

University of St. Thomas

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2022 and 2021

University of St. Thomas
June 30, 2022 and 2021

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Independent Auditor's Report

Board of Directors
University of St. Thomas
Houston, Texas

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of University of St. Thomas (the University), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flow for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of University of St. Thomas as of June 30, 2022 and 2021, and the 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 (GAAS). 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 University of St. Thomas 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 University of St. Thomas's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued or within one year after the date that these consolidated financial statements are issued.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Financial Responsibility Supplemental Schedule Required by the U.S. Department of Education is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated

financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Responsibility Supplemental Schedule Required by the U.S. Department of Education is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 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.

FORVIS, LLP

Houston, Texas
December 14, 2022

University of St. Thomas
Consolidated Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 7,386,329	\$ 8,692,742
Student accounts and other receivables, net of allowance for doubtful accounts; 2022 - \$330,792 and 2021 - \$163,358	4,680,392	8,813,921
Pledges receivable, net	500,264	4,948,464
Prepayments and other assets	2,626,588	2,478,695
Notes and loans receivable	-	226,858
Investments	132,924,879	152,917,189
Cash and cash equivalents and investments restricted for investment in land, building and equipment	1,277,633	1,277,473
Property, plant and equipment, net	121,997,137	118,873,617
Right-of-use assets - operating leases	203,404	57,909
Total assets	\$ 271,596,626	\$ 298,286,868
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 3,745,134	\$ 5,119,123
Accrued liabilities	5,366,622	5,446,972
Deferred revenue	2,904,492	3,954,618
Bonds and loans payable, net	40,087,936	40,100,070
Lease liability - financing	1,075,137	1,409,089
Lease liability - operating	198,866	57,871
Total liabilities	53,378,187	56,087,743
Net Assets		
Without donor restrictions	79,240,541	87,090,910
With donor restrictions	138,977,898	155,108,215
Total net assets	218,218,439	242,199,125
Total liabilities and net assets	\$ 271,596,626	\$ 298,286,868

University of St. Thomas
Consolidated Statement of Activities
Year Ended June 30, 2022

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating Revenue				
Tuition and fees, net of financial aid of \$30,440,091 and \$33,324,289 for 2022 and 2021, respectively	\$ 52,592,472	\$ -	\$ 52,592,472	\$ 45,565,690
Endowment earnings used for current operations	4,851,511	-	4,851,511	4,185,099
Government and private grants	7,882,685	45,000	7,927,685	9,743,980
Gifts and donations	4,895,733	2,608,881	7,504,614	6,714,038
Auxiliary operations	3,732,313	-	3,732,313	2,533,936
Commercial real estate rental	1,862,082	-	1,862,082	2,161,950
Other income	726,884	-	726,884	1,305,237
Net assets released from restrictions	3,189,503	(3,189,503)	-	-
Total operating revenue	<u>79,733,183</u>	<u>(535,622)</u>	<u>79,197,561</u>	<u>72,209,930</u>
Operating Expenses				
Instruction	39,022,279	-	39,022,279	33,373,789
Library	1,900,685	-	1,900,685	1,788,981
Academic support	1,134,501	-	1,134,501	1,077,850
Student services	12,156,912	-	12,156,912	9,973,992
Student aid	2,381,766	-	2,381,766	2,023,284
Institutional support	19,287,575	-	19,287,575	17,105,834
Institutional advancement	3,525,074	-	3,525,074	2,963,698
Auxiliary operations	8,933,436	-	8,933,436	7,121,064
UST Realty Company	2,648,320	-	2,648,320	2,397,983
Total operating expenses	<u>90,990,548</u>	<u>-</u>	<u>90,990,548</u>	<u>77,826,475</u>
Changes in Net Assets From Operating Activities	<u>(11,257,365)</u>	<u>(535,622)</u>	<u>(11,792,987)</u>	<u>(5,616,545)</u>
Nonoperating				
Gifts and donations	-	2,658,553	2,658,553	2,701,738
Endowment gain/(loss) in excess of amounts designated for current operations, net	(890,557)	(13,929,607)	(14,820,164)	34,093,285
Discretionary reinvestment of endowment earnings	240,541	(240,541)	-	-
Change in fair value of split interest agreements	(26,088)	-	(26,088)	(25,710)
Net assets released from restrictions for long-term purposes	4,083,100	(4,083,100)	-	-
Changes in Net Assets From Nonoperating Activities	<u>3,406,996</u>	<u>(15,594,695)</u>	<u>(12,187,699)</u>	<u>36,769,313</u>
Total changes in net assets	<u>(7,850,369)</u>	<u>(16,130,317)</u>	<u>(23,980,686)</u>	<u>31,152,768</u>
Net Assets				
Beginning of year	<u>87,090,910</u>	<u>155,108,215</u>	<u>242,199,125</u>	<u>211,046,357</u>
End of year	<u>\$ 79,240,541</u>	<u>\$ 138,977,898</u>	<u>\$ 218,218,439</u>	<u>\$ 242,199,125</u>

