**$ 17,429,607**	$ 14,340,320
Accounts receivable, net	**11,624,880**	12,727,752
Note receivable	**1,495,200**	1,569,334
Inventories	**129,023**	158,576
Prepaid expenses and deferred charges	**2,486,374**	3,106,782
Deposits held in trust	**8,336,288**	8,341,434
Investments	**68,771,742**	65,244,844
Cash restricted to investment in property and equipment	**544,122**	544,297
Property, plant and equipment, net	**226,702,945**	239,842,024
Finance lease right-of-use assets	**3,343,928**	–
Operating lease right-of-use assets	**14,408,348**	–
Other assets	**2,290,644**	1,701,289
Net assets for pension benefits	**7,736,303**	–
Total assets	**$ 365,299,404**	$ 347,576,652
Liabilities and net assets		
Liabilities:		
Accounts payable and other liabilities	**$ 45,645,706**	$ 23,194,584
Notes payable	**5,364,473**	50,973,292
Operating lease liabilities	**14,861,093**	–
Finance lease liabilities	**3,260,807**	–
Obligations under capital leases	**–**	1,527,537
Loans payable	**76,155,124**	80,231,897
Liability for other employee benefits	**4,989,037**	4,399,681
Liability for pension benefits	**–**	1,518,798
Total liabilities	**150,276,240**	161,845,789
Net assets:		
Without donor restrictions	**204,153,487**	174,886,301
With donor restrictions	**10,869,677**	10,844,562
Total net assets	**215,023,164**	185,730,863
Total liabilities and net assets	**$ 365,299,404**	$ 347,576,652

See accompanying notes.

Sistema Universitario Ana G. Méndez, Incorporado

Statement of Activities

Year Ended July 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Tuition and fees	$ 195,236,908	$ –	$ 195,236,908
Less scholarships	12,021,348	–	12,021,348
Net tuition and fees	183,215,560	–	183,215,560
Grants and contracts	82,057,544	–	82,057,544
Private gifts and grants	1,113,207	25,000	1,138,207
Investment income	1,305,173	115	1,305,288
Auxiliary enterprises	620,847	–	620,847
Net appreciation of investments	4,047,438	–	4,047,438
Other sources	16,996,726	–	16,996,726
Total revenues, gains and other support	289,356,495	25,115	289,381,610
Expenses and other deductions:			
Educational and general expenses:			
Instruction	86,533,139	–	86,533,139
Research	3,073,396	–	3,073,396
Public service	4,582,526	–	4,582,526
Academic support	8,378,717	–	8,378,717
Student services	22,022,636	–	22,022,636
Institutional support	144,071,922	–	144,071,922
Total educational and general expenses	268,662,336	–	268,662,336
Auxiliary enterprises	682,074	–	682,074
Total expenses and other deductions	269,344,410	–	269,344,410
Changes in net assets from operating activities	20,012,085	25,115	20,037,200
Nonoperating:			
Pension-related changes other than net periodic pension cost	9,255,101	–	9,255,101
Changes in net assets	29,267,186	25,115	29,292,301
Net assets at beginning of year	174,886,301	10,844,562	185,730,863
Net assets at end of year	$ 204,153,487	$ 10,869,677	$ 215,023,164

See accompanying notes.

Sistema Universitario Ana G. Méndez, Incorporado

Statement of Activities

Year Ended July 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Tuition and fees	$ 229,259,445	$ –	$ 229,259,445
Less scholarships	14,341,456	–	14,341,456
Net tuition and fees	214,917,989	–	214,917,989
Grants and contracts	33,586,716	–	33,586,716
Private gifts and grants	1,541,708	21,352	1,563,060
Investment income	5,081,133	9,478	5,090,611
Auxiliary enterprises	1,711,767	–	1,711,767
Other sources	18,510,769	–	18,510,769
Total revenues, gains and other support	275,350,082	30,830	275,380,912
Expenses and other deductions:			
Educational and general expenses:			
Instruction	103,324,068	–	103,324,068
Research	3,163,609	–	3,163,609
Public service	7,219,068	–	7,219,068
Academic support	12,680,161	–	12,680,161
Student services	24,519,417	–	24,519,417
Institutional support	111,403,431	–	111,403,431
Net depreciation of investments	1,524,606	–	1,524,606
Total educational and general expenses	263,834,360	–	263,834,360
Auxiliary enterprises	1,157,829	–	1,157,829
Total expenses and other deductions	264,992,189	–	264,992,189
Changes in net assets from operating activities	10,357,893	30,830	10,388,723
Nonoperating:			
Pension-related changes other than net periodic pension cost	(2,109,164)	–	(2,109,164)
Changes in net assets	8,248,729	30,830	8,279,559
Net assets at beginning of year	166,637,572	10,813,732	177,451,304
Net assets at end of year	$ 174,886,301	$ 10,844,562	$ 185,730,863

See accompanying notes.

Sistema Universitario Ana G. Méndez, Incorporado

Statements of Cash Flows

	Year Ended July 31 2021	2020
Cash flows from operating activities		
Change in net assets	**$ 29,292,301**	$ 8,279,559
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	**15,572,397**	17,283,324
Amortization of operating lease right-of-use asset	**2,686,138**	–
Amortization of finance lease right-of-use asset	**661,389**	–
Bad debt expense	**15,968,936**	7,919,996
Net (appreciation)/depreciation of investments	**(4,047,438)**	1,524,606
Amortization of debt issue costs	**18,226**	(64,373)
Loss on disposal of property, plant and equipment	**8,918,736**	2,746,243
Changes in:		
Accounts receivable	**(14,866,064)**	(8,903,191)
Notes Receivable	**74,134**	72,257
Inventories	**29,553**	(49,057)
Prepaid expenses and deferred charges	**620,408**	3,206,949
Other assets	**(589,355)**	(168,755)
Accounts payable and other liabilities	**22,790,668**	(7,021,657)
Operating lease liability	**(2,572,937)**	–
Liability for other employee benefit	**589,356**	168,755
(Asset)/liability for pension benefits	**(9,255,101)**	2,109,164
Total adjustments	**36,599,046**	18,824,261
Net cash provided by operating activities	**65,891,347**	27,103,820
Cash flows from investing activities		
Purchase of property, plant and equipment	**(12,188,375)**	(9,401,257)
Purchase of investments	**(30,391,057)**	(69,391,399)
Proceeds from sales and redemptions of investments	**30,911,597**	61,405,634
Change in deposits held in trust	**5,146**	40,740
Net cash used in investing activities	**(11,662,689)**	(17,346,282)
Cash flows from financing activities		
Payments of loans and notes payable	**(93,203,819)**	(77,466,008)
Proceeds from loans and notes payable	**43,500,000**	64,500,000
Payments of finance lease liabilities	**(1,435,727)**	–
Payments of obligations under capital leases	**–**	(788,603)
Net cash used in financing activities	**(51,139,546)**	(13,754,611)
Net change in cash and cash equivalents	**3,089,112**	(3,997,073)
Cash, cash equivalents and restricted cash at beginning of year	**14,884,617**	18,881,690
Cash, cash equivalents and restricted cash at end of year	**$ 17,973,729**	$ 14,884,617
Supplemental disclosure of cash flow information		
Cash paid for interest	**$ 6,120,397**	$ 6,555,169
Property, plant, and equipment acquired through finance leases	**$ 5,138,459**	$ 44,640

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Sistema Universitario Ana G. Méndez, Incorporado (the "Institution" or "SUAGM") is a private, nonprofit, educational institution incorporated under the laws of the Commonwealth of Puerto Rico. The Institution operates four educational institutions: Universidad Ana G. Méndez – Carolina Campus, Universidad Ana G. Méndez – Cupey Campus, Universidad Ana G. Méndez – Gurabo Campus and Ana G. Méndez University. In addition, SUAGM owns and operates a public television station: WMTJ-TV/Channel 40, also known as Sistema TV, the fifth operational unit under SUAGM.

The Institution derives revenue primarily from tuition, fees, grants received from federal and state government agencies, and income earned on investments. As a nonprofit organization, SUAGM is exempt from the payment of income taxes under Federal and Commonwealth of Puerto Rico laws and from taxes on property devoted to education.

A summary of the significant accounting policies followed by the Institution are set forth below:

Accrual Basis

The financial statements of the Institution have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires ("U.S. GAAP") management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Institution and changes therein are classified as follows:

> ***Net assets without donor restrictions*** – Net assets that are not subject to donor-imposed stipulations.

1. Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations (donors include other types of contributors, including makers of certain grants). Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of the Institution and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenues from sources other than contributions are reported as increases in net assets without donor restrictions. Contributions are reported as increases in the appropriate category of net assets, except contributions that impose restrictions that are met in the same fiscal year they are received, which are included in revenues without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments 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 temporary restrictions recognized on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to net assets without donor restrictions. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Liquidity and Availability of Resources

As of July 31, 2021 and 2020, financial assets available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

	2021	2020
Cash and cash equivalents	**$ 17,429,607**	$ 14,340,320
Accounts receivable, net	**11,624,880**	12,727,752
Endowment investment appropriated for spending in the following year	**771,998**	897,705
Financial assets available within one year for general expenditures	**$ 29,826,485**	$ 27,965,777

1. Organization and Summary of Significant Accounting Policies (continued)

Liquidity and Availability of Resources (continued)

In addition to these available financial assets, a significant portion of the Institution's annual expenditures will be funded by current year operating revenues, including tuition, grants and contracts, and auxiliary operations. The Institution also has $55,000,000 available to use in lines of credit for operations as of July 31, 2021. As part of the Institution's liquidity management strategy, the Institution structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Institution invests cash in excess of daily requirements in short-term working capital investments.

