



REPORTS OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS WITH
FEDERAL AWARDS SUPPLEMENTARY INFORMATION

CITY UNIVERSITY OF SEATTLE

June 30, 2021 and 2020

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Report of Independent Auditors

The Board of Trustees
City University of Seattle
(an affiliate of the National University System)

Report on the Financial Statements

We have audited the accompanying financial statements of City University of Seattle (an affiliate of the National University System), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 of America 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 from 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 City University of Seattle as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, City University of Seattle adopted Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The ASU has been applied using the modified retrospective transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the schedule of financial responsibility ratios are presented for purposes of additional analysis and are 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 or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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 have also issued our report dated October 11, 2021, on our consideration of City University of Seattle'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 City University of Seattle'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 City University of Seattle's internal control over financial reporting and compliance.

Moss Adams LLP

Spokane, Washington
October 11, 2021

City University of Seattle Statements of Financial Position

ASSETS

	June 30	
	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	\$ 18,825,758	\$ 14,617,043
Beneficial interest in assets	15,213,024	11,325,881
Accounts receivable, net	1,276,420	1,153,204
Prepaid expenses and other receivables	448,310	666,238
	35,763,512	27,762,366
LONG-TERM ASSETS		
Deposits and other assets	657,420	778,012
Note receivable	741,733	877,708
Operating lease right of use asset	20,345,259	-
Fixed assets, net	4,419,118	5,362,296
	\$ 61,927,042	\$ 34,780,383

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 250,827	\$ 239,085
Payable to affiliate	1,071,687	1,610,554
Accrued payroll and benefits liabilities	1,102,059	1,126,107
Other accrued liabilities	2,961,078	768,187
Refundable advances	648,859	-
Deferred tuition and fees	2,425,252	730,239
Current portion of notes payable	4,579,410	691,224
Current portion of operating lease liability	3,991,928	-
Current portion of deferred revenue	39,833	586,686
	17,070,933	5,752,082
LONG-TERM LIABILITIES		
Notes payable, net of current portion	1,316,472	4,283,383
Deferred revenue, net of current portion	219,625	259,459
Operating lease liability, net of current portion	21,599,883	2,612,464
Financed leasehold improvement payable	-	2,668,671
	23,135,980	9,823,977
Total long-term liabilities	40,206,913	15,576,059
NET ASSETS		
Without donor restrictions	20,954,230	15,030,124
With donor restrictions	765,899	4,174,200
	21,720,129	19,204,324
Total liabilities and net assets	\$ 61,927,042	\$ 34,780,383

City University of Seattle

Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Tuition and fees, net	\$ 37,246,014	\$ -	\$ 37,246,014
Contributions and grants	293,220	-	293,220
Other income	438,785	-	438,785
Net assets released from restrictions	914,101	(914,101)	-
Total revenue	38,892,120	(914,101)	37,978,019
EXPENSES			
Instruction	15,113,475	-	15,113,475
Academic support	2,825,808	-	2,825,808
Student services	5,857,825	-	5,857,825
Institutional support services	13,288,262	-	13,288,262
Total expenses	37,085,370	-	37,085,370
CHANGE IN NET ASSETS FROM OPERATIONS	1,806,750	(914,101)	892,649
NONOPERATING GAINS (LOSSES)			
Lease settlement expense	(3,150,000)	-	(3,150,000)
Total investment returns	3,887,143	-	3,887,143
Change in foreign currency translation	886,012	-	886,013
Total nonoperating gains (losses)	1,623,155	-	1,623,156
CHANGE IN DONOR RESTRICTION	2,494,200	(2,494,200)	-
CHANGE IN NET ASSETS	5,924,106	(3,408,301)	2,515,805
NET ASSETS, beginning of year	15,030,124	4,174,200	19,204,324
NET ASSETS, end of year	\$ 20,954,230	\$ 765,899	\$ 21,720,129

City University of Seattle Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Tuition and fees, net	\$ 37,019,878	\$ -	\$ 37,019,878
Income from rental properties	5,232	-	5,232
Contributions and grants	3,571,951	500,000	4,071,951
Other income	493,112	-	493,112
Net assets released from restrictions	1,074,168	(1,074,168)	-
Total revenue	42,164,341	(574,168)	41,590,173
EXPENSES			
Instruction	14,331,332	-	14,331,332
Academic support	2,785,698	-	2,785,698
Student services	7,593,800	-	7,593,800
Institutional support services	13,633,963	-	13,633,963
Total expenses	38,344,793	-	38,344,793
CHANGE IN NET ASSETS FROM OPERATIONS	3,819,548	(574,168)	3,245,380
NONOPERATING GAINS (LOSSES)			
Total investment returns	84,285	(75,692)	8,593
Change in foreign currency translation	(385,587)	-	(385,587)
Total nonoperating gains (losses)	(301,302)	(75,692)	(376,994)
CHANGE IN NET ASSETS	3,518,246	(649,860)	2,868,386
NET ASSETS, beginning of year	11,511,878	4,824,060	16,335,938
NET ASSETS, end of year	\$ 15,030,124	\$ 4,174,200	\$ 19,204,324

