SOUTHWESTERN UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2022 and 2021

And Reports of Independent Auditor

Cherry Bekaert LLP
Your Guide Forward

SOUTHWESTERN UNIVERSITY
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Cherry Bekaert LLP
Your Guide Forward

Report of Independent Auditor

To the Board of Trustees
Southwestern University
Georgetown, Texas

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Southwestern University and Southwestern Foundation (collectively, the "University"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2022 and 2021, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's 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 audits. 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 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 within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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 generally accepted auditing standards 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 October 24, 2022, 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.

Cherry Bekaert LLP

Charlotte, North Carolina
October 24, 2022

SOUTHWESTERN UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 33,900,521	$ 47,908,154
Receivables:		
Student accounts receivable, net	57,134	55,328
Unconditional promises receivable, net	5,629,327	5,464,754
Investment income	1,504	1,106
Other receivables	226,057	1,470,271
Prepaids and other current assets	1,257,952	414,125
Total Current Assets	41,072,495	55,313,738
Unconditional promises receivable, net	4,011,874	3,992,798
Investments	365,049,818	355,377,475
Funds held in trusts by others (FHITBO)	4,881,812	5,682,585
Investment in plant, net	127,644,459	122,259,625
Student loans receivable, net	2,396,672	2,887,348
Other assets	-	13,287
Total Assets	$ 545,057,130	$ 545,526,856
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable, accrued and other liabilities	$ 6,555,929	$ 10,809,351
Bonds and notes payable	475,000	670,000
Financing lease obligations	526,900	-
Accrued post-retirement benefits	331,282	503,202
Deposits and deferred revenue	3,519,932	3,735,938
Total Current Liabilities	11,409,043	15,718,491
Bonds and notes payable, long-term portion	23,629,955	36,640,360
Financing lease payable, long-term portion	1,806,949	-
Accrued post-retirement benefits, long-term portion	3,554,227	5,826,884
Refundable advances	1,597,179	2,081,098
Other long-term liabilities	11,400	11,400
Total Liabilities	42,008,753	60,278,233
Net Assets:		
Without donor restrictions	172,946,387	136,802,052
With donor restrictions	330,101,990	348,446,571
Total Net Assets	503,048,377	485,248,623
Total Liabilities and Net Assets	$ 545,057,130	$ 545,526,856

The accompanying notes to the consolidated financial statements are an integral part of these statements.

SOUTHWESTERN UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022 (WITH COMPARATIVE TOTALS FOR 2021)

	2022			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**2021**
Operating Revenues:				
Net tuition and fees	$ 28,936,920	$ -	$ 28,936,920	$ 27,911,151
Private gifts and grants	1,923,224	2,914,140	4,837,364	4,900,895
Government grants	335,470	3,217,463	3,552,933	3,390,351
Endowment return used for operations, net	1,384,228	12,705,546	14,089,774	15,164,647
Investment return from nonendowment, net	1,029,853	12,462	1,042,315	696,300
Distributions from funds held in trusts by others	359	173,392	173,751	152,380
Other income	1,471,717	11,188	1,482,905	670,765
Auxiliary enterprises	11,111,519	-	11,111,519	8,850,052
Net assets released from restrictions	19,117,104	(19,117,104)	-	-
Total Operating Revenues	65,310,394	(82,913)	65,227,481	61,736,541
Operating Expenses:				
Instructional services	29,133,603	-	29,133,603	27,164,261
Student services	11,922,990	-	11,922,990	11,783,519
Auxiliary services	9,651,534	-	9,651,534	8,904,018
Institutional support	12,862,574	-	12,862,574	12,220,136
Scholarships (Higher Education Relief Funds)	1,617,561	-	1,617,561	606,725
Total Operating Expenses	65,188,262	-	65,188,262	60,678,659
Change in net assets from operating activities	122,132	(82,913)	39,219	1,057,882
Nonoperating Activities:				
Gifts for endowment and plant improvements	-	4,484,703	4,484,703	6,535,805
Investment returns less amounts designated for current operations	2,790,171	(21,477,815)	(18,687,644)	70,639,325
Gain on sale of land	27,686,712	-	27,686,712	-
Loss on disposal of fixed assets	(302,802)	-	(302,802)	(236,095)
Change in value of split-interest agreements	-	(863,378)	(863,378)	900,825
Net casualty gain (loss)	3,398,908	-	3,398,908	(135,019)
Post-retirement related changes	2,044,036	-	2,044,036	1,474,445
Net assets released from restrictions for plant improvements	403,178	(403,178)	-	-
Non-operating transfer	2,000	(2,000)	-	-
Other	-	-	-	5,936
Total Nonoperating Activities	36,022,203	(18,261,668)	17,760,535	79,185,222
Change in net assets	36,144,335	(18,344,581)	17,799,754	80,243,104
Net assets, beginning of year	136,802,052	348,446,571	485,248,623	405,005,519
Net assets, end of year	$ 172,946,387	$ 330,101,990	$ 503,048,377	$ 485,248,623

The accompanying notes to the consolidated financial statements are an integral part of this statement.

SOUTHWESTERN UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

	2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Operating Revenues:			
Net tuition and fees	$ 27,911,151	$ -	$ 27,911,151
Private gifts and grants	863,730	4,037,165	4,900,895
Government grants	323,877	3,066,474	3,390,351
Endowment return used for operations, net	1,498,123	13,666,524	15,164,647
Investment return from nonendowment, net	689,505	6,795	696,300
Distributions from funds held in trusts by others	334	152,046	152,380
Other income	664,657	6,108	670,765
Auxiliary enterprises	8,850,052	-	8,850,052
Net assets released from restrictions	19,878,253	(19,878,253)	-
Total Operating Revenues	60,679,682	1,056,859	61,736,541
Operating Expenses:			
Instructional services	27,164,261	-	27,164,261
Student services	11,783,519	-	11,783,519
Auxiliary services	8,904,018	-	8,904,018
Institutional support	12,220,136	-	12,220,136
Scholarships (Higher Education Relief Funds)	606,725	-	606,725
Total Operating Expenses	60,678,659	-	60,678,659
Change in net assets from operating activities	1,023	1,056,859	1,057,882
Nonoperating Activities:			
Gifts for endowment and plant improvements	-	6,535,805	6,535,805
Investment returns less amounts designated for current operations	6,362,689	64,276,636	70,639,325
Loss on disposal of fixed assets	(236,095)	-	(236,095)
Change in value of split-interest agreements	-	900,825	900,825
Net casualty loss	(135,019)	-	(135,019)
Post-retirement related changes	1,474,445	-	1,474,445
Net assets released from restrictions for plant improvements	119,831	(119,831)	-
Other	5,936	-	5,936
Total Nonoperating Activities	7,591,787	71,593,435	79,185,222
Change in net assets	7,592,810	72,650,294	80,243,104
Net assets, beginning of year	129,209,242	275,796,277	405,005,519
Net assets, end of year	$ 136,802,052	$ 348,446,571	$ 485,248,623

The accompanying notes to the consolidated financial statements are an integral part of this statement.

