



SOUTHERN METHODIST UNIVERSITY
CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2025 and 2024

(With Independent Auditors' Report Thereon)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Southern Methodist University

Opinion

We have audited the consolidated financial statements of Southern Methodist University (a nonprofit organization) and subsidiaries (the "University"), which comprise the consolidated statement of financial position as of May 31, 2025, and the related consolidated statements of activities and cash flows for the year 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 financial position of the University as of May 31, 2025, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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

Other matter

The consolidated financial statements of the University as of and for the year ended May 31, 2024 were audited by other auditors, who expressed an unmodified opinion on those financial statements in their report dated September 6, 2024.

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS 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 US GAAS, 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.



Dallas, Texas
September 5, 2025

Southern Methodist University
Consolidated Statements of Financial Position
For the Fiscal Years Ended May 31, 2025 and 2024
(Dollars in Thousands)

	May 31, 2025	May 31, 2024
ASSETS:		
Cash and cash equivalents	\$ 209,087	\$ 225,668
Accounts receivable, net	59,536	46,929
Donor contributions receivable, net	252,537	324,970
Investments	2,489,930	2,338,120
Land, buildings, and equipment, net	1,591,686	1,523,341
Other assets	27,277	34,052
TOTAL ASSETS	\$ 4,630,053	\$ 4,493,080
LIABILITIES:		
Accounts payable and accrued expenses	\$ 194,686	\$ 207,786
Deposits and deferred revenue	52,388	47,486
Long-term debt, net	597,985	628,267
Other liabilities	794	2,996
Total Liabilities	845,853	886,535
NET ASSETS:		
Net assets without donor restrictions	\$ 1,043,464	\$ 903,169
Net assets with donor restrictions	2,740,736	2,703,376
Total Net Assets	3,784,200	3,606,545
TOTAL LIABILITIES AND NET ASSETS	\$ 4,630,053	\$ 4,493,080

Southern Methodist University
Consolidated Statements of Activities
For the Fiscal Years Ended May 31, 2025 and 2024
(Dollars in Thousands)

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER						
SUPPORT:						
Net tuition and fees	\$ 422,698	\$ -	\$ 422,698	\$ 394,949	\$ -	\$ 394,949
Donor contributions	10,131	113,449	123,580	6,787	233,517	240,304
Endowment income, net	37,478	26,110	63,588	3,052	4,795	7,847
Net gains on investments	20,356	194,173	214,529	22,026	163,153	185,179
Grants and contracts	36,316	-	36,316	33,485	-	33,485
Organized activities	10,927	-	10,927	11,118	-	11,118
Other sources	101,307	-	101,307	86,918	-	86,918
Auxiliary activities, net	46,625	-	46,625	42,163	-	42,163
TOTAL REVENUES, GAINS AND OTHER	\$ 685,838	\$ 333,732	\$ 1,019,570	\$ 600,498	\$ 401,465	\$ 1,001,963
SUPPORT						
Net assets released from restrictions	296,372	(296,372)	-	173,520	(173,520)	-
TOTAL ADJUSTED REVENUES, GAINS	\$ 982,210	\$ 37,360	\$ 1,019,570	\$ 774,018	\$ 227,945	\$ 1,001,963
AND OTHER SUPPORT						
EXPENSES:						
PROGRAM EXPENSES:						
Instruction	\$ 227,422	\$ -	\$ 227,422	\$ 207,878	\$ -	\$ 207,878
Academic support	119,519	-	119,519	109,958	-	109,958
Research	57,175	-	57,175	50,763	-	50,763
Organized activities	16,930	-	16,930	14,531	-	14,531
Student services	239,456	-	239,456	176,224	-	176,224
Auxiliary activities	37,610	-	37,610	32,863	-	32,863
TOTAL PROGRAM EXPENSES	698,112	-	698,112	592,217	-	592,217
Institutional support	142,393	-	142,393	120,812	-	120,812
TOTAL EXPENSES	\$ 840,505	\$ -	\$ 840,505	\$ 713,029	\$ -	\$ 713,029
Other postretirement plan changes	1,410	-	1,410	4,621	-	4,621
TOTAL EXPENSES AND ADJUSTMENTS	\$ 841,915	\$ -	\$ 841,915	\$ 717,650	\$ -	\$ 717,650
CHANGE IN NET ASSETS	\$ 140,295	\$ 37,360	\$ 177,655	\$ 56,368	\$ 227,945	\$ 284,313
BEGINNING NET ASSETS	903,169	2,703,376	3,606,545	846,801	2,475,431	3,322,232
ENDING NET ASSETS	\$ 1,043,464	\$ 2,740,736	\$ 3,784,200	\$ 903,169	\$ 2,703,376	\$ 3,606,545