City University of Seattle

Statements of Cash Flows

	Years Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,515,805	\$ 2,868,386
Adjustments to reconcile change in unrestricted net assets to net cash from operating activities		
Interest and dividend income, net	(71,518)	67,567
Unrealized and realized losses (gains) on beneficial interest in assets	(3,815,625)	(58,974)
Depreciation and amortization	1,185,519	1,375,418
Loss on disposal of fixed assets	10,833	-
Amortization of operating right of use asset	6,127,702	-
Note payable entered into related to lease settlement	1,612,500	-
Effect of exchange rate changes on cash	61,980	(19,269)
Change in operating assets and liabilities		
Accounts receivable, net	(118,607)	(262,858)
Prepaid expenses and other receivables	230,872	(94,816)
Deposits and other assets	120,593	31,505
Accounts payable	9,496	(27,897)
Payable to affiliate	(538,867)	(108,017)
Accrued payroll and other accrued liabilities	2,114,617	(307,385)
Operating lease liability	(6,748,971)	-
Other long-term liabilities and deferred rent	648,859	54,685
Deferred revenue	1,578,481	(1,862,588)
Net cash from operating activities	<u>4,923,669</u>	<u>1,655,757</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of capital assets	(159,705)	(470,441)
Repayment of note receivable	135,975	90,822
Purchase of beneficial interest in assets	-	(1,500,000)
Net cash used in investing activities	<u>(23,730)</u>	<u>(1,879,619)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable	(691,224)	(684,748)
Repayments of financed leasehold improvement payable	-	(353,609)
Net cash used in financing activities	<u>(691,224)</u>	<u>(1,038,357)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,208,715	(1,262,219)
CASH AND CASH EQUIVALENTS, beginning of year	<u>14,617,043</u>	<u>15,879,262</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 18,825,758</u>	<u>\$ 14,617,043</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Note payable entered into related to lease settlement	<u>\$ 1,612,500</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING ACTIVITIES		
Operating lease liability obtained	\$ 32,340,782	\$ -
Capitalization of operating right of use asset	(26,472,961)	-
Removal of deferred rent	(2,025,778)	-
Removal of financed leasehold improvements	(2,668,671)	-
	<u>\$ 1,173,372</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 42,989</u>	<u>\$ 45,846</u>

Note 1 – Description of Entity and Summary of Significant Accounting Policies

Description of City University of Seattle – City University of Seattle is a private, nonprofit institution of higher education founded in 1973 and based in Seattle, Washington, United States of America. The mission of City University of Seattle (University) is to provide educational opportunities worldwide, primarily to those segments of the population that are not being fully served. This mission is based on three philosophical principles: 1) education is a lifelong process and must be relevant to students' aspirations; 2) education should be affordable and offered, as much as possible, at the students' convenience; and 3) the opportunity to learn should be open to anyone with a desire to achieve.

On May 1, 2013, the University entered into a contract of affiliation (Contract) with The National University System (NUS), which is an alliance of operationally independent and separately accredited nonprofit educational institutions. The system consists of National University (NU), System Management Group (SMG), John F. Kennedy University (JFKU), National University Virtual High School (NUVHS), Northcentral University (NCU) and City University of Seattle.

Under the affiliation with SMG, the University's Board of Trustees independently guide the University and are also trustees for the other affiliated organizations. Two members of the University's former Board immediately before affiliation joined the Boards of those organizations. The University retains its name, identity, and standing as an independent, fully accredited nonprofit university.

Basis of presentation – The net assets are classified and reported based on the existence or absence of donor-imposed restrictions. The University utilizes the following net asset categories:

Without Donor Restrictions represent expendable funds available for operations, which are not otherwise limited by donor restrictions. Without donor restriction net assets may be designated for specific purposes by action of the Board of Trustees (quasi-endowments) or may otherwise be limited by contractual agreements with outside parties.

With Donor Restriction consist of contributed funds, subject to specific donor-imposed restrictions, contingent upon specific performance of a future event or a specific passage of time before the University may spend the funds. Also included in this category are net assets subject to irrevocable donor restrictions, requiring the funds to be held in perpetuity, usually for the purpose of generating investment income to fund current operations and any accumulated earnings held in perpetuity that have not been released for expenditure.

Revenues are reported as increases in net assets without donor restrictions as earned. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor-restricted contributions whose restrictions are met in the same reporting periods are reported as net assets without donor restrictions support.

City University of Seattle

Notes to Financial Statements

Note 1 – Description of Entity and Summary of Significant Accounting Policies (continued)

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at a rate commensurate with the risk of the contribution. Amortization of discounts is recorded as additional contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Use of estimates – The preparation of financial statements in accordance with Generally Accepted Accounting Principles (GAAP), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents – The University considers all highly liquid short-term investments with original maturities of three months or less as of the date of purchase to be cash equivalents. The University at times holds balances that are in excess of Federal Deposit Insurance Corporation (FDIC) limits. Cash held by the University's foreign operations in Canada is not FDIC insured.

Fair value of beneficial interest in assets held by NUS – The University invests in a diversified investment pool offered by NUS. NUS has the University's investment account under its management. The University's share of the pool is recorded as beneficial interest in assets. The beneficial interest in assets is stated at fair value.

Note receivable – The University has a note receivable due from the College of Management in Trenchin as part of the Ownership Interest Transfer Agreement (OITA) for the remainder of the purchase price not received in 2016. The note was originally valued at \$1,277,352 and will be repaid through annual installments which began in January 2018 with a final installment due in 2026. The yearly installment due is calculated as 10% of gross tuition paid by students attending both City University of Seattle and the College of Management in Trenchin programs with a minimum payment of \$100,000 and a maximum of \$150,000 due per year. The final payment due in 2026 is \$250,000.

City University of Seattle Notes to Financial Statements

Note 1 – Description of Entity and Summary of Significant Accounting Policies (continued)

Accounts receivable and allowance for doubtful accounts – Accounts receivable consist of tuition and fee charges to students. Student accounts receivable are recorded at the net realizable value expected to be received from students or third-party payors. Receivables include amounts billed to students less payments received and the allowance for doubtful accounts. A student receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days from the due date. Student accounts receivable are written off against the allowance when deemed uncollectible. Accounts receivable also include amounts due from the state and federal government in connection with reimbursement of allowable expenditures made pursuant to University grants. Accounts receivable are recorded net of estimated uncollectible amounts based on past historical collection experience and current market conditions.

	2021	2020
Student	\$ 1,670,342	\$ 1,406,379
Tuition notes receivable	10,679	11,637
	1,681,021	1,418,016
Less allowance for doubtful: student accounts	(404,601)	(264,812)
Receivables, net	\$ 1,276,420	\$ 1,153,204

Deposits and other assets – Deposits and other assets at June 30, 2021 and 2020, are primarily lease deposits related to the University’s leased educational and administrative facilities and donated artwork of approximately \$237,000, which was donated to the University in 2014.

