SOUTHERN METHODIST UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

Independent Auditors' Report

The Board of Trustees
Southern Methodist University:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Southern Methodist University (the University), which comprise the consolidated statements of financial position as of May 31, 2023 and 2022, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as of May 31, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2023, on our consideration of the University'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 the University'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 the University's internal control over financial reporting and compliance.

KPMG LLP

Dallas, Texas
September 8, 2023

Southern Methodist University

Consolidated Statements of Financial Position

For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

	May 31, 2023	May 31, 2022
ASSETS:		
Cash and cash equivalents	$ 306,110	$ 190,390
Accounts receivable, net	44,167	70,903
Donor contributions receivable, net	273,994	259,023
Investments	2,191,664	2,182,291
Land, buildings, and equipment, net	1,379,317	1,283,216
Other assets	30,498	37,073
TOTAL ASSETS	**$ 4,225,750**	**$ 4,022,896**
LIABILITIES:		
Accounts payable and accrued expenses	$ 195,662	$ 177,982
Deposits and deferred revenue	44,589	50,555
Long-term debt, net	659,928	533,676
Other liabilities	3,339	4,567
Total Liabilities	**903,518**	**766,780**
NET ASSETS:		
Net assets without donor restrictions	$ 846,801	$ 793,867
Net assets with donor restrictions	2,475,431	2,462,249
Total Net Assets	**3,322,232**	**3,256,116**
TOTAL LIABILITIES AND NET ASSETS	**$ 4,225,750**	**$ 4,022,896**

See accompanying Notes to the Consolidated Financial Statements.

Southern Methodist University

Consolidated Statements of Activities

For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

	2023			2022		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
REVENUES, GAINS AND OTHER SUPPORT:						
Net tuition and fees	$ 380,212	$ —	$ 380,212	$ 369,107	$ —	$ 369,107
Donor contributions	10,423	141,147	151,570	16,021	231,699	247,720
Endowment income, net	6,931	8,571	15,502	8,524	14,476	23,000
Net gains (losses) on investments	(5,568)	34,080	28,512	(8,761)	(68,283)	(77,044)
Grants and contracts	31,079	—	31,079	43,934	—	43,934
Organized activities	12,440	—	12,440	7,078	—	7,078
Other sources	76,098	—	76,098	65,705	—	65,705
Auxiliary activities, net	42,413	—	42,413	41,810	—	41,810
TOTAL REVENUES, GAINS *AND OTHER SUPPORT*	*$ 554,028*	*$ 183,798*	*$ 737,826*	*$ 543,418*	*$ 177,892*	*$ 721,310*
Net assets released from restrictions	170,616	(170,616)	—	106,568	(106,568)	—
TOTAL ADJUSTED REVENUES, GAINS AND OTHER SUPPORT	**$ 724,644**	**$ 13,182**	**$ 737,826**	**$ 649,986**	**$ 71,324**	**$ 721,310**
EXPENSES:						
PROGRAM EXPENSES:						
Instruction	$ 206,409	$ —	$ 206,409	$ 195,773	$ —	$ 195,773
Academic support	104,182	—	104,182	94,084	—	94,084
Research	45,709	—	45,709	37,471	—	37,471
Organized activities	15,518	—	15,518	10,877	—	10,877
Student services	134,315	—	134,315	128,830	—	128,830
Auxiliary activities	36,053	—	36,053	26,315	—	26,315
TOTAL PROGRAM EXPENSES	542,186	—	542,186	493,350	—	493,350
Institutional support	132,149	—	132,149	113,718	—	113,718
TOTAL EXPENSES	*$ 674,335*	*$ —*	*$ 674,335*	*$ 607,068*	*$ —*	*$ 607,068*
Other postretirement plan changes	(2,625)	—	(2,625)	(4,772)	—	(4,772)
TOTAL EXPENSES AND ADJUSTMENTS	**$ 671,710**	**$ —**	**$ 671,710**	**$ 602,296**	**$ —**	**$ 602,296**
CHANGE IN NET ASSETS	**$ 52,934**	**$ 13,182**	**$ 66,116**	**$ 47,690**	**$ 71,324**	**$ 119,014**
BEGINNING NET ASSETS	**793,867**	**2,462,249**	**3,256,116**	**746,177**	**2,390,925**	**3,137,102**
ENDING NET ASSETS	**$ 846,801**	**$ 2,475,431**	**$ 3,322,232**	**$ 793,867**	**$ 2,462,249**	**$ 3,256,116**

See accompanying Notes to the Consolidated Financial Statements.