Southern Methodist University
Consolidated Statements of Cash Flows
For the Fiscal Years Ended May 31, 2025 and 2024
(Dollars in Thousands)

	2025	2024
Cash flows from operating activities:		
Changes in net assets	\$ 177,655	\$ 284,313
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:</i>		
Depreciation and accretion	68,964	60,994
Long-term debt-related amortization	(2,426)	(7,315)
Loss on disposal of land, buildings, and equipment	36	1,443
Donor contributions restricted for long-term investment	(46,840)	(96,809)
Noncash donor contributions	(43,690)	(38,127)
Net realized and unrealized gain on investments	(214,529)	(185,179)
Decrease (increase) in accounts and donor contributions receivable	59,826	(53,738)
Decrease (increase) in other assets	6,775	(3,554)
Increase in accounts payable and accrued expenses for operations	7,820	11,465
Increase in deposits and deferred revenue	4,902	2,897
Decrease in other liabilities for operations	(2,202)	(343)
Net cash provided by (used for) operating activities	\$ 16,291	\$ (23,953)
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	\$ (157,289)	(205,193)
Acquisition of investments	(570,941)	(322,463)
Disposition of investments	676,374	398,704
Net cash used for investing activities	\$ (51,856)	\$ (128,952)
Cash flows from financing activities:		
Donor contributions restricted for long-term investment	\$ 46,840	\$ 96,809
Net proceeds from debt issuance	-	59,554
Long-term debt payments	(27,856)	(83,900)
Net cash provided by financing activities	\$ 18,984	\$ 72,463
Net decrease in cash and cash equivalents	\$ (16,581)	\$ (80,442)
Cash and cash equivalents at beginning of period	225,668	306,110
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 209,087	\$ 225,668
Supplemental data:		
Donor contributions of investments, real estate and other	\$ 42,714	\$ 37,518
Donor contributions of land, buildings, and equipment	976	609
Cash paid for interest	24,886	25,764
Land, buildings and equipment, net included in accounts payable	(22,306)	(634)

1. Nature of Operations

Southern Methodist University (the University) is a private higher education institution that offers undergraduate, graduate, and professional programs. In addition to revenue generated by tuition and fees, the University receives revenue from donations, investment income, federal grants, sponsored research, athletic events, auxiliary activities, and other sources.

During the reporting periods, the University had seven entities under its control that are included in the *Consolidated Financial Statements*. These entities support University activities, including research initiatives, intercollegiate athletics, and the acquisition and management of real assets ancillary to the University's mission. Inter-organization balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

The *Consolidated Financial Statements* have been prepared in accordance with the United States 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. Any donor-imposed restrictions met in the current operating cycle of the University are released and included in net assets without donor restrictions. These net assets could be contractually obligated or designated by the Board of Trustees.

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 and cash equivalents

Cash equivalents include operating cash investments, which include U.S. Treasury bills and short-term paper, with maturities of three months or less from the date of purchase. The University believes it is not exposed to any significant credit risk on cash and cash equivalents as of May 31, 2025.

(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.

Student accounts receivables are stated net of allowance for credit losses of \$9,929 and \$9,348 as of May 31, 2025 and 2024, respectively. The University considered the allowances recorded at May 31, 2025 and 2024, to be reasonable and adequate to absorb potential credit losses inherent in the student accounts receivable balances.

(d) Donor contributions receivable, net

Unconditional promises 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. The University writes off contribution installment payments that are a year past due to zero. The remaining contributions are considered to be fully collectible due to the giving history of the majority of the donors, and as such the University has not recorded an allowance for credit losses related to donor contributions receivable.

(e) Investments

Fair value for marketable securities and funds held in trust by others 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.

(f) Hedging instrument

The University accounts for its hedge instrument at fair value at each fiscal year end (using Level 2 techniques). The hedge is recorded on the *Consolidated Statements of Financial Position* and included as either other assets or other liabilities. Changes in fair value of the hedge is recognized in the *Consolidated Statements of Activities* and allocated between the expense categories.

