

SOUTHWESTERN UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2025 and 2024

And Report of Independent Auditor

SOUTHWESTERN UNIVERSITY
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Report of Independent Auditor

To the Board of Trustees
Southwestern University
Georgetown, Texas

Opinion

We have audited the accompanying consolidated financial statements of Southwestern University and its subsidiaries (collectively, the "University"), which comprise the consolidated statements of financial position as of June 30, 2025 and 2024, 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, 2025 and 2024, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 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 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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2026, 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

Orlando, Florida
February 6, 2026

SOUTHWESTERN UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2025 AND 2024

	2025	2024
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,990,281	\$ 19,338,615
Receivables:		
Student accounts receivable, net	1,604,964	425,656
Unconditional promises receivable, net	4,485,293	3,655,842
Investment income receivables	2,131	1,501
Other receivables	311,592	1,037,924
Prepays and other current assets	2,462,330	1,607,581
Total Current Assets	15,856,591	26,067,119
Unconditional promises receivable, net	6,328,943	7,197,573
Investments	467,855,921	471,917,369
Funds held in trusts by others (FHITBO)	5,862,467	5,461,213
Investment in plant, net	197,269,347	156,839,954
Student loans receivable, net	1,112,585	1,418,341
Total Assets	\$ 694,285,854	\$ 668,901,569
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable, accrued, and other liabilities	\$ 17,023,644	\$ 12,023,644
Bonds payable	1,900,000	1,810,000
Lease obligations	818,086	792,509
Accrued postretirement benefits	409,745	299,737
Deposits and deferred revenue	3,854,990	3,418,212
Total Current Liabilities	24,006,465	18,344,102
Bonds payable, long-term portion	97,971,373	99,949,284
Lease payable, long-term portion	2,137,497	3,022,666
Accrued postretirement benefits, long-term portion	3,184,553	2,531,746
Refundable advances	618,383	908,093
Other long-term liabilities	11,400	11,400
Total Liabilities	127,929,671	124,767,291
Net Assets:		
Without donor restrictions	172,563,129	176,462,595
With donor restrictions	393,793,054	367,671,683
Total Net Assets	566,356,183	544,134,278
Total Liabilities and Net Assets	\$ 694,285,854	\$ 668,901,569

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, 2025 (WITH COMPARATIVE TOTALS FOR 2024)

	2025			2024
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating Revenues:				
Net tuition and fees	\$ 30,252,611	\$ -	\$ 30,252,611	\$ 28,900,563
Private gifts and grants	1,535,777	2,913,399	4,449,176	8,230,808
Government grants	318,430	534,428	852,858	1,213,763
Endowment return used for operations, net	2,447,099	14,675,582	17,122,681	15,664,646
Investment return from nonendowment, net	821,408	9,742	831,150	3,701,646
Distributions from funds held in trusts by others	360	157,839	158,199	189,579
Other income	2,099,827	-	2,099,827	1,863,368
Auxiliary enterprises	15,065,971	-	15,065,971	14,428,057
Net assets released from restrictions	17,295,154	(17,295,154)	-	-
Total Operating Revenues	69,836,637	995,836	70,832,473	74,192,430
Operating Expenses:				
Instructional services	33,934,043	-	33,934,043	32,943,088
Student services	14,589,299	-	14,589,299	14,035,247
Auxiliary services	11,488,161	-	11,488,161	11,912,960
Institutional support	15,285,667	-	15,285,667	14,788,698
Total Operating Expenses	75,297,170	-	75,297,170	73,679,993
Change in net assets from operating activities	(5,460,533)	995,836	(4,464,697)	512,437
Nonoperating Activities:				
Gifts for endowment and plant improvements	-	5,091,318	5,091,318	3,701,805
Investment returns less amounts designated for current operations	2,643,343	19,555,299	22,198,642	24,620,869
Loss on disposal of fixed assets	(10,531)	-	(10,531)	(1,873,991)
Change in value of split-interest agreements	-	478,918	478,918	315,089
Postretirement related changes	(1,076,800)	-	(1,076,800)	267,658
Other	5,055	-	5,055	(149,575)
Total Nonoperating Activities	1,561,067	25,125,535	26,686,602	26,881,855
Change in net assets	(3,899,466)	26,121,371	22,221,905	27,394,292
Net assets, beginning of year	176,462,595	367,671,683	544,134,278	516,739,986
Net assets, end of year	\$ 172,563,129	\$ 393,793,054	\$ 566,356,183	\$ 544,134,278