Southern Methodist University
Consolidated Statements of Cash Flows
For the Fiscal Years Ended May 31, 2023 and 2022
(Dollars in Thousands)

	2023	2022
Cash flows from operating activities:		
Changes in net assets	$ 66,116	$ 119,014
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and accretion	54,895	54,338
Long-term debt-related amortization	(3,045)	(3,285)
Loss on disposal of land, buildings, and equipment	70	1,730
Decrease (increase) in accounts and donor contributions receivable	11,765	(53,121)
Decrease (increase) in other assets	6,575	(20,115)
(Decrease) increase in accounts payable and accrued expenses for operations	(10,585)	2,572
(Decrease) increase in deposits and deferred revenue	(5,966)	1,387
Decrease in other liabilities for operations	(1,228)	(512)
Donor contributions restricted for long-term investment	(81,513)	(83,452)
Noncash donor contributions	(10,627)	(48,220)
Net realized and unrealized (gain) loss on investments	(28,512)	77,044
Income restricted for long-term investment	(4,049)	(10,547)
Net cash (used for) provided by operating activities	**$ (6,104)**	**$ 36,833**
Cash flows from investing activities:		
Proceeds from sales of land, buildings, and equipment	$ —	$ 24
Purchase of land, buildings, and equipment	(146,951)	(96,111)
Acquisition of investments	(421,741)	(540,024)
Disposition of investments	448,576	536,375
Increase in investing related accounts payable and accrued expenses	27,081	2,883
Net cash used for investing activities	**$ (93,035)**	**$ (96,853)**
Cash flows from financing activities:		
Donor contributions restricted for long-term investment	$ 81,513	$ 83,452
Income restricted for long-term investment	4,049	10,547
Net proceeds from debt issuance	149,892	—
Long-term debt payments	(20,595)	(21,685)
Net cash provided by financing activities	**$ 214,859**	**$ 72,314**
Net increase in cash and cash equivalents	**$ 115,720**	**$ 12,294**
Cash and cash equivalents at beginning of period	**190,390**	**178,096**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 306,110**	**$ 190,390**
Supplemental data:		
Donor contributions of investments, real estate and other	$ 7,696	$ 46,483
Donor contributions of land, buildings, and equipment	2,931	1,737
Cash paid for interest	21,340	21,617

See accompanying Notes to the Consolidated Financial Statements.

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.

(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 other notes receivable is not available and cannot be determined without incurring excessive costs, the amounts reflected as fair value are the same as carrying value.

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

Fair value for marketable securities, funds held in trust by others 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. Management reviewed and evaluated the valuations and has determined that the valuation methodology and assumptions result in reasonable estimates of fair value.

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

The University currently participates in hedging and other derivative agreements to reduce operational expense fluctuation. Current outstanding instruments qualify as a derivative financial instrument under ASC 815, *Derivatives and Hedging*. These instruments are recorded on the *Consolidated Statements of Financial 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, net

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 improvements, 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.

(i) Net 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

Contributions from University donors, including unconditional promises to give, are recognized 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 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 is 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 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 "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 "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.

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 accounts receivable, related to grants and contracts, 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 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 referenced 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 depreciation expense which is based on the estimated useful lives of the related assets.