(g) Land, buildings, and equipment, net

Land, buildings, and equipment 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 are depreciated on the straight-line basis over their estimated useful lives with equipment, vehicles, furniture, software and "other" depreciating in 5 to 15 years; land improvements depreciating in 15 to 50 years; and buildings depreciating in 20 to 40 years.

(h) Net tuition and fees

Tuition and fee revenue is recognized over the course of the academic year as instruction is provided to students. 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 expected to be collected. Student tuition and fees received in advance of the corresponding revenue recognition are reported as customer contract liabilities in "Deposits and deferred revenue."

(i) Donor contributions

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. 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. The University does not capitalize collections, primarily art objects, as they are held for public exhibition and educational purposes rather than financial gain. Proceeds from the sale of collection items are generally used to acquire other items for the collection.

The University occasionally receives contributed nonfinancial assets from its donors. Such assets are recorded at fair value based on independent appraisals and current values for similar products. Contributions of nonfinancial assets are not material to the *Consolidated Financial Statements* of the University for the years ended May 31, 2025 and 2024.

(j) 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 in "Net assets without donor restrictions" as the conditions have been met in the same reporting period as the receipt of the funds. 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.

(k) Auxiliary activities

Auxiliary activities revenue primarily relates 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.

(l) 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 has been recorded.

(m) 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 and depreciation expense which is based on the estimated useful lives of the related assets.

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2025 and 2024
(Dollars in Thousands)

(n) Reclassifications

Certain footnote information from the prior year *Consolidated Financial Statements* has been reclassified to conform with the current year presentation. This reclassification is reflected in Note 6. There is no impact on total investments.

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:

	2025	2024
FINANCIAL ASSETS:		
Cash and cash equivalents	\$ 209,087	\$ 225,668
Accounts receivable, net	59,536	46,929
Donor contributions receivable, net	252,537	324,970
Investments	2,489,930	2,338,120
Total financial assets	3,011,090	2,935,687
Less amounts not available to be used within one year:		
Cash and cash equivalents restricted for capital projects	(32,917)	(29,086)
Cash and cash equivalents restricted for loan programs	(15,238)	(14,408)
Donor contributions receivable, net due after one year	(171,234)	(230,991)
Donor contributions receivable, net due next year with restricted purposes	(80,094)	(92,764)
Accounts receivable, net restricted to the endowment	(4,058)	(1,101)
Investments restricted for defeased debt	(1,664)	(1,679)
Investments restricted to the endowment	(2,267,152)	(2,105,603)
Investments restricted to loan programs	(754)	(1,011)
Investments restricted to split-interest agreements	(22,675)	(24,622)
Financial assets not available to be used within one year for general expenditures	(2,595,786)	(2,501,265)
Available borrowings for general expenditures	100,000	100,000
Resources available within a year of general expenditures	\$ 515,304	\$ 534,422

4. Donor Contributions Receivable, net

Donor contributions receivable are recorded at their net realizable value, which is determined by computing the present value of future cash flows discounted at rates ranging from 2.5% to 7.0% as of May 31, 2025 and 2024. 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, 2025 and 2024

(Dollars in Thousands)

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

	2025	2024
DONOR CONTRIBUTIONS RECEIVABLE, Net:		
In one year or less	\$ 81,303	\$ 93,979
Between one year and five years	193,129	259,740
More than five years	11,213	21,175
Less discount	(33,108)	(49,924)
Donor contributions receivable, net	\$ 252,537	\$ 324,970

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

	2025	2024
PURPOSE RESTRICTIONS:		
Endowment for departmental programs and activities	\$ 29,749	\$ 43,842
Endowment for scholarships	5,063	5,062
Capital improvements	111,413	148,367
Scholarships, departmental programs and activities	106,312	127,699
Donor contributions receivable, net	\$ 252,537	\$ 324,970

Conditional promises to give are not recorded in the *Consolidated Financial Statements* until they become unconditional. The University has received donor pledges contingent on certain conditions of \$1,050 and \$250 as of May 31, 2025 and 2024, respectively.

5. Investments

Investments consist of equity and fixed income securities, private equity and fixed income funds, hedged strategies, mineral rights and funds held in trust by others. Investments are reported at the estimated fair value.