Additionally, the Institution has board-designated endowment funds of $50,961,812 and $47,389,426 as of July 31, 2021 and 2020, respectively. The Institution also has endowment funds without donor restrictions amounting to $16,541,810 and $15,645,562 as of July 31, 2021 and 2020, respectively. Although the Institution does not intend to spend from its board-designated endowment funds, other than amounts appropriated annually for expenditure in accordance with the Institution's investment and spending policy, amounts from board-designated endowment could be made available if necessary.

Fair Value of Financial Instruments

The carrying amounts of contributions receivable are recorded using the applicable discount rates in effect at the date of the gifts.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Notes 3 and 12.

Cash and Cash Equivalents

The Institution considers all highly liquid instruments purchased with an original maturity of three months or less from the date of acquisition to be cash equivalents.

1. Organization and Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are reported at the estimated net realizable amount. An allowance for doubtful accounts is provided, if necessary, based upon management's judgment including factors such as prior collection history and nature of accounts receivable.

Investments

The Institution accounts for its investments in equity securities with readily determinable fair values and all investments in debt securities under the provisions of ASC 958-320, *Investments – Debt and Equity Securities*, which requires that investments be stated at fair value with unrealized gains and losses, as applicable, included in the statement of activities.

The estimated fair value of these investments is based on quoted market prices or recognized pricing sources.

At July 31, 2021 and 2020, the Institution had alternative investments (hedge funds and private equity investments) amounting to $10,149,801 and $9,111,067, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. The estimated fair value of alternative investments is based on valuations provided by the external investment manager as of July 31. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

Premium or Discount on Loans Payable and Debt Issue Costs

Premium or discount on loans payable and debt issue costs are deferred and amortized over the term of the debt using a method which approximates the effective interest method.

1. Organization and Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment is stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts.

All construction in progress is carried in a temporary account until the construction is completed; at which time, a transfer is made to the appropriate property, plant or equipment account.

Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the respective assets as follows:

	Useful Life
Buildings	50 years
Building improvements	15 years
Leasehold improvements	Up to 15 years
Software	7 years
Equipment, including computers	5 years
Library books	5 years
Vehicles	5 years

Leases

Effective August 1, 2020, the Institution recognizes and measures its leases in accordance with FASB Accounting Standards Codification (ASC) Topic 842, *Leases*. The institution is the lessee of property and equipment under operating and finance leases. Upon execution of a new contract, the Institution determined whether an arrangement is or contains a lease. Right-of-use assets represents the Institution's right to use leased asset over the term of the lease. Lease liabilities represent the Institution's contractual obligation to make lease payment over the lease term. Right-of-use assets and lease liabilities are measured, categorized, and recognized at lease commencement. The commencement date is when the Institution takes possession of the asset, or in the case of real estate leases, when the landlord makes the building available for use. Operating leases as lessee are included in the operating lease right-of-use assets and operating lease liabilities on the statement of financial position. Finance leases as lessee are included in the finance lease right-of-use and finance lease liabilities on the statement of financial position.

1. Organization and Summary of Significant Accounting Policies (continued)

Leases (continued)

The Institution has elected not to recognize right-of-use assets and obligations for leases with an initial term of 12 months or less. To the extent a lease arrangement includes both lease and non-lease components, the components are combined as one component.

Operating and finance lease right-of-use assets and associated lease liabilities are recognized based on the present value of future minimum lease payment to be made over the expected lease term. The Institution uses the rate implicit in a lease if it is determinable. When the rate implicit in the lease is not determinable, the Institution uses its incremental borrowing rate as of the commencement date to determine the present value of the lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Interest expense is recognized as a component of the lease payment for finance leases.

Impairment

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and exceed its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the long-lived assets exceeds its fair value.

Tuition and Fees

Student tuition and fees are recorded as revenues on a pro-rata daily basis over the term of the related academic services are rendered.

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions

Contributions, including unconditional promises to give, are recorded as revenue in the period received. Contributions received with donor-imposed restrictions that are met in the same fiscal year are reported as revenue from net assets without donor restrictions. Conditional promises to give are not recognized as revenue 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 at the date of gift. Contributions to be received after one year are discounted, if practicable, at an appropriate discount rate commensurate with the risk involved.

An allowance for uncollectible contributions receivable is provided, if necessary, based upon management's judgment including factors such as prior collection history, type of contribution and nature of fund-raising activity.

U.S. Government Grants and Contracts Revenue

Revenue from U.S. government grants and contracts is recognized upon incurring allowable expenditures in accordance with the grant agreements.

Functional Expense Allocation

Expenses are reported in the statements of activities in categories recommended by the National Association of College and University Business Officers. The Institution's primary program services are instruction, research and public service. Expenses reported as academic support, student services and auxiliary enterprises are incurred in support of the Institution's primary program. Institutional support mainly includes management and general expenses. Certain expenses such as operation and maintenance of plant, depreciation, amortization and interest costs, which are related to more than one category, are allocated among the appropriate categories based primarily on equipment usage and building square footage, as appropriate.

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Expense Allocation (continued)

SUAGM's functional expenses by natural classification for the year ended July 31, 2021 and 2020, respectively, are as follows:

	2021							
	Program Activities			Supporting Activities				
Accounts	Instruction	Research	Public Service	Academic Support	Students Services	Institutional Support	Auxiliary Enterprises	Total
Salaries	$ 47,560,938	$ 782,061	$ 1,398,228	$ 2,009,519	$ 8,438,787	$ 27,222,619	$ 172,978	$ 87,585,130
Services	1,345,061	202,673	352,905	182,281	1,756,069	53,443,676	8,791	57,291,456
Operation and maintenance	7,087,536	351,575	402,574	31,448	138,617	19,154,701	14,850	27,181,301
Benefits and payroll taxes	14,196,913	607,205	742,663	2,720,387	4,987,835	2,740,641	175,286	26,170,930
Miscellaneous	8,161,289	217,926	311,145	517,002	2,015,438	14,167,917	92,543	25,483,260
Depreciation and amortization	5,434,339	601,499	739,613	1,432,528	2,040,090	4,842,954	94,636	15,185,659
Interest	54,124	-	174,920	35,054	22,349	7,548,217	572	7,835,236
Materials and supplies	1,657,599	-	18,878	866,006	1,055,124	2,152,328	84,677	5,834,612
Occupancy	262,809	104,529	163,970	42,267	206,947	5,029,992	7,341	5,817,855
Other facilities and administrative	454,962	410	25,875	303,130	62,908	4,339,049	440	5,186,774
Student scholarships and other	65,010	127,223	74,915	133,821	845,422	1,165,416	-	2,411,807
Minor property and equipment	44,743	-	24,070	38,118	90,911	1,214,263	29,174	1,441,279
Production	-	-	3,542	-	-	634,199	-	637,741
Conferences and travel	39,620	73,554	36,529	45,732	46,791	286,080	786	529,092
CWS	67,984	4,741	5,467	21,424	315,348	881	-	415,845
Inventory	100,212	-	107,232	-	-	-	-	207,444
Donations	-	-	-	-	-	84,588	-	84,588
AFICA related	-	-	-	-	-	44,401	-	44,401
Total expenses	$ 86,533,139	$ 3,073,396	$ 4,582,526	$ 8,378,717	$ 22,022,636	$ 144,071,922	$ 682,074	$ 269,344,410

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Expense Allocation (continued)

	2020							
	Program Activities			Supporting Activities				
Accounts	Instruction	Research	Public Service	Academic Support	Students Services	Institutional Support	Auxiliary Enterprises	Total
Salaries	$ 63,518,456	$ 780,271	$ 1,829,256	$ 3,526,003	$ 8,868,498	$ 16,870,559	$ 424,438	$ 95,817,481
Services	1,871,534	114,191	1,064,730	211,063	896,008	50,486,422	14,856	54,658,804
Operation and maintenance	15,907,272	741,694	907,156	3,268,236	6,102,147	3,389,372	214,110	30,529,987
Benefits and payroll taxes	11,663,964	208,486	445,709	831,991	2,271,877	8,254,985	114,702	23,791,714
Depreciation and amortization	5,889,519	413,590	698,322	2,150,945	2,225,754	5,792,971	112,223	17,283,324
Miscellaneous	154,313	342,732	854,379	31,579	152,667	11,468,884	7,224	13,011,778
Interest	1,747,497	–	20,159	905,660	1,089,509	2,329,691	88,216	6,180,732
Student scholarships and other	141,413	124,338	116,146	35,943	397,894	4,604,884	–	5,420,618
Occupancy	360,725	4,030	156,251	117,092	101,390	4,259,044	–	4,998,532
Other facilities and administrative	745,712	1,147	38,310	1,174,989	221,670	1,672,638	–	3,854,466
CWS	428,891	87,316	120,347	239,657	1,700,838	38,860	21,243	2,637,152
Conferences and travel	195,557	146,577	713,947	50,495	150,212	1,057,110	324	2,314,222
Materials and supplies	440,167	194,518	101,429	77,471	239,653	159,871	8,151	1,221,260
Minor property and equipment	80,746	4,719	39,492	55,889	101,153	731,022	133,335	1,146,356
Inventory	176,124	–	109,499	3,148	–	23,231	19,007	331,009
Donations	1,737	–	–	–	–	168,652	–	170,389
AFICA related	–	–	–	–	–	95,235	–	95,235
Production	441	–	3,936	–	147	–	–	4,524
Total expenses	$ 103,324,068	$ 3,163,609	$ 7,219,068	$ 12,680,161	$ 24,519,417	$ 111,403,431	$ 1,157,829	$ 263,467,583

Financial Aid Programs

The Institution participates in various federal Financial Aid Programs ("FAP"). Funds from FAP, for which the Institution is responsible for determining student eligibility and disbursing, are recorded as revenue when awarded to students. The Institution acts as an agent for the Federal Pell Grant Program and Federal Family Direct Loan Program. Funding from these programs totaled $261,790,681 and $319,761,513 for the years ended July 31, 2021 and 2020, respectively. Since these are direct grants and loans to the students, the Institution does not include these amounts as revenues or expenses in its financial statements.