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, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Revenues:			
Net tuition and fees	\$ 28,900,563	\$ -	\$ 28,900,563
Private gifts and grants	4,710,750	3,520,058	8,230,808
Government grants	399,849	813,914	1,213,763
Endowment return used for operations, net	2,337,901	13,326,745	15,664,646
Investment return from nonendowment, net	3,690,653	10,993	3,701,646
Distributions from funds held in trusts by others	372	189,207	189,579
Other income	1,855,942	7,426	1,863,368
Auxiliary enterprises	14,428,057	-	14,428,057
Net assets released from restrictions	17,414,869	(17,414,869)	-
Total Operating Revenues	<u>73,738,956</u>	<u>453,474</u>	<u>74,192,430</u>
Operating Expenses:			
Instructional services	32,943,088	-	32,943,088
Student services	14,035,247	-	14,035,247
Auxiliary services	11,912,960	-	11,912,960
Institutional support	14,788,698	-	14,788,698
Total Operating Expenses	<u>73,679,993</u>	<u>-</u>	<u>73,679,993</u>
Change in net assets from operating activities	<u>58,963</u>	<u>453,474</u>	<u>512,437</u>
Nonoperating Activities:			
Gifts for endowment and plant improvements	-	3,701,805	3,701,805
Investment returns less amounts designated for current operations	4,454,344	20,166,525	24,620,869
Loss on disposal of fixed assets	(1,873,991)	-	(1,873,991)
Change in value of split-interest agreements	-	315,089	315,089
Postretirement related changes	267,658	-	267,658
Net assets released from restrictions for plant improvements	289,150	(289,150)	-
Other	(149,575)	-	(149,575)
Total Nonoperating Activities	<u>2,987,586</u>	<u>23,894,269</u>	<u>26,881,855</u>
Change in net assets	3,046,549	24,347,743	27,394,292
Net assets, beginning of year	173,416,046	343,323,940	516,739,986
Net assets, end of year	<u>\$ 176,462,595</u>	<u>\$ 367,671,683</u>	<u>\$ 544,134,278</u>

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

SOUTHWESTERN UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Change in net assets	\$ 22,221,905	\$ 27,394,292
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	8,008,290	7,364,515
Amortization of bond issuance costs and premium	(77,911)	(77,912)
Loss on disposal of assets	10,531	1,873,991
Net unrealized and realized gain on investments	(36,027,135)	(38,620,425)
Change in value of split-interest agreements	(401,254)	(380,957)
Gifts and grants restricted for endowment and plant improvements	(5,091,318)	(3,701,805)
Donated investments	(23,885)	(1,410,955)
Noncash lease expense	(80,819)	(40,782)
Changes in operating assets and liabilities:		
Student accounts and loans receivable, net	(873,552)	72,449
Unconditional promises receivable, net	39,179	1,414,087
Investment income receivable	(630)	603
Other receivables	726,332	4,248
Prepays and other current assets	(854,749)	42,796
Accounts payable, accrued and other liabilities	2,383,987	(4,741,957)
Accrued postretirement benefits	762,815	(545,349)
Deposits and deferred revenue	436,778	343,224
Refundable advances	(289,710)	(166,159)
Net cash flows from operating activities	<u>(9,131,146)</u>	<u>(11,176,096)</u>
Cash flows from investing activities:		
Purchases of investments	(340,793,345)	(686,241,659)
Sales of investments	380,905,813	711,051,419
Purchases of investments in plant	<u>(45,832,201)</u>	<u>(18,659,243)</u>
Net cash flows from investing activities	<u>(5,719,733)</u>	<u>6,150,517</u>
Cash flows from financing activities:		
Payment on bonds payable	(1,810,000)	(1,720,000)
Payment on finance leases	(778,773)	(571,647)
Gifts and grants restricted for endowment and plant improvements	<u>5,091,318</u>	<u>3,701,805</u>
Net cash flows from financing activities	<u>2,502,545</u>	<u>1,410,158</u>
Net change in cash and cash equivalents	(12,348,334)	(3,615,421)
Cash and cash equivalents, beginning of year	<u>19,338,615</u>	<u>22,954,036</u>
Cash and cash equivalents, end of year	<u>\$ 6,990,281</u>	<u>\$ 19,338,615</u>
Supplemental disclosure of cash payments for:		
Interest paid	<u>\$ 4,358,694</u>	<u>\$ 4,446,944</u>
Supplemental disclosure of noncash transactions for:		
Additions to investments in plant in accounts payable	<u>\$ 2,616,013</u>	<u>\$ 3,549,524</u>
Additions to investments in plant for right-of-use assets	<u>\$ -</u>	<u>\$ 2,039,344</u>

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

SOUTHWESTERN UNIVERSITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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 Rutgersville 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 approximately 1,500 students and has a current student-to-faculty ratio of 11:1. Students choose from 35 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 University’s 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. SU 560 Land Holdings I LLC (SU 560) is a for-profit corporation formed in 2025 to develop a portion of the University’s property adjacent to the campus in Georgetown, Texas. SU 560 is consolidated in the consolidated financial statements. The “University” will refer to the consolidated entity, including Southwestern University, SU 560 Land Holding I LLC 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, 2025 and 2024 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, 2025 and 2024.