Mineral interests consist primarily of royalty interest in oil production with a small amount of gas production. The mineral interests are in 195 counties and parishes located in 13 states. The University's valuation process for determining the fair value of producing mineral interest is based on cash flows and such mineral interests are categorized as Level 3 in the fair value hierarchy. Under this method, the University uses a multiple of the average net cash flows from the past 6 months. For the period ended May 31, 2025, the University engaged an independent petroleum consultant to provide a fair value estimate for the University's four largest producing properties.

The University's split-interest agreements consist of perpetual trusts held and administered by others, gift annuities, unitrusts and annuity trusts and are categorized as Level 3 in the fair value hierarchy. 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.

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2025 and 2024
(Dollars in Thousands)

	2025	2024
SPLIT-INTEREST AGREEMENTS:		
Gains	\$ 706	\$ 438
Assets at fair value	34,715	36,227
Liabilities included in accounts payable and accrued expenses	6,777	10,945
Net assets with donor restrictions related to split-interest agreements	15,899	13,678
Discount rate	5.75%	5.42%

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:

	2025	2024
INVESTMENT RETURN		
Income from endowment investments included in "Endowment income, net"	\$ 82,042	\$ 23,957
Income from operating investments included in "Other sources"	20,550	23,351
External and internal direct expenses included in "Endowment income, net"	(18,454)	(16,110)
Net realized and unrealized gains on investments	214,529	185,179
Investment return	\$ 298,667	\$ 216,377

6. Fair Value of Financial Instruments

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and

Level 3 – unobservable inputs that are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The University uses net asset value (NAV) reported by fund managers as a practical expedient to estimate the fair values of its investments held through limited partnerships and other funds. The investments reported at NAV as the practical expedient are not required to be included in the fair value hierarchy.

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

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2025 and 2024
(Dollars in Thousands)

2025					
	Fair Value Hierarchy			Net Asset Value	Total
	Level 1	Level 2	Level 3		
Short-term paper	\$ 17,618	\$ -	\$ -	\$ -	\$ 17,618
Stocks	144,678	-	-	-	144,678
Bonds	103,031	126,751	-	-	229,782
Funds held in trust by others	-	-	12,116	-	12,116
Notes receivable, net	-	748	-	-	748
Mineral rights	-	-	98,127	-	98,127
Private equity	-	19	13,771	750,497	764,287
Hedged strategies	-	-	-	444,030	444,030
Equity funds	-	-	-	717,082	717,082
Fixed income funds	-	-	-	61,462	61,462
Investments at fair value	265,327	127,518	124,014	1,973,071	2,489,930
Utility hedge	-	10,946	-	-	10,946
Total	\$ 265,327	\$ 138,464	\$ 124,014	\$ 1,973,071	\$ 2,500,876

2024					
	Fair Value Hierarchy			Net Asset Value	Total
	Level 1	Level 2	Level 3		
Short-term paper	\$ 29,148	\$ -	\$ -	\$ -	\$ 29,148
Stocks	131,143	-	-	-	131,143
Bonds	78,380	163,287	-	-	241,667
Funds held in trust by others	-	-	11,624	-	11,624
Notes receivable, net	-	1,001	-	-	1,001
Mineral rights	-	-	66,963	-	66,963
Private equity	-	19	13,624	674,181	687,824
Hedged strategies	-	-	-	452,741	452,741
Equity funds	-	-	-	656,791	656,791
Fixed income funds	-	-	-	59,218	59,218
Investments at fair value	238,671	164,307	92,211	1,842,931	2,338,120
Utility hedge	-	12,570	-	-	12,570
Total	\$ 238,671	\$ 176,877	\$ 92,211	\$ 1,842,931	\$ 2,350,690

Short-term paper, stocks and government bonds are priced using independent market prices in the primary trading market and are classified as Level 1.

Corporate bonds are valued using market prices, such as broker quotes, for the same or similar instruments. These types of securities trade in less active markets and are redeemable in the near term and classified as Level 2.

Private equity, hedged strategies, equity funds and fixed income funds are not traded publicly traded and the fair value is estimated using the NAV of the funds which are calculated by the investment manager. These funds are excluded from fund value leveling.

