



**SOUTHERN METHODIST UNIVERSITY**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**May 31, 2020 and 2019**

**(With Independent Auditors' Report Thereon)**

## Independent Auditors' Report

The Board of Trustees  
Southern Methodist University:

We have audited the accompanying consolidated financial statements of Southern Methodist University and its subsidiaries (the University) which comprise the consolidated statements of position as of May 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Methodist University and its subsidiaries as of May 31, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

***Emphasis of Matter***

As discussed in note 2(o) to the consolidated financial statements, in 2020, the University adopted Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Our opinion is not modified with respect to this matter.

[(signed) KPMG LLP]

Dallas, Texas  
September 10, 2020

**Southern Methodist University**  
**Consolidated Statements of Position**  
**For the Fiscal Years Ended May 31, 2020 and 2019**

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*(Dollars in Thousands)*

	May 31, 2020	May 31, 2019
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 148,697	\$ 175,706
Accounts receivable, net	57,238	30,401
Donor contributions receivable, net	199,644	117,592
Investments	1,856,987	2,001,168
Land, buildings, and equipment, net	1,223,584	1,187,512
Other assets	19,318	19,034
<b>TOTAL ASSETS</b>	<b>\$ 3,505,468</b>	<b>\$ 3,531,413</b>
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 194,477	\$ 182,112
Deposits and deferred revenue	58,877	49,438
Long-term debt, net	686,301	817,106
Other liabilities	11,591	9,811
<b>Total Liabilities</b>	<b>951,246</b>	<b>1,058,467</b>
<b>NET ASSETS:</b>		
Net assets without donor restrictions	\$ 650,383	\$ 661,269
Net assets with donor restrictions	1,903,839	1,811,677
<b>Total Net Assets</b>	<b>2,554,222</b>	<b>2,472,946</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,505,468</b>	<b>\$ 3,531,413</b>

**Southern Methodist University**  
**Consolidated Statements of Activities**  
**For the Fiscal Years Ended May 31, 2020 and 2019**

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(Dollars in Thousands)

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES:</b>						
Net tuition and fees	\$ 325,862	\$ —	\$ 325,862	\$ 319,084	\$ —	\$ 319,084
Donor contributions	22,836	175,744	198,580	35,885	70,735	106,620
Endowment income, net	3,545	2,692	6,237	7,734	3,774	11,508
Net gains on investments	5,741	21,270	27,011	4,062	32,202	36,264
Grants and contracts	38,582	—	38,582	34,385	—	34,385
Organized activities	7,155	—	7,155	8,472	—	8,472
Other sources	43,638	—	43,638	50,181	—	50,181
Auxiliary activities	53,908	—	53,908	61,109	—	61,109
<b>TOTAL REVENUES</b>	<b>\$ 501,267</b>	<b>\$ 199,706</b>	<b>\$ 700,973</b>	<b>\$ 520,912</b>	<b>\$ 106,711</b>	<b>\$ 627,623</b>
Net assets released from restrictions	107,544	(107,544)	—	103,230	(103,230)	—
<b>TOTAL ADJUSTED REVENUES</b>	<b>\$ 608,811</b>	<b>\$ 92,162</b>	<b>\$ 700,973</b>	<b>\$ 624,142</b>	<b>\$ 3,481</b>	<b>\$ 627,623</b>
<b>EXPENSES:</b>						
<b>PROGRAM EXPENSES:</b>						
Instruction	\$ 212,150	\$ —	\$ 212,150	\$ 209,103	\$ —	\$ 209,103
Academic support	95,321	—	95,321	90,547	—	90,547
Research	32,044	—	32,044	33,299	—	33,299
Organized activities	13,444	—	13,444	12,771	—	12,771
Student services	54,213	—	54,213	54,093	—	54,093
Auxiliary activities	94,700	—	94,700	90,300	—	90,300
<b>TOTAL PROGRAM EXPENSES</b>	<b>501,872</b>	<b>—</b>	<b>501,872</b>	<b>490,113</b>	<b>—</b>	<b>490,113</b>
Institutional support	113,838	—	113,838	95,133	—	95,133
<b>TOTAL EXPENSES</b>	<b>\$ 615,710</b>	<b>\$ —</b>	<b>\$ 615,710</b>	<b>\$ 585,246</b>	<b>\$ —</b>	<b>\$ 585,246</b>
Other postretirement plan changes	3,987	—	3,987	(6,154)	—	(6,154)
<b>TOTAL EXPENSES AND ADJUSTMENTS</b>	<b>\$ 619,697</b>	<b>\$ —</b>	<b>\$ 619,697</b>	<b>\$ 579,092</b>	<b>\$ —</b>	<b>\$ 579,092</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ (10,886)</b>	<b>\$ 92,162</b>	<b>\$ 81,276</b>	<b>\$ 45,050</b>	<b>\$ 3,481</b>	<b>\$ 48,531</b>
BEGINNING NET ASSETS BEFORE ACCOUNTING CHANGE				\$ 614,461	\$ 1,475,956	\$ 2,090,417
CUMULATIVE ACCOUNTING CHANGE EFFECT				1,758	332,240	333,998
<b>BEGINNING NET ASSETS AFTER ACCOUNTING CHANGE</b>	<b>661,269</b>	<b>1,811,677</b>	<b>2,472,946</b>	<b>616,219</b>	<b>1,808,196</b>	<b>2,424,415</b>
<b>ENDING NET ASSETS AFTER ACCOUNTING CHANGE</b>	<b>\$ 650,383</b>	<b>\$ 1,903,839</b>	<b>\$ 2,554,222</b>	<b>\$ 661,269</b>	<b>\$ 1,811,677</b>	<b>\$ 2,472,946</b>

**Southern Methodist University**  
**Consolidated Statements of Cash Flows**  
**For the Fiscal Years Ended May 31, 2020 and 2019**

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(Dollars in Thousands)

	2020	2019
Cash flows from operating activities:		
Changes in net assets	\$ 81,276	\$ 48,531
<i>Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:</i>		
Depreciation and accretion	51,045	45,445
Long-term debt-related amortization	(5,620)	(5,530)
Loss on disposal of land, buildings, and equipment	10,936	1,038
(Increase) decrease in accounts and donor contributions receivable	(108,889)	47,480
(Increase) decrease in other assets	(284)	163
Increase (decrease) in accounts payable and accrued expenses for operations	12,185	(13,363)
Increase (decrease) in deposits and deferred revenue	9,439	(265)
Increase in other liabilities for operations	1,780	919
Donor contributions restricted for long-term investment	(63,113)	(52,496)
Noncash donor contributions	(13,905)	(24,398)
Net realized and unrealized gains on investments	(27,011)	(36,264)
Income restricted for long-term investment	(666)	(1,484)
<b>Net cash (used for) provided by operating activities</b>	<b>\$ (52,827)</b>	<b>\$ 9,776</b>
Cash flows from investing activities:		
Proceeds from sales of land, buildings, and equipment	\$ 11,594	\$ 6
Purchase of land, buildings, and equipment	(106,707)	(108,193)
Acquisition of investments	(320,082)	(522,655)
Disposition of investments	502,239	680,800
Increase (decrease) in investing related accounts payable and accrued expenses	180	(97,947)
<b>Net cash provided by (used for) investing activities</b>	<b>\$ 87,224</b>	<b>\$ (47,989)</b>
Cash flows from financing activities:		
Donor contributions restricted for long-term investment	\$ 63,113	\$ 52,496
Income restricted for long-term investment	666	1,484
Long-term debt payments	(125,185)	(23,105)
<b>Net cash (used for) provided by financing activities</b>	<b>\$ (61,406)</b>	<b>\$ 30,875</b>
<b>Net decrease in cash and cash equivalents</b>	<b>\$ (27,009)</b>	<b>\$ (7,338)</b>
Cash and cash equivalents at beginning of period	175,706	183,044
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 148,697</b>	<b>\$ 175,706</b>
<b>Supplemental data:</b>		
Donor contributions of investments, real estate and other	\$ 10,965	\$ 19,046
Donor contributions of land, buildings, and equipment	2,940	5,352
Cash paid for interest	30,607	33,911