University of St. Thomas
Consolidated Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	2021 Total
Operating Revenue			
Tuition and fees, net of financial aid of \$33,324,289 for 2021	\$ 45,565,690	\$ -	\$ 45,565,690
Endowment earnings used for current operations	4,185,099	-	4,185,099
Government and private grants	9,698,980	45,000	9,743,980
Gifts and donations	6,546,232	167,806	6,714,038
Auxiliary operations	2,533,936	-	2,533,936
Commercial real estate rental	2,161,950	-	2,161,950
Other income	1,305,237	-	1,305,237
Net assets released from restrictions	1,114,555	(1,114,555)	-
Total operating revenue	<u>73,111,679</u>	<u>(901,749)</u>	<u>72,209,930</u>
Operating Expenses			
Instruction	33,373,789	-	33,373,789
Library	1,788,981	-	1,788,981
Academic support	1,077,850	-	1,077,850
Student services	9,973,992	-	9,973,992
Student aid	2,023,284	-	2,023,284
Institutional support	17,105,834	-	17,105,834
Institutional advancement	2,963,698	-	2,963,698
Auxiliary operations	7,121,064	-	7,121,064
UST Realty Company	2,397,983	-	2,397,983
Total operating expenses	<u>77,826,475</u>	<u>-</u>	<u>77,826,475</u>
Changes in Net Assets From Operating Activities	<u>(4,714,796)</u>	<u>(901,749)</u>	<u>(5,616,545)</u>
Nonoperating			
Gifts and donations	-	2,701,738	2,701,738
Endowment gain in excess of amounts designated for current operations, net	690,643	33,402,642	34,093,285
Discretionary reinvestment of endowment earnings	187,727	(187,727)	-
Change in fair value of split interest agreements	(25,710)	-	(25,710)
Net assets released from restrictions for long-term purposes	123,933	(123,933)	-
Changes in Net Assets From Nonoperating Activities	<u>976,593</u>	<u>35,792,720</u>	<u>36,769,313</u>
Total changes in net assets	(3,738,203)	34,890,971	31,152,768
Net Assets			
Beginning of year	<u>90,829,113</u>	<u>120,217,244</u>	<u>211,046,357</u>
End of year	<u>\$ 87,090,910</u>	<u>\$ 155,108,215</u>	<u>\$ 242,199,125</u>