SOUTHWESTERN UNIVERSITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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, 2025 and 2024, the Board of Trustees designated \$65,264,508 and \$61,505,588, respectively, to be set aside for the endowment (see Note 15).

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 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.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 2—Summary of significant accounting policies (continued)

Alternative investments consist of the University's 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 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 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 \$37,241 for the years ended June 30, 2025 and 2024, and is included in interest expense on the accompanying note of functional expenses (see Note 16).

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 discounts. As applicable, 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 \$42,285,657 and \$42,897,349 at June 30, 2025 and 2024, 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 2025, 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 the tuition amounts for this summer term that related to July are not significant.

Student Deposits – For the academic year 2024-2025, the student nonrefundable deposit was \$700, which includes a \$250 enrollment deposit, a \$250 housing deposit, and a \$200 student orientation fee.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 2—Summary of significant accounting policies (continued)

Auxiliary Enterprises – Auxiliary services exist to furnish goods 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.

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 and \$100,000 for buildings and ground improvement projects.

Depreciation of physical plant and equipment, including amortization of leased equipment, was \$8,008,290 and \$7,364,515 for 2025 and 2024, 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, and updated in July 2023, 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 (prior to July 2023)	70 years
Building shell (starting in July 2023)	75 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

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 2—Summary of significant accounting policies (continued)

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.

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):

Per Academic Year (Fall & Spring)	2025		2024	
	Amount	Discount Rate to Tuition	Amount	Discount Rate to Tuition
Scholarships and grants supported by endowments and gifts	\$ 4,602,753	6.1%	\$ 4,247,162	5.9%
Scholarships and grants supported by general operations	40,731,194	53.9%	38,650,192	53.8%
Total scholarships and grants	<u>\$ 45,333,947</u>	60.0%	<u>\$ 42,897,354</u>	59.7%

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.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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.

	<u>2025</u>	<u>2024</u>
Financial assets:		
Cash and cash equivalents	\$ 6,990,281	\$ 19,338,615
Student receivables, net	1,604,964	425,656
Unconditional promise receivable, net, current	4,485,293	3,655,842
Investment income receivable	2,131	1,501
Other receivables	311,592	1,037,924
Investments	467,855,921	471,917,369
Funds held in trusts by others (FHITBO)	5,862,467	5,461,213
Total financial assets at year-end	<u>487,112,649</u>	<u>501,838,120</u>
Less assets unavailable for general expenditures within one year:		
Receivable due in more than one year	(172,760)	(173,009)
Bond funds reserved for construction	(38,475,567)	(56,333,104)
Funds held in trusts by others (FHITBO)	(5,862,467)	(5,461,213)
Endowments and accumulated earnings subject to appropriations beyond one year	(402,067,654)	(379,317,815)
Unmarketable investment	(5,678,255)	(5,329,551)
Restricted by donors with purpose restrictions	<u>(15,653,323)</u>	<u>(13,060,501)</u>
Financial assets available to meet cash needs for general expenditures within one year	19,202,623	42,162,927
Available board-designated endowments	59,586,253	56,176,037
Available line of credit	<u>5,000,000</u>	<u>5,000,000</u>
Financial assets and line of credit available to meet cash needs for general expenditures within one year with board approval	<u>\$ 83,788,876</u>	<u>\$ 103,338,964</u>

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 \$59,586,253 and \$56,176,037 for June 30, 2025 and 2024, respectively. 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.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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 non-endowment 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, 2025 and 2024, 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 – Receivables are stated at cost less an allowance for credit losses. Management’s determination of the allowance for credit losses is based on the University’s assessment of the collectability of accounts receivable. In accordance with Accounting Standards Codification (“ASC”) Topic 326, *Financial Instruments – Credit Losses*, the University makes ongoing estimates relating to the collectability of accounts receivable and records an allowance for estimated losses expected from the inability of its students to make required payments. The University establishes expected credit losses by evaluating historical levels of credit losses, current economic conditions that may affect a student’s ability to pay, and creditworthiness of significant students. These inputs are used to determine a range of expected credit losses and an allowance is recorded within the range. Accounts receivable are written off when there is no reasonable expectation of recovery. 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.