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

2025							
	Opening Balance	Transfers	Realized Gains	Unrealized Gains	Sales	Purchases	Ending Balance
Funds held in trust by others	\$ 11,624	\$ -	\$ -	\$ 260	\$ (59)	\$ 291	\$ 12,116
Mineral rights	66,963	-	-	31,164	-	-	98,127
Private equity	13,624	-	-	-	(1,029)	1,176	13,771
Level 3 investments	\$ 92,211	\$ -	\$ -	\$ 31,424	\$ (1,088)	\$ 1,467	\$ 124,014

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2024								
	Opening Balance	Transfers	Realized Gains	Unrealized Gains (Losses)	Sales	Purchases	Ending Balance	
Funds held in trust by others	\$ 10,585	\$ -	\$ -	\$ 1,100	\$ (61)	\$ -	\$ 11,624	
Mineral rights	81,677	-	-	(14,714)	-	-	66,963	
Private equity	1,217	-	-	-	-	12,407	13,624	
Level 3 investments	\$ 93,479	\$ -	\$ -	\$ (13,614)	\$ (61)	\$ 12,407	\$ 92,211	

Total net gains (losses) in the above tables are included in net gains on the *Consolidated Statements of Activities* for the years ended May 31, 2025 and 2024, respectively.

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

2025					
	Within 30 Days ¹	Quarterly ²	Semi-Annual or Annual ³	Illiquid ⁴	Total
INVESTMENTS AT FAIR VALUE:					
Private equity	-	-	-	750,497	750,497
Hedged strategies	-	325,526	85,161	33,343	444,030
Equity funds	453,041	262,791	-	1,250	717,082
Fixed income funds	533	38,473	-	22,456	61,462
Total investments at fair value	\$ 453,574	\$ 626,790	\$ 85,161	\$ 807,546	\$ 1,973,071

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

2024					
	Within 30 Days ¹	Quarterly ²	Semi-Annual or Annual ³	Illiquid ⁴	Total
INVESTMENTS AT FAIR VALUE:					
Private equity	-	-	-	674,181	674,181
Hedged strategies	-	330,775	90,708	31,258	452,741
Equity funds	438,909	216,882	-	1,000	656,791
Fixed income funds	506	35,082	-	23,630	59,218
Total investments at fair value	\$ 439,415	\$ 582,739	\$ 90,708	\$ 730,069	\$ 1,842,931

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

The University has unfunded investment commitments related to the investments reported at fair value as of May 31, 2025 of \$309,068 of which \$295,572 relates to private equity, \$988 relates to hedged securities, and \$12,508 relates to fixed income funds.

Private equity funds investments primarily include long-term lock-up funds where distributions from these funds are received through the liquidation of underlying assets. Timing of liquidation is unknown.

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7. Land, Buildings, and Equipment, net

The following table details the land, buildings, and equipment holdings of the University as of May 31:

	2025	2024
LAND, BUILDINGS, AND EQUIPMENT:		
Land	\$ 189,334	\$ 175,398
Land improvements	141,701	135,526
Buildings	1,793,816	1,486,904
Equipment	172,943	144,052
Other Assets	90,114	88,425
Construction in progress	46,894	269,494
<i>Total land, buildings, and equipment, at cost</i>	<i>2,434,802</i>	<i>2,299,799</i>
<i>Less accumulated depreciation*</i>	<i>(843,116)</i>	<i>(776,458)</i>
Land, buildings, and equipment, net	\$ 1,591,686	\$ 1,523,341

*Includes depreciation expense of \$67,578 and \$59,701 for fiscal year 2025 and 2024, respectively.

8. Accounts Payable and Accrued Expenses

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

	2025	2024
ACCOUNTS PAYABLE AND ACCRUED EXPENSES:		
General accounts payable and accrued expenses	\$ 89,322	\$ 100,042
Asset retirement obligations	26,410	25,045
Postretirement healthcare benefit obligation	27,650	27,212
Ground lease contribution	44,527	44,542
Split-interest obligations	6,777	10,945
Accounts Payable and accrued expenses	\$ 194,686	\$ 207,786

(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 they are 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, 2025 and 2024:

	2025	2024
Asset retirement obligations, beginning balance	\$ 25,045	\$ 23,751
Decrease in land, buildings, and equipment, net of accumulated depreciation	(88)	-
Accretion and depreciation expense	1,453	1,294
Asset retirement obligations, ending balance	\$ 26,410	\$ 25,045

(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.