CARES Act

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed by the United States Congress and signed by President Donald Trump on March 27th, 2020. This bill allotted $2.2 trillion to provide direct economic aid to the American people negatively impacted by the COVID-19 pandemic. Of that money, approximately $14 billion was given to the Office of Postsecondary Education as the Higher Education Emergency Relief Fund (HEERF).

1. Organization and Summary of Significant Accounting Policies (continued)

CARES Act (continued)

Section 18004(a)(2) of the CARES Act contained $13.95 billion for grants to colleges and universities, to be distributed following a formula based on FTE of Pell recipients (75%) and FTE of non-Pell recipients (25%). The calculation excluded students who were completing their education exclusively online prior to the coronavirus outbreak. Each institution of higher education received one grant comprised of two parts:

Student Portion – no less than 50% of the full grant, provides funding to institutions to provide emergency financial aid grants to students whose lives have been disrupted, many of whom are facing financial challenges and struggling to make ends meet. Institutions have the responsibility of determining how grants will be distributed to students, how the amount of each student grant is calculated, and the development of any instructions or directions that are provided to students about the grant.

Institutional Portion – Section 18004(c) of the CARES Act permits institutions to use up to one-half of the total funds received under Section 18004(a)(1) to cover costs that have a clear nexus to significant changes to the delivery of instruction due to the coronavirus, such as expanding remote learning programs, building IT capacity to support such programs, and training faculty and staff to operate effectively in a remote learning environment.

Under the HEERF, the United States Department of Education ("USDE") allocated funds to the Institution's campuses with onsite learning to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus that were incurred on or after March 13, 2020. Specifically, the funds allocated amounted to approximately $26.2 million under the Student Portion, and to approximately $26.2 million under the Institutional Portion. Since the Student Portion's funds are direct grants to the students, the Institution does not include these amounts as revenues or expenses in its financial statements. Revenues related to the Institutional Portion's funds are recognized upon incurring allowable expenditures in accordance with the grant agreement.

1. Organization and Summary of Significant Accounting Policies (continued)

CARES Act (continued)

In addition, on April 30, 2020, the USDE notified the Institution about the allocation of additional funds under Sections 18004(a)(2) and 18003(a)3 of the CARES for the Minority Serving Institutions program. Total funds allocated to SUAGM's campuses with onsite learning under this program amounted to approximately $3.6 million. As established by the USDE, institutions may also use these funds to defray institutional expenses, which under Section 18004(a)(2) and Section 18004(a)(3) may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. Revenues related to these is recognized upon incurring allowable expenditures in accordance with the grant agreement.

CRRSAA

The Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) (P.L. 116-260) was passed by the United States Congress and signed by President Donald Trump on December 27, 2020. This law gave the USDE approximately $22.7 billion to distribute to institutions of higher education in order to prevent, prepare for, and response to coronavirus through the HEERF.

Congress expanded the allowable uses for supplemental awards and new awards made under section 314(a)(1) of the CRRSAA and for unspent CARES Act funds, subject to certain limitations. Institutions have the expanded flexibility to use unliquidated funds effective December 27, 2020 (the date of enactment of the CRRSAA) for costs incurred on or after March 13, 2020, the date on which the President the national emergency due to the COVID-19 pandemic.

Each institution of higher education received one grant comprised of two parts:

Student Portion – The CRRSAA requires that an institution receiving funding under section 314(a)(1) provide the same amount in financial aid grants to students from the CRSAA funds that it was required or which it would have been required to provide under its original CARES Act Student Aid Portion award.

1. Organization and Summary of Significant Accounting Policies (continued)

CRRSAA (continued)

Student Portion (continued)

The CRRSAA requires that institutions prioritize students with exceptional need, such as students who receive Pell Grants, in awarding financial aid grants to students. However, students do not need to be only Pell recipients or students who are eligible for Pell grants. In addition, the CRRSAA provides that financial aid grants to students may be provided to students exclusively enrolled in distance education.

Financial aid grants from students may be used for any component of the student's cost of attendance or for emergency costs that arise due to coronavirus, such as tuition, food, housing, health care (including mental health care) or childcare.

Institutional Portion (including Minority Serving) – The allowable uses under the CRRSAA for Institutional Portion awards include: (a) defraying expenses associated with coronavirus (including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll); (b) carrying out student support activities authorized by the Higher Education Act of 1965, as amended (HEA), that address needs related to coronavirus; and (c) making additional financial aid grants to students.

The funds allocated to the Institution amounted to approximately $26.2 million under the Student Portion and to approximately $71.8 million under the Institutional Portion, including an assignment of approximately $5.6 million for Minority Serving. Since the Student Portion's funds are direct grants to the students, the Institution does not include these amounts as revenues or expenses in its financial statements. Revenues related to the Institutional Portion's funds are recognized upon incurring allowable expenditures in accordance with the grant agreement.

ARP

The America Rescue Plan Act of 2021 (ARP) (Pub. L. 117-2) was passed by the United States Congress and signed by President Joe Biden on March 11, 2021. The ARP appropriated approximately $39.6 billion for the HEERF and represented the third stream of funding appropriated for HEERF to prevent, prepare for, and respond to coronavirus. Taken together, the CARES Act, the CRRSAA, and the ARP represent HEERF I, HEERF II, and HEERF III, respectively.

1. Organization and Summary of Significant Accounting Policies (continued)

ARP (continued)

The HEERF III under the ARP is structured like HEERF II programs under the CRRSAA, with certain differences. Each institution of higher education received one grant comprised of two parts:

> *Student Portion* – Students who are or were enrolled in an institution of higher education during the COVID-19 national emergency are eligible for emergency financial aid grants from the HEERF, regardless of whether they completed a Free Application for Federal Student Aid (FAFSA) or are eligible for Title IV. As under the CRRSAA, institutions are directed with the ARP funds to prioritize students with exceptional need. Beyond Pell eligibility, other types of exceptional need could include students who may be eligible for other federal or state need-based aid or have faced significant unexpected expenses, such as the loss of employment (either for themselves or their families), reduced income, or food or housing insecurity. In addition, as under CRRSAA, the ARP allows emergency financial aid grants to students exclusively enrolled in distance education.
>
> *Institutional Portion (including Minority Serving)* – The allowable uses under the ARP are similar to the CRRSAA. Additionally, the ARP has two new required use of HEERF III Institutional Portion grant funds in which, if the Institutional Portion is not used entirely for emergency financial grants to students, a portion of funds must be used to: (a) implement evidence-based practices to monitor and suppress coronavirus in accordance with public health guidelines; and (b) conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student, or other circumstances, described in section 479A of the HEA. The ARP grant expenses may be incurred back to March 13, 2020, the date of the declaration of the national emergency due to the coronavirus.

The funds allocated to the Institution amounted to approximately $80.8 million under the Student Portion and to approximately $90.3 million under the Institutional Portion, including an assignment of approximately $9.5 million for Minority Serving. Since the Student Portion's funds are direct grants to the students, the Institution does not include these amounts as revenues or expenses in its financial statements. Revenues related to the Institutional Portion's funds are recognized upon incurring allowable expenditures in accordance with the grant agreement.

1. Organization and Summary of Significant Accounting Policies (continued)

Use of HEERF

The CARES Act, the CRRSAA, and the ARP represent HEERF I, HEERF II, and HEERF III, respectively. Taken together, the Institution distributed approximately $27.3 million and $24.2 million of HEERF from the Student Portion for the years ended July 31, 2021 and 2020, respectively. From the HEERF allocated to the Institution Portion, approximately $67.6 million and $9.1 million were used for the years ended July 31, 2021 and 2020, respectively, including $46.2 million received on June 2021 as lost revenue reimbursed to cover costs associated with coronavirus pandemic which were recorded as revenue.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising costs for 2021 and 2020 amounted to $6,527,042 and $5,684,757, respectively.

Income Taxes

The Institution is exempt from the payment of federal and state income taxes under the U.S. Internal Revenue Code Section 501(c)(3) and the Puerto Rico Internal Revenue Code Section 1101.01(a)(2).

SUAGM is also exempt from the payment of taxes on property devoted to education.