SOUTHWESTERN UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ 17,799,754	$ 80,243,104
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	6,514,801	6,359,807
Casualty gain	(3,398,908)	-
Loss on disposal of assets	302,802	236,095
Gain on sale of land	(27,686,712)	(6,449,050)
Net unrealized and realized gain on investments	4,359,553	(79,520,665)
Change in value of split-interest agreements	800,773	(864,518)
Change in value of private equity	-	(662,583)
Gifts and grants restricted for endowment and plant improvements	(4,484,703)	(6,535,805)
Changes in operating assets and liabilities:		
Student accounts and loans receivable, net	488,871	405,332
Unconditional promises receivable	(183,649)	672,816
Investment income receivable	(398)	409
Other receivables	347,867	(877,774)
Other assets	(843,828)	797,112
Accounts payable, accrued and other liabilities	(5,015,871)	2,585,069
Accrued post-retirement benefits	(2,444,577)	(1,952,918)
Deposits and deferred revenue	(216,005)	(624,244)
Refundable advances	(483,919)	(305,130)
Net cash flows from operating activities	(14,144,149)	(6,492,943)
Cash flows from investing activities:		
Purchases of investments	(118,267,867)	(107,957,803)
Sales of investments	129,170,162	114,782,198
Liquidation of private capital loan fund	-	7,091,662
Proceeds from sale of land	27,686,712	6,449,050
Purchases of investments for quasi endowment from land sale	(24,934,187)	-
Proceeds from insurance	5,597,131	-
Purchases of investments in plant	(9,852,159)	(2,956,248)
Proceeds from sale of investments in plant	39,257	1,500
Net cash flows from investing activities	9,439,049	17,410,359
Cash flows from financing activities:		
Payment on bonds and notes payable	(450,000)	(7,958,709)
Redemption of bonds	(12,770,000)	-
Bond proceeds	-	10,000,000
Payments on issuance costs	-	(70,000)
Reduction of lease obligations	(567,236)	(730,232)
Gifts and grants restricted for endowment and plant improvements	4,484,703	6,535,805
Net cash flows from financing activities	(9,302,533)	7,776,864
Net change in cash and cash equivalents	(14,007,633)	18,694,280
Cash and cash equivalents, beginning of year	47,908,154	29,213,874
Cash and cash equivalents, end of year	$ 33,900,521	$ 47,908,154
Supplemental disclosure of cash payments for:		
Interest paid	$ 1,453,464	$ 1,262,994
Supplemental disclosure of noncash transactions for:		
Additions to investments in plant in accounts payable	$ 894,152	$ 1,479,180
Additions to investments in plant for right of use assets	$ 2,701,078	$ -

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Note 1—Nature of operations

Southwestern University (the "University"), located in Georgetown, Texas, is the oldest chartered institution of higher learning in the state. It traces its roots to the 1840 founding of Rutersville College in the Republic of Texas near La Grange. A nationally recognized, independent undergraduate liberal arts college affiliated with the United Methodist Church, the University provided services to 1,543 students and has a current student-to-faculty ratio of 12:1. Students choose from 36 major programs in the University's two academic areas, The Brown College of Arts and Sciences and the Sarofim School of Fine Arts.

The revenues generated by the University consist primarily of tuition and fees paid by students. Many students rely on funds received from federal financial aid programs under Title IV of the Federal Higher Education Act of 1965 ("HEA"), as amended, to pay for a substantial portion of their tuition. As an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the United States Department of Education (the "USDE").

Southwestern Foundation (the "Foundation"), a Texas nonprofit corporation, was founded in 1993. The Foundation's board is composed of members selected and approved by the Board of Trustees. The Foundation is organized and operated to maintain real or personal property and to use and apply the income therefrom and the principal thereof exclusively for charitable, scientific, literary, and educational purposes. The Foundation is administered solely for the benefit and support of the University. For reporting purposes, the Foundation is consolidated in the University's consolidated financial statements. Inter-entity transactions have been eliminated in the consolidated financial statements. The "University" will refer to the consolidated entity, including both Southwestern University and Southwestern Foundation.

Tax-Exempt Status – The University claims exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, certain income unrelated to its exempt function is subject to income taxation.

The University's policy is to record a liability for any tax position taken that is beneficial to the University when it is more likely than not the position will be overturned by a taxing authority upon examination. Management believes there are no such positions as of June 30, 2022 and 2021 and, accordingly, no liability has been accrued.

Student Financial Assistance Programs – The University participates in various student financial aid programs. These programs are subject to periodic review by the USDE pursuant to the HEA, as amended. In order to continue to participate in Title IV Programs, the University must comply with the standards set forth in the HEA and the regulations promulgated thereunder (the "Regulations"). Among other things, these Regulations require the University to exercise due diligence in approving and disbursing funds and servicing loans, and to exercise financial responsibility related to maintaining certain financial ratios and requirements, all of which the University believes they have been met at June 30, 2022 and 2021.

Note 2—Summary of significant accounting policies

Basis of Financial Statement Presentation – The consolidated financial statements of the University have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), which require it to report information regarding its financial position and activities according to the following net asset classifications:

Without Donor Restrictions – Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions net asset class, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the funds have been used in accordance with the restricted stipulations; thus, they are released from such restrictions. Additionally, net assets may be set aside by the Board of Trustees to be used for specific activities and guidelines established by the Board of Trustees. As of June 30, 2022 and 2021 the Board of Trustee's designated $57,057,926 and $35,786,311, respectively, to be set aside for the endowment (see Note 15).

Note 2—Summary of significant accounting policies (continued)

With Donor Restrictions – Net assets with donor restrictions are assets for which use by the University is limited by donor-imposed stipulations that either expire with the passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations. Net assets with donor restrictions are designated by donors for specific purposes and include unconditional promises receivable, split-interest agreements, interests in trusts held by others, and accumulated appreciation on donor-restricted endowments which have not been appropriated by the Board of Trustees for expenditure. Some net assets with donor restrictions are required to be held in perpetuity and only the income or a portion of the income earned is to be used for specific purposes.

Measure of Operations – The consolidated statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the University's ongoing education activities and supporting services. Nonoperating activities are limited to resources that generate return from investments, activities related to endowment and plant, other components of net periodic pension costs, and other activities considered to be of a more unusual or nonrecurring in nature.

Cash and Cash Equivalents – The University considers all highly liquid assets with a maturity of three months or less when purchased as cash and cash equivalents. Cash and cash equivalents held in transition for investment are included in investments. The University places its cash and cash equivalents with high quality financial institutions, which at times may exceed federally insured limits. The University has not experienced any losses on such accounts.

Loans Receivable – The Federal Perkins Loan Program consists primarily of funds advanced to students by the U.S. government. Under the terms of the program, these loans are subject to forgiveness or assignment back to the federal government under certain circumstances. The amount to be forgiven or assigned is based on the occurrence of certain future events that cannot be anticipated.

Investments – Investments with readily determinable fair values are stated at fair value. Fair value is 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. Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Investments in government obligations are valued at the bid price or the average of the bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. Purchases and sales of securities are recorded as of the trade date. Realized gains and losses on sales of securities are determined on the basis of average cost. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date. Investments in real estate and mineral rights are reported at either cost or the fair value at the date the gift was received.

Alternative investments consist of the University's investments in diversifying strategies, distressed debt, real estate, natural resources, private capital, and private credit investments that are not publicly traded. Participation in these funds is achieved via ownership of shares in limited partnerships and limited liability companies. Some of these alternative investments may entail liquidity risks to the extent that they are difficult to sell or cannot be converted readily to cash at favorable prices. The University's alternative investments are not traded in an active market; however, the net asset value ("NAV") of the shares is reported by the fund manager on a monthly or quarterly basis.

Debt Issuance Costs – Debt issuance costs are amortized by the straight-line method over the remaining terms of the related debt and are included in bonds and notes payable on the consolidated statements of financial position. The University believes the use of the straight-line method does not differ significantly from the use of the effective interest method. Amortization expense related to these costs was $15,958 and $18,510 for the years ended June 30, 2022 and 2021, respectively, and is included in interest expense on the accompanying note of functional expenses (see Note 17).