The following tables set forth the required disclosures for postretirement benefits, as well as components of net periodic benefits costs and weighted-average assumptions as of the measurement date, May 31, 2025 and 2024:

	2025	2024
Measurement date	5/31/2025	5/31/2024
Benefit obligations, beginning balance	\$ 27,212	\$ 26,732
Service cost	54	69
Interest cost	1,374	1,229
Plan participants' contributions	1,731	1,665
Benefit payments	(4,131)	(6,533)
Actuarial loss	1,410	4,050
Benefit obligations, ending balance	\$ 27,650	\$ 27,212

The accumulated postretirement benefit includes a current liability of \$2,377 included within "Accounts payable and accrued expenses" on the *Consolidated Statements of Financial Positions* for the claims and expenses that are expected to be paid out in the coming year and \$25,273 of noncurrent postretirement benefit liabilities included within "Accounts payable and accrued expenses" on the *Consolidated Statements of Financial Positions*.

Change in plan assets	2025	2024
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	2,400	4,868
Plan participants' contributions	1,731	1,665
Benefit payments	(4,131)	(6,533)
Fair value of plan asset at end of year	\$ -	\$ -
Unfunded status of plan	\$ (27,650)	\$ (27,212)

	2025	2024
PLAN COSTS AND OTHER CHANGES:		
Net periodic benefit cost recognized	\$ 1,428	\$ 727
Other changes in plan obligations		
Net actuarial loss	1,410	4,621
<i>Other postretirement plan changes</i>	1,410	4,621
Decrease in net assets without donor restrictions	\$ 2,838	\$ 5,348

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Weighted-average assumptions at measurement date	2025	2024
Discount rate	5.42%	5.30%
Health care cost trend rate	8.95%	0.00%
Ultimate health care cost trend rate	3.94%	0.00%
Year ultimate trend rate reached	2077	2077

As of May 31, 2025, the University had expected benefit payments in the following fiscal years:

EXPECTED BENEFIT PAYMENTS:		
2026	\$	2,377
2027		2,358
2028		2,313
2029		2,293
2030		2,297
2031-2035		10,859
Expected benefit payments	\$	22,497

(c) Ground lease contribution

"Accounts payable and accrued expenses" include \$44,527 and \$44,542 as of May 31, 2025 and 2024, respectively, 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, 2025. This balance is being accreted over the 249 years of the lease, including extensions.

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	2025	2024
TAX-EXEMPT FIXED-RATE REVENUE BONDS:				
2023 Series	5.00%	October 1, 2042	\$ 55,985	\$ 55,985
2017 Series	4.56	October 1, 2041	84,005	87,160
2016 Series A	4.57	October 1, 2045	79,000	87,900
2013 Series A	4.52	October 1, 2042	39,855	39,855
2007 Series	4.96	October 1, 2029	21,240	21,240
<i>Tax-exempt fixed-rate revenue bonds</i>			280,085	292,140
TAXABLE FIXED-RATE REVENUE BONDS:				
2016 Series B	3.76	October 1, 2045	23,735	24,500
2013 Series B	2.89	October 1, 2033	34,350	39,960
<i>Taxable fixed-rate revenue bonds</i>			58,085	64,460
PRIVATE PLACEMENT:				
2023 Series Taxable Notes	4.08	March 31, 2030	147,640	150,000
2017 Series Taxable Notes	3.55	October 1, 2047	85,160	87,515
2017 Promissory Note	Various	August 30, 2027	1,000	1,000
2015 Tax-Exempt Forward	2.53	October 1, 2032	13,020	17,730
<i>Private Placement</i>			246,820	256,245
Long-term debt payable prior to amortizations			584,990	612,845
Unamortized net premiums			14,942	17,615
Unamortized bond issuance costs			(1,947)	(2,193)
Long-term debt, net			\$ 597,985	\$ 628,267

*Average coupon at time of issuance

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	Escrowed Assets		Par Value	
	2025	2024	2025	2024
DEFEASED BONDS:				
2007 Series ¹	\$ 1,664	\$ 1,679	\$ 1,630	\$ 1,630
<i>Long-term debt payable from escrowed assets</i>			1,630	1,630
Long-term debt, net			597,985	628,267
Long-term debt, net payable from general resources			\$ 596,355	\$ 626,637

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 with a maturity date of March 27, 2026, which is available for general liquidity needs of the University.

No interest related to construction projects was capitalized during fiscal year 2025 and 2024, respectively. Interest expense on long-term debt was \$22,300 and \$17,890 for the fiscal years ended May 31, 2025 and 2024, respectively.