The Institution follows the guidance contained in ASC Topic 740-10-25, *Accounting for Uncertainty in Income Taxes.* ASC Topic 740-10-25 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken. Based upon its evaluation, the Institution concluded that there are no significant uncertain tax positions requiring recognition in its financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02 that amends the guidance for accounting and disclosure of leases. This new standard requires that lessees recognize the asset and liabilities that arise from leases on the statement of financial position, including leases classified as operating leases under current GAAP, and disclose qualitative and quantitative information about leasing agreements. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019. During fiscal year 2021, the Institution adopted ASC 842 using a modified retrospective approach.

Under the new standard, on August 1, 2020, the Institution recognized a cumulative-effect adjustment to its statement of financial position related to the recognition of liabilities and corresponding right-of- use assets for operating leases. Adoption of the new standard resulted in the recording of approximately $11 million of new right-of-use (ROU) assets and liability for operating leases on the Statement of Financial Position as of August 1, 2020.

The Institution records lease liabilities based on the present value of lease payments over the lease term. The Institution uses an incremental borrowing rate to discount its lease liabilities, as the rate implicit in the lease is typically not readily determinable. The Institution reviews the impairment of the ROU assets consistent with the approach applied for other long-lived assets.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements on fair value measurements. The new standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. On August 1, 2019, the Institution adopted ASC 820. Refer to Note 12 for additional disclosures required by ASC 820.

In March 2019, the FASB issued ASU 2019-03, Not-for-Profit Entities (Topic 958): Updating the Definition of Collections. The amendments in this Update modify the definition of the term collections, allowing the proceeds from the sale of collection items to be used to support the direct care of existing collections in addition to the current requirement that proceeds from sales of collection items be used to acquire other items for collections. The Update is effective for annual financial statements issued for fiscal years beginning after December 15, 2019. On August 1, 2020, the Institution adopted ASC 958. For the year ended July 31, 2021, there were no sales of collection items.

1. Organization and Summary of Significant Accounting Policies (continued)

Business Interruption Insurance Recoveries

On August 2020, SUAGM received proceeds of $1,300,000 related to the business interruption losses caused by hurricane María during the fiscal year ended July 31, 2018. The Institution recognized these transactions as business interruption insurance recoveries included in other sources revenues of fiscal year ended on July 31, 2021.

Subsequent Events

SUAGM evaluates subsequent events and reviews conditions existing at the date of the statement of financial position as well as conditions that arose after the statement of financial position date, but before the financial statements are issued. The effects of conditions that existed at the date of the statement of financial position date are recognized in the financial statements. Events and conditions arising after the statement of financial position date, but before the financial statements are issued, are evaluated to determine if disclosure is required to keep the financial statements from being misleading. To the extent such events and conditions exist, disclosures are made regarding the nature of events and the estimated financial effects for those events and conditions. For purposes of preparing the accompanying financial statements and the following notes to these financial statements, SUAGM evaluated subsequent events through the date the financial statements were issued.

2. Accounts Receivable

Accounts receivable at July 31, 2021 and 2020, consist of the following:

	2021	2020
Students	**$ –**	$ 11,946,284
Puerto Rico government agencies	**619,286**	854,393
Contributions	**754,269**	754,141
Grants	**8,285,707**	6,014,837
Other	**6,029,657**	2,161,866
	15,688,919	21,731,521
Less allowance for doubtful accounts	**4,064,039**	9,003,769
Accounts receivable, net	**$ 11,624,880**	$ 12,727,752

2. Accounts Receivable (continued)

For the year ended July 31, 2021, the Institution determined to discharge unpaid student account balances incurred from August 1, 2019, through July 31, 2021, which represents the fiscal years impacted by the COVID-19 pandemic. The Institution made the determination to relieve students balances as an allowable use of the reimburse lost revenue of the institutional portion of HEERF funds. The total amount of student debt discharged as of July 31, 2021, was approximately $20.6 million. The effect of this discharge reduced to $0 the balance of accounts receivables due from students and related bad debt expense as of and for the year ended July 31, 2021.

Contributions Receivable

Contributions receivable are recorded at the net present value (based on a weighted average imputed interest rate of 5%) of the estimated future cash flows from the contributions. Most unconditional promises are restricted by donors for scholarships and support of academic instruction and are due as follows:

	2021	**2020**
Less than one year	**$ 45,143**	$ 51,624
More than one year and thereafter	**709,269**	710,747
	754,412	762,371
Less present value discount	**143**	8,230
Contributions receivable, gross	**754,269**	754,141
Less allowance for doubtful contributions	**589,514**	589,514
Contributions receivable, net	**$ 164,755**	$ 164,627

Pledges from three donors comprise approximately 4% of undiscounted contributions receivable as of July 31, 2021 and 2020.

3. Investments

The fair value of investments as of July 31, 2021 and 2020, is as follows:

	2021	2020
U.S. Government securities	**$ 21,669,494**	$ 17,829,736
Corporate bonds	**3,286,322**	2,765,816
Equity securities	**4,441,109**	3,470,544
Mortgage backed securities	**22,172,974**	26,764,467
Shares of registered investment companies (mutual funds)	**7,052,042**	5,303,214
Hedge funds and private equity investments	**10,149,801**	9,111,067
	$ 68,771,742	$ 65,244,844

Hedge funds and private equity investments include hedge funds of $3,933,596 and $3,521,605 and private equity investments of $6,216,205 and $5,589,462 as of July 31, 2021 and 2020, respectively. The Institution is obligated under certain investment contracts to periodically advance additional funding up to contractual levels. At July 31, 2021, the commitment to make such additional investments is approximately $1,091,865.

The composition of total investment return for the years ended July 31, 2021 and 2020, is as follows:

	2021	2020
Interest and dividends	**$ 1,545,723**	$ 5,249,061
Less investment expenses	**240,435**	158,450
	1,305,288	5,090,611
Net appreciation/(depreciation) of investments	**4,047,438**	(1,524,606)
Total investment return	**$ 5,352,726**	$ 3,566,005

Current economic conditions and recent events affecting the domestic and global financial markets could have a significant adverse impact on the Institution's investment portfolio due to the nature of the investments.

4. Property, Plant and Equipment

Property, plant, and equipment at July 31, 2021 and 2020, are summarized as follows:

	2021	2020
Land	**$ 35,808,794**	$ 35,315,539
Buildings and improvements	**335,146,587**	333,286,560
Leasehold improvements	**10,266,459**	11,499,301
Equipment	**152,490,378**	147,501,719
Library books	**16,029,776**	16,029,776
Vehicles	**2,810,335**	2,830,785
Software	**7,449,904**	7,417,404
Works of art	**2,628,133**	2,615,645
Construction in progress	**4,434,256**	9,408,453
	567,064,622	565,905,182
Less accumulated depreciation and amortization	**340,361,677**	326,063,158
Property, plant and equipment, net	**$ 226,702,945**	$ 239,842,024

5. Leases

As a result of adopting ASU 2016-02, Leases (Topic 842) on August 2020 using the modified retrospective transition method, the Institution now recognizes right-of-use ("ROU") assets and lease liabilities for their finance and operating leases. These new leases requirements were applied to those leasing arrangements with terms of more than twelve months since August 1, 2020, the ASC 842 adoption date. The components of lease expense for the year ended July 31, 2021 are included as part of institutional support in the statement of activities. Amortization of right-of-use assets amounted to $3,347,526 for the year ended July 31, 2021.

5. Leases (continued)

Asset and liability balances related to operating and finance leases on the statement of financial position as of July 31, 2021, are as follows:

Classification on the Statement of Financial Position	Assets	Liabilities
Operating leases:		
Operating lease right-of-use	$ 14,408,348	
Operating lease liabilities - current		$ 2,997,383
Operating lease liabilities - long-term		11,863,710
		$ 14,861,093
Finance leases:		
Finance lease right-of-use	3,343,928	
Finance lease liabilities - current		955,269
Finance lease liabilities - long-term		2,305,538
		3,260,807
Total	$ 17,752,276	$ 18,121,900

The Institution's operating leases generally have terms that range from two to twenty years, with optional renewals. The Institution's finance leases generally have terms that range one to seven years. Average lease terms and discount rates as of July 31, 2021, are as follows:

Weighted average remaining lease term (years):	
Operating leases	9.84 years
Finance leases	1.36 years
Weighted average discount rate:	
Operating leases	5.49%
Finance leases	6.93%

5. Leases (continued)

The following maturity analysis presents expected undiscounted cash outflows under operating and finance leases as of June 31, 2021.

	Operating Leases	Finance Leases
2022	$ 2,997,383	$ 955,269
2023	2,144,644	640,578
2024	1,873,239	477,953
2025	1,834,670	464,978
2026	1,468,950	464,978
Thereafter	8,817,210	1,123,696
Total undiscounted cash flows	19,136,096	4,127,451
Less: present value discount	(4,275,003)	(866,644)
Total lease liabilities	$ 14,861,093	$ 3,260,807

In accordance with legacy lease accounting guidance, rent expense was $3,548,842 during fiscal year 2020, future minimum payments under noncancelable operating leases at July 31, 2020 (prior to the adoption of Topic 842) were:

2021	$ 802,002
2022	777,259
2023	800,505
2024	588,724
2025 and thereafter	2,554,512
Total minimum lease payments	$ 5,523,002

5. Leases (continued)

As of July 31, 2021, the Institution has entered into finance lease that have not yet commenced, relating to dental equipment for the Gurabo campus, and for which the present value of the future minimum lease payments approximates $2,500,000. This finance lease will commence in fiscal year 2022 with lease term of seven years.