Note 2—Summary of significant accounting policies (continued)

Contributions – All contributions are considered to be available for undesignated use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. Unconditional promises receivable are recorded at the present value of their estimated future cash flows, net of allowances. An allowance for uncollectible promises receivable is determined by a specific review based upon management's judgment, including such factors as prior collection history and currently available information relating to the donor's intent and ability to satisfy the promises receivable. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are expected to be received. Amortization of the discounts is included in contribution revenue. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or right of release, are not recognized until the conditions on which they depend have been substantially met.

Bequests in Probate and Conditional Promises Receivable – The University considers unconditional bequests, as declared valid by probate court, to be unconditional promises receivable. Unconditional bequests that are not in probate are considered to be intentions to give and are not recognized in the consolidated financial statements.

Revenue Recognition –

Net Tuition and Fees – The University recognizes revenue from student tuition and fees within the fiscal year in which academic services are rendered. Discounts in the form of scholarships and financial aid grants provided by the University, including those funded by the endowment and gifts, are reported as a reduction of student revenue. A discount represents the difference between the stated charge for the academic period and the amount that is due on the student account. Scholarships and grants awarded to students were $39,429,327 and $38,565,447 at June 30, 2022 and 2021, respectively.

Campus-based programs are delivered in fall (mid-August to mid-December) and spring (mid-January to mid-May) academic terms, as well as two summer terms described below. Payment for fall term is due in July, and payment for spring term is due in December. The University offers a payment plan for the fall term that can start as early as April. Any payments received for the future fall term that are received prior to July 1 are recorded as deferred revenue and later recognized as the fall term performance obligations are met.

Payments for tuition for all summer terms are recognized as performance obligations are met. During summer 2022, the University's Summer 1 term began in May and ended prior to the fiscal year-end June 30. The other summer term starts in mid-May and ends in mid-August, spanning two reporting periods. The University determined that the tuition amounts for this summer term that related to July are not significant.

Student Deposits – For the academic year 2021-2022, the student nonrefundable deposit was $700, which includes a $250 enrollment deposit, a $250 housing deposit, and a $200 student orientation fee.

Auxiliary Enterprises – Auxiliary services exist to furnish good or services to students, faculty, staff, or incidentally to the general public. Fees charged for auxiliary services are priced to offset the cost of the goods and services provided. The distinguishing characteristic of auxiliary services is that they are managed as an essentially self-supporting activity.

Auxiliary services revenue includes activities for student housing and dining facilities. Payments for housing and dining services are due the same time as tuition and fees or upon receipt if added after the initial due date. Student housing and dining facilities services are provided for fall (mid-August to mid-December) and spring (mid-January to mid-May) academic terms. Normally for summer terms, dining plans are not offered and housing is billed on a daily basis. Performance obligations for housing and dining services are delivered over the academic terms and recognized as the performance obligation is met.

Deferred revenue amounts for advance tuition payments and student deposits are shown in Note 9.

Note 2—Summary of significant accounting policies (continued)

Investment in Plant, Net – Additions are generally recorded at cost at the date of acquisition or at fair value at the date of donation. Normal replacements of movable plant assets are charged to expense as maintenance. The University's asset capitalization threshold is $2,500 for individual asset acquisitions.

Depreciation of physical plant and equipment, including amortization of leases, was $6,481,274 and $6,398,988 for 2022 and 2021, respectively. Depreciation is computed using the straight-line method for all depreciable assets over their estimated useful lives as follows:

Computers and software	5 years
Automobiles	5 years
Furniture and equipment	7 years
Grounds improvements	15 years
Library books	25 years
Buildings (prior to July 2012)	40 years

Starting in July 2012, depreciation for new physical plant building renovations and construction is computed using the straight-line method for all depreciable assets over the following useful lives:

Building shell	70 years
Elevator system	20 years
Fire protection system	20 years
Fixed equipment assets	20 years
Plumbing system	20 years
Electrical and lighting system	20 years
Floor coverings	15-30 years
HVAC	15 years
Interior finish	15 years
Furniture and lab startup items	7 years
Miscellaneous	15 years
Roof covering	10-30 years

Collections – The University has 19 collections within the Special Collections of the A. Frank Smith, Jr. Library Center that contain a variety of books, records, papers, maps, and manuscripts that are protected and preserved for public exhibition, education, research, and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, such collections are not reported for financial statement purposes.

Split-Interest Agreements – The University is the income or remainder beneficiary for various perpetual and charitable remainder trusts held by third party trustees where the trustee has no discretion regarding the beneficiaries' participation in the trust. The University's beneficial interest in these agreements and related contribution revenue is recognized at the fair value at the date of donation. Changes from year to year in the fair value of the University's beneficial interest are reported as a change in value of split-interest agreements in the appropriate net asset class according to the trust restrictions.

Scholarships and Grants – The consolidated statements of activities present financial assistance provided to students in the form of institutional scholarships and grants as a reduction to tuition and fees revenues. Scholarships and grants include programs supported by donor-restricted endowments, donor-restricted gifts, and grants and programs supported by general operations of the University.

Note 2—Summary of significant accounting policies (continued)

The following table presents the amount of scholarships and grants revenue reduction, and the related percentage of tuition and fee revenues supported by donor-restricted and general operation support for the academic year (fall and spring semester only):

	2022		2021	
Per Academic Year (Fall & Spring)	**Amount**	**Discount Rate to Tuition**	**Amount**	**Discount Rate to Tuition**
Scholarships and grants supported by endowments and gifts	$ 3,438,908	5.0%	$ 4,517,613	6.8%
Scholarships and grants supported by general operations	35,764,404	52.3%	34,047,834	51.2%
Total scholarships and grants	$ 39,203,312	57.3%	$ 38,565,447	58.0%

Allocation of Certain Expenses – The consolidated statements of activities present expenses by functional classification. The University's primary program services are instruction and student services. Expenses reported as institutional support and auxiliary services are incurred in support of these primary program services. Uncapitalized plant expenses are allocated to the specific operating expense lines that the expenses relate to. Depreciation, interest expense, the cost of operation and maintenance of plant facilities, and general plant expenses are allocated to functional categories based on building square footage dedicated to that specific function.

Use of Estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Actual results could differ from those estimates.

Reclassification - A reclassification has been made in the consolidated statement of cash flows between operating and investing activities as of the year ended June 30, 2021 from amounts previously reported.

Accounting Pronouncement Adopted – In September 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires presentation of contributed nonfinancial assets as a separate line item in the consolidated statement of activities, apart from contributions of cash and other financial assets. It also requires a disclosure of disaggregated contributions of nonfinancial assets by category that depicts the type of contributed nonfinancial assets. This distinction will increase transparency of contributions recognized. This standard was adopted on July 1, 2021 and the effect of this standard had no material effect on the consolidated financial statements.

Note 3—Liquidity and availability of resources

The following table reflects the University's financial assets as of June 30, with reductions for amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statements of activities.

	2022	2021
Financial assets:		
Cash and cash equivalents	$ 33,900,521	$ 47,908,154
Student receivables, net	57,134	55,328
Unconditional promise receivable, net, current	5,629,327	5,464,754
Investment income receivable	1,504	1,106
Other receivables	226,057	1,470,271
Investments	365,049,818	355,377,475
Total financial assets at year-end	404,864,361	410,277,088
Less assets unavailable for general expenditures within one year:		
Receivable due in more than one year	(185,291)	(190,192)
Endowments and accumulated earnings subject to appropriations beyond one year	(346,804,873)	(346,548,231)
Unmarketable investment	(4,262,603)	(4,262,603)
Restricted by donors with purpose restrictions	(9,444,398)	(8,295,185)
Financial assets available to meet cash needs for general expenditures within one year	44,167,196	50,980,877
Available board designated endowments	52,822,461	31,576,266
Available line of credit	5,000,000	5,000,000
Financial assets available to meet cash needs for general expenditures within one year with board approval	$ 101,989,657	$ 87,557,143

As part of the University's liquidity management plan, it structures its financial assets to be available as its obligations come due. Cash in excess of daily requirements is invested in the University's short-term pooled investment fund. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of instruction, student services, and auxiliary services as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivables are not considered available for general expenditures as principal and interest on these loans are used solely to make new loans and are therefore not available to meet current operating needs.