Fixed assets – Fixed assets are stated at cost at the date of acquisition or, if donated, at the fair value on the date of donation. The University’s policy is to capitalize purchased and donated assets exceeding \$1,000 for the years ended June 30, 2021 and 2020, respectively. Fixed assets are reviewed for possible impairment whenever significant events or changes in circumstances indicate an impairment may have occurred. Depreciation is provided over the estimated useful lives of each class of depreciable assets and is computed using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful life or the term of the corresponding lease. The range of estimated useful lives for each class of asset is as follows:

Leasehold improvements	2–15 years
Computer equipment and software systems	3–7 years
Furniture and equipment	3–10 years

Net assets with donor restrictions – As of June 30, 2021 and 2020, net assets with donor restrictions of \$765,899 and \$4,174,200, respectively, consisted of contributions for the establishment of programs to provide innovative, researched-based solutions designed to address critical needs in teacher education, Pre K-12 instruction, and nonprofit fundraising.

City University of Seattle

Notes to Financial Statements

Note 1 – Description of Entity and Summary of Significant Accounting Policies (continued)

Net assets with donor restrictions totaling \$914,101 and \$1,074,168, were released from restriction during the years ended June 30, 2021 and 2020, respectively, by satisfying donor restrictions through use for the development of the programs above. Due to a change by the donor, \$2,494,200 of net assets were transferred from with donor restrictions to without donor restriction during the year ended June 30, 2021.

Revenue recognition – The University recognizes revenue from tuition and fees in the period when the related courses are conducted. Courses are conducted over three months or less with revenue recognized proportionately over that time period. Scholarships and waivers are recorded as discounts to revenue concurrent with the recognition of tuition revenue from related courses. Scholarships amounted to \$239,981 and \$880,154 for the years ended June 30, 2021 and 2020, respectively. The University recognizes rent income when rent has been earned during the period of time. Rent income was recorded on a monthly basis.

Deferred tuition and fees – Deferred tuition and fees consist primarily of prepayments of tuition and fees, and are recorded as revenue when the related courses are conducted.

Refundable advances – Since March 2020, the University has been awarded approximately \$3,000,000 in total Higher Education Emergency Relief (“HEERF”) funding. For the years ended June 30, 2021 and 2020, the University’s statement of activities includes approximately \$313,000 and \$152,000, respectively, of federal government grants and contracts for HEERF I and HEERF II federal grants. As of June 30, 2021 and 2020, the University spent approximately \$1,000,000 and \$152,000, respectively, of HEERF funding. The University anticipates spending the remaining HEERF II student portion in the year ended June 30, 2022.

The University used the institutional portion of the HEERF funding to pay for additional technology and training costs associated with the transition to distance education as well as to cover outstanding receivable balances that students were not able to repay (“lost revenue”). The HEERF student portion was used to provide additional emergency financial aid to students.

The institutional portion of HEERF II is conditioned upon the University disbursing the student portion received to students. Consequently, at June 30, 2021, approximately \$650,000 has not been recognized in the statement of activities because the conditions on which they depend have not yet been met. These amounts are reported on the statements of financial positions as refundable advances.

Allocation of expenses – The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. See Note 12.

Advertising costs – Advertising costs are expensed as incurred. Advertising costs amounted to \$2,624,794 and \$2,561,292 in 2021 and 2020, respectively.

Note 1 – Description of Entity and Summary of Significant Accounting Policies (continued)

Other long-term liabilities – During fiscal years 2007 and 2008, the University entered into two licensing agreements to lease excess broadband. The agreements included initial upfront payments, which are being deferred and amortized over the expected period of the contracts. As of June 30, 2020, other long-term liabilities also consisted of liabilities to lessors for deferred rent expense recognized at the inception of certain leases and liabilities to lessors for improvements to certain leased facilities, payable over the terms of the related leases without interest. In addition, there were deferred rent payments, which represent the excess of rent expense, determined on a straight-line basis, over the early years of scheduled operating lease payments for certain University facilities.

Foreign currency translation and transaction gains and losses – The financial statements include foreign currency amounts attributable to foreign operations. The foreign currency amounts have been translated into U.S. dollars using year-end exchange rates for assets and liabilities, historical rates for net assets, and average annual rates for revenues and expenditures. Unrealized gains or losses arising from fluctuations in the year-end exchange rates are recorded as net asset adjustments from foreign currency translation, and gains or losses resulting from actual foreign exchange transactions are recorded in the change in foreign currency translation amount on the statements of activities and changes in net assets. The cumulative foreign currency translation loss amounted to \$109,590 and \$995,602 at June 30, 2021 and 2020, respectively.

Cash flows from the University's operations in foreign countries are calculated based on their local reporting currencies and translated to U.S. dollars.

Recently implemented accounting standards – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). This ASU requires substantially all leases to be recognized by lessees on their statement of financial position as an operating lease right of use asset and a corresponding lease liability, including leases historically accounted for as operating leases. Effective July 1, 2020, the University adopted the provisions of Topic 842 using the modified retrospective approach, electing to apply the cumulative-effect adjustment to the opening balance sheet and optional transition method to not present comparable prior year periods. The University made the following practical expedient elections: (1) elected the short-term lease exception, and (2) did not elect hindsight. The University adopted the transitional practical expedients which did not require reassessment whether existing arrangements contained a lease, reassessment of the historical lease classification, or reassessment of initial direct costs.

The adoption of Topic 842 resulted in the recording of approximately \$26.5 million of operating lease right of use assets and \$32.3 million of operating lease liabilities. There was no cumulative-effect adjustment to the balance sheet as a result of adoption. The University reports financial information for fiscal years ended on or before June 30, 2020, under the previous accounting standard.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (Topic 820). The objective and primary focus of ASU 2018-13 is to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP. The University adopted ASU 2018-13 retrospectively on July 1, 2020. See Note 1 for disclosures.