6. Notes Payable

Notes payable at July 31, 2021 and 2020, are as follow:

	2021	2020
Unsecured revolving credit agreement with a commercial bank permitting borrowings up to $10,000,000, bearing interest at 3.00% over 1-month LIBOR at July 31, 2020 (0.17%).	**$** –	$ 9,000,000
Unsecured revolving credit agreement with a commercial bank permitting borrowings up to $10,000,000, bearing interest at 3.00% over 1-month LIBOR at July 31, 2020 (0.17%).	–	10,000,000
Unsecured revolving credit agreement with a commercial bank permitting borrowings up to $35,000,000, bearing interest at 3.00% over 1-month LIBOR at July 31, 2020 (0.17%).	–	25,000,000
Unsecured non-revolving promissory note with a commercial bank, bearing interest at 5.25%, payable in sixty (60) consecutive monthly installments of $161,381 including interest, through July 2024.	**5,364,473**	6,973,292
TOTAL	**$ 5,364,473**	$ 50,973,292

The Institution has available $55,000,000 of unused lines of credit for its operations at July 31, 2021. The lines of credit contain various covenants which, among other things, require the Institution to comply with certain affirmative and negative covenants. At July 31, 2021, the Institution was in compliance with the required covenants.

Aggregate maturities on notes payable are summarized as follow:

2022	$ 1,695,344
2023	1,786,523
2024	1,882,606
Total	$ 5,364,473

7. Loans Payable

The Institution has entered into various loan agreements with the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Financing Authority ("AFICA"). The net proceeds of these loans were used to acquire, construct and improve the facilities and equipment of the Institution, to refinance certain outstanding indebtedness, to create certain reserve accounts and to pay for bond issuance costs.

On February 1, 2002, the Institution entered into a loan agreement with AFICA in connection with the issuance of Higher Education Revenue Bonds amounting to $20,365,000 ("AFICA 2002"). The net proceeds from this loan were used to: (a) redeem the $16,337,512 principal amount of AFICA 1985, which represents all of the series bonds outstanding on the date of issuance of the bonds; (b) pay a note payable to a commercial bank; (c) deposit monies to the credit of the Reserve Account; and (d) pay certain expenses of the offering of the bonds.

The maturity dates and interest rates of these bonds are as follow:

4.000% due December 1, 2002 through December 1, 2004	$ 935,000
4.500% due December 1, 2005 through December 1, 2009	1,065,000
5.000% due December 1, 2010 through December 1, 2011	1,225,000
5.375% due December 1, 2012 through December 1, 2021	6,575,000
5.500% due December 1, 2022 through December 1, 2032	10,565,000
	20,365,000
Less amounts matured as of July 31, 2021	9,030,000
	$ 11,335,000

In April 2006, the Institution entered into a loan agreement with AFICA in connection with the issuance of Higher Education Revenue Bonds amounting to $29,890,000 ("AFICA 2006"). The AFICA 2006 consists of $3,015,000 serial bonds and $26,875,000 term bonds. The net proceeds from this loan were used to: (a) pay interim financing for the acquisition, construction, remodeling, improving and equipping of certain educational facilities of the Institution; (b) deposit monies to the credit of the Reserve Account; and (c) pay certain expenses of the offering of the bonds.

7. Loans Payable (continued)

The maturity dates and interest rates of these bonds are as follows:

5.000% due March 1, 2009 through March 1, 2012	$ 3,015,000
5.000% due March 1, 2016 through March 1, 2036	26,875,000
	29,890,000
Less amounts matured as of July 31, 2021	9,675,000
	$ 20,215,000

In June 27, 2012, the Institution entered into a loan agreement with AFICA under which AFICA issued $78,380,000 in Higher Education Revenue Bonds ("AFICA 2012"). The net proceeds from these loans were used to: (a) provide financing for the construction, improvement and equipping of certain educational facilities owned by the Institution; (b) refund all of AFICA 1998 bonds, of which $15,100,000 were outstanding at the refund date, and all of AFICA 1999 bonds, of which $31,620,000 were outstanding at the refund date; (c) fund a deposit to AFICA 2012 Reserve Account in satisfaction of the Reserve Requirement; (d) pay capitalized interest on a portion of AFICA 2012 for a period of 24 months; and (e) pay certain expenses of the offering of the bonds.

The maturity dates and interest rates of these bonds are as follow:

3.000% due April 1, 2012 through April 1, 2013	$ 4,140,000
4.000% due April 2, 2013 through April 1, 2014	4,305,000
5.000% due April 2, 2014 through April 1, 2015	5,060,000
5.000% due April 2, 2015 through April 1, 2016	5,255,000
5.000% due April 2, 2016 through April 1, 2017	5,540,000
5.000% due April 2, 2017 through April 1, 2018	2,155,000
5.000% due April 2, 2018 through April 1, 2019	2,265,000
4.000% due April 2, 2019 through April 1, 2020	2,385,000
5.000% due April 2, 2020 through April 1, 2021	2,475,000
5.000% due April 2, 2021 through April 1, 2022	2,595,000
5.000% due April 2, 2022 through April 1, 2027	15,060,000
5.125% due April 2, 2027 through April 1, 2032	10,640,000
5.375% due April 2, 2032 through April 1, 2042	16,505,000
	78,380,000
Less amounts matured as of July 31, 2021	33,580,000
	$ 44,800,000

7. Loans Payable (continued)

All of the AFICA bonds are solely payable from payments made by the Institution to AFICA under the loan agreement.

Under the trust agreement, the Institution is required to maintain construction and reserve fund accounts with the trustee that holds the proceeds from the issuance. The funds deposited with the trustee are restricted and, currently, are reserved for debt service (principal and interest).

The funds held in the reserve accounts are presented in the accompanying statements of financial position dated as deposits held in trust of $8,336,288 and $8,341,434 as of July 31, 2021 and 2020, respectively.

For the years ended July 31, 2021 and 2020, the interest expense was $4,069,944 and $4,256,738, respectively. These amounts are included in the accompanying statements of activities.

Aggregate maturities of the loan agreements, unamortized original issue (discount) premium, and debt issuance costs as of July 31, 2021 are as follows:

Year Ending July 31,	AFICA 2002	AFICA 2006	AFICA 2012	Total
2022	$ 770,000	$ 935,000	$ 2,595,000	$ 4,300,000
2023	815,000	985,000	2,725,000	4,525,000
2024	860,000	1,035,000	2,860,000	4,755,000
2025	910,000	1,085,000	3,000,000	4,995,000
2026	960,000	1,140,000	3,160,000	5,260,000
Thereafter	7,020,000	15,035,000	30,460,000	52,515,000
	11,335,000	20,215,000	44,800,000	76,350,000
Unamortized original issue	(91,292)	275,497	578,637	762,842
Less debt issuance cost	153,212	287,136	517,370	957,718
	$ 11,090,496	$ 20,203,361	$ 44,861,267	$ 76,155,124

7. Loans Payable (continued)

Aggregate maturities of the loan agreements, unamortized original issue (discount) premium, and debt issuance costs as of July 31, 2020 are as follows:

Year Ending July 31,	AFICA 2002	AFICA 2006	AFICA 2012	Total
2021	$ 730,000	$ 890,000	$ 2,475,000	$ 4,095,000
2022	770,000	935,000	2,595,000	4,300,000
2023	815,000	985,000	2,725,000	4,525,000
2024	860,000	1,035,000	2,860,000	4,755,000
2025	910,000	1,085,000	3,000,000	4,995,000
Thereafter	7,980,000	16,175,000	33,620,000	57,775,000
	12,065,000	21,105,000	47,275,000	80,445,000
Unamortized original issue	(100,422)	294,175	635,707	829,460
Less debt issuance cost	169,338	306,603	566,622	1,042,563
	$ 11,795,240	$ 21,092,572	$ 47,344,085	$ 80,231,897

The loan and reimbursement agreements contain various covenants, which, among other things, require the Institution to comply with certain affirmative and negative covenants. At July 31, 2021, the Institution was in compliance with the required covenants.

8. Employee Benefit Plans

The Institution has a contributory defined benefit pension plan covering several of its employees. The plan covers, on a voluntary basis, employees over 21 years of age, with at least one year as a regular employee. Effective April 20, 2004, the entrance of new participants to the plan was frozen. This includes entrance for any new hires, re-hires and current employees.

The participating employees are required to contribute to the plan 3% of the first $7,800 of their annual compensation plus 5% of their annual compensation in excess of $7,800 without any ceiling. The Institution makes all additional contributions necessary to provide the benefits under the plan.

8. Employee Benefit Plans (continued)

The benefits are based on years of participation in plan and the employee's average compensation during the last five years of employment.

Information related to the plan as of July 31, 2021 and 2020, and the related changes during the years then ended, is as follows:

	2021	2020
Measurement Date: August 1		
Change in Benefit Obligation:		
At beginning of year	**$ 63,238,885**	$ 60,629,784
Service cost	**468,578**	411,061
Interest cost	**1,469,438**	2,042,429
Actuarial (gain)/loss	**(1,417,254)**	4,262,466
Benefits paid	**(4,180,991)**	(4,106,855)
At end of year	**59,578,656**	63,238,885
Change in Plan Assets:		
Fair value of plan assets at beginning of year	**61,720,087**	61,220,150
Actual expenses paid	**(15,259)**	(63,412)
Actual return on plan assets	**9,705,596**	4,550,335
Employer contributions	**–**	–
Participants contributions	**85,526**	119,869
Benefits paid	**(4,180,991)**	(4,106,855)
Fair value of plan assets at end of year	**67,314,959**	61,720,087
Funded status	**$ 7,736,303**	$ (1,518,798)

The accumulated benefit obligation for the plan was $59,578,656 and $63,230,500 at July 31, 2021 and 2020, respectively. The vested benefit obligation for the plan equals the accumulated benefit obligation at July 31, 2021 and 2020.