(o) New accounting pronouncement

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which enhances the presentation and disclosure of contributed nonfinancial assets. It requires contributed nonfinancial assets (including fixed assets, use of facilities or utilities, materials and supplies, intangible assets and services) to be presented in a separate line item on the statement of activities. Additionally, the standard required further disaggregation and qualitative information by type in the footnotes. The University adopted the ASU as of June 1, 2022. This standard did not have a material effect on the consolidated financial statements.

(p) Reclassifications

Certain financial statement and footnote information from the prior year financial statements have been reclassified to conform with the current year presentation. Intercollegiate athletics has been deemed to be more appropriately classified as student services rather than auxiliary activities and as such has been reclassed on the *Consolidated Statements of Activities*. Accordingly, the revenue associated with intercollegiate athletics has been reclassified from auxiliary activities to other sources on the *Consolidated Statements of Activities*. There is no net impact on the total revenues or total expenses. These reclassifications are also reflected in Note 12 and Note 13.

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:

(Dollars in Thousands)

	2023	2022
FINANCIAL ASSETS:		
Cash and cash equivalents	$ 306,110	$ 190,390
Accounts receivable, net	44,167	70,903
Donor contributions receivable, net	273,994	259,023
Investments	2,191,664	2,182,291
Total financial assets	*2,815,935*	*2,702,607*
Less amounts not available to be used within one year:		
Cash and cash equivalents restricted for capital projects	(31,875)	(55,654)
Cash and cash equivalents restricted for loan programs	(13,655)	(12,950)
Donor contributions receivable, net due after one year	(187,132)	(172,858)
Donor contributions receivable, net due next year with restricted purposes	(83,868)	(81,903)
Accounts receivable, net restricted to the endowment	(1,430)	(26,863)
Investments restricted for defeased debt	(1,695)	(1,709)
Investments restricted to the endowment	(1,973,242)	(1,948,969)
Investments restricted to loan programs	(1,362)	(1,899)
Investments restricted to split-interest agreements	(14,833)	(16,291)
Financial assets not available to be used within one year for general expenditures	*(2,309,092)*	*(2,319,096)*
Available borrowings for general expenditures	100,000	75,000
Resources available within a year for general expenditures	**$ 606,843**	**$ 458,511**

4. Donor Contributions Receivable, net

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 2.5% 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.

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

	2023	2022
DONOR CONTRIBUTIONS RECEIVABLE, NET:		
In one year or less	$ 86,862	$ 86,165
Between one year and five years	192,357	157,799
More than five years	38,791	54,538
Less discount	(44,016)	(39,479)
Donor contributions receivable, net	**$ 273,994**	**$ 259,023**

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

	2023	2022
PURPOSE RESTRICTIONS:		
Endowment for departmental programs and activities	$ 30,250	$ 16,578
Endowment for scholarships	5,771	4,955
Capital improvements	153,653	171,922
Scholarships, departmental programs and activities	83,880	64,930
Purpose restriction met	440	638
Donor contributions receivable, net	**$ 273,994**	**$ 259,023**

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:

	2023	2022
CONDITIONS:		
Matching donations/funding requirements	$ —	$ —
Other	325	2,025
Conditional promises	**$ 325**	**$ 2,025**

(Dollars in Thousands)

5. Investments

Total investments as of May 31 are as follows:

	2023	2022
Short-term paper	$ 45,022	$ 30,869
Stocks	270,435	192,975
Bonds	263,036	247,681
Funds held in trust by others	10,585	11,119
Notes receivable, net	1,353	1,889
Mineral rights	81,677	98,469
Private markets	610,871	570,130
Hedged strategies	397,151	563,611
Equity funds	459,458	463,528
Fixed income funds	52,076	2,020
Investments	**$2,191,664**	**$2,182,291**

The University has unfunded investment commitments of $291,598 and $303,737 as of May 31, 2023 and 2022, respectively.

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.