University of St. Thomas
Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

Expenses	Program Activities							2022 Total Program	Support Activities		2022 Total Expenses
	Instruction	Library	Academic Support	Student Services	Student Aid	Auxiliary Operations	UST Realty Company		Institutional Support	Institutional Advancement	
Salaries	\$ 21,246,611	\$ 677,858	\$ 696,324	\$ 5,213,159	\$ -	\$ 1,198,324	\$ 55,458	\$ 29,087,734	\$ 4,533,031	\$ 1,609,009	\$ 35,229,774
Student wages	233,149	73,195	3,645	222,002	-	66,817	-	598,808	608,909	13,458	1,221,175
Benefits and taxes	4,523,064	117,324	150,721	1,128,632	-	111,736	15,755	6,047,232	1,959,296	348,114	8,354,642
Commissions	8,095,097	-	74,224	33,900	-	80,557	434,950	8,718,728	92,081	-	8,810,809
Technology maintenance and support	46,824	365,411	3,847	45,602	-	30,573	47,382	539,639	5,444,621	11	5,984,271
Operating expenses	137,933	38,848	21,301	484,177	-	788,988	82,423	1,553,670	177,512	67,778	1,798,960
Advertising	63,037	-	1,812	93,328	-	2,213	-	160,390	1,207,111	147,470	1,514,971
Interest expense	-	-	-	-	-	2,114,353	-	2,114,353	-	-	2,114,353
Travel	273,313	591	57,935	734,922	-	2,629	-	1,069,390	112,880	138,993	1,321,263
Events	129,744	-	33,852	783,880	-	10,919	-	958,395	139,641	726,293	1,824,329
Dues and subscriptions	274,362	651	37,664	87,754	-	5,431	-	405,862	269,140	16,465	691,467
Supplies	316,084	16,851	14,155	409,873	-	238,086	2,512	997,561	259,509	100,593	1,357,663
Insurance and taxes	15,243	-	-	36,183	-	-	287,190	338,616	1,195,928	-	1,534,544
Legal expenses	3,710	-	-	-	-	-	4,588	8,298	310,323	-	318,621
Facilities operations	828,810	159,410	5,009	603,238	-	947,326	334,391	2,878,184	185,672	12,118	3,075,974
Utilities	456,548	83,107	2,611	143,148	-	856,464	179,529	1,721,407	93,387	6,318	1,821,112
Third-party services	623,931	-	22,836	1,718,928	-	651,491	448,710	3,465,896	1,689,321	305,833	5,461,050
Repairs and maintenance	13,283	6,004	-	11,141	-	334,338	-	364,766	38,292	-	403,058
Depreciation/amortization	1,741,536	361,435	8,565	407,045	-	1,493,191	755,432	4,767,204	970,921	32,621	5,770,746
Student aid	-	-	-	-	2,381,766	-	-	2,381,766	-	-	2,381,766
Total expenses included in the expense section of the consolidated statement of activities	\$ 39,022,279	\$ 1,900,685	\$ 1,134,501	\$12,156,912	\$ 2,381,766	\$ 8,933,436	\$ 2,648,320	\$ 68,177,899	\$ 19,287,575	\$ 3,525,074	\$ 90,990,548