*(Dollars in Thousands)*

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## **1. Nature of Operations**

Southern Methodist University (the University) is a private higher education institution providing undergraduate, graduate, and continuing educational opportunities. In addition to revenue generated by tuition and fees charged for these educational services, the University receives support from donations, revenue from investment earnings, federal grants, sponsored research, athletic events, auxiliary activities, and other sources.

During the reporting periods, the University had seven corporations under its control that are included in the *Consolidated Financial Statements*. These corporations support various University activities, including research initiatives, intercollegiate athletics, and the acquisition and management of real assets ancillary to the University's primary mission.

## **2. Summary of Significant Accounting Policies**

The *Consolidated Financial Statements* have been prepared in accordance with generally accepted accounting principles (GAAP) established to provide meaningful information about the financial resources and operations of the University as a whole and have been prepared on an accrual basis.

### ***(a) Net assets***

As a not-for-profit entity, the University receives substantial support from donor contributions. The terms of many of these contributions restrict how the University may use the corresponding resources. Accordingly, transactions and balances are classified into two categories of net assets:

**Net assets without donor restrictions** – Net assets that are not subject to any donor-imposed stipulations or for which the donor-imposed stipulations have been fulfilled. The University has determined that any donor-imposed restrictions for currently budgeted programs and activities generally are met within the operating cycle of the University. Therefore, the University's policy is to record these funds as net assets without donor restrictions.

**Net assets with donor restrictions** – Net assets that are subject to donor-imposed stipulations which have not been fulfilled. Such stipulations may require the net assets to be held in perpetuity within the University's endowment, to support specific programs, to fund capital projects, or other University activities.

Revenues are reported as increases in "Net assets without donor restrictions" unless their use is limited by donor-imposed stipulations that are not reasonably expected to be fulfilled during the current operating cycle.

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 governing the use of charitable donations. 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 "Net assets released from restrictions" and shown as reclassifications between net asset categories.

Income and realized and unrealized gains or losses on investments of donor-restricted net assets are reported as increases or decreases in "Net assets with donor restrictions" to the extent that the donor stipulations require the investment of the contribution (e.g., endowment related gifts, etc.).

The costs of providing various programs and support services are summarized on a functional basis in the *Consolidated Statements of Activities*. Accordingly, expenses such as depreciation, interest, and the operation and maintenance of University facilities are allocated among the functional categories.

*(Dollars in Thousands)*

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***(b) Cash equivalents***

Cash equivalents include operating cash investments, U.S. Treasury bills and short-term paper with maturities of three months or less from the date of purchase.

***(c) Accounts receivable, net***

Accounts receivable includes amounts due from students for tuition, receivables due under grant and contract agreements, payments under athletic agreements, and other general operating receivables. These amounts are valued at net realizable value.

***(d) Donor contributions receivable, net***

Unconditional commitments to give from University donors are included in the *Consolidated Financial Statements* as donor contributions receivable until they are collected. These amounts have been discounted to their present value using rates that the University feels appropriately reflect the risks associated with these cash flows. Amortization of discounts is recorded as additional contribution revenue.

***(e) Fair value measurements***

Fair value measurements reflected in the *Consolidated Financial Statements* conceptually represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP provides a hierarchy that prioritizes the inputs to fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect the University's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets and liabilities measured and reported at fair value are classified and disclosed within one of the following categories:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets as of the reporting date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations are determined through direct or indirect observations other than quoted market prices. The type of investments in Level 2 also includes certain positions in which the University is a unit of account holder within a fund or account that holds underlying assets that are traded in active exchange markets with readily available pricing.
- Level 3 – Valuations for assets and liabilities that are unobservable and derived from other valuation methodologies including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The fair value of short-term paper, stocks, and bonds is based on quoted market prices. The fair value of funds held in trust by others is based on asset values reported to the University by the respective trustee. Such values rely primarily on Level 3 techniques. The fair value of real estate and mineral rights is estimated based on the income stream those assets generate. Where the fair value of mortgage and other notes receivable and University individually owned and managed real estate surface rights is not available and cannot be determined without incurring excessive costs, the amounts reflected as fair value are the same as carrying value.



*(Dollars in Thousands)*

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The majority of the University's investments reported are held through limited partnerships and commingled funds, for which fair value is estimated using the net asset values (NAV) reported by the investment managers as a practical expedient. Such investments have not been categorized within the fair value hierarchy.

Notes and bonds payable are carried at the amount of debt incurred, net of unamortized issuance costs and unamortized premiums and discounts adjusted for principal payments made.

***(f) Investments***

ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* removes the option for the University to report various investments at cost rather than fair value.

Fair value for marketable securities, funds held in trust by other and equity method investments are measured based upon quoted prices in active markets, if available. If the market is inactive, fair value is determined by underlying managers and reviewed by the University.

The University's investments in investment funds are subject to the terms of the respective funds' agreements, private placement memoranda, and other governing agreements of such funds. These terms are typical for hedge fund and private equity arrangements. The University's investments are also subject to management and performance fees as specified in such funds' agreements. Additionally, such funds in which the University invests may restrict both the transferability of the University's interest and the University's ability to withdraw. In light of such restrictions imposed, an investment in these funds is illiquid and subject to liquidity risk.

Investment transactions are accounted for on the trade date basis, with investment income and expense recognized on an accrual basis.

***(g) Derivative instruments***

From time to time, the University may be party to hedging and other derivative agreements. Current outstanding instruments qualify as a derivative financial instrument under ASC 815, *Derivatives and Hedging*. These instruments are recorded on the *Consolidated Statements of Position* as either an asset or liability measured at the fair value (using Level 2 techniques) as of the reporting date. Changes in fair value of any derivatives are recognized in the *Consolidated Statements of Activities*.

***(h) Land, buildings, and equipment***

Land, buildings, and equipment (including art objects) are recorded at cost, if purchased, or at fair value at the time of donation, if donated. During the period qualifying construction projects are in progress, net interest costs are capitalized as part of the basis of capital assets. Capital assets include land, buildings, and equipment that have an acquisition cost of \$5 and over and have an estimated useful life of at least two years, with the exception of software, where the cost must exceed \$75 before the asset will be capitalized. Land improvement, buildings, and equipment (except for art objects) are depreciated on the straight-line basis over their estimated useful lives with equipment, vehicles, furniture, software and "other" depreciating in five to 15 years; land improvements depreciating in 15 to 50 years; and buildings depreciating in 20 to 40 years.