	2023	2022
SPLIT-INTEREST AGREEMENTS:		
(Losses) Gains	$ (56)	$ 776
Assets at fair value	25,399	27,391
Liabilities included in accounts payable and accrued expenses	7,901	8,589
Net assets with donor restrictions related to split-interest agreements	6,932	7,706
Discount rate	4.98%	4.22%

The University also owns foreign investments that are included in the applicable investment classifications in the above investment table. 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:

	2023	2022
INVESTMENT RETURN:		
Investment income	$ 43,701	$ 44,687
External and internal direct expenses included in "Endowment income, net"	(13,864)	(12,345)
Net Realized and unrealized gains (losses) on investments	28,512	(77,044)
Investment return	**$ 58,349**	**$ (44,702)**

(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:

2023

	Investments Classified in Fair Value Hierarchy				
	Level 1	**Level 2**	**Level 3**	**Net Asset Value**	**Total**
INVESTMENTS AT FAIR VALUE:					
Short-term paper	$ 45,022	$ —	$ —	$ —	$ 45,022
Stocks	270,435	—	—	—	270,435
Bonds	243,231	19,805	—	—	263,036
Funds held in trust by others	—	—	10,585	—	10,585
Notes receivable, net	—	1,353	—	—	1,353
Mineral rights	—	81,677	—	—	81,677
Private markets	—	19	1,217	609,635	610,871
Hedged strategies	—	—	—	397,151	397,151
Equity funds	—	—	—	459,458	459,458
Fixed income funds	—	—	—	52,076	52,076
Investments at fair value	**$ 558,688**	**$ 102,854**	**$ 11,802**	**$ 1,518,320**	**$ 2,191,664**

2022

	Investments Classified in Fair Value Hierarchy				
	Level 1	**Level 2**	**Level 3**	**Net Asset Value**	**Total**
INVESTMENTS AT FAIR VALUE:					
Short-term paper	$ 30,869	$ —	$ —	$ —	$ 30,869
Stocks	192,975	—	—	—	192,975
Bonds	228,913	18,768	—	—	247,681
Funds held in trust by others	—	—	11,119	—	11,119
Notes receivable, net	—	1,889	—	—	1,889
Mineral rights	—	98,469	—	—	98,469
Private markets	—	19	1,167	568,944	570,130
Hedged strategies	—	—	—	563,611	563,611
Equity funds	—	—	—	463,528	463,528
Fixed income funds	—	—	—	2,020	2,020
Investments at fair value	**$ 452,757**	**$ 119,145**	**$ 12,286**	**$ 1,598,103**	**$ 2,182,291**

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

2023

	Opening Balance	**Transfers**	**Realized Gains**	**Unrealized Losses**	**Sales**	**Purchases**	**Ending Balance**
Funds held in trust by others	$ 11,119	$ —	$ —	$ (258)	$ (276)	$ —	$ 10,585
Private markets	1,167	—	—	—	—	50	1,217
Level 3 investments	**$ 12,286**	**$ —**	**$ —**	**$ (258)**	**$ (276)**	**$ 50**	**$ 11,802**

2022

	Opening Balance	**Transfers**	**Realized Gains**	**Unrealized Losses**	**Sales**	**Purchases**	**Ending Balance**
Funds held in trust by others	$ 12,607	$ —	$ —	$ (1,904)	$ (30)	$ 446	$ 11,119
Private markets	1,167	—	—	—	—	—	1,167
Level 3 investments	**$ 13,774**	**$ —**	**$ —**	**$ (1,904)**	**$ (30)**	**$ 446**	**$ 12,286**

(Dollars in Thousands)

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

2023

	Within 30 Days[1]	Quarterly[2]	Semi-Annual or Annual[3]	Illiquid[4]	Total
INVESTMENTS AT FAIR VALUE:					
Funds held in trust by others	$ —	$ —	$ —	$ 10,585	$ 10,585
Mineral rights	—	—	—	81,677	81,677
Private markets	—	—	—	610,871	610,871
Hedged strategies	—	284,593	85,702	26,856	397,151
Equity funds	237,207	222,251	—	—	459,458
Fixed income funds	497	32,836	—	18,743	52,076
Investments at fair value	*$ 237,704*	*$ 539,680*	*$ 85,702*	*$ 748,732*	*$ 1,611,818*
Level 1 securities					558,688
Investments not subject to redemption terms					21,158
Total investments at fair value					**$ 2,191,664**