University of St. Thomas
Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

Expenses	Program Activities							2021 Total Program	Support Activities		2021 Total Expenses
	Instruction	Library	Academic Support	Student Services	Student Aid	Auxiliary Operations	UST Realty Company		Institutional Support	Institutional Advancement	
Salaries	\$ 20,111,456	\$ 665,332	\$ 720,481	\$ 4,606,994	\$ -	\$ 878,101	\$ 36,634	\$ 27,018,998	\$ 3,471,532	\$ 1,295,131	\$ 31,785,661
Student wages	222,532	33,644	2,187	190,012	-	80,570	-	528,945	290,949	4,810	824,704
Benefits and taxes	4,297,182	119,714	157,480	1,013,839	-	63,243	10,408	5,661,866	1,756,681	282,570	7,701,117
Commissions	3,633,744	-	15,937	35,000	-	13,543	283,513	3,981,737	103,484	-	4,085,221
Technology maintenance and support	155,823	357,141	1,538	44,168	-	16,078	17,001	591,749	5,472,980	545	6,065,274
Operating expenses	28,332	30,914	13,077	391,398	-	643,900	76,700	1,184,321	270,484	117,117	1,571,922
Advertising	65,603	-	300	65,385	-	17,133	-	148,421	1,165,261	85,735	1,399,417
Interest expense	-	-	-	-	-	2,100,849	-	2,100,849	-	-	2,100,849
Travel	42,575	244	17,196	276,352	-	48	-	336,415	5,906	104,058	446,379
Events	92,424	-	3,685	275,668	-	1,169	-	372,946	219,657	257,842	850,445
Dues and subscriptions	132,455	392	46,306	191,331	-	3,196	-	373,680	175,582	90,870	640,132
Supplies	639,632	1,974	4,735	271,354	-	96,443	165	1,014,303	151,569	69,072	1,234,944
Insurance and taxes	-	-	-	81,321	-	-	396,131	477,452	1,142,731	-	1,620,183
Legal expenses	10,636	-	-	-	-	-	-	10,636	699,039	-	709,675
Facilities operations	647,837	117,334	3,687	529,539	-	719,663	340,703	2,358,763	205,360	9,274	2,573,397
Utilities	415,059	75,555	2,374	130,139	-	570,506	160,145	1,353,778	84,900	5,744	1,444,422
Third-party services	1,047,043	3,633	79,876	1,438,652	-	222,213	242,339	3,033,756	815,398	606,685	4,455,839
Repairs and maintenance	3,224	3,677	-	5,532	-	126,883	-	139,316	55,067	-	194,383
Depreciation/amortization	1,828,232	379,427	8,991	427,308	-	1,567,526	834,244	5,045,728	1,019,254	34,245	6,099,227
Student aid	-	-	-	-	2,023,284	-	-	2,023,284	-	-	2,023,284
Total expenses included in the expense section of the consolidated statement of activities	<u>\$ 33,373,789</u>	<u>\$ 1,788,981</u>	<u>\$ 1,077,850</u>	<u>\$ 9,973,992</u>	<u>\$ 2,023,284</u>	<u>\$ 7,121,064</u>	<u>\$ 2,397,983</u>	<u>\$ 57,756,943</u>	<u>\$ 17,105,834</u>	<u>\$ 2,963,698</u>	<u>\$ 77,826,475</u>

University of St. Thomas
Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Changes in net assets	\$ (23,980,686)	\$ 31,152,768
Items not requiring (providing) operating cash flows:		
Depreciation	5,764,442	6,080,925
Amortization of bond premium	6,304	18,302
Bad debt expense	543,859	334,829
Noncash contribution received	(72,112)	(224,017)
Gifts and donations restricted for long-term purposes	(2,411,115)	(2,737,788)
Net realized and unrealized (gain)/loss on investments	9,450,566	(38,311,456)
Changes in operating assets and liabilities:		
Student accounts and other receivables	3,589,670	(4,183,959)
Pledge receivable, net	119,780	(286,574)
Prepayments and other assets	(147,893)	997,076
Notes and loans receivable	226,858	17,405
Accounts payable and accrued liabilities	(1,454,339)	3,544,537
Lease liability - operating	140,995	57,871
Deferred revenue	(1,050,126)	1,268,996
U.S. Governmental grants refundable	-	(6,777)
	<u>(9,273,797)</u>	<u>(2,277,862)</u>
Cash Flows From Investing Activities		
Proceeds from sale/maturities of investments	10,671,179	6,799,823
Purchases of investments	(57,323)	(1,717,257)
Proceeds from sale of property, plant and equipment	360,425	701,686
Purchases of property, plant and equipment	(9,393,882)	(6,224,244)
Change in cash restricted for investment in land, building and equipment	<u>(160)</u>	<u>(200)</u>
	<u>1,580,239</u>	<u>(440,192)</u>

University of St. Thomas
Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows From Financing Activities		
Gifts and donations restricted for:		
Investments in property and equipment	\$ 4,083,260	\$ 124,133
Investments in endowment	2,656,275	2,701,738
Proceeds from issuance of long-term debt	-	580,000
Principal payments on bonds and loans payable	(18,438)	(6,102)
Payments on financing lease liability	(333,952)	(337,225)
Net cash provided by financing activities	6,387,145	3,062,544
Net Increase/(Decrease) in Cash and Cash Equivalents	(1,306,413)	344,490
Cash and Cash Equivalents, Beginning of Year	8,692,742	8,348,252
Cash and Cash Equivalents, End of Year	\$ 7,386,329	\$ 8,692,742
Supplemental Cash Flows Information		
Cash paid for interest	\$ 2,114,353	\$ 2,100,849
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	75,477	102,058
Financing cash flows from finance leases	333,952	337,225
Right-of-use assets upon ASC 842 implementation:		
Finance leases	1,746,314	1,746,314
Operating leases	203,404	57,909