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditures, except for the amount that is available for annual appropriations in accordance with the board approved spending rate and with current year expenditures that meet the donor restrictions. Board-designated endowments included within the endowment pool available for the board approved spending policy totaled approximately $52,822,461 and $31,576,266 for June 30, 2022 and 2021. The University does not intend to spend from the board-designated endowments other than the amounts appropriated for general expenditure in accordance with the spending policy; however, the amount of the board-designated endowments could be made available for cash liquidity needs with board approval.

Note 3—Liquidity and availability of resources (continued)

In addition to financial assets availability to meet general expenditure over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Furthermore, the funds restricted by donors with purpose restrictions noted above are nonendowment funds and are also available for use in accordance with the donor restrictions for general expenditures in the following year. Lastly, the University had an unsecured line of credit of $5,000,000 at June 30, 2022 and 2021, available to meet cash flow needs in event of a liquidity need, as further described in Note 12.

Note 4—Student accounts and loans receivable

Student Accounts – Student accounts receivable are reported net of allowances for doubtful accounts of $608,325 and $561,895 for the years ended June 30, 2022 and 2021, respectively. Allowance for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence collectability of the balance outstanding. For student accounts the allowance percentage is 100% for accounts over 181 days past due but still undergoing collection procedures. For institutional loans, the allowance percentage ranges from 25% for accounts past 31 days due to 100% for accounts greater than five years past due. Balances are written off only when they are deemed permanently uncollectible. Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program.

Loans Receivable – The University makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. At June 30, 2022 and 2021, student loans represent .44% and .53% of total assets, respectively.

At June 30, student loans consists of the following:

	2022	2021
Federal government programs	$ 1,493,660	$ 1,963,960
Institutional programs	2,006,238	2,040,778
	3,499,898	4,004,738
Less allowance for doubtful accounts:		
Beginning of year	(1,117,390)	(1,103,769)
Change in allowance	14,164	(13,621)
End of year	(1,103,226)	(1,117,390)
Student loans receivable, net	$ 2,396,672	$ 2,887,348

The University participated in the Perkins federal revolving loan program, but the program expired on September 30, 2017, so no additional disbursements were permitted after June 30, 2018. As such, no new Perkins loans were issued for fiscal years ended June 30, 2022 and 2021. Funds advanced by the federal government and net accumulations in the revolving loan fund were $1,575,862 and $2,059,673 at June 30, 2022 and 2021, respectively, and are ultimately refundable to the government and are classified as refundable advances in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a decrease in the liability to the government. The University is also in the process of assigning inactive Perkins loans to the federal government as required. In fiscal year 2022, Perkins loans with principal of $162,330 were assigned and accepted by the federal government, which resulted in a decrease in the liability. The assignment of additional Perkins loans is in progress.

Note 4—Student accounts and loans receivable (continued)

At June 30, 2022 and 2021, the following amounts were due under the student loan programs:

June 30,	Deferrals	Currently Due	31-90 Days Past Due	90+ Days Past Due	Total Due
2022	$ 442,923	$ 1,286,019	$ 217,457	$ 1,553,499	$ 3,499,898
2021	$ 672,172	$ 1,417,803	$ 179,380	$ 1,735,383	$ 4,004,738

Note 5—Unconditional promises receivable

As of June 30, 2022 and 2021, the unconditional promises receivable are as follows:

	2022	2021
Less than one year*	$ 10,629,327	$ 10,464,754
One to five years	4,070,635	4,083,177
More than five years	8,000	-
	14,707,962	14,547,931
Present value discount	(66,761)	(90,379)
Allowance for uncollectable promises receivable	(5,000,000)	(5,000,000)
Total unconditional promises receivable	$ 9,641,201	$ 9,457,552

* The amount of the allowance for uncollectable promises receivable is related to a gift that is past due; thus, the amount reported for less than one year is unusually high without considering the off-setting allowance of $5,000,000 when analyzing the unconditional promises due to be received in less than one year.

The University uses discount rates associated with the risks involved to discount anticipated cash flows for unconditional promises receivable. The rates used to discount the anticipated cash flows ranged from .2% to 2.4%.

Note 6—Investments

Investments consist of long-term assets controlled by the University. Investment securities are exposed to various risks such as interest rate, liquidity, market, currency, and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position.

A summary of investments at June 30, 2022 and 2021 are as follows:

	2022	2021
At fair value:		
Cash equivalents	$ 3,600,000	$ -
Equities, equity mutual funds and co-mingled equity funds	117,421,302	139,879,358
Fixed income and co-mingled fixed income funds	58,908,485	53,451,182
Alternative investments	178,481,623	155,342,718
Total at fair value	358,411,410	348,673,258
At cost or market at date of acquisition:		
Real estate	6,421,085	6,539,119
Mineral interests	217,323	165,098
Total at cost or market at date of acquisition	6,638,408	6,704,217
Total investments	$ 365,049,818	$ 355,377,475

Note 7—Fair value measurement

The University measures the fair value of investments using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets and in markets that are not active and for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and supported by little or no market activity. The University holds Level 3 investments, which included some privately held currently non-marketable common stock and funds held in trust by others. When observable prices are not available for these securities, the University uses one or more valuation techniques for which sufficient and reliable data is available. The degree of judgment exercised in determining fair value is greatest for securities categorized in Level 3, due to the inherent uncertainty of these valuations. Level 3 estimated values may differ significantly from the values that would have been used had a ready market for the investment existed, and the differences could be material.

Note 7—Fair value measurement (continued)

The inputs used by the University in estimating the value of Level 3 investments include the original transaction price and completed or pending third party transactions in the investment or comparable issuers. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the University in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis.

The following table presents the financial instruments carried on the consolidated statements of financial position by caption and by level within the valuation hierarchy:

	Assets at Fair Value as of June 30, 2022				
	Level 1	**Level 2**	**Level 3**	**Investments Measured at NAV [1]**	**Total**
Cash and cash equivalents	$ 3,600,000	$ -	$ -	$ -	$ 3,600,000
Equities:					
U.S. equity	557,312	-	-	4,972,144	5,529,456
Global equity	-	-	-	111,891,846	111,891,846
Fixed income:					
Core bonds	-	-	-	39,786,234	39,786,234
Credit Securities	-	-	-	17,070,575	17,070,575
U.S. Treasury and agency co-mingled funds	-	-	-	2,051,676	2,051,676
Alternative investments:					
Diversifying strategies	-	-	-	37,253,993	37,253,993
Distressed debt	-	-	-	326,973	326,973
Real estate	-	-	-	7,465,984	7,465,984
Private real estate	-	-	-	24,759,394	24,759,394
Public natural resources	-	-	-	3,554,602	3,554,602
Private natural resources	-	-	-	19,134,411	19,134,411
Private capital	-	-	-	73,796,010	73,796,010
Private credit	-	-	-	7,927,653	7,927,653
Private equity	-	-	4,262,603	-	4,262,603
Total investments valued at fair value	4,157,312	-	4,262,603	349,991,495	358,411,410
Funds held in trust by others	-	-	4,881,812	-	4,881,812
Total	$ 4,157,312	$ -	$ 9,144,415	$ 349,991,495	$ 363,293,222

[1] Investments that are measured at fair value using NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

Note 7—Fair value measurement (continued)

The following table presents the financial instruments carried on the consolidated statements of financial position by caption and by level within the valuation hierarchy:

	Assets at Fair Value as of June 30, 2021				
	Level 1	**Level 2**	**Level 3**	**Investments Measured at NAV [1]**	**Total**
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -
Equities:					
U.S. equity	1,223,477	-	-	4,940,079	6,163,556
Global equity	-	-	-	133,715,802	133,715,802
Fixed income:					
Core bonds	-	-	-	33,318,355	33,318,355
Credit Securities	-	-	-	15,187,812	15,187,812
U.S. Treasury and agency co-mingled funds	-	-	-	4,945,015	4,945,015
Alternative investments:			-		
Diversifying strategies	-	-	-	33,671,116	33,671,116
Distressed debt	-	-	-	394,600	394,600
Real estate	-	-	-	11,000,749	11,000,749
Private real estate	-	-	-	18,061,494	18,061,494
Public natural resources	-	-	-	7,222,666	7,222,666
Private natural resources	-	-	-	14,166,944	14,166,944
Private capital	-	-	-	58,188,422	58,188,422
Private credit	-	-	-	8,374,124	8,374,124
Private equity	-	-	4,262,603	-	4,262,603
Total investments valued at fair value	1,223,477	-	4,262,603	343,187,178	348,673,258
Funds held in trust by others	-	-	5,682,585	-	5,682,585
Total	$ 1,223,477	$ -	$ 9,945,188	$ 343,187,178	$ 354,355,843

[1] Investments that are measured at fair value using NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

The following provides additional disclosures required by ASC 820, *Fair Value Measurements and Disclosures,* for alternative investment strategies included in Level 3:

Private Equity – The University received donations of common stock shares in a bank holding company in fiscal years 2013 and 2019. A third party report containing per share valuation was provided when each donation was received. This valuation report was reviewed along with public financial reports for the bank to determine the value of the stock and the University has discounted the stock value until the shares become marketable. The University adjusts the stock value if the change in fair market value is greater than 15% between the current year and the year of valuation. There was no change in the value of the gift in fiscal year 2022.

Note 7—Fair value measurement (continued)

The following provides additional disclosures required by ASC 820 for alternative investments in funds valued based on NAV value as a practical expedient for fair value:

Equities

U.S. Equity – This category includes domestic equity securities.

Global Equity – This category includes funds with investments in global equity securities.

Fixed Income

Core Bonds – This category includes funds with fixed income securities.

Credit Securities – This category consists of a fund comprised of fixed income credit securities.

U.S. Treasury and Agency Co-Mingled Funds – This category includes a fund that invests primarily in obligations issued or guaranteed as to principal or interest by U.S. government securities.

Alternative Investments

Diversifying Strategies – This category includes third party investment funds invested in four broad investment categories: event-driven, credit, equity market neutral, and absolute return multi-strategy. Some or all of the marketable alternative strategies may be deployed across U.S. and non-U.S. markets.

Distressed Debt – This category includes a fund invested in performing restructured debt, stressed debt, distressed debt, “special situation” debt, and mezzanine debt investments.

Real Estate – This category primarily includes real estate investment trusts.

Private Real Estate – This category primarily includes funds and limited partnerships invested primarily in real estate.

Public Natural Resources – This category includes natural resource related equities.

Private Natural Resources – This category includes funds and limited partnerships invested primarily in natural resource related investments.

Private Capital – This category includes limited partnerships invested in equity securities, warrants or other options, and international emerging growth companies.

Private Credit – This category includes funds that invests on a leveraged basis, in whole or in part, in collateralized and unsecured commercial loans and debt securities of corporations, partnerships, companies, or other securities.

Note 7—Fair value measurement (continued)

The following table includes additional disclosures required by ASC 820, *Fair Value Measurements and Disclosures,* for investments measured at fair value and ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent),* which amends the disclosure requirements of ASC 820, *Fair Value Measurements and Disclosures,* for the fair value measurements of investments valued at NAV at June 30, 2022.

Category	Level 3 Fair Value	Investments Measured as NAV	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
U.S. equity	$ -	$ 4,972,144	$ -	Daily	1 day
Global equity	-	111,891,846	-	Monthly	5 days
Core bonds	-	39,786,234	-	1-7 days	1-5 days
Credit securities	-	17,070,575	-	Monthly	NAV; 90 days for
U.S. Treasury and agency co-mingled funds	-	2,051,676	-	Daily	N/A
Diversifying strategies	-	37,253,993	-	May redeem 25% of their shares on any calendar quarter	65 days
Distressed debt	-	326,973	283,200	No redemption	N/A
Real estate	-	7,465,984	-	Monthly	5 days
Private real estate	-	12,696,371	-	Qauarterly	120 days
Private real estate	-	12,063,023	19,483,294	No redemption except as approved by GP	N/A
Public natural resources	-	3,554,602		Daily	2 days
Private natural resources	-	19,134,411	2,817,500	No redemption capability until respective partnership liquidation	N/A
Private capital	-	73,796,010	44,613,500	No redemption capability until respective partnership liquidation	N/A
Private credit	-	7,927,653	9,513,643	No redemption capability until fund liquidation	N/A
Private equity	4,262,603	-	-	N/A	N/A
	$ 4,262,603	$ 349,991,495	$ 76,711,137		

Note 7—Fair value measurement (continued)

The following table includes a roll forward for the year ended June 30, 2022 and 2021 of amounts for all financial instruments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. The unobservable inputs and valuation techniques are not disclosed due to all information being provided by third parties.

	2022	2021
Beginning balance	$ 9,945,188	$ 15,743,236
Change in value of private equity	-	662,583
Withdrawals	-	(7,346,903)
Net investment income	-	21,754
Change in value of split-interest agreements	(800,773)	864,518
Ending balance	$ 9,144,415	$ 9,945,188

Note 8—Investment in plant, net

At June 30, 2022 and 2021, investment in plant, net consists of the following:

	2022	2021
Land	$ 111,510	$ 111,510
Buildings	185,908,600	178,858,985
Furniture and equipment and computers and software	21,018,587	21,453,901
Library books	10,549,181	10,562,470
Automobiles	1,080,066	1,099,385
Ground improvements	20,414,685	19,456,800
Leased equipment under financing leases	2,763,735	3,432,672
Total property	241,846,364	234,975,723
Less accumulated depreciation	(117,614,200)	(117,174,553)
	124,232,164	117,801,170
Construction in progress	3,412,295	4,458,455
Investment in plant, net	$ 127,644,459	$ 122,259,625

As a result of a hailstorm in May of 2020 and an ice storm in February 2021, the University received insurance proceeds of $4,689,840 and $907,291 respectively for fiscal year ending June 30, 2022. The hailstorm proceeds were used to replace the roofs on multiple buildings on campus; thus, the new roofs were capitalized and the loss on the prior roof disposals was also recognized. The actual roof expenses exceeded the insurance proceeds received by approximately $369,000. However, since the new roofs expenses were capitalized, a net casualty gain of approximately $3,140,000 is recorded for financial statement purposes based on the insurance proceeds less the loss on the disposal of the damaged roofs. The ice storm proceeds were used to make necessary repairs and were recognized over two fiscal years. For fiscal year ending June 30, 2022, the insurance proceeds received exceeded expenses, resulting in a casualty gain of approximately $250,000.