At June 30, allowance for credit losses for student receivables :

	<u>2025</u>	<u>2024</u>
Beginning of year	\$ (763,462)	\$ (637,148)
Provisions	<u>(137,531)</u>	<u>(126,314)</u>
End of year	<u>\$ (900,993)</u>	<u>\$ (763,462)</u>

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, 2025 and 2024, student loans represent .16% and .21% of total assets, respectively.

At June 30, student loans consists of the following:

	<u>2025</u>	<u>2024</u>
Federal government programs	\$ 498,999	\$ 743,318
Institutional programs	<u>1,910,452</u>	<u>1,950,346</u>
	<u>2,409,451</u>	<u>2,693,664</u>
Less allowance for credit losses:		
Beginning of year	(1,275,323)	(1,217,478)
Provisions	<u>(21,543)</u>	<u>(57,845)</u>
End of year	<u>(1,296,866)</u>	<u>(1,275,323)</u>
Student loans receivable, net	<u>\$ 1,112,585</u>	<u>\$ 1,418,341</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 4—Student accounts and loans receivable (continued)

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, 2025 and 2024. Funds advanced by the federal government and net accumulations in the revolving loan fund were \$585,438 and \$890,785 at June 30, 2025 and 2024, respectively, and are ultimately refundable to the government and are classified as refundable advances in the consolidated statements of financial position. Outstanding loans canceled 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. At June 30, 2025 and 2024, Perkins loans with principal of \$79,541 and \$542, respectively, 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.

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

<u>June 30,</u>	<u>Deferrals</u>	<u>Currently Due</u>	<u>31-90 Days Past Due</u>	<u>90+ Days Past Due</u>	<u>Total Due</u>
2025	\$ 185,428	\$ 749,010	\$ 45,781	\$ 1,429,232	\$ 2,409,451
2024	\$ 171,720	\$ 851,835	\$ 202,153	\$ 1,467,956	\$ 2,693,664

Note 5—Unconditional promises receivable

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

	<u>2025</u>	<u>2024</u>
Less than one year	\$ 4,485,295	\$ 3,655,843
One to five years	6,862,795	7,907,433
More than five years	54,750	84,550
	11,402,840	11,647,826
Present value discount	(588,604)	(794,411)
Total unconditional promises receivable	<u>\$ 10,814,236</u>	<u>\$ 10,853,415</u>

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 0.20% to 5.1%. The University has no material past due payments, thus no allowance for uncollectible promised receivable was deemed necessary at June 30, 2025 or 2024.

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.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 6—Investments (continued)

A summary of investments at June 30 are as follows:

	<u>2025</u>	<u>2024</u>
At fair value:		
Cash equivalents	\$ 46,820,177	\$ 52,521,141
Equities, equity mutual funds and co-mingled equity funds	153,843,640	155,241,638
Fixed income and co-mingled fixed income funds	84,053,879	97,230,749
Alternative investments	<u>176,552,929</u>	<u>160,286,320</u>
Total at fair value	461,270,625	465,279,848
At cost or market at date of acquisition:		
Real estate	6,420,198	6,420,198
Mineral interests	<u>165,098</u>	<u>217,323</u>
Total at cost or market at date of acquisition	<u>6,585,296</u>	<u>6,637,521</u>
Total investments	<u>\$ 467,855,921</u>	<u>\$ 471,917,369</u>

The University held bond proceeds resulting from the issuance of the 2022 Series Bonds. These funds are restricted for use of constructions projects. A portion of these proceeds are held in the University's investment portfolio. However, the College utilizes a centralized treasury system where capital expenditures are initially funded by general operating cash. At year-end, the College is entitled to reimbursement from the bond project fund for qualified expenditures incurred but not yet drawn down. As of June 30, 2025, the University had expended approximately \$10,038,000 that was received subsequent to year-end.

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 the University has the ability to access. Since valuations are based on quoted prices which 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.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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, 2025				
	Level 1	Level 2	Level 3	Investments Measured at NAV ¹	Total
Cash and cash equivalents	\$ 46,820,177	\$ -	\$ -	\$ -	\$ 46,820,177
Equities:					
U.S. equity	-	-	-	2,757,880	2,757,880
Global equity and mutual funds	151,085,760	-	-	-	151,085,760
Fixed income:					
Core bonds	4,711,623	-	-	54,946,654	59,658,277
Credit securities	-	-	-	24,395,602	24,395,602
Alternative investments:					
Real estate	-	-	-	1,175,551	1,175,551
Private real estate	-	-	-	34,749,656	34,749,656
Public natural resources	8,376,386	-	-	-	8,376,386
Private natural resources	-	-	-	13,759,498	13,759,498
Private capital	-	-	-	97,077,924	97,077,924
Private credit	-	-	-	15,735,659	15,735,659
Private equity	-	-	5,678,255	-	5,678,255
Total investments valued at fair value	210,993,946	-	5,678,255	244,598,424	461,270,625
Funds held in trust by others	-	-	5,862,467	-	5,862,467
	<u>\$ 210,993,946</u>	<u>\$ -</u>	<u>\$ 11,540,722</u>	<u>\$ 244,598,424</u>	<u>\$ 467,133,092</u>