*(Dollars in Thousands)*

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***(i) Tuition and fees***

Tuition and fee revenue is recognized in accordance with ASC 606, *Revenue from Contracts with Customers*. The University applies the portfolio approach, which approximates the revenue that would be recognized by the individual contract approach. In connection with these contracts, the University has an obligation to provide instruction and access to various student facilities. Tuition and fees are generally collected in advance or over the course of the respective term with the revenue earned over the same term as the University's performance obligations are satisfied. Scholarship allowance represents a reduction in the consideration collected from students reflective of discounts as well as the use of donor contributions designated to reduce the amounts collected directly from students. "Net tuition and fees" represent the cumulative transaction price reflective of ASC 606. Student tuition and fees received in advance of the corresponding revenue recognition are reported as customer contract liabilities in "Deposits and deferred revenue."

***(j) Donor contributions revenue***

Contributions from University donors, including unconditional promises to give, are recognized as revenue in the period received. Unconditional promises to give from University donors, with payments due in future periods, are recorded as increases in "Net assets with donor restrictions" at the estimated present value of future cash flows, net of an allowance for uncollectible pledges.

Donor-restricted contributions are reported as revenue that increase "Net assets with donor restrictions." Expirations of restrictions on net assets, such as the donor stipulation being met or the passage of time, are reported as "Net assets released from restrictions" and reflect reclassifications between the net asset categories. If the donor stipulation for a restricted contribution is met in the year of the gift, the contribution may be reflected in "Net assets without donor restrictions." Temporary restrictions on gifts to acquire long-lived assets are considered met in the period when the asset is placed in service. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

Donor contributions are recorded at fair value or a nominal value if fair value is not readily determinable. Recorded realized and unrealized gains on investments are reported in the appropriate net asset classifications in the *Consolidated Statements of Activities*. Gifts and income thereon that are restricted in perpetuity by the donors for the purpose of making loans to students are reported as "Net assets with donor restrictions."

Donor contributions of land, buildings and equipment without donor stipulations, concerning the use of such long-lived assets, are reported as revenue to "Net assets without donor restrictions." Donor contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenue to "Net assets with donor restrictions." The restrictions are considered to be released when the long-lived assets are placed in service.

***(k) Grants and contracts revenue and indirect cost recoveries***

The University receives grants and contracts revenue for research and other services it provides pursuant to arrangements with governmental and private entities. Grants and contracts revenue includes exchange transactions and contribution transactions where the related restrictions or conditions are indicative of a research grant relationship and not a traditional donor relationship. For financial statement purposes, grants and contracts revenue is recorded at the time corresponding expenses have been incurred.

*(Dollars in Thousands)*

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Indirect cost recoveries and grants and contracts revenue are reported at the estimated net realizable amounts due from sponsoring agencies. These grants and contracts awards generally specify the purpose for which the funds are to be used and funds are typically received as the University pays for the corresponding expenses. Revenues from sponsored grants and contracts are recognized when allowable expenditures are incurred under such agreements. These revenues, primarily from the federal government, are recorded as adjustments to “Net assets without donor restrictions.” Amounts recorded in grants and contracts receivable are for grant expenditures incurred in advance of the receipt of funds.

Indirect cost recoveries are based on negotiated rates and represent recoveries of facilities and administrative costs incurred under grants and contracts agreements.

***(l) Auxiliary activities***

Auxiliary activities revenue is recognized in accordance with ASC 606, *Revenue from Contracts with Customers*, with the primary contracts relating to housing and dining services. The University applies the portfolio approach, which approximates the revenue that would be recognized by the individual contract approach. In connection with these contracts, the University has an obligation to provide access to housing facilities and dining services through the term of the contract and recognizes revenue as the University’s performance obligations are satisfied. Auxiliary activities also include athletics and other operations which provide services to students, faculty and staff. Fee charges are directly related to the costs of these services.

***(m) Income taxes***

The University and the controlled corporations described in *Note 1* have received determination letters from the Internal Revenue Service indicating they are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, as organizations described in Sections 501(c)(3) and are not private foundations under Sections 509(a)(1) and 509(a)(3), as such, contributions to these entities qualify for deduction as charitable contributions.

The University and its consolidated entities are exempt from federal income taxes except to the extent they have unrelated business income. In addition, there were no uncertain income tax positions during the reporting periods. Accordingly, no tax liability or tax benefit is required under ASC 740, *Income Taxes*.

***(n) Use of estimates***

The preparation of the *Consolidated Financial Statements* in conformity with GAAP requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items in the University’s *Consolidated Financial Statements* subject to such estimates and assumptions include valuations for certain investments without readily determinable fair values, the determination of the allowances for uncollectible accounts and contractual adjustments, accrued professional and general liability costs, and actuarially determined benefit liabilities related to the University’s postretirement benefit plans. Depreciation expense is based on the estimated useful lives of the related assets.

***(o) New accounting pronouncements***

The University has adopted ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* in fiscal year 2020. This ASU removes the option for the University to report various equity investments such as venture capital and partnership interests at cost. These assets are reported at fair value with changes in values reported in the *Consolidated Statements of Activities*. A cumulative-effect adjustment has been recognized in fiscal year 2019 to the *Consolidated Statements of Position* which has increased the beginning *Investments* and *Net assets* balances by \$333,998.

*(Dollars in Thousands)*

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which replaces most existing guidance on leases and requires that most leases longer than twelve months be recorded on the *Consolidated Statements of Position* as an asset, representing the value of the right of use and any direct costs under the lease, and a liability representing the present value of the future payments required under the lease. The new standard was effective for the University on June 1, 2019 but due to the outbreak of a novel coronavirus (COVID-19) the FASB delayed the effective date another year as part of their relief during this time. As such, the University has elected to defer the implementation to fiscal year 2021. The University is evaluating the effect of ASU No. 2016-02 and does not expect it to have a material effect on its *Consolidated Financial Statements* and related disclosures.

### 3. Liquidity and Resource Availability

The University has various practices in place to ensure sufficient resources are available to fund the general obligations of the University including general expenditures, liabilities, and other obligations as they come due. In general, the University uses the cash and other financial assets collected during the year to fund the expenses for the same year. The University frequently collects financial assets that are designated to fund certain activities of the University including donor-restricted contributions, amounts for the University's endowment, debt proceeds restricted to specific purposes, etc. Such assets are not available for general obligations. Excess cash balances are invested with a focus on capital preservation while seeking more favorable yields to traditional savings instruments. The risk profile and duration for such investments are adjusted to match future cash needs. Financial assets expected to be available for general obligations within a year are summarized below:

	2020	2019
<b>FINANCIAL ASSETS:</b>		
Cash and cash equivalents	\$ 148,697	\$ 175,706
Accounts receivable, net	57,238	30,401
Donor contributions receivable, net	199,644	117,592
Investments	1,856,987	2,001,168
<b>Total financial assets</b>	<b>2,262,566</b>	<b>2,324,867</b>
Less amounts not available to be used within one year:		
Cash and cash equivalents restricted for capital projects	(31,410)	(32,455)
Cash and cash equivalents restricted for loan programs	(12,047)	(11,937)
Donor contributions receivable, net due after one year	(150,747)	(73,309)
Donor contributions receivable, net due next year with restricted purposes	(37,867)	(34,798)
Accounts receivable, net restricted to the endowment	(21,795)	(1,166)
Investments restricted for defeased debt	(103,390)	(209,400)
Investments restricted to the endowment	(1,563,773)	(1,619,390)
Investments restricted to loan programs	(3,018)	(3,571)
Investments restricted to split-interest agreements	(15,605)	(15,098)
<b>Financial assets not available to be used within one year for general expenditures</b>	<b>(1,939,652)</b>	<b>(2,001,124)</b>
Available borrowings for general expenditures	75,000	25,000
<b>Resources available within a year for general expenditures</b>	<b>\$ 397,914</b>	<b>\$ 348,743</b>