University of St. Thomas
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Organization

University of St. Thomas (the University) was founded in 1947 by the Congregation of St. Basil (the Basilian Fathers). The University is incorporated as a Texas nonprofit corporation and is governed by an independent Board of Directors (the Board). A comprehensive university, educating both undergraduate and graduate students, the University enjoys a national reputation for academic excellence and a diverse student body.

Located near the City of Houston's Museum District, one of the city's most attractive areas, and minutes from a thriving downtown cultural district, the University offers both undergraduate and graduate degree programs. More than 81 percent of faculty members hold the highest degrees in their disciplines. The students are predominantly Texan; however, many of them come from other states and 51 foreign countries. High acceptance rates for graduate school, law school, and allied health professions and medical school reflect strong academic undergraduate preparation.

UST Realty Company, a wholly owned subsidiary of the University, was formed to acquire commercial real estate property located adjacent to the campus. On February 1, 2007, UST Realty Company purchased two commercial office buildings and a retail center with an associated parking garage, contiguous to the University's campus. The University leases the office space to commercial tenants.

Auxiliary Operations

Auxiliary operations consist primarily of student housing facilities, dining services, summer camps and other student services.

Basis of Accounting

The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The University's resources are reported, for accounting purposes, in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

Net Assets Without Donor Restrictions — Net assets without donor restrictions are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties.

University of St. Thomas

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Net Assets with Donor Restrictions — Net assets with donor restrictions are comprised of both assets with donor-imposed stipulations that can be fulfilled by actions of the University, pursuant to those stipulations, or that expire by the passage of time and net assets which are subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of the latter of these assets permit the University to use all or part of the investment return on these assets. In addition, some donors may require that all of the earnings be added to the fund balance until certain stipulations are met. Such assets include the University's permanent endowment funds.

Expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed contribution stipulations that simultaneously increase net assets without donor restrictions and decrease net assets with donor restrictions are reported as net assets released from restrictions. Donor restricted contributions received and expended during the same fiscal year are recorded as revenues and expenses without donor restrictions in the consolidated statements of activities.

Principles of Consolidation

The consolidated financial statements include the assets, liabilities, net assets, and activities of the University of St. Thomas and its wholly owned consolidated subsidiary, UST Reality Company (collectively, "the University"). All significant intercompany account balances and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The University considers all highly liquid short-term investments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents invested for long-term purposes are included in investments.

At June 30, 2022 and 2021, the University's cash accounts exceeded federally insured limits by \$8,450,881 and \$9,316,844, respectively.

Student Accounts and Other Receivables

Typically, the University's accounts receivable are mainly due from students. Accounts receivable is stated at amounts due from students net of an allowance for doubtful accounts. Accounts not paid by the end of the semester are considered past due.

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The University determines its allowance based on past due accounts and an estimate of uncollectible active accounts based on prior collection history. The University reserves for accounts and loans receivable when they are considered uncollectible or certain accounts may be fully written off later if deemed by the University to be completely uncollectible.

The loans receivable reflects the University's participation in the Federal Perkins Loan Program. Loans are made to qualified students and may be re-loaned after collection. Uncollected loan receivables are charged off when due diligence efforts by the University have been exhausted and receivables are assigned and accepted by the Department of Education. The University is in the process of liquidating its Perkins Loan portfolio and, therefore, no new loans are being made from the fund. Funds collected from existing loans are remitted to the Department of Education as appropriate.

Cash and Investments Restricted for Investment in Land, Building and Equipment

Amounts received from donors for use in capital programs are classified as cash and investments restricted for investment in land, building and equipment in the consolidated statements of financial position.