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.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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, 2024				
	Level 1	Level 2	Level 3	Investments Measured at NAV ¹	Total
Cash and cash equivalents	\$ 52,521,141	\$ -	\$ -	\$ -	\$ 52,521,141
Equities:					
U.S. equity	-	-	-	2,598,471	2,598,471
Global equity and mutual funds	152,643,167	-	-	-	152,643,167
Fixed income:					
Core bonds	6,119,988	-	-	52,745,305	58,865,293
Credit securities	-	-	-	25,648,058	25,648,058
U.S. Treasury and agency co-mingled funds	12,717,398	-	-	-	12,717,398
Alternative investments:					
Distressed debt	-	-	-	102,586	102,586
Real estate	-	-	-	6,988,073	6,988,073
Private real estate	-	-	-	27,421,516	27,421,516
Public natural resources	6,169,942	-	-	-	6,169,942
Private natural resources	-	-	-	16,721,186	16,721,186
Private capital	-	-	-	84,547,879	84,547,879
Private credit	-	-	-	13,005,587	13,005,587
Private equity	-	-	5,329,551	-	5,329,551
Total investments valued at fair value	230,171,636	-	5,329,551	229,778,661	465,279,848
Funds held in trust by others	-	-	5,461,213	-	5,461,213
	<u>\$ 230,171,636</u>	<u>\$ -</u>	<u>\$ 10,790,764</u>	<u>\$ 229,778,661</u>	<u>\$ 470,741,061</u>

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 a \$348,705 change in the value of the gift in fiscal year 2025.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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 funds invested primarily in publicly traded 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.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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 Accounting Standards Update 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, 2025.

Category	Level 3 Fair Value	Investments Measured as NAV	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
U.S. equity	\$ -	\$ 2,757,880	\$ -	Weekly	5 days
Core bonds	-	54,946,654	-	1-7 days	5 days
Credit securities	-	24,395,602	-	Monthly	5 days for 15% of NAV; 90 days for any amount
Real estate	-	1,175,551	-	Monthly	5 days
Private real estate	-	34,749,656	34,207,910	Quarterly	100 days
Private natural resources	-	13,759,498	1,552,500	No redemption capability until respective partnership liquidation	N/A
Private capital	-	97,077,924	36,576,250	No redemption capability until respective partnership liquidation	N/A
Private credit	-	15,735,659	15,703,628	No redemption capability until fund liquidation	N/A
Private equity	5,678,255	-	-	N/A	N/A
	\$ 5,678,255	\$ 244,598,424	\$ 88,040,288		

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 8—Investment in plant, net

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

	<u>2025</u>	<u>2024</u>
Land	\$ 111,510	\$ 111,510
Buildings	200,091,656	195,480,540
Furniture and equipment and computers and software	21,637,987	21,379,746
Library books	10,503,491	10,509,047
Automobiles	1,394,210	1,305,152
Ground improvements	21,002,542	21,002,542
Leased equipment under operating leases	7,424	18,361
Leased equipment under financing leases	5,329,092	5,329,092
Total property	260,077,912	255,135,990
Less accumulated depreciation	<u>(136,085,421)</u>	<u>(128,478,919)</u>
	123,992,491	126,657,071
Construction in progress	<u>73,276,856</u>	<u>30,182,883</u>
Investment in plant, net	<u>\$ 197,269,347</u>	<u>\$ 156,839,954</u>

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:

	<u>Advance Tuition Payments</u>	<u>Student Deposit</u>	<u>Other</u>	<u>Total</u>
Beginning balance, June 30, 2023	\$ 2,479,619	\$ 506,820	\$ 88,549	\$ 3,074,988
Revenue recognized, deposits applied/forfeited	(2,479,619)	(297,654)	(559,318)	(3,336,591)
Payments received for future performance obligations	<u>2,715,609</u>	<u>326,550</u>	<u>637,656</u>	<u>3,679,815</u>
Balance, June 30, 2024	2,715,609	535,716	166,887	3,418,212
Revenue recognized, deposits applied/forfeited	(2,715,609)	(277,429)	(548,003)	(3,541,041)
Payments received for future performance obligations	<u>3,221,147</u>	<u>308,550</u>	<u>448,122</u>	<u>3,977,819</u>
Balance, June 30, 2025	<u>\$ 3,221,147</u>	<u>\$ 566,837</u>	<u>\$ 67,006</u>	<u>\$ 3,854,990</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 10—Bonds payable