### 4. Donor Contributions Receivable

Unconditional promises to give from University donors are included in the *Consolidated Financial Statements* as "Donor contributions receivable, net" with gifts reported in the appropriate net asset categories. Donor contributions receivable are recorded at their fair value, which is determined by computing the present value of future cash flows discounted at rates ranging from 2.8% to 7.0%. The present value and the associated incremental income are reflected as gift revenue in the period the agreement is made and in the period accreted, respectively.

**Southern Methodist University**  
**Notes to the Consolidated Financial Statements**  
**For the Fiscal Years Ended May 31, 2020 and 2019**

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*(Dollars in Thousands)*

Unconditional donor contributions receivable as of May 31 are expected to be realized in the following periods:

	2020	2019
DONOR CONTRIBUTIONS RECEIVABLE:		
In one year or less	\$ 49,437	\$ 44,283
Between one year and five years	125,940	87,629
More than five years	59,530	3,874
Less discount	(35,263)	(18,194)
<b>Donor contributions receivable</b>	<b>\$ 199,644</b>	<b>\$ 117,592</b>

Unconditional contributions receivable as of May 31 have the following restrictions:

	2020	2019
PURPOSE RESTRICTIONS:		
Endowment for departmental programs and activities	\$ 9,312	\$ 19,994
Endowment for scholarships	4,384	5,464
Capital improvements	37,590	37,082
Scholarships, departmental programs and activities	129,842	32,983
Purpose restriction met	18,516	22,069
<b>Donor contributions receivable</b>	<b>\$ 199,644</b>	<b>\$ 117,592</b>

Conditional promises to give are not recorded in the Consolidated Financial Statements until they become unconditional. As of May 31, the University has received donor pledges contingent on the following conditions:

	2020	2019
CONDITIONS:		
Matching donations/funding requirements	\$ —	\$ 3,000
Other	970	1,750
<b>Conditional promises</b>	<b>\$ 970</b>	<b>\$ 4,750</b>

## 5. Investments

Total investments as of May 31 are as follows:

	2020	2019
Short-term paper	\$ 6,912	\$ 39,540
Stocks	206,954	233,910
Bonds	316,322	441,163
Funds held in trust by others	19,887	19,944
Equity method investment funds	—	493
Notes receivable, net	3,609	4,315
Real properties	18,978	8,274
Mineral rights	81,414	79,628
Private equity	231,317	235,758
Diversifying strategies	538,376	539,168
Equity funds	394,164	357,579
Fixed income funds	5,167	6,256
Venture capital	33,887	35,140
<b>Investments</b>	<b>\$ 1,856,987</b>	<b>\$ 2,001,168</b>

The University has unfunded investment commitments of \$259,568 and \$241,578 as of May 31, 2020 and 2019, respectively.

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Investments include assets associated with split-interest agreements. The University's split-interest agreements consist of perpetual trusts held and administered by others, gift annuities, unitrusts and annuity trusts. Perpetual trusts held and administered by others are recorded at the current fair value of the University's interest in the trust assets. Under split-interest agreements, the University has the right to receive income distributions that are reported as revenue. The University makes periodic payments to named beneficiaries in return for assets received and recognizes a liability for the fair value of the anticipated future payments connected to these agreements based on the discount rates published by the Internal Revenue Service.

	2020	2019
SPLIT-INTEREST AGREEMENTS:		
(Losses) gains	\$ (54)	\$ 704
Assets at fair value	35,492	35,093
Liabilities included in accounts payable and accrued expenses	9,906	9,248
Net assets with donor restrictions related to split-interest agreements	5,734	5,901
Discount rate	2.78%	3.58%

As of May 31, 2020, and 2019, the University held the following investment accounted for under the equity method:

	Current Ownership	2020	2019
EQUITY METHOD INVESTMENTS:			
Timber Fund	—%	\$ —	\$ 493
<b>Equity method investments*</b>		<b>\$ —</b>	<b>\$ 493</b>

\*Values based on most recent (unaudited) financial information from the investment company.

The University also owns foreign investments that are included in the applicable investment classifications on the *Consolidated Statements of Position*. To mitigate foreign exchange risk, the investment managers may purchase foreign currency futures contracts which result in unrealized gains and losses that are reflected in the fair values of appropriate investment categories.

Investment return is comprised of investment income, expenses, such as custodial fees and investment advisory fees, and net realized and unrealized gains. Investment returns reported in the *Consolidated Statements of Activities* for the years ended May 31, are as follows:

	2020	2019
INVESTMENT RETURN:		
Investment income	\$ 27,278	\$ 37,947
External and internal direct expenses included in "Endowment income, net"	(9,877)	(10,562)
Net Realized and unrealized gains on investments	27,011	36,264
<b>Investment return</b>	<b>\$ 44,412</b>	<b>\$ 63,649</b>

(Dollars in Thousands)

## 6. Fair Value of Financial Instruments

The following tables present information about the University's investments at fair value, the fair value hierarchy utilized to determine such fair value, and the strategies related to them as of May 31:

2020					
	Level 1	Level 2	Level 3	Net Asset Value	Total
INVESTMENTS AT FAIR VALUE:					
Short-term paper	\$ 6,912	\$ —	\$ —	\$ —	\$ 6,912
Stocks	206,954	—	—	—	206,954
Bonds	314,543	1,779	—	—	316,322
Funds held in trust by others	—	—	19,887	—	19,887
Equity method investment funds	—	—	—	—	—
Notes receivable, net	—	3,609	—	—	3,609
Real properties	—	19	—	18,959	18,978
Mineral rights	—	81,414	—	—	81,414
Private equity	—	—	—	231,317	231,317
Diversifying strategies	—	—	—	538,376	538,376
Equity funds	—	—	—	394,164	394,164
Fixed income funds	—	—	—	5,167	5,167
Venture capital	—	—	1,155	32,732	33,887
<b>Investments at fair value</b>	<b>\$ 528,409</b>	<b>\$ 86,821</b>	<b>\$ 21,042</b>	<b>\$ 1,220,715</b>	<b>\$ 1,856,987</b>

2019					
	Level 1	Level 2	Level 3	Net Asset Value	Total
INVESTMENTS AT FAIR VALUE:					
Short-term paper	\$ 39,540	\$ —	\$ —	\$ —	\$ 39,540
Stocks	233,910	—	—	—	233,910
Bonds	439,413	1,750	—	—	441,163
Funds held in trust by others	—	—	19,944	—	19,944
Equity method investment funds	—	—	—	493	493
Notes receivable, net	—	4,315	—	—	4,315
Real properties	—	87	—	8,187	8,274
Mineral rights	—	79,628	—	—	79,628
Private equity	—	—	—	235,758	235,758
Diversifying strategies	—	—	—	539,168	539,168
Equity funds	—	—	—	357,579	357,579
Fixed income funds	—	—	—	6,256	6,256
Venture capital	—	—	1,179	33,961	35,140
<b>Investments at fair value</b>	<b>\$ 712,863</b>	<b>\$ 85,780</b>	<b>\$ 21,123</b>	<b>\$ 1,181,402</b>	<b>\$ 2,001,168</b>

The University's policy is to recognize transfers among levels of the fair value hierarchy as of the beginning of the period during which the event or change in circumstances that caused the transfer occurred. Approximately \$28,052 of assets reported as Level 1 in fiscal year 2019 are reported at net asset values during fiscal year 2020.