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

2022

	Within 30 Days[1]	Quarterly[2]	Semi-Annual or Annual[3]	Illiquid[4]	Total
INVESTMENTS AT FAIR VALUE:					
Funds held in trust by others	$ —	$ —	$ —	$ 11,119	$ 11,119
Mineral rights	—	—	—	98,469	98,469
Private markets	—	—	—	570,130	570,130
Hedged strategies	83,795	333,796	125,310	20,710	563,611
Equity funds	167,530	204,982	75,759	15,257	463,528
Fixed income funds	510	—	—	1,510	2,020
Investments at fair value	*$ 251,835*	*$ 538,778*	*$ 201,069*	*$ 717,195*	*$ 1,708,877*
Level 1 securities					452,757
Investments not subject to redemption terms					20,657
Total investments at fair value					**$ 2,182,291**

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

7. Land, Buildings, and Equipment, net

The following table details the land, buildings, and equipment holdings of the University for fiscal years 2023 and 2022:

	2023	2022
LAND, BUILDINGS, AND EQUIPMENT:		
Land	$ 175,438	$ 175,438
Land improvements	117,602	117,597
Buildings	1,415,687	1,360,558
Equipment	132,610	120,818
Art	56,504	54,294
Other assets	30,025	26,863
Construction in progress	169,162	92,232
Total land, buildings, and equipment, at cost	*$ 2,097,028*	*$ 1,947,800*
Less accumulated depreciation*	(717,711)	(664,584)
Land, buildings, and equipment, net	**$ 1,379,317**	**$ 1,283,216**

*Includes depreciation expense of $53,711 and $53,338 for fiscal year 2023 and 2022, respectively.

(Dollars in Thousands)

8. Accounts Payable and Accrued Expenses

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

	2023	2022
ACCOUNTS PAYABLE AND ACCRUED EXPENSES:		
General accounts payable and accrued expenses	$ 92,696	$ 69,907
Asset retirement obligations	23,751	22,567
Current postretirement healthcare benefit obligation	2,480	2,528
Noncurrent postretirement healthcare benefit obligation	24,252	29,804
Ground lease contribution	44,582	44,587
Split-interest obligations	7,901	8,589
Accounts payable and accrued expenses	**$ 195,662**	**$ 177,982**

(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, 2023 and 2022:

	2023	2022
Asset retirement obligations, beginning balance	$ 22,567	$ 21,568
Disposal of asset retirement obligations	(43)	(184)
Decrease in land, buildings and equipment, net of accumulated depreciation	(88)	(117)
Accretion and depreciation expense	1,315	1,300
Asset retirement obligations, ending balance	**$ 23,751**	**$ 22,567**

(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.

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 4.82% and 3.99% per annum for fiscal years 2023 and 2022, respectively.

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:

	2023	2022
NET PERIODIC BENEFIT COST:		
Service cost	$ 115	$ 177
Interest cost	1,240	1,010
Amortization:		
Prior service cost	—	—
Unrecognized loss	—	—
Net periodic benefit cost	**$ 1,355**	**$ 1,187**

(Dollars in Thousands)

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

	2023	2022
PLAN COSTS AND OTHER CHANGES:		
Net periodic benefit cost recognized	$ 1,355	$ 1,187
Other changes in plan obligations:		
Net actuarial gain	(2,625)	(4,772)
Prior service cost	—	—
Other postretirement plan changes	*(2,625)*	*(4,772)*
Increase in net assets without donor restrictions	**$ (1,270)**	**$ (3,585)**

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

	2023	2022
Benefit obligations, beginning balance	$ 32,332	$ 39,692
Service cost	115	177
Interest cost	1,240	1,010
Plan participants' contributions	1,665	1,613
Benefit payments	(5,995)	(5,388)
Actuarial gain	(2,625)	(4,772)
Benefit obligations, ending balance	**$ 26,732**	**$ 32,332**

The accumulated postretirement benefit includes a current liability of $2,480 for the claims and expenses that are expected to be paid out in the coming year and $24,252 of noncurrent postretirement benefit liabilities.