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Refer to Note 12 for further details on its definition.

8. Employee Benefit Plans (continued)

The assumptions used to determine the benefit obligation and the net benefit cost are shown in the following table:

	2021	2020
Actuarial Assumptions:		
Discount rate	**2.74%**	2.40%
Expected return on plan assets	**5.30%**	5.10%
Salary increase rate	**0.00%**	0.00%

The following table provides the components of net periodic benefit cost for the plan for 2021 and 2020:

	2021	2020
Components of Net Periodic Benefit Cost:		
Service cost	**$ 468,578**	$ 411,061
Interest cost	**1,469,438**	2,042,429
Expected return on plan assets	**(3,045,098)**	(3,428,536)
Net prior service credit amortization	**(30,642)**	(30,642)
Amortization of loss	**925,118**	472,432
Net Periodic Benefit Cost	**$ (212,606)**	$ (533,256)

Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

At July 31, the funded status of the plan is reported in the accompanying statements of financial position as follows:

	2021	2020
Prepaid pension cost	**$ –**	$ –
Asset (liability) for pension benefits	**7,736,303**	(1,518,798)
Net asset (liability) for pension benefits	**$ 7,736,303**	$ (1,518,798)

8. Employee Benefit Plans (continued)

The Institution does not expect to contribute for the plan year ending July 31, 2021. As of July 31, 2021, the following benefit payments, which reflect expected future service (as appropriate), are expected to be paid:

Year Ending July 31,	Amount
2022	$ 4,081,510
2023	4,115,121
2024	4,046,240
2025	3,993,920
2026	3,945,999
2027 - 2030	18,214,654
	$ 38,397,444

No amounts from the plan's assets are expected to be returned to the Institution during the next fiscal year.

The plan's overall objective is to provide adequate retirement benefits to the beneficiaries through the investment of contributions and other assets based on a long-term investment horizon defined as greater than 5 years.

The Institution's portfolio pool is diversified to as to seek to minimize the risk of large losses or not meeting plan objectives. All assets other than alternative investments should have readily ascertainable market value and must be marketable. To protect the plan's capital, the plan's Investment Committee defines risk tolerance as moderate (i.e., modest tolerance for short term market fluctuation, a moderate need for current income and moderate expectations for growth, as well as for losses, over a market cycle (5-7 years)). The moderate risk tolerance includes an expected return between 5.50% and 6.50%, an expected volatility between 7.50% and 11.00%, as measured by Standard Deviation. The Performance Expectations, the desired rolling five-year average total rate of return, should not be less than 4.75% net of expenses. Emphasis is placed on the long-term capital growth and income.

8. Employee Benefit Plans (continued)

Permitted Investments – the following asset classes provide the highest probability of meeting or exceeding the return objective at the lowest possible risk:

- Cash Equivalents
- US Large, Mid and Small Capitalization Equities
- Non-US Developed and Emerging Market Equities
- US and Non-US Fixed Income
- Alternative Investments:
  - Real Estate Investment Trusts
  - Natural Resources
  - Risk Management Strategies
  - Yield Enhancement Strategies
  - Community Development Alternatives
  - Private Equity

The risk associated with each fund's/manager's portfolio, as measured by the variability of quarterly returns (standard deviation), must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group. The managers are responsible for providing historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.

8. Employee Benefit Plans (continued)

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Refer to Note 12 for further details on its definition. The following table presents the plan's investments that are measured at fair value on a recurring basis by the ASC 820, *Fair Value Measurements and Disclosures*, levels as of July 31, 2021 and 2020:

	2021			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash equivalents	**$ 617,826**	**$ 617,826**	**$ –**	**$ –**
Equity securities	**40,686,041**	**40,686,041**	**–**	**–**
Fixed income securities	**22,256,845**	**–**	**22,256,845**	**–**
Alternative investments	**3,754,247**	**–**	**–**	**3,754,247**
	$ 67,314,959	**$ 41,303,867**	**$ 22,256,845**	**3,754,247**

	2020			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash equivalents	$ 5,014,645	$ 5,014,645	$ –	$ –
Equity securities	29,347,375	29,347,375	–	–
Fixed income securities	24,025,627	–	24,025,627	–
Alternative investments	3,332,440	–	–	3,332,440
	$ 61,720,087	$ 34,362,020	$ 24,025,627	3,332,440

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Equity securities **–** Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

Fixed income securities **–** Investments in fixed income securities are comprised of corporate bonds. They are classified as Level 2 based on multiple sources of information, which include market data and/or quoted market prices from either market that are not active or are for the same or similar assets in active market.

8. Employee Benefit Plans (continued)

Alternative investments **–** These investments are essentially funds of funds for which there is no readily determinable fair value and are classified as Level 3 as the valuation is based on significant unobservable inputs. In some cases, the investee has provided its investors with a net asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, Investment Companies, and within the guidance provided in ASC 820. The Institution has estimated its fair value by using the net asset value provided by the investee as of July 31, 2021 and 2020.

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

The following table presents a reconciliation of the fair value measurements of plan assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended July 31, 2021 and 2020:

	Balance at July 31, 2020	Investment Income	Net Realized and Unrealized Losses	Purchases and Sales	Balance at July 31, 2021
Assets:					
Alternative investments	**$ 3,332,440**	**$ 165,208**	**$ 337,329**	**$ (80,730)**	**$ 3,754,247**

	Balance at July 31, 2019	Investment Income	Net Realized and Unrealized Losses	Purchases and Sales	Balance at July 31, 2020
Assets:					
Alternative investments	$ 3,341,593	$ 174,106	$ 209,044	$ (392,303)	$ 3,332,440

8. Employee Benefit Plans (continued)

Asset Allocation Restrictions

- Total equity investments may not exceed 72% of the fund's investment at any time.
- The maximum commitment to bonds for the overall assets of the plan is set at 80%. The portfolio is run with a total return orientation. The average credit quality of the portfolio should be maintained at a level of A or better.
- Money market securities including, but not limited to, Treasury bills and notes, Federal Agency issues, commercial paper, banker's acceptances, certificate of deposit, money market funds, asset-backed securities, Eurodollar securities and debentures, and mortgages with less than one year remaining to maturity.
- Alternative investments would be employed to pursue higher returns, reduced volatility, and diversification benefits resulting from low correlation with the plan's core equity and fixed income investments. Permitted alternative investments include private equity, hedge strategies, "event driven" strategies, natural resources, real estate and venture capital.
- If market conditions warrant it, the Investment Committee reserves the right to adjust the asset allocation if deemed prudent to do so.

Investment Type	Target Allocation Percentages	Actual Allocation Percentages	
		2021	**2020**
Cash equivalents	5.0%	**0.9%**	8.1%
Equity securities	45.0%	**60.4%**	47.6%
Fixed income securities	40.0%	**33.1%**	38.9%
Alternative investments	10.0%	**5.6%**	5.4%
Total	**100.0%**	**100.0%**	100.0%

8. Employee Benefit Plans (continued)

Asset Allocation Restrictions (continued)

The expected long-term rate of return on assets has been determined by the Institution in consultation with their financial advisors, investment managers and benefit consultants. The rate chosen reflects the plan's current asset allocation and the future anticipated asset allocation based on the plan's expected future liability structure and expected future cash flow needs. The expected rates of return used in this analysis for each asset class are based on prevailing market conditions and generally accepted reasonable current expectations of future economic and market conditions. Historical returns on the plan's asset portfolio are used only as an indication of the plan's investment performance within an asset class relative to the overall market and are not used as, or considered to be, a reasonable estimate of future investment returns.

The Institution also sponsors a defined contribution savings and investment plan in which every employee is eligible on or after the date the employee completes one year of service. Each participant may elect to contribute up to 10% of his/her compensation. The Institution contributes an amount equal to 35% of each participant's contribution, not to exceed 1% of the participant's compensation. The Institution recognized $584,728 and $625,279 during the years ended July 31, 2021 and 2020, respectively, as expense under the savings and investment plan.

The Institution is also committed, per contract, to provide a perpetual pension to its President equal to 90% of his base salary at the time of retirement.

9. Net Assets with Donor Restrictions

The with donor restrictions net assets as of July 31, 2021 and 2020, are divided as follows:

	2021	2020
Time restricted:		
Federal contributions - time restricted	$ **500,000**	$ 500,000
Other contributions - time restricted	**274,342**	274,342
Investment net depreciation	**(21,375)**	(21,490)
	752,967	752,852
In perpetuity:		
Endowment funds	**7,298,339**	7,273,339
Contributed land	**2,153,431**	2,153,431
Works of art	**656,100**	656,100
Other	**8,840**	8,840
	10,116,710	10,091,710
	$ **10,869,677**	$ 10,844,562

10. Net Assets Released from Restrictions

No net assets were released from donor restrictions during the years ended July 31, 2021 and 2020.