Note 9—Deposits and deferred revenue

The activity and balances for deposits and deferred revenue from contracts with customers are shown in the following table:

	Advance Tuition Payments	Student Deposit	Other	Total
Beginning balance, June 30, 2020	$ 3,650,694	$ 624,615	$ 84,872	$ 4,360,181
Revenue recognized, deposits applied/forfeited	(3,650,694)	(297,832)	(135,297)	(4,083,823)
Payments received for future performance obligations	3,038,194	301,700	119,686	3,459,580
Balance, June 30, 2021	3,038,194	628,483	69,261	3,735,938
Revenue recognized, deposits applied/forfeited	(3,038,194)	(422,216)	(503,773)	(3,964,183)
Payments received for future performance obligations	2,873,863	375,350	498,964	3,748,177
Balance, June 30, 2022	$ 2,873,863	$ 581,617	$ 64,452	$ 3,519,932

Note 10—Bonds and notes payable

The University's notes and bonds payable as of June 30, 2022 and 2021 consist of the following:

	2022	2021
City of Riesel Education Facilities Corporation 2006 Note	$ -	$ 2,770,000
Clifton Higher Education Finance Corporation 2017 Revenue Bonds	22,825,000	23,275,000
JP Morgan Chase Bank Note	-	10,000,000
	22,825,000	36,045,000
Plus bond premium	1,562,123	1,623,381
Less net debt issuance costs	(282,168)	(358,021)
	$ 24,104,955	$ 37,310,360

Note 10—Bonds and notes payable (continued)

On August 1, 2006, the University entered into a bond agreement whereby Wells Fargo loaned $5,000,000 to the University through the City of Riesel Education Facilities Corporation, a nonprofit education facilities corporation, for the purpose of financing a portion of the construction cost of a new residential apartment complex for students consisting of 32 two-bedroom suites in three residential buildings, as well as an apartment for a residential assistant and related recreational facilities, community facilities, and parking, and to pay costs of issuance of $53,150. The loan is secured by the net assets without donor restriction of the University. The cost of issuance was capitalized and will be amortized over the life of the loan agreement. Principal repayment is due annually beginning February 15, 2008, payable over a 20-year period based on a 25-year amortization schedule, with a balloon payment of $1,815,000 due on February 15, 2026. The loan had a fixed rate of 4.76% until January 1, 2018, when the fixed rate increased to 5.79% as a result of the Tax Cuts and Jobs Act passed in December 2017. Interest is paid in arrears on February 15 and August 15 each year. This loan was paid in full in February 2022, with a prepayment penalty of $347,291.

On December 1, 2017, the University issued bonds whereby U.S. Bank National Association loaned $24,510,000 to the University through the Clifton Higher Education Finance Corporation, a public nonprofit education facilities corporation, for the purpose of financing Phase II construction of the Fondren-Jones Science Hall, the related conversion of the existing Soule Drive into a pedestrian promenade to achieve better integration into the existing main Academic Mall. The bonds are unsecured. The cost of issuance of $338,290 was capitalized and will be amortized over the life of the loan agreement. The bond was issued at a premium of $1,837,790 which will also be amortized over the life of the bonds. Principal repayment is due annually beginning August 15, 2018, payable over a 30-year period based on a 30-year amortization schedule. Final payment is due August 15, 2047. The loan has a fixed rate of interest, ranging from 3.00% to 5.00%.

On November 2, 2020, the University entered into a loan agreement whereby JP Morgan Chase Bank, National Association loaned $10,000,000 to the University. The loan is unsecured. The cost of issuance of $70,000 was capitalized and will be amortized over the life of the 10-year loan agreement. The loan has a fixed interest rate of 2.82% with payments due semi-annually in May and November over the 10-year loan period. Principal repayment did not begin until November 1, 2026 and continues annually until the last payment on November 1, 2030. This loan was paid in full in February 2022, with no prepayment penalty.

Aggregate maturities of the bond are as follows:

Years Ending June 30,		
2023	$	475,000
2024		495,000
2025		520,000
2026		550,000
2027		575,000
Thereafter		20,210,000
	$	22,825,000

Note 11—Lease obligations

As of June 2022, the University entered into three new lease arrangements under which the University is the lessee. These three lease arrangements which are related to network services, athletic video equipment, and campus laundry equipment are finance leases.

The amount recognized as the right-of-use (ROU) asset related to the University's finance lease is included in investments in plant, net on the consolidated statements of financial position as of June 30, 2022.

Note 11—Lease obligations (continued)

Aggregate maturities of the lease obligations are as follows:

Years Ending June 30,		
2023	$	584,356
2024		584,356
2025		584,356
2026		568,856
2027		117,489
Thereafter		31,752
Total undiscounted cash flows		2,471,165
Less present value discount		(137,316)
Total lease liabilities	$	2,333,849

The total lease expense recognized is included on the consolidated statement of activities as of June 30, 2022 and is detailed as follows:

Finance lease expense		
Amortization of ROU assets	$	446,774
Interest on lease liabilities		58,673
Total	$	505,447

Other required information on the University's lease obligations at June 30, 2022 is as follows:

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases (i.e. Interest)	$	53,024
Financing cash flows from finance leases (i.e. principal portion)	$	372,877
ROU assets obtained in exchange for new finance lease liabilities	$	2,701,078
Weighted-average remaining lease term in years for finance leases		4.30
Weighted-average discount rate for finance leases		2.82%

Note 12—Line of credit

The University had an unsecured line of credit for $1,500,000 with First Texas Bank, Georgetown, at the bank's prime rate was in place through February 4, 2021. On February 4, 2021, the unsecured line of credit with First Texas Bank, Georgetown, was increased to $5,000,000, and renewed on December 2021 through November 30, 2022. The University did not draw on this line of credit in either fiscal year 2022 or 2021.

Note 13—Benefit plans

The University has defined contribution retirement plans for eligible faculty members and non-faculty employees. Contributions equal to various percentages of each eligible participant's regular salary are contributed to the plan and allocated among the plan fiduciary selected list of investment options based on the fund allocation directed by the participant. Teachers Insurance and Annuity Association and/or College Retirement Equities Fund maintains custody of all plan assets. Such contributions totaling $1,751,289 and $1,669,885 for fiscal years 2022 and 2021, respectively, were expensed.

Note 13—Benefit plans (continued)

The University has a contributory health and welfare plan (the "Health Plan") that became self-funded beginning January 1, 1999. The University and employee contributions are used to provide various medical benefits to eligible active employees and their dependents. The Health Plan has excess loss insurance that, in general, limits the amount of total claims paid by the University during the current plan year to approximately $5,295,260 and claims paid per employee by the University during the 2022 and 2021 plan years to $175,000 each year. The University recognized expenses related to the Health Plan of $3,462,371 and $3,502,996 in fiscal years 2022 and 2021, respectively.

The University also provides post-retirement health care benefits for eligible retirees and their spouses. The plan is structured as a defined contribution plan. Eligible retirees (age 65 and over) have access to Medicare supplemental plans and receive a subsidy from the University which may be used to pay for supplemental health insurance premiums or eligible medical expenses. The University will subsidize 100% of the cost of the "benchmark" plan premiums through 2018. Beginning on January 1, 2019, the subsidy was capped at the 2018 rate. The benchmark plan is defined as Medicare Supplemental (Medigap) Plan L and the average premiums of the Medicare Part D prescription drug programs available in Travis and Williamson counties.

The University will make contributions annually to the retirees' health reimbursement arrangement account.

All active employees who were hired on or before July 1, 1996, who meet the eligibility criteria to officially retire from the University, will be eligible for the above schedule of benefits at the time of their retirement. An employee who retires before age 65 and is an Early Retiree or a Faculty Phased Retiree continues coverage (and their spouse, if applicable) under the University's group medical plan or equivalent coverage and the University will subsidize 100% of the premium cost for the retiree and spouse (if age 65). If the spouse is not yet age 65, the retiree continues to pay premiums for the spouse until the spouse attains age 65. If a retiree is not an Early Retiree or a Faculty Phased Retiree, then the retiree pays 100% of the premiums for the University's group medical plan (and their spouse's premium, if applicable). All employees hired after July 1, 1996, are not eligible for retiree medical benefits.