As of May 31, 2025, the University had scheduled principal maturities for the following fiscal years:

PRINCIPAL MATURITIES:	
2026	\$ 28,575
2027	30,085
2028	29,625
2029	29,930
2030	164,885
Thereafter	301,890
Principal outstanding	\$ 584,990

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:

	2025			2024		
	Undergraduate	Graduate	Total	Undergraduate	Graduate	Total
REVENUES:						
Tuition at stated rates	\$ 444,320	\$ 146,579	\$ 590,899	\$ 415,702	\$ 137,484	\$ 553,186
Student fees at stated rates	52,935	21,656	74,591	49,361	19,127	68,488
Less: Scholarship allowances	(185,211)	(57,581)	(242,792)	(176,350)	(50,375)	(226,725)
Net tuition and fee revenue	\$ 312,044	\$ 110,654	\$ 422,698	\$ 288,713	\$ 106,236	\$ 394,949

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

	2025	2024
Receivables included in <i>Accounts receivable, net</i>	\$ 9,929	\$ 9,348
Contract liabilities included in <i>Deposits and deferred revenue</i>	27,385	26,851

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

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11. Auxiliary Activities, net

Auxiliary activities revenue consisted of the following for fiscal years 2025 and 2024:

	2025	2024
REVENUES:		
Housing and dining services	\$ 48,502	\$ 44,173
Less: Scholarship allowances	(3,310)	(3,250)
Other activities	1,433	1,240
Auxiliary activities, net	\$ 46,625	\$ 42,163

12. Natural Expenses

The tables below present expenses by both their nature and their function for fiscal years 2025 and 2024:

	2025							
	Instruction	Academic support	Research	Organized activities	Student services	Auxiliary activities	Institutional support	Total
EXPENSES:								
Compensation and benefits	\$ 182,398	\$ 71,732	\$ 35,797	\$ 5,578	\$ 97,632	\$ 5,921	\$ 59,117	\$ 458,175
Operations and maintenance	19,153	16,469	6,986	1,016	56,744	24,071	39,965	164,404
Professional fees and services	14,976	12,716	4,265	6,325	15,966	1,508	23,577	79,333
Travel, professional development	6,170	5,086	2,738	1,895	24,926	611	6,425	47,851
Interest	1,346	997	420	21	3,340	5,038	11,138	22,300
Supplies	1,519	10,594	2,082	429	3,656	402	1,958	20,640
Student support	1,688	1,195	1,337	57	9,074	27	4	13,382
Other	172	730	3,550	1,609	28,118	32	209	34,420
Expenses	\$ 227,422	\$ 119,519	\$ 57,175	\$ 16,930	\$ 239,456	\$ 37,610	\$ 142,393	\$ 840,505

	2024							
	Instruction	Academic support	Research	Organized activities	Student services	Auxiliary activities	Institutional support	Total
EXPENSES:								
Compensation and benefits	\$ 165,409	\$ 65,628	\$ 32,239	\$ 4,882	\$ 73,670	\$ 6,085	\$ 53,755	\$ 401,668
Operations and maintenance	15,612	17,350	5,283	558	48,746	20,704	26,472	134,725
Professional fees and services	15,505	10,854	4,870	5,767	14,533	1,249	24,529	77,307
Travel, professional development	6,584	4,130	2,733	1,887	19,420	484	4,891	40,129
Interest	983	451	166	8	2,217	3,909	10,156	17,890
Supplies	1,315	9,803	2,001	273	2,857	400	977	17,626
Student support	1,758	1,175	1,218	54	7,691	25	-	11,921
Other	712	567	2,253	1,102	7,090	7	32	11,763
Expenses	\$ 207,878	\$ 109,958	\$ 50,763	\$ 14,531	\$ 176,224	\$ 32,863	\$ 120,812	\$ 713,029

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 \$31,618 and \$27,709 incurred by the University in fiscal years 2025 and 2024, respectively, are included primarily as "Institutional support expenses".

13. Defined Contribution Postemployment Plans

The University 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 \$2,079 and \$1,854 to this program in fiscal years 2025 and 2024, respectively. The current defined benefit retiree medical plan will be phased out concurrently with funding of this defined contribution plan.

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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 \$24,657 and \$22,731 in fiscal years 2025 and 2024, respectively.