The University's bonds payable as of June 30 consist of the following:

	<u>2025</u>	<u>2024</u>
Clifton Higher Education Finance Corporation 2022 Revenue Bonds	\$ 76,665,000	\$ 77,955,000
Clifton Higher Education Finance Corporation 2017 Revenue Bonds	<u>21,335,000</u>	<u>21,855,000</u>
	98,000,000	99,810,000
Plus bond premium	2,833,476	2,948,629
Less net debt issuance costs	<u>(962,103)</u>	<u>(999,345)</u>
	<u>\$ 99,871,373</u>	<u>\$ 101,759,284</u>

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 August 1, 2022, the University issued bonds whereby U.S. Bank National Association loaned \$79,180,000 to the University through the Clifton Higher Education Finance Corporation for the purpose of financing multiple renovation and construction projects on the University campus including, but not limited to, a new multi-use residence hall, library, academic buildings, and athletic facilities, along with the costs of issuance associated with the bonds. The bonds are unsecured. The cost of issuance of \$796,814 was capitalized and will be amortized over the life of the loan agreement. The bond was issued at a premium of \$1,616,814 which will also be amortized over the life of the bonds. Principal repayment is due annually beginning August 15, 2023, payable over a 30-year period based on a 30-year amortization schedule. Final payment is due August 15, 2052. The loan has a fixed rate of interest, ranging from 4.00% to 5.25%.

Aggregate maturities of the bonds are as follows:

Years Ending June 30.

2026	\$ 1,900,000
2027	2,000,000
2028	2,100,000
2029	2,220,000
2030	2,330,000
Thereafter	<u>87,450,000</u>
	<u>\$ 98,000,000</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 11—Lease obligations

The University has four lease arrangements under which the University is the lessee. These lease arrangements are related to network services, athletic video equipment, food service equipment, and campus laundry equipment.

The amount recognized as the right-of-use (“ROU”) asset related to the University’s leases are included in investments in plant, net on the consolidated statements of financial position and are shown below:

	<u>2025</u>	<u>2024</u>
Finance ROU:		
Cost	\$ 5,329,092	\$ 5,329,092
Accumulated depreciation	(2,443,905)	(1,593,740)
	<u>\$ 2,885,187</u>	<u>\$ 3,735,352</u>
 Operating ROU	 <u>\$ 7,424</u>	 <u>\$ 18,361</u>

Aggregate maturities of the lease obligations by type of lease are as follows:

<u>Years Ending June 30,</u>	<u>Finance</u>
2026	\$ 1,027,548
2027	576,182
2028	485,908
2029	463,228
2030	458,692
Thereafter	<u>807,491</u>
Total undiscounted cash flows	3,819,049
Less present value discount	<u>(863,466)</u>
Total lease liabilities	<u>\$ 2,955,583</u>

The total lease expense recognized is included in the consolidated statements of activities as of June 30 and is detailed as follows:

	<u>2025</u>	<u>2024</u>
Finance lease expense:		
Amortization of ROU assets	\$ 850,165	\$ 616,489
Interest on lease liabilities	245,840	105,764
Operating lease expense	11,136	11,136
Variable lease expense	67,083	42,810
	<u>\$ 1,174,224</u>	<u>\$ 776,199</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 11—Lease obligations (continued)

Other required information on the University's lease obligations at June 30, 2025 and 2024 is as follows:

	<u>2025</u>	<u>2024</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases (i.e., interest)	\$ 248,776	\$ 93,323
Financing cash flows from finance leases (i.e., principal portion)	\$ 778,773	\$ 571,647
Operating cash flows from operating leases	\$ 11,000	\$ 11,000
ROU assets obtained in exchange for new finance lease liabilities	\$ -	\$ 2,039,344
Weighted-average remaining lease term for finance leases	5.65 years	6.11 years
Weighted-average remaining lease term for operating leases	-	1.67 years
Weighted-average discount rate for finance leases	7.24%	6.83%
Weighted-average discount rate for operating leases	-	3.66%

Note 12—Line of credit

The University has an unsecured line of credit for \$5,000,000 with First Texas Bank, Georgetown, at the bank's prime rate. The line of credit matures December 31, 2026. The University did not draw on this line of credit in either fiscal year 2025 or 2024.

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 \$1,817,658 and \$1,749,137 for fiscal years 2025 and 2024, respectively, were expensed.