Investments and Net Investment Return

The estimated fair values of investments are based on quoted market prices, except for certain alternative assets for which quoted market prices are not available. The estimated fair values of these alternative assets are based on the most recent valuations provided by external investment managers. The University reviews and evaluates the values provided by external investment managers and agrees such values with the valuation methods and assumptions used to determine those values. Therefore, the University believes the carrying amounts of these financial instruments are reasonable estimates of their fair values. Because alternative assets are not readily marketable, their estimated fair values are subject to uncertainty and, therefore, may differ from the fair values that would have been used had a ready market for such investments existed. Investments in private equity funds are recorded at net asset value (NAV), as a practical expedient.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

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Property, Plant, and Equipment and Long-lived Assets

Property, plant, and equipment over \$500 are stated at cost at the date of acquisition or fair value at the date of donation, less accumulated depreciation. Plant and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 50 years. Upon retirement or sale, the University removes the cost of the assets and the related accumulated depreciation from the accounts and reflects any resulting gains or losses in income.

The University evaluates the carrying amounts of its long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. In the event that facts and circumstances indicate that the long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation of impairment were required, the estimated future undiscounted cash flows associated with an asset would be compared to the asset's carrying amount to determine if a write-down to market value or cash flow value is required. There were no impairments in the fiscal years ended June 30, 2022 and 2021.

Deferred Revenue

Revenue from fees for tuition is deferred and recognized over the periods to which the fees relate. Tuition and fees for summer classes beginning in the subsequent fiscal year are deferred. Deferred revenue consists of amounts received for educational or auxiliary goods and services that have not yet been earned.

Accrued Payroll and Employee Benefits

As of June 30, 2022 and 2021, the University had an obligation related to its employees' rights to receive compensation for the remainder of their contract or future absences. This obligation is attributable to employees' contracts or services already rendered. These liabilities, amounting to \$2,745,344 and \$2,946,469 as of June 30, 2022 and 2021, respectively, are included in accrued liabilities and accounts payable in the accompanying consolidated statements of financial position.

Concentrations of Credit Risk

The University is subject to concentrations of credit risk related primarily to cash, marketable securities and receivables. The University's cash deposits are held in major financial institutions. Marketable securities consist primarily of corporate stocks, which could subject the University to losses in the event of a general downturn in the stock market. The University has reduced its risk related to common stock through diversification into investments in a variety of industries. The University's receivables from students are monitored for potential losses, and an allowance for doubtful accounts is established based on the age of unpaid accounts and the University's experience. Pledges receivable represent unconditional promises to give and are monitored by the University for potential losses.

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Contributions

Contributions received, including unconditional promises to give (pledges), are recorded as revenues in the period received at their discounted present values and are amortized into income on an effective yield basis. Pursuant to institutional policy, the University records all pledges greater than \$10,000.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Collections

All collections of works of art, historical treasures and similar assets are capitalized. Items added to the collections are capitalized at costs if purchased, or at estimated fair value on the acquisition date if donated. Collection items sold or removed are reported as gains or losses with or without donor restrictions depending on donor stipulations, if any, placed on the items at the time of acquisition.

Grants, Gifts and Donations

Government grants and private gifts and donations include amounts received with donor restrictions and without donor restrictions net asset categories as appropriate considering the nature of the respective grant and gift instruments. Upon expiration of the restrictions, the applicable gift and grant revenue is released from the with donor restrictions net asset category and transferred to the without donor restrictions category.

Functional Allocation of Expenses

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to program and supporting activities based upon the square footage of utilized facilities. Interest costs are allocated to program and supporting activities based upon the use of the funds borrowed.

Operating Measure

The operating activities of the University include all current income and expenses, including gifts and donations with and without donor restrictions, other than those with permanent restrictions. Non-operating activities reflect gifts and donations of a permanent nature to be used by the University to generate a return that will support operations and the release of restrictions on net assets to be used for long-term purposes, as well as certain non-cash items which are not indicative of the University's operational performance.