City University of Seattle

Notes to Financial Statements

Note 1 – Description of Entity and Summary of Significant Accounting Policies (continued)

Leases – The University determines if an arrangement is a lease at inception. Leases with an initial term of 12 months or less are not recorded on the statements of financial position and the lease expense is recognized on a straight-line basis over the lease term. Operating lease assets represent the University's right to use an underlying asset for the lease term and operating lease liabilities represent the University's obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the lease adoption date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the University discounts lease payments based on the risk free rate at the lease adoption date. The operating lease assets also include any lease payments made and exclude lease incentives. The lease terms include options to extend or terminate the lease when it is reasonably certain that the University will exercise that option. The lease expense for lease payments is recognized on a straight-line basis over the lease term. For lease agreements with lease and non-lease components, the lease and non-lease components are accounted for as a single lease component.

Reclassifications – Certain amounts have been reclassified from the prior year presentation to be in accordance with the current year presentation. These reclassifications had no effect on the reported change in net assets or total net assets.

Fair value of financial instruments – The following methods and assumptions were used by the University in estimating fair value of its financial instruments:

Beneficial interest in assets – The fair value is based on the fair value of the pooled assets and the University's ownership interest in the pool. Fair value of the investment pool is evaluated by the University to determine if the value should be adjusted. Factors considered may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. Valuations are reviewed at least annually using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies. Fair value associated with beneficial interest in assets has been based on information provided by NUS. Fair value of the pooled assets is determined by NUS and based on information provided by fund managers and external investment advisors.

Fair value is the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to measurements involving significant unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the University has the ability to access at the measurement date. The University does not hold any Level 1 financial assets or liabilities.

City University of Seattle Notes to Financial Statements

Note 1 – Description of Entity and Summary of Significant Accounting Policies (continued)

Level 2 – Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The University does not hold any Level 2 financial assets or liabilities.

Level 3 – Inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement, in its entirety, falls is based on the lowest level input that is significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the University's assets at fair value as of June 30, 2021 and 2020:

	Fair Value Measurement at June 30, 2021			Fair Value
	Level 1	Level 2	Level 3	
Beneficial interest in assets	\$ -	\$ -	\$ 15,213,024	\$ 15,213,024
	Fair Value Measurement at June 30, 2020			
	Level 1	Level 2	Level 3	Fair Value
Beneficial interest in assets	\$ -	\$ -	\$ 11,325,881	\$ 11,325,881

While the University believes its valuation methods are appropriate and consistent with those used by 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. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

The University had no purchases, sales, or transfers into or out of Level 3 investments during the fiscal year ended June 30, 2021. The University purchased \$1,500,000 of Level 3 investments during the fiscal year ended June 30, 2020.

The table below presents information about redemption frequency and notice period related to beneficial interest in assets at June 30, 2021:

	Fair Value	Redemption Frequency	Redemption Notice Period
Beneficial interest in assets	\$ 15,213,024	Daily	None

City University of Seattle

Notes to Financial Statements

Note 1 – Description of Entity and Summary of Significant Accounting Policies (continued)

Income tax status – The University has received a letter of determination from the U.S. Internal Revenue Service granting an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC), except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 514. Income taxes are expensed when paid, and accordingly, the financial statements do not include a provision for federal income taxes.

Income tax benefit and /or liabilities are recognized for income tax positions that will more-likely-than-not be sustained upon examination by taxing authorities. The University has analyzed the tax positions taken in its filings with the Internal Revenue Services (IRS). The University believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the University's financial condition, changes in net assets, or cash flows. Accordingly, the University has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions as of June 30, 2021 and 2020. Management believes the University is also exempt from state income taxes in all states in which it operates, except to the extent of unrelated business taxable income.

Risks and Uncertainties – During the year ended June 30, 2020, a world-wide outbreak of a novel coronavirus disrupted business activity in the U.S. as people, businesses, and governments reacted to deal with the health issues posed by the virus. Some industries have been affected more than others by the impact on employees, customers, and supply chains, and because the outbreak is ongoing, it is not yet possible to foresee the ultimate outcome of the coronavirus outbreak on the business of the University. As of the date these financial statements were available to be issued, the University's operations have not been materially affected. The University continues to monitor developments. Given the uncertainty regarding the spread of the coronavirus, the related financial impact cannot be reasonably estimated at this time.

Subsequent events – The University has performed an evaluation of subsequent events through October 11, 2021, which is the date the financial statements were available to be issued.

Note 2 – Fixed Assets

Fixed assets consisted of the following as of June 30:

	2021	2020
Furniture, equipment and software systems	\$ 20,739,642	\$ 20,498,419
Leasehold improvements	13,744,921	13,605,603
	34,484,563	34,104,022
Less accumulated depreciation and amortization	(30,065,445)	(28,741,726)
Fixed assets, net	<u>\$ 4,419,118</u>	<u>\$ 5,362,296</u>

Depreciation and amortization expense was \$1,185,519 and \$1,375,418 for the years ended June 30, 2021 and 2020, respectively.

City University of Seattle Notes to Financial Statements

Note 3 – Leases

Operating leases – The University leases and subleases educational and administrative facilities under noncancelable operating leases. Some of these operating leases contain escalation clauses based on increases in the annual consumer price index. These leases are primarily net leases, which require the University or its subtenants to pay executory costs such as insurance, common area maintenance, and other operating costs, in addition to minimum rentals.

The operating lease right of use asset and operating lease liabilities are based on the lease components as identified in the underlying agreements. A lease component is the cost stated in the agreement that directly relates to the right to use the identified asset(s). If the underlying agreements do not specifically identify the lease components, the University determines the lease components for accounting purposes.

The University uses the risk-free rate in determining the present value of lease payments. The University made an accounting policy election to not apply the lease accounting requirements to short-term lease agreements with an initial term of 12 months or less.

Rent expense for the years ended June 30, 2021 and 2020, consisted of the following:

	2021	2020
Minimum rentals	\$ 3,702,529	\$ 4,576,517
Additional rentals	497,198	679,684
	\$ 4,199,727	\$ 5,256,201

Several of the operating lease agreements include leasehold improvements that are recorded in accordance with GAAP and amortized over the term of the lease agreements. Operating lease payments representing the future minimum lease payments under all operating leases with initial noncancelable terms of one year or more at June 30, 2021, as well as the financed leasehold improvements included within those payments, are as follows:

	Operating Lease Payments
2022	\$ 3,991,928
2023	4,074,164
2024	4,152,535
2025	4,094,764
2026	4,119,401
Thereafter	5,696,133
Total future minimum lease amounts	26,128,925
Present value discount	(537,114)
Total operating lease liabilities	\$ 25,591,811

City University of Seattle

Notes to Financial Statements

Note 3 – Leases (continued)

Amortization expense related to financed leasehold improvements is included in the depreciation and amortization expense amount in Note 2.