The following tables report the changes in fair value for assets using significant unobservable inputs (Level 3):

2020							
	Opening Balance	Transfers	Realized Gains	Unrealized Gains	Sales	Purchases	Ending Balance
Funds held in trust by others	\$ 19,944	\$ —	\$ —	\$ 285	\$ (632)	\$ 290	\$ 19,887
Venture capital	1,179	—	—	—	(100)	76	1,155
<b>Level 3 investments</b>	<b>\$ 21,123</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 285</b>	<b>\$ (732)</b>	<b>\$ 366</b>	<b>\$ 21,042</b>

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2019							
	Opening Balance	Transfers (Out)	Realized Gains	Unrealized Gains (Losses)	Sales	Purchases	Ending Balance
Funds held in trust by others	\$ 20,859	\$ —	\$ —	\$ (1,188)	\$ (198)	\$ 471	\$ 19,944
Real properties	154	—	—	137	(291)	—	—
Equity funds	1,091	(1,091)	—	—	—	—	—
Fixed income funds	479	(479)	—	—	—	—	—
Venture capital	1,104	—	—	—	—	75	1,179
<b>Level 3 investments</b>	<b>\$ 23,687</b>	<b>\$ (1,570)</b>	<b>\$ —</b>	<b>\$ (1,051)</b>	<b>\$ (489)</b>	<b>\$ 546</b>	<b>\$ 21,123</b>

The following tables present the liquidity of the University's investments at fair value at May 31:

2020					
	Within 30 Days <sup>1</sup>	Quarterly <sup>2</sup>	Semi-Annual or Annual <sup>3</sup>	Illiquid <sup>4</sup>	Total
INVESTMENTS AT FAIR VALUE:					
Funds held in trust by others	\$ —	\$ —	\$ —	\$ 19,887	\$ 19,887
Equity method investment funds	—	—	—	—	—
Real properties	—	—	—	18,978	18,978
Mineral rights	—	—	—	81,414	81,414
Private equity	—	—	—	231,317	231,317
Diversifying strategies	90,958	259,769	107,093	80,556	538,376
Equity funds	184,660	134,100	36,733	38,671	394,164
Fixed income funds	5,167	—	—	—	5,167
Venture capital	—	—	—	33,887	33,887
<i>Investments at fair value</i>	<i>\$ 280,785</i>	<i>\$ 393,869</i>	<i>\$ 143,826</i>	<i>\$ 504,710</i>	<i>\$ 1,323,190</i>
Level 1 securities					528,408
Investments not subject to redemption terms					5,389
<b>Total investments at fair value</b>					<b>\$ 1,856,987</b>

1 With 3 business days to 30 days' notice

2 With 30 to 90 days' notice

3 With 45 to 90 days' notice

4 Includes funds under lock up

2019					
	Within 30 Days <sup>1</sup>	Quarterly <sup>2</sup>	Semi-Annual or Annual <sup>3</sup>	Illiquid <sup>4</sup>	Total
INVESTMENTS AT FAIR VALUE:					
Funds held in trust by others	\$ —	\$ —	\$ —	\$ 19,944	\$ 19,944
Equity method investment funds	—	—	—	493	493
Real properties	—	—	—	8,274	8,274
Mineral rights	—	—	—	79,628	79,628
Private equity	—	—	—	235,758	235,758
Diversifying strategies	78,753	256,580	131,941	71,894	539,168
Equity funds	227,361	63,306	31,092	35,820	357,579
Fixed income funds	6,256	—	—	—	6,256
Venture capital	—	—	—	35,140	35,140
<i>Investments at fair value</i>	<i>\$ 312,370</i>	<i>\$ 319,886</i>	<i>\$ 163,033</i>	<i>\$ 486,951</i>	<i>\$ 1,282,240</i>
Level 1 Securities					712,863
Investments not subject to redemption terms					6,065
<b>Total investments at fair value</b>					<b>\$ 2,001,168</b>

1 With 3 business days to 30 days' notice

2 With 30 to 90 days' notice

3 With 45 to 90 days' notice

4 Includes funds under lock up



*(Dollars in Thousands)*

## 7. Land, Buildings, and Equipment

The following table details the land, buildings, and equipment holdings of the University for fiscal years 2020 and 2019:

	2020	2019
LAND, BUILDINGS, AND EQUIPMENT:		
Land	\$ 173,605	\$ 177,835
Land improvements	117,532	118,013
Buildings	1,235,791	1,121,877
Equipment	104,028	108,723
Art	45,706	44,163
Other assets	24,736	23,852
Construction in progress	89,213	133,905
<i>Total land, buildings, and equipment, at cost</i>	<i>\$ 1,790,611</i>	<i>\$ 1,728,368</i>
Less accumulated depreciation*	(567,027)	(540,856)
<b>Land, buildings, and equipment, net</b>	<b>\$ 1,223,584</b>	<b>\$ 1,187,512</b>

\*Includes depreciation expense of \$49,494 and \$44,355 for fiscal year 2020 and 2019, respectively

## 8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of May 31 included the following:

	2020	2019
ACCOUNTS PAYABLE AND ACCRUED EXPENSES:		
General accounts payable and accrued expenses	\$ 76,730	\$ 69,113
Asset retirement obligations	20,448	19,811
Current postretirement healthcare benefit obligation	2,444	1,975
Noncurrent postretirement healthcare benefit obligation	40,353	37,365
Ground lease contribution	44,596	44,600
Split-interest obligations	9,906	9,248
<b>Accounts payable and accrued expenses</b>	<b>\$ 194,477</b>	<b>\$ 182,112</b>

### (a) Asset retirement obligations

In order to retire certain long-lived assets, the University is responsible for the abatement of asbestos and lead paint. The fair value of these costs is recognized in the period in which it is incurred, at the present value of expected future cash flows and is added to the carrying value of the associated asset to be depreciated over the asset's useful life.

The following table summarizes the change in the asset retirement obligation for fiscal years ended May 31, 2020 and 2019:

	2020	2019
Asset retirement obligations, beginning balance	\$ 19,811	\$ 18,815
Disposal of asset retirement obligations	(386)	(32)
Decrease in land, buildings and equipment, net of accumulated depreciation	(152)	(106)
Accretion and depreciation expense	1,175	1,134
<b>Asset retirement obligations, ending balance</b>	<b>\$ 20,448</b>	<b>\$ 19,811</b>

### (b) Postretirement healthcare benefits

The University provides postretirement healthcare benefits for employees who meet minimum age and service requirements and retire from the University. These benefits are provided by an insured Medicare supplement product with no lifetime maximum. The funding for the premium of this product is shared between the University and plan participants.