11. Endowment

The Institution has an endowment fund a pool of investable wealth that has a perpetual investment horizon and is tax exempt. Its main purpose is to generate a stream of earnings that will grow in real or inflation adjusted terms.

The endowment fund consists of donations from approximately 94 individuals, private corporations and the U.S. government. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

11. Endowment (continued)

The Institution classifies as net assets with donor restrictions: (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 of the accumulation is added to the fund.

The Institution considers the following factors in making a determination to accumulate donor-restricted funds:

1) The duration and preservation of the fund
2) The purposes of the Institution and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Institution
7) The investment policies of the Institution

The Institution has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Institution must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of investment management costs, of at least equivalent to inflation (as measured by the Consumer Price Index) plus no less than 4% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Institution 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 Institution targets a diversified asset allocation and provides its managers appropriate guidelines to achieve its long-term objective within prudent risk constraints. The preferred asset mix is 10% stocks, 65% fixed income and 5% cash equivalents. The Board may also allocate up to 20% of the Endowment Fund to alternative investments.

11. Endowment (continued)

The Institution has a spending policy that establishes specific terms under which endowment funds can be spent. SUAGM's Investment Committee must consider the use of funds for spending on a year-to-year basis, except expenses for administrative and scholarship costs as determined by the scholarship programs. On average, the Institution has spent from 1% to 2% annually. In establishing this policy, the Institution considered the long-term expected return on its endowment. Accordingly, over the long term, the Institution expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with the Institution's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return.

At July 31, 2021 and 2020, the endowment net asset composition by type of fund consisted of the following:

	2021	2020
Without donor restrictions	**$ 16,541,810**	$ 15,645,562
Board-designated	**50,961,810**	47,389,425
With donor restrictions	**7,888,599**	7,863,484
Total funds	**$ 75,392,219**	$ 70,898,471

11. Endowment (continued)

Changes in endowment funds for the fiscal years ended July 31, 2021 and 2020, consisted of the following:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	**$ 63,034,987**	**$ 7,863,484**	**$ 70,898,471**
Investment return:			
Investment income, net	**1,193,195**	**115**	**1,193,310**
Net appreciation realized and unrealized	**4,047,438**	**–**	**4,047,438**
Total investment return, net	**5,240,633**	**115**	**5,240,748**
Contributions	**–**	**25,000**	**25,000**
Appropriation of endowment assets for expenditure	**(772,000)**	**–**	**(772,000)**
Endowment net assets at end of year	**$ 67,503,620**	**$ 7,888,599**	**$ 75,392,219**

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	$ 60,590,300	$ 7,832,654	$ 68,422,954
Investment return:			
Investment income, net	4,866,998	9,478	4,876,476
Net depreciation realized and unrealized	(1,524,606)	–	(1,524,606)
Total investment return, net	3,342,392	9,478	3,351,870
Contributions	–	21,352	21,352
Appropriation of endowment assets for expenditure	(897,705)	–	(897,705)
Endowment net assets at end of year	$ 63,034,987	$ 7,863,484	$ 70,898,471

12. Fair Value Measurements

Fair Value of Financial Instruments

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair values can vary from period to period based on changes in a wide range of assumptions and factors, including interest and market perceptions of values and as existing assets and liabilities run off and new items are generated.

Management, using appropriate market information and other available information, has determined the estimated fair value amounts of the Institution's financial instruments. Considerable judgment is required to develop the estimated fair values; thus, the estimates provided herein are not necessarily indicative of the amounts that could be realized in the current market exchange.

Fair Value Hierarchy

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation 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 are quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

12. Fair Value Measurements (continued)

Fair Value Hierarchy (continued)

The following table presents financial instruments that are measured at net asset value or fair value on a recurring basis by the ASC 820 hierarchy as of July 31, 2021 and 2020:

	2021				
	Total	**Level 1**	**Level 2**	**Level 3**	**Net Asset Value**
Equity securities	**$ 4,441,109**	**$ 4,441,109**	**$ –**	**$ –**	**$ –**
Fixed income securities	**47,128,790**	**–**	**47,128,790**	**–**	**–**
Alternative investments	**10,149,801**		**–**	**–**	**10,149,801**
Shares of registered investment companies (mutual funds)	**7,052,042**	**7,052,042**	**–**	**–**	**–**
Total	**$ 68,771,742**	**$ 11,493,151**	**$ 47,128,790**	**$ –**	**$ 10,149,801**

	2020				
	Total	**Level 1**	**Level 2**	**Level 3**	**Net Asset Value**
Equity securities	$ 3,470,544	$ 3,470,544	$ –	$ –	$ –
Fixed income securities	47,360,019	–	47,360,019	–	–
Alternative investments	9,111,067	–	–	–	9,111,067
Shares of registered investment companies (mutual funds)	5,303,214	5,303,214	–	–	–
Total	$ 65,244,844	$ 8,773,758	$ 47,360,019	$ –	$ 9,111,067

In accordance with ASC 820, certain investments that are measured at fair value using the net asset value per share practical expedient 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 Statements of Financial Position.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Equity securities – Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

12. Fair Value Measurements (continued)

Fair Value Hierarchy (continued)

Fixed income securities **–** Investments in fixed income securities are classified as Level 2, since their pricing is based on multiple sources of information that include market data and/or quoted prices from either market that are not active or are for the identical or similar assets in an active market.

Alternative investments **–** The fair value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective funds. The fair values of the investments held by funds that do not have readily determinable fair values are determined by each fund's investment manager and are based on appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investments, the fair value is determined by the investment manager taking into consideration, among other things, the cost of the investment, prices of recent significant placements of similar investments of the same issuer, and subsequent developments concerning the companies to which the investments relate. The Institution has performed due diligence regarding these investments and believes that the NAV of its alternative investments is a reasonable estimate of fair value as of June 30, 2021 and 2020.

Shares of registered investment companies (mutual funds) **–** Investments in shares of registered investment companies are measured at fair value using quoted market price. They are classified as Level 1 as they are traded in an active market for which market prices are readily available.

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

13. Significant Group Concentration of Credit Risk

Approximately 90% of the Institution's students participate in student financial assistance programs under Title IV of the Higher Education Act of 1965, as amended, ("Title IV Programs") of the USDE.

13. Significant Group Concentration of Credit Risk (continued)

Financial instruments, which potentially expose the Institution to concentrations of credit risk, consist primarily of cash and cash equivalents, investments in marketable equity and debt securities and receivables. The Institution's cash and cash equivalents and investment in securities are placed with a wide array of institutions with high credit ratings. The investment portfolio is diversified and includes high quality securities.

Concentration of credit risk with respect to receivables is limited because a substantial portion of these balances is due from U.S. government agencies. Regarding student accounts receivable as of July 31, 2020, this consists of a large volume of small balances. The Institution has provided an allowance for doubtful accounts for expected losses, based on historical trends and other information.

Management believes that the above concentrations of credit risk do not represent a material risk of loss with respect to its financial position as of July 31, 2021 and 2020.

14. Commitments and Contingencies

The Institution has incurred commitments to develop a capital improvement program with the purpose of acquiring, constructing, improving and equipping their educational facilities. Commitments for construction under the program as of July 31, 2021 amounted to $133,701 and sources of funding have been retained.

In addition, the Institution is a defendant in various lawsuits arising from its normal operations. In the opinion of management and its legal counsels, an appropriate provision has been made for probable losses and the ultimate resolution of these matters.

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The situation is constantly evolving, and the measures put in place are having multiple impacts on local and global economies. While the full impact to the Institution cannot be quantified reliably, the Institution's performance subsequent to the balance sheet date is likely to be negatively impacted as a result of quarantine and/or illness of employees, loss of students, supply chain disruptions, and other forms of interruptions to business. Management is closely monitoring the situation. As time passes, the long-term magnitude and duration of effects are still highly uncertain and cannot be currently predicted. The impacts will be accounted for when they are known and may be assessed.

15. USDE Supplemental Disclosure

The USDE issued regulations which became effective July 1, 2020, regarding additional disclosures deemed necessary in order to calculate certain ratios for determining sufficient financial responsibility under Federal Title IV regulations. The following information is not required by U.S. GAAP.

Long-term Debt Obtained for Long-Term Purposes

Long-term debt obtained for long-term purposes as of July 31, 2021 and 2020 considered the following:

	2021	2020
Notes payable	**$ 5,364,473**	$ 50,973,292
Operating lease liability	**14,861,093**	–
Finance lease liability	**3,260,807**	–
Obligations under capital leases	–	1,527,537
Loans payable	**76,155,124**	80,231,897
Total minimum lease payments	**99,641,497**	132,732,726
Less: short term unsecured lines of credit	–	44,000,000
Total long-term debt	**$ 99,641,497**	$ 88,732,726

Refer to Note 5, 6 and 7 for detailed information regarding each series of debt, including the applicable issue and maturity dates. Each series is long-term in nature and restricted for capitalized assets (PP&E). The nature of the amounts capitalized include land, buildings and improvements, and various types of equipment, for numerous projects as part of the Institution's capital plan. The amounts capitalized for such projects equal or exceed the amount of attributable debt.

16. Related Party Transactions

AGMUS Ventures, Inc. ("AVI"), a Delaware, for-profit corporation engaged in the development of accelerated adult degree programs, the application of a proprietary learning system, and the use of bilingual education methodology for delivery of services of those programs to adult learners through SUAGM institutions.