As of May 31, 2023, the University had expected benefit payments in the following fiscal year:

EXPECTED BENEFIT PAYMENTS:	
2024	$ 2,480
2025	2,335
2026	2,213
2027	2,157
2028	2,102
2029-2033	9,913
Expected benefit payments	**$ 21,200**

(c) Ground lease contribution

"Accounts payable and accrued expenses" include $44,582 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, 2023. This balance is being accreted over the 249 years of the lease, including extensions.

(Dollars in Thousands)

9. Long-term Debt, net

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

	Average Coupon*	Final Maturity	2023	2022
TAX-EXEMPT FIXED-RATE REVENUE BONDS:				
2017 Series	4.56%	October 1, 2041	$ 90,165	$ 93,020
2016 Series A	4.57	October 1, 2045	96,380	102,880
2013 Series A	4.52	October 1, 2042	99,195	99,195
2007 Series	4.96	October 1, 2029	21,240	21,240
Tax-exempt fixed-rate revenue bonds			*306,980*	*316,335*
TAXABLE FIXED-RATE REVENUE BONDS:				
2016 Series B	3.76	October 1, 2045	25,250	25,250
2013 Series B	2.89	October 1, 2033	45,415	50,725
Taxable fixed-rate revenue bonds			*70,665*	*75,975*
PRIVATE PLACEMENT:				
2023 Series Taxable Notes	4.08	March 31, 2030	150,000	—
2017 Series Taxable Notes	3.55	October 1, 2047	89,785	91,975
2017 Promissory Note	Various	August 30, 2027	1,000	1,000
2015 Tax-Exempt Forward	2.53	October 1, 2032	22,330	26,070
Private placement			*263,115*	*119,045*
Long-term debt payable prior to amortizations			**640,760**	**511,355**
Unamortized net premiums			21,421	24,727
Unamortized bond issuance costs			(2,253)	(2,406)
Long-term debt, net			**$ 659,928**	**$ 533,676**

* Average coupon at time of issuance

	Escrowed Assets		Par Value	
	2023	**2022**	**2023**	**2022**
DEFEASED BONDS:				
2007 Series(1)	$ 1,695	$ 1,709	$ 1,630	$ 1,630
Long-term debt payable from escrow assets			*1,630*	*1,630*
Long-term debt, net			659,928	533,676
Long-term debt, net payable from general resources			**$ 658,298**	**$ 532,046**

(1) Defeased with proceeds from a contribution

In addition to the above, the University has $100,000 of borrowings available under an undrawn bank line of credit, which is available for general liquidity needs of the University.

No interest related to construction projects was capitalized during fiscal year 2023 and 2022, respectively. Interest expense on long-term debt was $18,414 and $17,913 for the fiscal years ended May 31, 2023 and 2022, respectively.

As of May 31, 2023, the University had scheduled principal maturities for the following fiscal years:

PRINCIPAL MATURITIES:	
2024	$ 24,560
2025	27,855
2026	28,575
2027	30,085
2028	29,625
Thereafter	500,060
Principal outstanding	**$ 640,760**

(Dollars in Thousands)

10. Net 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:

	2023			2022		
	Undergraduate	**Graduate**	**Total**	**Undergraduate**	**Graduate**	**Total**
REVENUES:						
Tuition at stated rates	$ 398,634	$ 140,541	$ 539,175	$ 377,653	$ 157,823	$ 535,476
Student fees at stated rates	43,319	16,254	59,573	40,253	18,637	58,890
Less: Scholarship allowances	(172,104)	(46,432)	(218,536)	(171,678)	(53,581)	(225,259)
Net tuition and fee revenue	**$ 269,849**	**$ 110,363**	**$ 380,212**	**$ 246,228**	**$ 122,879**	**$ 369,107**

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

	2023	2022
Receivables included in *Accounts receivable, net*	$ 7,826	$ 11, 968
Contract liabilities included in *Deposits and deferred revenue*	23,841	26,624

* Student accounts balances are primarily the result of tuition and fee activity, but also included are 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 2023 and 2022 including conditional contributions, which have not been recognized as revenue since these are contingent on the University's performance under various related agreements.