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The University accrues the expected cost of providing postretirement benefits, other than pensions, during the years that employees render services.

Actuarial assumptions used to determine the value of the accumulated postretirement benefit obligation (APBO) and the benefit costs included weighted average discount rates of 2.31% and 3.17% per annum for fiscal years 2020 and 2019, respectively. Healthcare cost trends are graded from 7.0% in 2020 to 6.0% in 2023. The University's contribution level is fixed after fiscal year 2022.

ASC 715, *Compensation – Retirement Benefits*, requires the funded status of the postretirement benefit plan to be reported as an asset (for overfunded plans) or a liability (for underfunded plans).

The components of the net periodic benefit cost for the year ended May 31 are as follows:

	2020	2019
NET PERIODIC BENEFIT COST:		
Service cost	\$ 242	\$ 312
Interest cost	1,216	1,618
Amortization:		
Prior service cost	—	—
Unrecognized loss	—	524
<b>Net periodic benefit cost</b>	<b>\$ 1,458</b>	<b>\$ 2,454</b>

Net periodic benefit cost and other changes in plan assets and benefit obligations recognized in “Net assets without donor restrictions” are as follows:

	2020	2019
PLAN COSTS AND OTHER CHANGES:		
Net periodic benefit cost recognized	\$ 1,458	\$ 2,454
Other changes in plan obligations:		
Net actuarial loss (gain)	3,987	(6,154)
Prior service cost	—	—
<i>Other postretirement plan changes</i>	<i>3,987</i>	<i>(6,154)</i>
<b>Change in net assets without donor restrictions</b>	<b>\$ 5,445</b>	<b>\$ (3,700)</b>

The accrued postretirement benefit obligations recognized in the University's *Consolidated Statements of Position* as of May 31 pursuant to the recognition provisions of ASC 715 are as follows:

	2020	2019
Benefit obligations, beginning balance	\$ 39,340	\$ 45,586
Service cost	242	312
Interest cost	1,216	1,618
Plan participants' contributions	1,585	1,486
Benefit payments	(3,573)	(4,032)
Actuarial loss (gain)	3,987	(5,630)
<b>Benefit obligations, ending balance</b>	<b>\$ 42,797</b>	<b>\$ 39,340</b>

The accumulated postretirement benefit includes a current liability of \$2,444 for the claims and expenses that are expected to be paid out in the coming year and \$40,353 of noncurrent postretirement benefit liabilities.

As of May 31, 2020, the University had expected benefit payments in the following fiscal year:

EXPECTED BENEFIT PAYMENTS:	
2021	\$ 2,444
2022	2,432
2023	2,486
2024	2,564
2025	2,541
2026-2030	12,399
<b>Expected benefit payments</b>	<b>\$ 24,866</b>

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Healthcare cost trend assumptions have a significant impact on the amounts reported. A one percentage point increase in the assumed healthcare cost trend rate would result in an \$29 increase in the net periodic postretirement benefit cost recognized in fiscal year 2020 and a \$1,135 increase in the accumulated postretirement benefit obligation for healthcare benefits as of May 31, 2020. A one percentage point decrease in the assumed healthcare cost trend rate would result in a \$27 decrease in the net periodic postretirement benefit cost recognized in fiscal year 2020, and a \$1,116 decrease in the APBO for healthcare benefits as of May 31, 2020.

**(c) Ground lease contribution**

“Accounts payable and accrued expenses” include \$44,596 reflecting the fair value of a ground lease contribution to The George W. Bush Foundation for the location, construction and operation of the George W. Bush Presidential Library Center facilities at the University as of May 31, 2020. This balance is being accreted over the 249 years of the lease, including extensions.

**9. Long-term Debt**

Long-term debt, unamortized premiums, discounts, and issuance costs, consisted of the following at May 31:

	Average Coupon*	Final Maturity	2020	2019
<b>TAX-EXEMPT FIXED-RATE REVENUE BONDS:</b>				
2017 Series	4.56%	October 1, 2041	\$ 95,735	\$ 95,735
2016 Series A	4.57	October 1, 2045	118,545	118,545
2013 Series A	4.52	October 1, 2042	99,195	99,195
2010 Series	4.87	October 1, 2041	102,195	104,790
2009 Series	4.93	October 1, 2036	—	111,895
2007 Series	4.96	October 1, 2029	21,240	21,240
<i>Tax-exempt fixed-rate revenue bonds</i>			<b>436,910</b>	<b>551,400</b>
<b>TAXABLE FIXED-RATE REVENUE BONDS:</b>				
2016 Series B	3.76	October 1, 2045	25,250	25,250
2013 Series B	2.89	October 1, 2033	60,960	65,925
<i>Taxable fixed-rate revenue bonds</i>			<b>86,210</b>	<b>91,175</b>
<b>PRIVATE PLACEMENT:</b>				
2017 Series Taxable Notes	3.55	October 1, 2047	96,130	98,100
2017 Promissory Note	Various	August 30, 2027	1,000	1,000
2015 Tax-Exempt Forward	2.53	October 1, 2032	33,275	37,035
<i>Private placement</i>			<b>130,405</b>	<b>136,135</b>
<b>Long-term debt payable prior to amortizations</b>			<b>653,525</b>	<b>778,710</b>
Unamortized net premiums			36,373	44,386
Unamortized bond issuance costs			(3,597)	(5,990)
<b>Long-term debt, net</b>			<b>\$ 686,301</b>	<b>\$ 817,106</b>

\* Average coupon at time of issuance

	Escrowed Assets		Par Value	
	2020	2019	2020	2019
<b>DEFEASED BONDS:</b>				
2010 Series <sup>(1)</sup>	\$ 101,610	\$ 103,631	\$ 99,490	\$ 99,490
2009 Series <sup>(2)</sup>	—	104,019	—	102,600
2007 Series <sup>(3)</sup>	1,780	1,750	1,630	1,630
<i>Long-term debt payable from escrow assets</i>			<b>101,120</b>	<b>203,720</b>
Long-term debt, net			686,301	817,106
<b>Long-term debt, net payable from general resources</b>			<b>\$ 585,181</b>	<b>\$ 613,386</b>

- (1) Defeased with proceeds from the 2017 Series Bonds  
(2) Defeased with proceeds from the 2016 Series A Bonds  
(3) Defeased with proceeds from a contribution

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In addition to the above, the University has \$75,000 of borrowings available under two undrawn bank lines of credit, which are available for general liquidity needs of the University.

Interest of \$355 and \$3,747 related to construction projects was capitalized during fiscal year 2020 and 2019, respectively. Interest expense on long-term debt was \$21,061 and \$24,730 for the fiscal years ended May 31, 2020 and 2019, respectively.