Upon attaining age 65, all eligible retirees are required to enroll into the Extend Health program and discontinue participation in the University's group medical plan. If the retiree's spouse is not yet age 65, then the retiree pays 100% of the spouse's premium for the University's group medical plan. When the spouse attains age 65, the spouse enrolls in Extend Health program as the retiree's spouse and discontinues participation in the University's group medical plan.

Pursuant to the provisions of ASC 715-60, *Defined Benefits Plans – Other Post-Retirement*, and 715-20, *Defined Benefit Plans – General*, net periodic pension costs, other than service costs, and other post-retirement related changes are reflected in the consolidated statements of activities as a net change in net assets without donor restrictions apart from operating expenses. The University amortizes a portion of these costs each year and reports these amounts into other components of net periodic pension cost. Amounts amortized and the changes in balances of unamortized costs are as follows:

	Beginning Balance of Unamortized Amounts	Amount Amortized into Net Periodic Benefit Costs	Current Year Gains/Losses	Ending Balance of Unamortized Amounts
Net (gains) losses for June 30, 2022	$ 7,662,421	$ (976,307)	$ (2,188,624)	$ 4,497,490
Net (gains) losses for June 30, 2021	$ 10,371,215	$ (1,097,578)	$ (1,611,216)	$ 7,662,421

Note 13—Benefit plans (continued)

The status of the University's accrued post-retirement benefit cost at June 30, 2022 and 2021 are as follows:

	2022	2021
Reconciliation of benefit obligation:		
Obligation at beginning of year	$ (6,330,086)	$ (8,283,004)
Service cost including expenses	(6,341)	(8,585)
Interest cost	(144,589)	(136,771)
Actuarial loss (gain)	2,188,624	1,611,216
Benefit payments and actual expenses	406,883	487,058
Obligation, end of year	(3,885,509)	(6,330,086)
Reconciliation of fair value of plan assets:		
Employer contributions	(406,883)	(487,058)
Benefit payments and estimated expenses	406,883	487,058
Fair value of plan assets , end of year	-	-
Funded status, end of year	$ (3,885,509)	$ (6,330,086)

Amounts recognized in the consolidated statements of financial position are as follows:

	2022	2021
Current liabilities	$ (331,282)	$ (503,202)
Noncurrent liabilities	(3,554,227)	(5,826,884)
	$ (3,885,509)	$ (6,330,086)

Net periodic post-retirement benefit cost recognized during fiscal year 2022 and 2021 are as follows:

	2022	2021
Service cost	$ 6,342	$ 8,585
Interest cost	144,589	136,771
Amortization of prior actuarial loss	976,307	1,097,578
	$ 1,127,238	$ 1,242,934

The University used a weighted average discount rate of 4.28% and 2.36% to determine the post- retirement benefit obligation at June 30, 2022 and 2021, respectively. An average discount rate of 2.36% and 2.20% was used to determine the net periodic benefit cost for fiscal years 2022 and 2021, respectively. The increase in the discount rate and the decrease in the number of retirees currently enrolled and receiving benefits in the plan resulted in a decrease in the accrued post-retirement liability by approximately $2,444,500.

Note 13—Benefit plans (continued)

Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:

	2022	2021
Net loss	$ (2,188,624)	$ (1,611,216)
Amortization of net gain	(976,307)	(1,097,578)
Total recognized net assets without donor restrictions	$ (3,164,931)	$ (2,708,794)

The following post-retirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid, net of the estimated Medicare prescription drug subsidies expected to be received:

Years Ending June 30,	
2023	$ 331,000
2024	332,000
2025	329,000
2026	310,000
2027	297,000
2028-2032	1,364,000
	$ 2,963,000

Note 14—Nature and amount of net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2022	2021
Subject to expenditure for specified purpose:		
Scholarships	$ 49,735,821	$ 56,048,365
Professorships and faculty development	46,830,964	51,806,123
Plant	8,880,832	8,037,584
Academic support	8,288,150	10,414,609
Annuities and living trusts	147,664	137,087
Other	11,069,888	13,045,489
Restricted for use in future periods	73,964,756	79,782,870
	198,918,075	219,272,127
Restricted in perpetuity:		
General operations	31,682,990	28,870,136
Scholarships	51,036,789	49,399,479
Professorships and faculty development	25,122,014	24,979,171
Plant	1,547,310	1,547,060
Academic support	12,998,593	15,103,548
Annuities and living trusts	5,099,402	5,879,839
Other	3,696,817	3,395,211
	131,183,915	129,174,444
Total with donor restrictions	$ 330,101,990	$ 348,446,571

Note 15—Endowments

The University's endowment consists of approximately 500 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Adoption and Interpretation of Relevant Law – The University interprets the *Uniform Prudent Management of Institutional Funds Act of 2006* ("UPMIFA") enacted in the state of Texas as allowing the University, absent explicit donor stipulations to the contrary as stated in the gift instrument, to appropriate as much of a donor-restricted endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. However, during the years ended June 30, 2022 and 2021, the University continued to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) the remaining portion of the donor-restricted endowment fund until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the University considers the following seven factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The following is the endowment net asset composition by type of fund as of June 30:

		With Donor Restrictions		
As of June 30, 2022	**Without Donor Restrictions**	**Purpose/Time Restrictions**	**Perpetual in Nature**	**Total**
Donor-restricted endowment funds	$ -	$ 182,221,464	$ 127,110,423	$ 309,331,887
Board-designated endowment funds	57,057,926	-	-	57,057,926
Total endowment net assets	$ 57,057,926	$ 182,221,464	$ 127,110,423	$ 366,389,813

		With Donor Restrictions		
As of June 30, 2021	**Without Donor Restrictions**	**Purpose/Time Restrictions**	**Perpetual in Nature**	**Total**
Donor-restricted endowment funds	$ -	$ 203,670,972	$ 125,403,551	$ 329,074,523
Board-designated endowment funds	35,786,311	-	-	35,786,311
Total endowment net assets	$ 35,786,311	$ 203,670,972	$ 125,403,551	$ 364,860,834

Note 15—Endowments (continued)

The University's endowment net assets and changes in endowment nets assets for the years ended June 30, 2022 and 2021 are reported in the following table. The University's funds held by others in trust of $4,881,812 and $5,682,585 for June 30, 2022 and 2021, respectively, are included in endowment net asset balances within the table. Changes in the fair value of the University's funds held by others in trust is reported as change in value of split-interest agreements within the table.

		With Donor Restrictions		
	Without Donor Restrictions	Purpose/Time Restrictions	Perpetual in Nature	Total
Endowment net assets at June 30, 2020	$ 29,447,351	$ 145,360,705	$ 114,604,255	$ 289,412,311
Investment return, net	7,837,083	71,976,791	5,767,252	85,581,126
Contributions	-	-	4,167,526	4,167,526
Appropriated for expenditure	(1,498,123)	(13,666,524)	-	(15,164,647)
Change in value of split-interest agreements	-	-	864,518	864,518
Endowment net assets at June 30, 2021	35,786,311	203,670,972	125,403,551	364,860,834
Investment return, net	(2,344,157)	(8,743,962)	-	(11,088,119)
Contributions and board designations	25,000,000	-	2,507,645	27,507,645
Appropriated for expenditure	(1,384,228)	(12,705,546)	-	(14,089,774)
Change in value of split-interest agreements	-	-	(800,773)	(800,773)
Endowment net assets at June 30, 2022	$ 57,057,926	$ 182,221,464	$ 127,110,423	$ 366,389,813

Endowment Funds With Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by the donor-restriction to retain as a fund of perpetual duration. These deficiencies typically result from unfavorable market fluctuations that occur shortly after the investment of new contributions restricted in perpetuity. In fiscal year 2022, the University had fifteen endowment funds with donor contributions totaling $648,207 and fair market value of $611,972, resulting in deficiencies totaling $36,235. There was also one board designated fund with a historical value of $25,000,000 and a market value of $23,464,358, resulting in a deficiency of $1,535,642. There were not deficiencies of this nature as of June 30, 2021.