The University entered into a Master Residency Agreement (MRA) with another educational institution on December 12, 2013. The agreement allows the University to rent a certain portion of student housing in a building constructed by the other institution for a period of ten years with the option to renew for an additional five years. The rent is contingent rent based upon usage. On June 30, 2021, the University entered into an agreement to reduce the space rented. As part of this agreement, the University will pay the other educational institution a settlement fee of \$1,612,500. The terms of this settlement fee are disclosed in Note 4.

The University provided a deposit of \$250,000 as security for the MRA. As of June 30, 2021, \$125,000 of the security deposit was released as part of the new agreement with the educational institution.

Note 4 – Notes Payable

Notes payable consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Note payable to a bank, due in monthly installments of \$61,184, with principal payments beginning January 1, 2019, including interest at 0.91%; secured by cash held at SMG; final payment of \$3,647,429 due June 1, 2022.	\$ 4,283,382	\$ 4,974,607
Note Payable to an educational institution, due in quarterly installments of \$107,326, with principal payments beginning October 1, 2021, including interest at 3% with no prepayment penalty; final payment due July 2, 2025.	<u>1,612,500</u>	<u>-</u>
Total	5,895,882	4,974,607
Less current portion	<u>(4,579,410)</u>	<u>(691,224)</u>
Long-term portion of notes payable	<u>\$ 1,316,472</u>	<u>\$ 4,283,383</u>

Note 4 – Notes Payable (continued)

Scheduled principal payments at June 30, 2021, are as follows:

Years ending June 30,	
2022	\$ 4,579,410
2023	394,217
2024	406,178
2025	<u>516,077</u>
	<u>\$ 5,895,882</u>

On April 20, 2020, City University of Seattle received a Paycheck Protection Program (PPP) loan of \$3,580,000 granted by the Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). As of June 30, 2020, \$3,526,426 was represented as revenue in Contributions and grants, and \$53,574 was included in deferred revenue. During the year ended June 30, 2021, \$53,574 of deferred revenue was recognized as other income. Application for forgiveness of the loan was made in October 2020, with inclusion of compliance substantiation and certification therein. The SBA forgave \$3,580,000 of principal and \$40,900 of interest on June 11, 2021.

Note 5 – Related-Party Transactions

The University incurs certain expenses and capital project costs that will be covered by SMG in accordance with the terms of the Contract (see Note 1), whereas NU incurs management and administrative expenses on behalf of the system for which the University will provide reimbursement. These expenses and costs include the following:

Management and administrative services – SMG provides support for employment and operating services for the University, which includes executive compensation.

System services – The University utilizes SMG for some of its administrative functions, such as technology support. The costs charged by SMG for such administrative support services are SMG's costs allocated based upon usage determined by number of employees, square footage, or revenue, as appropriate.

City University of Seattle

Notes to Financial Statements

Note 5 – Related-Party Transactions (continued)

Activity in the affiliate accounts for the years ended June 30, 2021 and 2020, are as follows:

Due to Affiliate, June 30, 2019	\$ 1,718,570
Management and administrative services	3,418,627
System services	2,773,357
Cash paid by City University of Seattle	<u>(6,300,000)</u>
Due to Affiliate, June 30, 2020	1,610,554
Management and administrative services	3,188,137
System services	2,772,996
Cash paid by City University of Seattle	<u>(6,500,000)</u>
Due to Affiliate, June 30, 2021	<u>\$ 1,071,687</u>

The University recorded contribution income from SMG of \$0 and \$500,000 for the years ended June 30, 2021 and 2020.

City University of Seattle Notes to Financial Statements

Note 6 – Foreign Operations

The University has foreign operations primarily in Canada.

Following is condensed financial information for foreign operations related to Canada as of and for the years ended June 30, 2021 and 2020, in U.S. dollars:

Condensed Schedule of Financial Position – Canada

	June 30,	
	2021	2020
Current assets	\$ 16,123,581	\$ 8,326,404
Deposits and other assets	50,793	46,387
Operating lease right of use asset	1,723,244	-
Fixed assets, net	811,219	954,822
Total assets	\$ 18,708,837	\$ 9,327,613
Current liabilities		
Intercompany payable to U.S. parent	\$ 17,168,310	\$ 13,766,214
Current portion of operating lease liability	336,003	-
Other current liabilities	2,778,630	845,410
Total current liabilities	20,282,943	14,611,624
Long-term liabilities		
Operating lease liabilities, net of current portion	1,507,099	-
Other long-term liabilities, excluding current portion	22,774	130,256
Total liabilities	21,812,816	14,741,880
Net assets without donor restrictions	(3,103,979)	(5,414,267)
Total net assets	(3,103,979)	(5,414,267)
Total liabilities and net assets	\$ 18,708,837	\$ 9,327,613

Condensed Schedule of Activities – Canada

	Years Ended June 30,	
	2021	2020
Changes in net assets		
Revenues and other additions	\$ 10,980,879	\$ 7,050,590
Educational and general expenses	(8,244,006)	(6,997,267)
Change in foreign currency translation	(426,585)	202,131
Change in net assets attributable to foreign operations of City University of Seattle	2,310,288	255,454
Net assets, beginning of year	(5,414,267)	(5,669,721)
Net assets, end of year	\$ (3,103,979)	\$ (5,414,267)

City University of Seattle

Notes to Financial Statements

Note 7 – Student Financial Assistance

Many of the University's students receive student loans and other financial assistance under programs funded by the U.S. Department of Education. For the years ended June 30, 2021 and 2020, the University received 26.83% and 22.56%, respectively, of its U.S. tuition revenue from those programs.