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 \$5,626,054 and claims paid per employee by the University during the 2025 and 2024 plan years to \$175,000 each year. The University recognized expenses related to the Health Plan of \$4,329,979 and \$3,924,950 in fiscal years 2025 and 2024, respectively.

The University also provides postretirement healthcare 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.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 13—Benefit plans (continued)

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 Postretirement*, and 715-20, *Defined Benefit Plans – General*, net periodic pension costs, other than service costs, and other postretirement 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 losses (gains) for June 30, 2025	\$ 2,462,115	\$ (544,937)	\$ 886,606	\$ 2,803,784
Net losses (gains) for June 30, 2024	\$ 3,524,030	\$ (637,269)	\$ (424,646)	\$ 2,462,115

The status of the University’s accrued postretirement benefit cost at June 30 are as follows:

	2025	2024
Reconciliation of benefit obligation:		
Obligation at beginning of year	\$ (2,831,483)	\$ (3,376,832)
Service cost including expenses	(1,102)	(2,248)
Interest cost	(190,193)	(156,988)
Actuarial (loss) gain	(886,606)	424,646
Benefit payments and actual expenses	315,086	279,939
Obligation, end of year	<u>(3,594,298)</u>	<u>(2,831,483)</u>
Reconciliation of fair value of plan assets:		
Employer contributions	(315,086)	(279,939)
Benefit payments and estimated expenses	315,086	279,939
Funded status, end of year	<u>\$ (3,594,298)</u>	<u>\$ (2,831,483)</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 13—Benefit plans (continued)

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

	<u>2025</u>	<u>2024</u>
Current liabilities	\$ (409,745)	\$ (299,737)
Noncurrent liabilities	(3,184,553)	(2,531,746)
	<u>\$ (3,594,298)</u>	<u>\$ (2,831,483)</u>

Net periodic postretirement benefit cost recognized during fiscal years are as follows:

	<u>2025</u>	<u>2024</u>
Service cost	\$ 1,102	\$ 2,248
Interest cost	190,194	156,988
Amortization of prior actuarial loss	544,934	637,269
	<u>\$ 736,230</u>	<u>\$ 796,505</u>

The University used a weighted average discount rate of 5.22% to determine the postretirement benefit obligation at June 30, 2025 and 2024. An average discount rate of 5.22% and 4.85% was used to determine the net periodic benefit cost for fiscal years 2025 and 2024, 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 postretirement liability by \$545,349.

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

	<u>2025</u>	<u>2024</u>
Net loss	\$ 886,606	\$ (424,646)
Amortization of net gain	(544,934)	(637,269)
Total recognized net assets without donor restrictions	<u>\$ 341,672</u>	<u>\$ (1,061,915)</u>

The following postretirement 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.

2026	\$ 410,000
2027	377,000
2028	339,000
2029	327,000
2030	315,000
2031-2036	1,382,000
	<u>\$ 3,150,000</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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:

	<u>2025</u>	<u>2024</u>
Subject to expenditure for specified purpose:		
Scholarships	\$ 64,925,923	\$ 58,132,339
Professorships and faculty development	54,025,956	50,634,646
Plant	22,797,511	19,396,061
Academic support	9,900,111	9,691,078
Annuities and living trusts	192,022	128,201
Other	11,180,909	10,030,891
Restricted for use in future periods	86,118,716	78,483,661
	<u>249,141,148</u>	<u>226,496,877</u>
Restricted in perpetuity:		
General operations	31,714,679	31,714,679
Scholarships	61,233,176	58,487,863
Professorships and faculty development	26,270,727	26,247,844
Plant	1,547,330	1,547,315
Academic support	15,000,057	14,543,481
Annuities and living trusts	6,180,406	5,684,920
Other	2,705,531	2,948,704
	<u>144,651,906</u>	<u>141,174,806</u>
Total with donor restrictions	<u>\$ 393,793,054</u>	<u>\$ 367,671,683</u>

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, 2025 and 2024, 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.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 15—Endowments (continued)

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:

As of June 30, 2025	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose/Time Restrictions	Perpetual in Nature	
Donor-restricted endowment funds	\$ -	\$ 219,065,828	\$ 143,412,083	\$ 362,477,911
Board-designated endowment funds	65,264,508	-	-	65,264,508
Total endowment net assets	<u>\$ 65,264,508</u>	<u>\$ 219,065,828</u>	<u>\$ 143,412,083</u>	<u>\$ 427,742,419</u>

As of June 30, 2024	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose/Time Restrictions	Perpetual in Nature	
Donor-restricted endowment funds	\$ -	\$ 202,562,065	\$ 139,659,861	\$ 342,221,926
Board-designated endowment funds	61,505,588	-	-	61,505,588
Total endowment net assets	<u>\$ 61,505,588</u>	<u>\$ 202,562,065</u>	<u>\$ 139,659,861</u>	<u>\$ 403,727,514</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 15—Endowments (continued)

The University's endowment net assets and changes in endowment nets assets for the years ended June 30, 2025 and 2024 are reported in the following table. The University's funds held by others in trust of \$5,862,099 and \$5,461,213 for June 30, 2025 and 2024, 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.