16. Related Party Transactions (continued)

AVI provides services on behalf of SUAGM in according to the terms of an Administrative Service Agreement dated August 1, 2013, and in accordance with the applicable laws, rules and regulations of the USDE. Services provided to SUAGM include developing, managing and administering SUAGM academic programs, identifying persons to serve as faculty, maintaining admissions and administrative records and other components of student enrollment, and collecting tuition, fees and other charges, among others deemed necessary and appropriate to deliver services to students. SUAGM retains the authority to approve academic programs, determine requirements for academic degrees, approve and evaluate faculty, admit and enroll students to the academic programs, directly award and oversee all financial assistance available to students and maintain compliance with the USDE, state authorizing agencies and accrediting bodies.

On August 22, 2017, SUAGM and AVI entered into a stock purchase agreement whereby AVI agreed to redeem its shares of common stock from SUAGM in exchange of a promissory note with the condition of consenting to conversion of AVI from a for-profit corporation to a nonprofit, nonstock corporation. As a result of the agreement, SUAGM transferred to AVI ninety-nine (99) shares of common stock, par value $0.01 per share. Following AVI's conversion to a not-for-profit entity with federal tax exemption, the one (1) share of common stock, par value $0.01 per share, held by SUAGM was dissolved. The agreement also resulted in a promissory note from AVI payable to SUAGM in exchange of AVI's stocks. The promissory note established that AVI pay SUAGM the sum of $1,775,000 at the rate of 2.57% annum commencing on September 1, 2017 for the duration of 240 monthly installments in the amount of $9,466 each, which includes principal and interest. AVI filed the restated certificate of incorporation on August 23, 2017, effectively becoming a nonprofit, nonstock corporation to be operated exclusively for charitable and educational purposes.

As a result of the purchase agreement, SUAGM does not hold a majority ownership interest, sole corporate membership, or majority voting interest in the Board of Directors of AVI. Accordingly, SUAGM de-consolidated AVI from its financial statements as of and for the year ended July 31, 2018. AVI also amended its bylaws to establish a new board of directors comprised of members who are independent of SUAGM in its majority. The Administrative Service Agreement was not impacted by the transaction mentioned above.

Service fee expense amounted to $33,416,349 and $36,200,000 for the years ended July 31, 2021 and 2020, respectively.

16. Related Party Transactions (continued)

On April 27, 2021 AVI's Board of Directors approved and authorized a change of name to Ana G. Méndez University, Inc. (AGMU), as well a change of the corporate location from Delaware to Florida.

As of July 31, 2021 and 2020, AGMU's condensed unaudited financial information is as follows:

	2021	2020
Condensed Information from Statement of Net Position		
Total assets	**$ 13,019,844**	$ 12,589,981
Total liabilities	**$ 14,225,883**	$ 16,326,551
Total unrestricted net assets	**$ (1,206,039)**	$ (3,736,570)
Condensed Information from Statement of Activities		
Total revenues (including service fee from SUAGM of $33,416,349 and $36,200,000, respectively)	**$ 36,791,121**	$ 37,375,708
Expenses and other deductions:		
Institutional support	**11,497,073**	8,510,656
Operations and maintenance of plant	**6,471,557**	10,623,098
Student services	**6,803,342**	4,917,654
Instruction	**6,482,232**	6,290,427
Academic support	**2,693,452**	6,812,377
Total expenses and other deductions	**33,947,656**	37,154,212
Change in net assets	**$ 2,843,465**	$ 221,496
Net assets:		
Stockholders equity at beginning of year	**$ (3,736,570)**	$ (3,958,066)
Unrestricted net assets at end of year	**$ (893,105)**	$ (3,736,570)

17. Subsequent Events

In connection with the preparation of the financial statements and in accordance with ASC 855, *Subsequent Events*, management has evaluated and reviewed the affairs of the Institution for subsequent events that would impact the financial statements for the year ended July 31, 2021, through November 29, 2021, the date the financial statements were issued.

On August 2, 2021, SUAGM established a majority voting interest or sole corporate membership in Ana G. Méndez University, Inc. (AGMU). This event impacted SUAGM's control over AGMU. ASC 958-810, *Not-for-Profit Entities—Consolidation*, establishes that a not-for-profit organization with a controlling financial interest in another not-for-profit organization through direct or indirect ownership of a majority voting interest or sole corporate membership in that other not-for-profit organization shall consolidate that other not-for-profit organization.

Supplementary Information

Sistema Universitario Ana G. Méndez, Incorporado

USDE Financial Responsibility Supplemental Schedule

July 31, 2021

GAAP Financial Statements		USDE Ratio Components			Ration Calculation		Composite Score			
Reference	Statement Category or Note Description	Elements		Amount	Result	Ratio	Strength Factor	Weight	Composite Score	
		PRIMARY RESERVE RATIO								
		Expendable Net Assets								
SFP	Net assets without donor restrictions	Net assets without donor restrictions		$ 204,153,487						
SFP / Note 9	Net assets with donor restrictions	Net assets with donor restrictions	+	10,869,677						
Note 9	Net assets with donor restrictions in perpetuity	Net assets with donor restrictions in perpetuity	-	(10,116,710)						
N/A	N/A	Annuites, term endowments, and life income funds with donor restrictions	-	–						
N/A	N/A	Intangible assets	-	–						
SFP	Property, plant and equipment, net	Property, plant, and equipment net *(includes construction in progress)*	-	(222,268,686)						
SFP	Liability for pension benefits	Post-employement and defined benefit pension liabilities	+	–						
SFP	USDE Supplemental Disclosure	Long-term debt obtained for long-term purposes	+	99,641,497						
N/A	N/A	Unsecured related party receivables	-	–	$ 82,279,265					
		Total Expenses and Losses								
SoA	Total expenses and other deductions	All expenses and losses without donor restrictions		$ 269,344,410						
SoA	Net unrealized loss and net realized loss on investments	*Losses* without donor restrictions *(non-operating and net investment losses, not included in total expenses above)*	-	–						
N/A	N/A	Pension-related changes other than net periodic pension cost *(included in losses above)*		–	$ 269,344,410	0.3	3.0	0.4	1.2	
		EQUITY RATIO								
		Modified Net Assets								
SFP	Net assets without donor restrictions	Net assets without donor restrictions		$ 204,153,487						
SFP	Net assets with donor restrictions	Net assets with donor restrictions	+	10,869,677						
N/A	N/A	Intangible assets	-	–						
N/A	N/A	Unsecured related party receivable	-	–	$ 215,023,164					
		Modified Assets								
SFP	Total assets	Total assets		$ 365,299,404						
N/A	N/A	Intangible assets	-	–						
N/A	N/A	Unsecured related party receivable	-	–	$ 365,299,404	0.6	3.0	0.4	1.2	
		NET INCOME RATIO								
SoA	Change in net assets without donor restrictions	Change in net assets without donor restrictions		$ 29,267,186	$ 29,267,186					
SoA	Total revenues and releases without donor restrictions	Total revenues and gains without donor restrictions		$ 289,356,495	$ 289,356,495	0.1	3.0	0.2	0.6	**3.0**

See accompanying Notes to Financial Responsibility Supplemental Schedule.

1. Basis of Presentation

The U.S. Department of Education (USDE) issued regulations, effective July 1, 2020, regarding information deemed necessary to calculate ratios for determining sufficient financial responsibility under Federal Title IV regulations. The Financial Responsibility Supplemental Schedule (the Schedule) is presented in accordance with the USDE regulations, and is not part of financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP Financial Statements). However, each element listed in the Schedule has been derived from the accompanying GAAP Financial Statements which includes the Statement of Financial Position (SFP), Statement of Activities (SoA), Statement of Cash Flows, and the Notes to Financial Statements (Notes).

The USDE Ratio Methodology for Private Non-Private Institutions establishes the following ratios, each of which are defined in the regulations with underlying data elements that correspond to the elements listed in the Schedule. Definitions for certain data elements may include items that are not applicable to Sistema Universitario Ana G. Méndez, Incorporado (SUAGM).

Primary Reserve Ratio: $\dfrac{\text{Expendable Net Assets}}{\text{Total Expenses without Donor Restrictions and losses without Donor Restrictions}}$

Equity Ratio: $\dfrac{\text{Modified Net Assets}}{\text{Modified Assets}}$

Net Income Ratio: $\dfrac{\text{Change in Net Assets without Donor Restrictions}}{\text{Total Revenues without Donor Restrictions and Gains without Donor Restrictions}}$

2. Composite Score Calculation

A strength factor score is assigned to each ratio by applying a prescribed algorithm, with the maximum allowable strength factor score being a 3.0. A standard weight percentage is then applied to the strength factor score to generate a weighted score for each ratio. The composite score is derived by adding the three weighted scores. SUAGM's composite score calculation is summarized as follows:

	Ratio	Strength Factor	Weight	Composite Score
Primary Reserve Ratio	0.3	3.0	0.4	1.2
Equity Ratio	0.6	3.0	0.4	1.2
Net Income Ratio	0.1	3.0	0.2	0.6
				3.0

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors of
Sistema Universitario Ana G. Méndez, Incorporado

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Sistema Universitario Ana G. Méndez, Incorporado ("the Institution"), which comprise the statement of financial position as of July 31, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institution's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institution's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institution's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 29, 2021

Stamp No. E458252 of the Puerto Rico
Society of Certified Public Accountants
was affixed to original of this report.