Note 8 – Retirement Plan

The University belongs to the National University Retirement Saving Plan (the National University Plan). The University matches the contributions of eligible participants up to 7% of their annual salary to the National University Plan. University contributions to the National University Plan in the years ended June 30, 2021 and 2020, totaled \$596,267 and \$580,919, respectively.

Note 9 – Lawsuits, Claims, and Contingencies

The University from time to time is subject to lawsuits, threatened lawsuits, and other claims asserted by employees, students, and others arising in the normal course of its business. The University's management believes that any liabilities arising from any such lawsuits, threatened lawsuits, and other claims will not have a material effect on the University's financial statements.

Federal and state financial aid – The University participates in various Federal and state financial aid programs for the benefit of students who attend the University. These programs have strict requirements for participation and the University is subject to government program reviews covering compliance with laws and regulations. Specific areas of review include student program eligibility, coordination of financial aid programs, and other matters.

Federal, state and private grants and contracts – The University receives funds from federal, state, and private agencies under grants and contracts for training and other activities. Both direct and indirect costs charged to these grants and contracts are subject to audit and possible disallowance by the sponsoring agency. It is the University's belief that disallowances or adjustments, if any, would not have a material effect on the financial statements.

Note 10 – Concentration

The University receives and expends substantial amounts of money under federal student loan programs that are subject to audit by government agencies. The University's management believes that any liabilities arising from any such audits will not have a material effect on the University's financial statements.

City University of Seattle Notes to Financial Statements

Note 11 – Liquidity and Availability

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

	Years Ended June 30,	
	2021	2020
Cash and cash equivalents	\$ 18,825,758	\$ 14,617,043
Investments	15,213,024	11,325,881
Note receivable	741,733	877,708
Accounts Receivable	1,276,420	1,153,204
Total financial assets	36,200,935	27,973,836
Less amounts not available to be used within one year:		
Note receivable, net of current portion	641,733	777,708
Investments with donor restrictions	765,899	4,174,200
Financial assets available to meet general expenditures over the next twelve months:	\$ 34,793,303	\$ 23,021,928

The University monitors liquidity to ensure the University has financial assets available to fulfil its mission and meet operating needs and other contractual commitments. In the calculation of financial assets, the University includes cash plus the University's right to receive cash within one year. Donor-restricted endowment funds are not considered to be available for general expenditures.

City University of Seattle Notes to Financial Statements

Note 12 – Classification of Expenses

The following reflects the classification of the University's expenses by both the underlying nature of the expense and the function, for the years ended June 30, 2021 and 2020. An individual expense is allocated to the underlying activity to which it was incurred. The statement of activities and changes in net assets includes certain expenses which must be allocated on a reasonable basis which has been consistently applied. Departments are grouped into functional expense categories by the nature of the activity. Depreciation, facilities rentals, interest, telephone and site administration related expenses are allocated among departments based on each department's share of FTEs for non-instruction related departments and enrollment and credit hours for departments falling under the instruction category.

	2021				Total
	Instruction	Academic Support	Student Services	Institutional Support	
Operating expenses					
Compensation	\$ 11,984,348	\$ 1,863,936	\$ 3,399,345	\$ 4,974,840	\$ 22,222,469
Facilities, utilities, repair and insurance	1,969,316	178,223	1,360,265	2,077,611	5,585,415
Advertising	3,394	46,377	78,537	2,496,486	2,624,794
Depreciation and amortization	266,476	92,314	281,735	544,994	1,185,519
Other operating and services	889,941	644,958	737,943	3,194,331	5,467,173
Total	<u>\$ 15,113,475</u>	<u>\$ 2,825,808</u>	<u>\$ 5,857,825</u>	<u>\$ 13,288,262</u>	<u>\$ 37,085,370</u>
	2020				
	Instruction	Academic Support	Student Services	Institutional Support	Total
Operating expenses					
Compensation	\$ 10,684,660	\$ 1,687,056	\$ 3,930,499	\$ 4,489,494	\$ 20,791,709
Facilities, utilities, repair and insurance	2,512,076	163,714	2,179,177	2,245,021	7,099,988
Advertising	9,801	21,673	81,956	2,447,862	2,561,292
Depreciation and amortization	288,986	106,411	380,321	599,700	1,375,418
Other operating and services	835,809	806,844	1,021,847	3,851,886	6,516,386
Total	<u>\$ 14,331,332</u>	<u>\$ 2,785,698</u>	<u>\$ 7,593,800</u>	<u>\$ 13,633,963</u>	<u>\$ 38,344,793</u>

Note 13 – Revenue from Contracts with Customers

Management has undertaken a review of contracts and revenue streams for all of the University's net revenues. The majority of the University's recurring revenues are related to tuition and fees from students, net of scholarships, and derived from courses taught by instructors as well as from related resources that are provided to its students, such as accommodation and transcript fees. The University's students fund their education through loans and/or grants from Title IV programs, military tuition assistance, veterans' education benefit programs, tuition assistance from employers, or personal funds. Title IV and military funding typically arrive during the period of instruction. For students receiving Title IV aid, the University may be required to return unearned Title IV funds to their sources if the student withdraws. Students who receive reimbursement from employers typically do so after completion of a course. Students who choose to pay cash for a class typically do so before beginning the class or elect to make continuous payments during the length of their program.

City University of Seattle Notes to Financial Statements

Note 13 – Revenue from Contracts with Customers (continued)

Revenues are recognized when control of the promised goods or services is transferred to enrolled students who attend enrolled classes, typically over the course term, in an amount that reflects the consideration the University expects to be entitled in exchange for those goods or services (as per the catalog).

The following table presents the University's net tuition and fees revenue for the year ended June 30, 2021 and 2020, disaggregated based on the revenue source:

Revenue Source	Timing of Recognition	Years Ended June 30,	
		2021	2020
Tuition	Over course term, 90 days	\$ 37,139,801	\$ 37,365,739
Miscellaneous fees	Point in time	346,194	534,293
Total		37,485,995	37,900,032
Less scholarships	Consistent with associated performance obligation	239,981	880,154
Total tuition and fees, net of scholarships		<u>\$ 37,246,014</u>	<u>\$ 37,019,878</u>

Deferred revenue

The academic programs are delivered in the Summer, Fall, Winter and Spring quarters. Tuition revenue related to deferred revenue is generally earned in the following term when performance obligations are met. Payments for tuition are due approximately 10 days prior to the start of the session. The activity and balances for deferred revenue are shown in the following table.