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 over time. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds.

The University seeks an average total annual return that exceeds the spending/payout rate plus inflation, as measured over five- and ten-year periods in order to preserve, over time, the principal value of the assets as measured in real, inflation-adjusted terms. The endowment is a long-term pool of funds with an indefinite time horizon that runs concurrent with the endurance of the institution, in perpetuity. As such, the endowment assets are invested with a time horizon that extends well beyond a normal market cycle and can assume an above-average level of risk as measured by the standard deviation of weighted annual returns. The University seeks to minimize portfolio risk through use of professional asset management and sufficient portfolio diversification to smooth volatility and help ensure reasonable consistency of return over time.

Note 15—Endowments (continued)

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation among both equity and fixed income strategies. Revised in October 2021, as a long-term policy guideline, endowment assets are allocated between equity asset class investments, 76% (with ranges of 65%-85%), and fixed income asset class investments, 24% (with ranges of 15%-35%). The University's policy statement restricts investment in non-traditional (alternative) asset classes to no more than 50% of the portfolio and restricts the total amount of illiquid investments to 40% or less of the portfolio. An illiquid investment is defined by the policy statement to mean "investments that could not be converted to cash in an orderly market over a period of twelve months or in a shorter period of time by accepting a discount of more than 10%.

Spending Policy – The University has adopted a spending formula for determining that part of the total return on endowment funds which can be expended annually. The spending formula determines spendable endowment return as a percentage of the 20-quarter average endowment market value, excluding investments in real estate, as of June 30 of the second preceding fiscal year. The spending formula is based on the fair market value of individual funds. The spending rate was 5.5% and 6% for fiscal years 2022 and 2021, respectively. The University has approved a 5.25% spending rate for fiscal year 2023. No spending distributions are made from endowments with a market value of less than $25,000 unless specified by the donor.

The University employs a reduced spending rate for endowments with deficiencies of market value to donor restricted net asset held in perpetuity as of the date of the spending calculation. For endowments with deficiencies less than 10%, the spending rate is reduced to 4%. For endowments with deficiencies greater than 10% but less than 20%, the spending rate is reduced to 3%. Endowments with deficiencies greater than 20% have no spending appropriation for the year.

Note 16—Higher Education Emergency Relief Fund

The CARES Act created a Higher Education Emergency Relief Fund ("HEERF") to provide financial relief to students and institutions who were impacted by the COVID-19 pandemic. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan (ARP) provided additional rounds of HEERF (II and III). The HEERF funds contained two components, an institutional award and a student aid award.

The following cumulative amounts have been awarded as HEERF as of June 30, 2021. There were no additional HEERF funds award in fiscal year 2022:

	Student Portion	Institutional Portion	Total
Awarded:			
HEERF I	$ 606,725	$ 606,724	$ 1,213,449
HEERF II	606,725	1,221,827	1,828,552
HEERF III	1,617,561	1,617,559	3,235,120
	$ 2,831,011	$ 3,446,110	$ 6,277,121

Note 16—Higher Education Emergency Relief Fund (continued)

The College expended the following funds for each fiscal year as noted below:

	Student Portion	Institutional Portion	Total
Expended:			
Fiscal Year 2020			
HEERF I	$ 606,725	$ 300,000	$ 906,725
Fiscal Year 2021			
HEERF I	-	306,724	306,724
HEERF II	606,725	1,221,827	1,828,552
HEERF III	-	390,000	390,000
Fiscal Year 2022			
HEERF III	1,617,561	1,227,559	2,845,120
	$ 2,831,011	$ 3,446,110	$ 6,277,121

Note 17—Functional expenses

Expenses by function and nature consist of the following for the year ended June 30, 2022:

	Salary and Wages	Benefits	Other Operating Expense	Depreciation and Amortization	Interest	COVID-19 Campus Readiness Expenses and Student Aid	Total
Instructional services	$ 14,604,780	$ 4,560,566	$ 6,263,281	$ 3,045,631	$ 645,141	$ 14,204	$ 29,133,603
Student services	5,656,453	1,696,205	4,269,732	234,979	49,774	15,847	11,922,990
Auxiliary services	1,527,233	418,683	4,831,763	2,365,365	501,043	7,447	9,651,534
Institutional support	6,028,558	2,159,052	3,552,692	835,299	178,932	108,041	12,862,574
Scholarships (HEERF)	-	-	-	-	-	1,617,561	1,617,561
Grand total	$ 27,817,024	$ 8,834,506	$ 18,917,468	$ 6,481,274	$ 1,374,890	$ 1,763,100	$ 65,188,262

Expenses by function and nature consist of the following for the year ended June 30, 2021:

	Salary and Wages	Benefits	Other Operating Expense	Depreciation and Amortization	Interest	COVID-19 Campus Readiness Expenses and Student Aid	Total
Instructional services	$ 14,099,456	$ 4,135,486	$ 4,927,190	$ 3,101,586	$ 669,461	$ 231,082	$ 27,164,261
Student services	6,053,975	1,740,041	3,187,111	215,758	46,570	540,064	11,783,519
Auxiliary services	1,157,821	379,240	4,518,832	2,256,787	487,115	104,223	8,904,018
Institutional support	6,134,199	1,913,468	2,736,368	824,857	178,041	433,203	12,220,136
Scholarships (HEERF)	-	-	-	-	-	606,725	606,725
Grand total	$ 27,445,451	$ 8,168,235	$ 15,369,501	$ 6,398,988	$ 1,381,187	$ 1,915,297	$ 60,678,659

Note 18—Disclosures about fair value of financial instruments

The estimated fair value amounts have been determined by the University using available market information and appropriate valuation methodologies. Considerable judgment is required in developing these estimates; however, no assurance can be given that the estimated values presented herein are indicative of the amounts that would be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts.

As of June 30, 2022 and 2021, the carrying amounts of the University's assets and liabilities which are considered to be financial instruments approximate their fair value except for student loans receivable (see Note 4) and the 2017 notes payable (see Note 10). Based on the nature of the federal loan program and the privately contributed loan funds representing student loans receivable, such financial instruments may not be sold. Accordingly, determining fair value is not practical. The University's 2017 bonds payable totaled $22,825,000 and $23,275,000, respectively, and has an estimated fair value of $23,143,101 and $26,679,042 at June 30, 2022 and 2021, respectively.

Note 19—Commitments and contingencies

The University has contracts for the construction of University facilities, including residence halls and athletic fields, and campus-wide roof repairs caused by storm damage. At June 30, 2022, the remaining commitments under these contracts approximated $2,500,000.

Note 20—Transactions with related parties

One member of the Board of Trustees of the University also serves as Vice Chairman of the Board of Trustees of a financial institution where the University has a significant banking relationship. The University has a conflict of interest policy that is regularly updated by all members of the Board of Trustees. The relationship with the financial institution and the private foundation has been consistently reported as a conflict of interest. In all matters related to business decisions at the meetings of the Board of Trustees, the parties refrain from participating in any votes on these matters. The abstention is reflected in the official minutes of the meeting.

Note 21—Subsequent events

The University has evaluated subsequent events through October 24, 2022, the date when consolidated financial statements were available to be issued. On August 10, 2022, the University issued Series 2022 tax-exempt fixed rate bonds in the aggregate amount of $80,000,000 for the purpose of funding campus wide capital projects