14. 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:

	2025	2024
NET ASSETS RELEASED:		
Acquisition of buildings and equipment	\$ 137,896	\$ 20,816
Instruction, research, departmental support, scholarships and other	158,476	152,704
Net assets released from donor restrictions	\$ 296,372	\$ 173,520

15. Restrictions and Limitations on Net Assets with Donor Restrictions

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

	2025	2024
NET ASSETS WITH DONOR RESTRICTIONS		
Endowment corpus, restricted in perpetuity	\$ 1,129,264	\$ 1,077,591
Endowment donor contributions receivable, restricted in perpetuity	34,361	48,573
Endowment appreciation restricted until appropriated	993,497	896,300
Perpetual funds held in trust	12,116	11,624
Funds held in perpetuity for student loans	15,493	14,719
Split-interest agreements	15,899	13,678
Restricted for capital projects, including related donor contributions receivable	162,783	285,224
Restricted for scholarships and departmental purposes, including related donor contributions receivable	377,323	355,667
Net assets with donor restrictions	\$ 2,740,736	\$ 2,703,376

16. Endowment Net Assets

The University's Endowment (Endowment) consists of over 1,900 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:

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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

Endowment net assets consist of the following at May 31:

	2025		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 2,169,238	\$ 2,169,238
Board-designated endowment funds	147,112	-	147,112
Total endowment net assets	\$ 147,112	\$ 2,169,238	\$ 2,316,350

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 2,034,088	\$ 2,034,088
Board-designated endowment funds	129,832	-	129,832
Total endowment net assets	\$ 129,832	\$ 2,034,088	\$ 2,163,920

Changes in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets as of May 31, 2023	\$ 101,112	\$ 1,923,214	\$ 2,024,326
Donor contributions	-	52,910	52,910
Investment return:			
Investment income, net of distributions	71	1,528	1,599
Net realized and unrealized gains	11,932	161,038	172,970
<i>Total investment return</i>	12,003	162,566	174,569
Endowment gains transferred for spending	(5,252)	(82,972)	(88,224)
Funds functioning as endowment net transfers	339	-	339
Other revenues and transfers	21,630	(21,630)	
Endowment net assets as of May 31, 2024	\$ 129,832	\$ 2,034,088	\$ 2,163,920
Donor contributions	-	27,853	27,853
Investment return:			
Investment income, net of distributions	9,467	8,726	18,193
Net realized and unrealized gains	12,038	192,270	204,308
<i>Total investment return</i>	21,505	200,996	222,501
Endowment gains transferred for spending	(5,433)	(93,699)	(99,132)
Funds functioning as endowment net transfers	1,208	-	1,208
Endowment net assets as of May 31, 2025	\$ 147,112	\$ 2,169,238	\$ 2,316,350

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, 2025, there were no such funds below the minimum distribution level. As of May 31, 2024, one such endowment fund with an aggregated value of \$390 with a total of \$11 was 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 2025), and a percent determined for each fiscal year (4.5% for fiscal year 2025) 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.

17. Related Party Transactions

Members of the University's Board of Trustees and senior management may, from time to time, be associated either directly or indirectly with companies that do business with the University. The University has a written conflict of interest policy that requires annual reporting by each Board member and University senior management. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arms' length, based on terms that are fair and reasonable to and in the best interest of the University.

Although generally such transactions are immaterial, the University does engage in such business transactions that may be material. The University has invested funds totaling \$9,495 and \$10,026 in fiscal years 2025 and 2024, respectively, with investment firms with which board members are affiliated.

18. Commitments and Contingencies

The University is contractually obligated for approximately \$144,263 as of May 31, 2025 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. The University incurred \$1,093 and \$934 in operating lease expenses for facilities and equipment, respectively, and received \$3,698 and \$3,488 in rental revenue in the fiscal years ended May 31, 2025 and 2024, respectively.

As of May 31, 2025, the University has lease commitments and future lease revenue for the following future fiscal years:

	Lease Commitments	Lease Revenues
2026	973	\$ 3,787
2027	605	2,660
2028	546	2,155
2029	286	1,791
2030	4	1,423
Thereafter	-	2,095
Total	\$ 2,414	\$ 13,911

The University participates in the Federal Title IV student financial aid programs and other research and development programs funded by federal grants which are subject to federal compliance requirements and potential audit by federal government agencies. The University has had no material non-compliance in relation to such requirements during the years ended May 31, 2025 and 2024.

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.

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2025 and 2024

(Dollars in Thousands)

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.

19. Subsequent Events

The University has evaluated subsequent events from the Statement of Financial Position date of May 31, 2025 through September 5, 2025, the issuance date of the *Consolidated Financial Statements*, and determined that there are no subsequent events that warrant disclosure as of this date.