	Associated with Partner Institutions	Associated with Partner Institutions	Total
Balance at June 30, 2019	\$ 2,239,020	\$ 363,487	\$ 2,602,507
Revenue recognized	(2,239,020)	(363,487)	(2,602,507)
Payments received for future performance obligations	<u>558,250</u>	<u>171,989</u>	<u>730,239</u>
Balance at June 30, 2020	558,250	171,989	730,239
Revenue recognized	(558,250)	(171,989)	(730,239)
Payments received for future performance obligations	<u>2,049,620</u>	<u>375,632</u>	<u>2,425,252</u>
Balance at June 30, 2021	<u>\$ 2,049,620</u>	<u>\$ 375,632</u>	<u>\$ 2,425,252</u>

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 Trustees
City University of Seattle
(an affiliate of the National University System)

We have audited, in accordance with the auditing standards generally accepted in the United States of America 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 City University of Seattle, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City University of Seattle'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 City University of Seattle's internal control. Accordingly, we do not express an opinion on the effectiveness of City University of Seattle'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 a 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 City University of Seattle's financial statements are free from 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.

Moss Adams LLP

Spokane, Washington
October 11, 2021

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

The Board of Trustees
City University of Seattle
(an affiliate of the National University System)

Report on Compliance for Each Major Federal Program

We have audited City University of Seattle's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City University of Seattle's major federal programs for the year ended June 30, 2021. City University of Seattle's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City University of Seattle's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City University of Seattle's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City University of Seattle's compliance.

Opinion on Each Major Federal Program

In our opinion, City University of Seattle complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of City University of Seattle is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City University of Seattle's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City University of Seattle's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose

Moss Adams LLP

Spokane, Washington
October 11, 2021

City University of Seattle and Subsidiaries

Schedule of Financial Responsibility Ratios

Primary Reserve Ratio Calculation	Reference	June 30, 2021
Net assets without donor restrictions	SOFP	\$ 20,954,230
Net assets with donor restrictions	SOFP	<u>765,899</u>
Total net assets		21,720,129
Less:		
Annuities with donor restrictions	n/a	-
Term endowments with donor restrictions	n/a	-
Life income funds with donor restrictions	n/a	-
Net assets with donor restrictions: restricted in perpetuity (less annuities)	n/a	-
Secured and unsecured related party receivables	n/a	-
Unsecured related party receivables	n/a	-
Unsecured other related party assets	n/a	-
Property, plant and equipment - pre-implementation	FRR Note 2	(4,259,413)
Property, plant and equipment - post-implementation with outstanding debt for original purchase	n/a	-
Property, plant and equipment - post-implementation without outstanding debt for original purchase	FRR Note 2	(159,705)
Construction in progress	n/a	-
Lease right-of-use asset pre-implementation	n/a	-
Lease right-of-use asset post-implementation	SOFP	(20,345,259)
Intangible assets	n/a	-
Add:		
Post-employment and pension liabilities	n/a	-
Long-term debt for long term purposes pre-implementation	FRR Note 3	4,283,383
Long-term debt for long term purposes post-implementation	FRR Note 3	20,345,259
Line of credit for construction in progress	n/a	-
Pre-implementation right-of-use lease liabilities	n/a	-
Post-implementation right-of-use lease liabilities	n/a	<u>-</u>
Total expendable net assets		\$ 21,584,394
Total expenses without donor restrictions	SOA	37,085,370
Add:		
Non-operating and net investment losses	SOA	3,150,000
Other components of net periodic pension costs	n/a	-
Change in value of split-interest agreements	n/a	-
Other losses	SOA	-
Net investment losses	n/a	-
Pension - related changes other than net periodic costs	n/a	<u>-</u>
Total expenses without donor restrictions and losses without donor restrictions		<u>\$ 40,235,370</u>
Primary reserve ratio		0.5

City University of Seattle and Subsidiaries Schedule of Financial Responsibility Ratios (continued)

Equity Ratio Calculation	Reference	June 30, 2021
Net assets without donor restrictions	SOFP	\$ 20,954,230
Net assets with donor restrictions	SOFP	<u>765,899</u>
		21,720,129
Less:		
Lease right-of-use assets pre-implementation	n/a	-
Intangible assets	n/a	-
Unsecured related-party receivables	n/a	-
Unsecured related-party other assets	n/a	-
Add:		
Pre-implementation right-of-use lease liabilities	n/a	<u>-</u>
Modified net assets		\$ 21,720,129
Total assets	SOFP	\$ 61,927,042
Less:		
Lease right-of-use assets pre-implementation	n/a	-
Intangible assets	n/a	-
Unsecured related-party receivables	n/a	-
Unsecured related-party other assets	n/a	<u>-</u>
Modified assets		<u>\$ 61,927,042</u>
Equity ratio		0.4
Net Income Ratio Calculation	Reference	For the Year Ended June 30, 2021
Change in net assets without donor restrictions	SOA	\$ 5,924,106
Total operating revenue, gains, and other support without donor restrictions	SOA	\$ 38,892,120
Add:		
Investment return appropriated for spending (without donor restriction)	SOA	3,887,143
Non-operating revenue and other gains (without donor restriction)	SOA	886,013
Change in donor restrictions	SOA	2,494,200
Total revenue and gains without donor restrictions		<u>\$ 46,159,476</u>
Net income ratio		0.1

City University of Seattle and Subsidiaries

Schedule of Financial Responsibility Ratios (continued)

Step 1: Calculate the strength factor score for each ratio by using the following algorithms:

Primary Reserve strength factor score = 10 x the primary reserve ratio result

Equity strength factor score = 6 x the equity ratio result

Negative net income ratio result: Net Income strength factor = 1 + (25 x net income ratio result)

Positive net income ratio result: Net income strength factor = 1 + (50 x net income ratio result)

Zero result for net income ratio: Net income strength factor = 1

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for the ratio is 3.