As of May 31, 2020, the University had scheduled principal maturities for the following fiscal years:

PRINCIPAL MATURITIES:	
2021	\$ 20,995
2022	24,530
2023	23,585
2024	27,680
2025	28,725
Thereafter	528,010
<b>Principal outstanding</b>	<b>\$ 653,525</b>

## 10. Tuition and Fees

The University provides educational services to both undergraduate and graduate students. The below table presents a disaggregation of net tuition by these two groups:

	2020			2019		
	Undergraduate	Graduate	Total	Undergraduate	Graduate	Total
REVENUES:						
Tuition at stated rates	\$ 349,204	\$ 134,291	\$ 483,495	\$ 324,203	\$ 135,765	\$ 459,968
Student fees at stated rates	37,519	15,297	52,816	35,250	15,057	50,307
Less: Scholarship allowances	(163,992)	(46,457)	(210,449)	(149,881)	(41,310)	(191,191)
<b>Tuition and fee revenue</b>	<b>\$ 222,731</b>	<b>\$ 103,131</b>	<b>\$ 325,862</b>	<b>\$ 209,572</b>	<b>\$ 109,512</b>	<b>\$ 319,084</b>

The following assets and liabilities have been recognized on the *Consolidated Statements of Position* related to student accounts:

	2020	2019
Receivables included in <i>Accounts receivable, net</i>	\$ 18,338	\$ 11,015
Contract liabilities included in <i>Deposits and deferred revenue</i>	33,598	25,145

\* Student accounts balances are primarily the result of tuition and fee activity, but also included charges and payments for various other services.

## 11. Grants and Contracts

Grants and contracts revenue include both contribution and exchange transactions. Below is a summary of activity for fiscal years 2020 and 2019 including conditional contributions contingent on the University's performance under various related agreements.

	2020			2019		
	Contributions	Exchange	Total	Contributions	Exchange	Total
Revenue	\$ 22,421	\$ 16,161	\$ 38,582	\$ 20,018	\$ 14,367	\$ 34,385
Receivable, included in <i>Accounts receivable, net</i>	5,234	1,490	6,724	3,718	473	4,191
Contract liabilities included in <i>Deposits and deferred revenue</i>	600	4,473	5,073	—	4,294	4,294
Conditional contributions	22,166	—	22,166	35,896	—	35,896

*(Dollars in Thousands)*

## 12. Auxiliary activities

Auxiliary activities revenue consisted of the following for fiscal year 2020 and 2019:

	2020	2019
REVENUES:		
Housing and dining services	\$ 35,518	\$ 41,923
Less: Scholarship allowances	(2,828)	(3,366)
Athletics and other activities	21,218	22,552
<b>Auxiliary activities</b>	<b>\$ 53,908</b>	<b>\$ 61,109</b>

## 13. Natural Expenses

The table below presents expenses by both their nature and their function for fiscal year 2020 and 2019:

	2020							
	Instruction	Academic support	Research	Organized activities	Student services	Auxiliary activities	Institutional support	Total
EXPENSES:								
Compensation	\$ 165,705	\$ 54,707	\$ 18,266	\$ 4,760	\$ 28,558	\$ 26,761	\$ 39,896	\$ 338,653
Operations and maintenance	15,605	15,579	3,650	815	11,096	32,078	38,432	117,255
Professional fees and services	17,616	10,205	3,187	4,338	4,017	7,067	20,880	67,310
Travel, professional development	5,580	3,030	1,739	1,875	4,118	9,557	2,750	28,649
Interest	2,221	1,631	331	42	1,865	8,880	6,091	21,061
Supplies	1,257	8,328	2,315	170	529	1,454	1,854	15,907
Student support	1,321	521	249	124	1,486	4,440	—	8,141
Other	2,845	1,320	2,307	1,320	2,544	4,463	3,935	18,734
<b>Expenses</b>	<b>\$ 212,150</b>	<b>\$ 95,321</b>	<b>\$ 32,044</b>	<b>\$ 13,444</b>	<b>\$ 54,213</b>	<b>\$ 94,700</b>	<b>\$ 113,838</b>	<b>\$ 615,710</b>

	2019							
	Instruction	Academic support	Research	Organized activities	Student services	Auxiliary activities	Institutional support	Total
EXPENSES:								
Compensation	\$ 163,075	\$ 52,238	\$ 18,552	\$ 4,238	\$ 26,878	\$ 25,110	\$ 40,916	\$ 331,007
Operations and maintenance	17,715	16,783	4,038	571	11,139	30,766	29,633	110,645
Professional fees and services	17,477	8,170	3,383	4,222	4,574	6,291	12,620	56,737
Travel, professional development	4,968	3,413	2,078	2,216	4,634	9,624	3,391	30,324
Interest	2,649	1,759	364	46	1,885	11,701	6,326	24,730
Supplies	1,311	7,635	3,006	242	688	1,633	1,433	15,948
Student support	970	498	111	67	1,875	3,950	1	7,472
Other	938	51	1,767	1,169	2,420	1,225	813	8,383
<b>Expenses</b>	<b>\$ 209,103</b>	<b>\$ 90,547</b>	<b>\$ 33,299</b>	<b>\$ 12,771</b>	<b>\$ 54,093</b>	<b>\$ 90,300</b>	<b>\$ 95,133</b>	<b>\$ 585,246</b>

The University incurs some expenses for the benefit of multiple functional areas such as various operations and maintenance expenses (including depreciation) and interest expense. To the extent these expenses are not attributed to a specific area, they are allocated primarily on a square-footage basis to the various functional areas.

Fundraising expenses of approximately \$19,884 and \$18,743 incurred by the University in fiscal years 2020 and 2019, respectively, are included primarily as "Institutional support expenses".

*(Dollars in Thousands)*

#### 14. Defined Contribution Postemployment Plans

The University also has a defined contribution retiree medical plan intended to replace the University's defined benefit retiree medical plan. Under this program, both the University and employees contribute monthly to the employees' retiree medical accounts. The University contributed \$1,556 and \$1,426 to this program in fiscal years 2020 and 2019, respectively. The current defined benefit retiree medical plan will be phased out concurrently with funding of this defined contribution plan.

Full-time and part-time benefits-eligible employees are eligible for the 403(b) Retirement Plan at age 21. Full-time employees are required to enroll if age 36 or older. Retirement benefit expenses under this plan were \$20,037 and \$19,621 in fiscal years 2020 and 2019, respectively.

#### 15. Net Assets Released from Restrictions

The sources of net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by donors were as follows:

	2020	2019
NET ASSETS RELEASED:		
Acquisition of buildings and equipment	\$ 5,431	\$ 3,908
Instruction, research, departmental support, scholarships and other	102,113	99,322
<b>Net assets released from donor restrictions</b>	<b>\$ 107,544</b>	<b>\$ 103,230</b>

#### 16. Restrictions and Limitations on Net Assets with Donor Restrictions

Net assets with donor restrictions as of May 31 consist of the following:

	2020	2019
NET ASSETS WITH DONOR RESTRICTIONS:		
Endowment corpus, restricted in perpetuity	\$ 867,240	\$ 823,601
Endowment donor contributions, restricted in perpetuity	14,094	25,458
Endowment appreciation restricted until appropriated	629,056	680,282
Perpetual funds held in trust	19,887	19,944
Funds held in perpetuity for student loans	12,929	12,415
Split-interest agreements	5,734	5,901
Restricted for capital projects, including related donor contributions receivable	83,495	83,434
Restricted for other purposes, including related donor contributions receivable	271,404	160,642
<b>Net assets with donor restrictions</b>	<b>\$ 1,903,839</b>	<b>\$ 1,811,677</b>

#### 17. Endowment Net Assets

The University's Endowment (Endowment) consists of over 1,800 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (without donor restrictions). The Endowment provides stable financial support to a wide variety of programs and activities in perpetuity, playing a critical role in enabling the University to achieve its mission. Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