	2023			2022		
	Contributions	**Exchange**	**Total**	**Contributions**	**Exchange**	**Total**
Grants and contracts	$ 17,780	$ 13,299	$ 31,079	$ 30,966	$ 12,968	$ 43,934
Receivable, included in *Accounts receivable, net*	4,929	1,800	6,729	5,020	2,251	7,271
Contract liabilities included in *Deposits and deferred revenue*	295	6,175	6,469	673	8,202	8,875
Conditional contributions	35,284	-	35,284	34,300	—	34,300

12. Auxiliary Activities, net

Auxiliary activities revenue consisted of the following for fiscal year 2023 and 2022:

	2023	2022
REVENUES:		
Housing and dining services	$ 44,765	$ 44,333
Less: Scholarship allowances	(3,428)	(3,488)
Other activities	1,076	965
Auxiliary activities, net	**$ 42,413**	**$ 41,810**

(Dollars in Thousands)

13. Natural Expenses

The tables below present expenses by both their nature and their function for fiscal year 2023 and 2022:

2023

	Instruction	Academic support	Research	Organized activities	Student services	Auxiliary activities	Institutional support	Total
EXPENSES:								
Compensation	$ 160,660	$ 62,173	$ 27,766	$ 4,713	$ 59,516	$ 5,560	$ 53,672	$ 374,060
Operations and maintenance	14,824	16,705	5,549	469	28,635	25,039	45,434	136,655
Professional fees and services	19,001	9,921	4,097	6,143	11,986	969	17,692	69,809
Travel, professional development	5,933	3,396	2,467	2,345	17,823	409	4,316	36,689
Interest	1,939	1,341	526	17	3,273	3,755	7,563	18,414
Supplies	1,064	9,295	2,171	358	2,439	286	1,495	17,108
Student support	1,565	1,276	908	55	7,200	35	3	11,042
Other	1,423	75	2,225	1,418	3,444	-	1,974	10,559
Expenses	**$ 206,409**	**$104,182**	**$45,709**	**$ 15,518**	**$ 134,315**	**$ 36,053**	**$132,149**	**$ 674,335**

2022

	Instruction	Academic support	Research	Organized activities	Student services	Auxiliary activities	Institutional support	Total
EXPENSES:								
Compensation	$ 158,211	$ 58,529	$ 25,439	$ 4,290	$ 57,083	$ 5,411	$ 47,186	$ 356,148
Operations and maintenance	12,459	13,691	3,237	497	25,578	15,069	34,725	105,257
Professional fees and services	17,127	8,236	3,198	3,965	11,209	654	18,208	62,597
Travel, professional development	2,792	2,337	1,021	1,092	14,783	451	3,414	25,890
Interest	1,615	1,297	272	26	3,592	4,056	7,055	17,913
Supplies	1,360	9,081	2,151	182	2,127	304	1,317	16,522
Student support	1,365	795	676	47	6,749	27	3	9,663
Other	844	118	1,477	778	7,709	343	1,810	13,078
Expenses	**$ 195,773**	**$ 94,084**	**$37,471**	**$ 10,877**	**$ 128,830**	**$26,315**	**$113,718**	**$ 607,068**

*The fiscal year 2022 table has been reclassified to conform with the current year presentation. See footnote 2(p) for further explanation.

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 $24,021 and $22,101 incurred by the University in fiscal years 2023 and 2022, respectively, are included primarily as “Institutional support expenses”.