If the strength factor score for any ratio is less than or equal to -1, the strength factor score for the ratio is -1.

Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores

Primary Reserve weighted score = 40% x the primary reserve strength factor score

Equity weighted score = 40% x the equity strength factor score

Net Income weighted score = 20% x the net income strength factor score

Composite Score = the sum of all weighted scores

Round the composite score to one digit after the decimal point to determine the final score

RATIO DESCRIPTION	As of and for the year ended June 30, 2021			
	Ratio	Strength Factor	Weight	Composite Scores
Primary Reserve Ratio	0.5	3.0	40%	1.2
Equity Ratio	0.4	2.4	40%	1.0
Net Income Ratio	0.1	3.0	20%	0.6
Composite Score				<u>2.8</u>

City University of Seattle and Subsidiaries

Notes to Schedule of Financial Responsibility Ratios

Note 1 – Financial Responsibility

Section 498(c)(1) of the Higher Education Act authorizes the secretary for the Department of Education (Department) to establish ratios and other criteria for determining whether an institution has sufficient financial responsibility. Section 668.172 established a methodology based on three ratios—primary reserve, equity, and net income—that measure different aspects of financial health and are combined into a composite score to measure financial responsibility. Several mathematical steps are required to combine an institution’s ratio results into a composite score:

- Determine the value of each ratio;
- Calculate a strength factor score for each ratio using the appropriate algorithm;
- Calculate a weighted score for each ratio by multiplying the strength factor score by its corresponding weighted percentage’ and
- Add the weighted scores to arrive at the composite score.

Institutions receiving a composite score of 1.5 or greater are considered financially responsible. An institution that fails the financial responsibility standards may continue to participate in Title IV programs under provisional certificates for three years. To continue to participate in Title IV programs under provisional certification, an institution will be required to provide surety to the Department of 10 percent or more of its previous year’s Title IV funding, as determined by the Department.

The schedule of financial responsibility ratios shows the calculation of the composite score as of June 30, 2021, for the University, including a reference for each financial element to either the statement of financial position (SFP), statement of activities and changes in net assets (SOA), or notes to the financial statements, as applicable.

Note 2 – Fixed Assets

The following table shows a reconciliation of pre- and post-implementation fixed assets as of June 30, 2021:

	Reference	Pre-implementation	Post- implementation	Total
Fixed assets, net at June 30, 2020, as previously reported	SFP	\$ 5,362,296	\$ -	\$ 5,362,296
Purchases of capital assets	SOCF	-	159,705	159,705
Depreciation, disposals, and effect of foreign currency translation		(1,102,883)	-	(1,102,883)
Fixed assets, net at June 30, 2021		<u>\$ 4,259,413</u>	<u>\$ 159,705</u>	<u>\$ 4,419,118</u>

City University of Seattle and Subsidiaries

Notes to Schedule of Financial Responsibility Ratios

Note 3 – Notes payable

The following table shows a reconciliation of pre- and post-implementation notes payable as of June 30, 2021:

Reference	Allowable Debt		Total	Nonallowable	Total	
	Pre- implementation	Post- implementation	Allowable Debt Post- implementation	Debt Post- implementation		
Debt at June 30, 2020	Note 4	\$ 4,974,607	\$ -	\$ 4,974,607	\$ -	\$ 4,974,607
New debt	Note 4	-	-	-	1,612,500	1,612,500
Fiscal year 2021 payments	SCF	(691,224)	-	(691,224)	-	(691,224)
ROU Liabilities (see below)		-	20,345,259	20,345,259	-	20,345,259
Long-term debt at June 30, 2021		<u>\$ 4,283,383</u>	<u>\$ 20,345,259</u>	<u>\$ 24,628,642</u>	<u>\$ 1,612,500</u>	<u>\$ 26,241,142</u>
ROU Liabilities	Note 3	\$ 25,591,811				
ROU Assets	SFP	<u>20,345,259</u>				
ROU Liabilities over ROU Assets		<u>\$ 5,246,552</u>				
ROU Liabilities		\$ 25,591,811				
Less amount exceeding ROU Assets		<u>5,246,552</u>				
ROU Liabilities for FRRs		<u>\$ 20,345,259</u>				

City University of Seattle and Subsidiaries
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor Program Title/Project Title	Assistance Listing Number	Federal Expenditures
U.S. Department of Education		
Student Financial Assistance Cluster		
Federal Pell Grant Program	84.063	\$ 556,232
Federal Supplemental Educational Opportunity Grants	84.007	36,120
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379	32,749
Federal Work-Study Program	84.033	44,380
Federal Direct Student Loans	84.268	<u>11,189,240</u>
Total U.S. Department of Education and Student Financial Assistance Cluster		<u>11,858,721</u>
Education Stabilization Fund		
Covid 19- Higher Education Emergency Relief Fund-Student	84.425E	80,684
Covid 19- Higher Education Emergency Relief Fund-Institution	84.425F	<u>918,842</u>
Total Education Stabilization Fund		<u>999,526</u>
Total U.S. Department of Education		<u>12,858,247</u>
National Security Agency		
Language Grant Program	12.900	<u>90,000</u>
Total Expenditures of Federal Awards		<u><u>\$ 12,948,247</u></u>

City University of Seattle and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of City University of Seattle (University), an affiliate of the National University System, under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, statement of activities and changes in net assets, or cash flows of the University.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The University has elected to not use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

City University of Seattle
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

I. Summary of Auditor's Results

Financial Statements

Type report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Yes No

Identification of major federal program and type of auditor's report issued on compliance for major federal program:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Auditor's Report Issued on Compliance for Major Federal Programs</u>
Various	U.S. Department of Education-- Student Financial Assistance Cluster	Unmodified
84.425E and 84.425F	Higher Education Emergency Relief Fund	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

II. Financial Statement Findings

None reported

III. Federal Award Findings and Questioned Costs

None reported