##### *(a) Interpretation of relevant law*

The University's endowment is subject to the Texas State Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act). Based on the interpretation of the UPMIFA by the University's Board of Trustees, absent explicit donor stipulations to the contrary, the University holds in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

*(Dollars in Thousands)*

The remaining portion of the donor-restricted endowment fund that is not held in perpetuity remains in the endowment until it is appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University 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 appreciation of investments
6. Other resources
7. The investment policies of the University

Changes in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Endowment net assets as of May 31, 2018</b>	<b>\$ 82,576</b>	<b>\$ 1,227,200</b>	<b>\$ 1,309,776</b>
Beginning balance adjustment	—	330,657	330,657
Donor contributions	—	22,030	22,030
Investment return:			
Investment income, net of distributions	521	2,159	2,680
Net realized and unrealized gains	4,554	34,095	38,649
<i>Total investment return</i>	<i>5,075</i>	<i>36,254</i>	<i>41,329</i>
Endowment gains transferred for spending	(4,059)	(66,886)	(70,945)
Funds functioning as endowment net transfers	559	—	559
Other revenues and transfers	—	25	25
<b>Endowment net assets as of May 31, 2019</b>	<b>84,151</b>	<b>1,549,280</b>	<b>1,633,431</b>
Donor contributions	—	28,460	28,460
Investment return:			
Investment income, net of distributions	(183)	915	732
Net realized and unrealized gains	3,513	21,260	24,773
<i>Total investment return</i>	<i>3,330</i>	<i>22,175</i>	<i>25,505</i>
Endowment gains transferred for spending	(4,292)	(69,645)	(73,937)
Funds functioning as endowment net transfers	666	—	666
Other revenues and transfers	3	3	6
<b>Endowment net assets as of May 31, 2020</b>	<b>\$ 83,858</b>	<b>\$ 1,530,273</b>	<b>\$ 1,614,131</b>

Endowment net assets are split between donor-restricted (with donor restrictions) and funds functioning as endowment (without donor restrictions).

***(b) Funds with deficiencies***

From time to time, the value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or the Act requires the University to retain as a fund of perpetual duration. As of May 31, 2020, twenty such endowment funds with an aggregated value of \$27,358 were a total \$856 below the minimum distribution level. As of May 31, 2019, six such endowment funds with an aggregated value of \$5,911 were a total \$141 below the minimum distribution level.

***(c) Return objectives and risk parameters***

The University 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 the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested within risk tolerances of the University to provide an expected total return in excess of spending and inflation over the long term.

*(Dollars in Thousands)*

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The principal risk to the endowment is the possibility of prolonged or severe asset depreciation that impairs the ability of the fund to preserve the value of the corpus after inflation, fees and the yearly spending distribution. The endowment's broadly diversified portfolio is designed to reduce the volatility of returns. Also, the endowment is invested in asset classes that are projected to perform well and act as a hedge in environments that could cause prolonged or severe asset depreciation such as high inflation or deflation. Risk management is a dynamic process that takes into account general market developments, the proliferation of new investments and the changing nature of correlation across asset classes. The University and its Investment Committee are responsible for this process, monitoring and managing the factors pertaining to credit, liquidity, market and operational risks.

***(d) Strategies employed for achieving objectives***

To satisfy its long-term return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current income (interest and dividends, etc.). The University targets a diversified asset allocation that places emphasis on global equities, diversifying strategies, private markets, real assets and fixed income strategies to achieve its long-term return objectives within prudent risk constraints.

***(e) Spending policy and the investment objectives relationship to spending policy***

The University has adopted an endowment spending policy whereby annually the Board of Trustees authorizes amounts to be spent for the purposes intended by the donors based in part on an index of the prior year allocation for spending and in part on a stipulated percentage of the fair value of endowments participating in the investment pool. If the current income of the endowment investments is not sufficient to cover the authorized level of spending, the difference is taken from the market value in excess of the historical gift value, to the extent available.

University Administration is authorized to distribute for spending from all endowment funds invested in the Investment Pool that have sufficient realized and unrealized capital gains an amount equal to seventy percent (70%) of the spending calculated for the previous fiscal year increased by an inflation factor to be determined each fiscal year (2% for fiscal year 2020), and a percent determined for each fiscal year (4.50% for fiscal year 2020) of thirty percent (30%) of the four-quarter average of the Investment Pool per share market value for the preceding calendar year multiplied by the number of shares outstanding at the end of that calendar year. In establishing this policy, the University considers the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate at least equal to planned payouts and inflationary increases. Additional real growth will be provided through new gifts and excess investment returns.

**18. Related Party Transactions**

In the ordinary course of business, the University may have business transactions with entities in which University board members or employees have an interest. Although generally such transactions are immaterial, the University does engage in such business transactions that may be material. The University has invested funds totaling \$435 and \$4,614 in fiscal years 2020 and 2019, respectively, with investment firms with which board members are affiliated.

**19. Commitments and Contingencies**

The University is contractually obligated for approximately \$52,529 as of May 31, 2020 for construction projects with scheduled completion dates through fiscal year 2023.

The University is party to various lease agreements which requires the University to make future lease payments and other agreements that entitle the University to future independent operations revenues. During the fiscal year, the University incurred \$1,338 and \$758 in operating lease expenses for facilities and equipment and received \$3,871 and \$4,441 in rental revenue in the fiscal years ended May 31, 2020 and 2019, respectively.



*(Dollars in Thousands)*

As of May 31, 2020, the University has lease commitments and future lease revenue for the following future fiscal years:

	Lease Commitments	Lease Revenues
2021	698	3,999
2022	472	2,188
2023	402	1,816
2024	365	1,439
2025	361	929
Thereafter	20	1,054
<b>Total</b>	<b>\$ 2,318</b>	<b>\$ 11,425</b>

The University participates in the Federal Title IV student financial aid programs and must fulfill federal requirements to qualify for these programs. Management is of the opinion that the University is in compliance with the federal requirements.

The University enters into contracts with vendors, some of which may have penalties for early termination. It is the University's practice when entering into such contracts to not cancel the contracts prior to the end of their term. If, from a business standpoint, including consideration of the cancellation penalty, the University does cancel any such contract, it does not believe there would be any material adverse effect on the University's *Consolidated Financial Statements*.

The University is a defendant in several legal actions. The outcomes of these actions cannot be determined at this time, but management is of the opinion that liability, if any, from these actions will not have a material effect on the University's financial position.

The University has entered into various agreements with banks to guarantee the construction loan debt for sorority houses built on University land. Under these agreements if the debtors default on their obligations, the University may be required to satisfy all or part of the remaining obligation.

## **20. Subsequent Events**

The University has evaluated subsequent events from the Statement of Position date of May 31, 2020 through September 10, 2020, the issuance date of the Consolidated Financial Statements. During this period of time, the COVID-19 pandemic has continued to impact higher education as a whole. Potential enduring effects of the COVID-19 pandemic cannot be readily determined at this time. The University, having continually evaluated the various potential risks related thereto and having employed significant scenario planning, has reached the determination that the risks inherent to the COVID-19 pandemic would not result in any material impact to the financial statements presented herein and that no other subsequent events warrant disclosure as of this date.