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 $1,698 and $1,636 to this program in fiscal years 2023 and 2022, 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 $20,643 and $20,626 in fiscal years 2023 and 2022, respectively.

(Dollars in Thousands)

15. Net Assets Released from Donor 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:

	2023	2022
NET ASSETS RELEASED:		
Acquisition of buildings and equipment	$ 50,842	$ 10,648
Instruction, research, departmental support, scholarships and other	119,774	95,920
Net assets released from donor restrictions	**$ 170,616**	**$ 106,568**

16. Restrictions and Limitations on Net Assets with Donor Restrictions

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

	2023	2022
NET ASSETS WITH DONOR RESTRICTIONS:		
Endowment corpus, restricted in perpetuity	$ 1,040,035	$ 1,008,346
Endowment donor contributions, restricted in perpetuity	35,241	19,278
Endowment appreciation restricted until appropriated	837,078	886,888
Perpetual funds held in trust	10,585	11,119
Funds held in perpetuity for student loans	13,869	13,538
Split-interest agreements	6,932	7,706
Restricted for capital projects, including related donor contributions receivable	271,049	260,883
Restricted for other purposes, including related donor contributions receivable	260,642	254,491
Net assets with donor restrictions	**$ 2,475,431**	**$ 2,462,249**

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.

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 deciding 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

(Dollars in Thousands)

Changes in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets as of May 31, 2021	**$ 92,369**	**$ 1,977,510**	**$ 2,069,879**
Donor contributions	—	76,694	76,694
Investment return:			
Investment income, net of distributions	1,948	9,849	11,797
Net realized and unrealized gains (losses)	5,774	(66,755)	(60,981)
Total investment return	7,722	(56,906)	(49,184)
Endowment gains transferred for spending	(4,655)	(71,715)	(76,370)
Funds functioning as endowment net transfers	1,654	—	1,654
Endowment net assets as of May 31, 2022	**$ 97,090**	**$ 1,925,583**	**$ 2,022,673**
Donor contributions	—	42,621	42,621
Investment return:			
Investment income, net of distributions	857	3,686	4,543
Net realized and unrealized gains	7,322	34,926	42,248
Total investment return	8,179	38,612	46,791
Endowment gains transferred for spending	(5,072)	(83,602)	(88,674)
Funds functioning as endowment net transfers	915	—	915
Endowment net assets as of May 31, 2023	**$ 101,112**	**$ 1,923,214**	**$ 2,024,326**

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, 2023, thirty-three such endowment funds with an aggregated value of $27,928 were a total of $700 below the minimum distribution level. As of May 31, 2022, forty-five such endowment funds with an aggregated value of $31,268 were a total of $1,333 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.

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 considers 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 public equities, private markets, hedged strategies, fixed income strategies, and real asset 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 (3% for fiscal year 2023), and a percent determined for each fiscal year (4.5% for fiscal year 2023) 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 $13,875 and $13,489 in fiscal years 2023 and 2022, respectively, with investment firms with which board members are affiliated.

19. Commitments and Contingencies

The University is contractually obligated for approximately $173,916 as of May 31, 2023 for construction projects with scheduled completion dates through fiscal year 2029.

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 $888 and $987 in operating lease expenses for facilities and equipment and received $3,993 and $4,163 in rental revenue in the fiscal years ended May 31, 2023 and 2022, respectively.

(Dollars in Thousands)

As of May 31, 2023, the University has lease commitments and future lease revenue for the following future fiscal years:

	Lease Commitments	Lease Revenues
2024	$ 857	$ 3,772
2025	787	3,467
2026	412	3,152
2027	102	2,832
2028	52	2,453
Thereafter	—	6,838
Total	**$ 2,210**	**$ 22,514**

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 any liability that may result 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 debtor's 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 Financial Position date of May 31, 2023 through September 8, 2023, the issuance date of the *Consolidated Financial Statements*, and determined that there are no other subsequent events that warrant disclosure as of this date.