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose/Time Restrictions	Perpetual in Nature	
Endowment net assets at June 30, 2023	\$ 57,176,900	\$ 182,395,540	\$ 137,512,613	\$ 377,085,053
Investment return, net	6,666,589	33,493,270	-	40,159,859
Contributions	-	-	1,766,290	1,766,290
Appropriated for expenditure	(2,337,901)	(13,326,745)	-	(15,664,646)
Change in value of split-interest agreements	-	-	380,958	380,958
Endowment net assets at June 30, 2024	61,505,588	202,562,065	139,659,861	403,727,514
Investment return, net	6,206,019	31,179,345	-	37,385,364
Contributions	-	-	3,350,969	3,350,969
Appropriated for expenditure	(2,447,099)	(14,675,582)	-	(17,122,681)
Change in value of split-interest agreements	-	-	401,253	401,253
Endowment net assets at June 30, 2025	<u>\$ 65,264,508</u>	<u>\$ 219,065,828</u>	<u>\$ 143,412,083</u>	<u>\$ 427,742,419</u>

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. For the years ended June 30, 2025 and 2024, the University had no endowment funds with deficiencies.

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 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 5- and 10-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.

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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% to 85%), and fixed income asset class investments, 24% (with ranges of 15% to 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 12 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 5.0% for fiscal years 2025 and 2024, respectively. The University has approved up to a 5.95% spending rate for fiscal year 2026. 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—Functional expenses

Expenses by function and nature consist of the following for the year ended June 30, 2025:

	Salary and Wages	Benefits	Other Operating Expense	Depreciation and Amortization	Interest	Total
Instructional services	\$ 14,190,662	\$ 3,791,468	\$ 11,505,414	\$ 3,918,661	\$ 527,838	\$ 33,934,043
Student services	6,423,368	1,807,130	5,921,825	385,103	51,873	14,589,299
Auxiliary services	162,979	-	8,224,134	2,732,927	368,121	11,488,161
Institutional support	7,603,523	1,902,588	4,677,084	971,599	130,873	15,285,667
Grand total	<u>\$ 28,380,532</u>	<u>\$ 7,501,186</u>	<u>\$ 30,328,457</u>	<u>\$ 8,008,290</u>	<u>\$ 1,078,705</u>	<u>\$ 75,297,170</u>

Expenses by function and nature consist of the following for the year ended June 30, 2024:

	Salary and Wages	Benefits	Other Operating Expense	Depreciation and Amortization	Interest	Total
Instructional services	\$ 14,019,032	\$ 3,631,810	\$ 11,166,004	\$ 3,647,770	\$ 478,472	\$ 32,943,088
Student services	6,711,519	1,765,492	5,161,225	349,990	47,021	14,035,247
Auxiliary services	162,869	12,460	8,920,194	2,483,744	333,693	11,912,960
Institutional support	7,315,842	2,303,639	4,167,573	883,011	118,633	14,788,698
Grand total	<u>\$ 28,209,262</u>	<u>\$ 7,713,401</u>	<u>\$ 29,414,996</u>	<u>\$ 7,364,515</u>	<u>\$ 977,819</u>	<u>\$ 73,679,993</u>

SOUTHWESTERN UNIVERSITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 17—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, 2025 and 2024, 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). 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 \$21,335,000 and \$21,855,000 and has an estimated fair value of \$21,335,000 and \$21,172,908 at June 30, 2025 and 2024, respectively. The University's 2022 bonds payable totaled \$76,665,000 and \$77,955,000 and has an estimated fair value of \$76,665,000 and \$75,355,058 at June 30, 2025 and 2024, respectively.

Note 18—Commitments and contingencies

The University has contracts for the construction of University facilities, including an academic building (Mood-Bridwell), two new residence halls and welcome center, the library, and the Maple Street parking lot. Commitments under these contracts approximated \$26,000,000 entered into as of June 30, 2025.

Note 19—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. Additionally, the University has \$2,081,412 and \$1,775,994 of unconditional promises receivables outstanding at June 30, 2025 and 2024, respectively, from Board of Trustees.

Note 20—Subsequent events

The University has evaluated subsequent events for potential recognition and/or disclosure through February 6, 2026, the date the consolidated financial statement were available to be issued.