Tax Status

The University and UST Realty Company have received determination letters from the Internal Revenue Service of exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC), and accordingly, no provision has been made for such taxes. Accounting

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standards generally accepted in the United States of America require that the University recognize the financial effects of a tax position in its consolidated financial statements, if that tax position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. Tax positions taken related to the University's tax-exempt status, the taxable income of unrelated business activities, and the deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the University would more likely than not be sustained upon examination by taxing authorities. Accordingly, the University has not recorded an income tax liability for uncertain tax benefits.

Reclassifications

Certain reclassifications have been made to the 2021 consolidated statement of functional expenses to conform to the 2022 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Pledges Receivable, Net

Pledges receivable are expected to be realized, as of June 30, 2022 and 2021:

	2022	2021
Less than one year	\$ 20,000	\$ 463,420
Between one and five years	325,000	4,495,000
More than five years	<u>200,000</u>	<u>200,000</u>
Gross pledges receivable	545,000	5,158,420
Less present value discount	<u>(44,736)</u>	<u>(209,956)</u>
Net pledges receivable	<u>\$ 500,264</u>	<u>\$ 4,948,464</u>

Net pledges receivable as of June 30, 2022 and 2021, included pledges with the following restrictions:

	2022	2021
Gifts to the capital campaign for construction of plant	\$ -	\$ 4,186,111
Gifts restricted for unbudgeted activities	326,392	580,759
Gifts to endowment for general and scholarship purposes	<u>173,872</u>	<u>181,594</u>
Total	<u>\$ 500,264</u>	<u>\$ 4,948,464</u>

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Discount rates ranged from 2.42 percent to 1.45 percent for 2022 and 2021, respectively. No allowance has been recorded based on the University's determination that all pledges are deemed collectible.

Note 3: Conditional Gifts

A portion of the University's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the University has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures, if any, are reported as refundable advances in the statement of financial position. The University received the following cost-reimbursable grants that have not been recognized at June 30, 2022, because qualifying expenditures have not yet been incurred.

Texas Higher Education Coordinating Board:	
Tuition Equalization Grant	\$ 2,979,455
Texas Reskilling Support Fund	141,070
Nursing Shortage Reduction Program	103,307
Nursing & Allied Health - Supporting Clinical Learning	-
The Cullen Trust for Higher Education	<u>1,500,000</u>
	<u>\$ 4,723,832</u>

Note 4: Property, Plant and Equipment

Property, plant and equipment as of June 30, 2022 and 2021, consisted of the following:

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 156,950,068	\$ 151,358,050
Machinery and equipment	32,030,475	30,828,902
Furniture and fixtures	2,567,030	2,488,036
Library books	13,693,232	13,638,201
Software	<u>3,667,880</u>	<u>3,667,880</u>
Total property, plant and equipment	208,908,685	201,981,069
Less accumulated depreciation and amortization	<u>(114,383,136)</u>	<u>(108,618,696)</u>
Net depreciable property, plant and equipment	94,525,549	93,362,373
Construction in progress	1,002,454	1,788,281
Land	<u>26,469,134</u>	<u>23,722,963</u>
Property, plant and equipment, net	<u>\$ 121,997,137</u>	<u>\$ 118,873,617</u>

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As of June 30, 2022 and 2021, land, buildings and improvements leased through UST Realty Company were \$20,890,520 and \$20,730,604, respectively.

Note 5: Bonds and Loans Payable

Bonds and loans payable as of June 30, 2022 and 2021, consisted of the following:

	<u>2022</u>	<u>2021</u>
Taxable bonds, Series 2020. The bonds are interest only until October 1, 2026, with maturity dates from 2026 to 2059. Annual principal payments ranging from \$480,000 to \$2,455,000 and interest rates ranging from 3.642% to 5.573%.	\$ 40,000,000	\$ 40,000,000
Third Coast Bank loan, monthly interest and principal payment of \$3,692, with fixed interest rate of 4.5% and final payment on January 15, 2026, of all principal and accrued interest not yet paid, collateralized by property.	<u>555,460</u>	<u>573,898</u>
Subtotal	40,555,460	40,573,898
Less unamortized debt issuance costs	<u>(467,524)</u>	<u>(473,828)</u>
Total	<u>\$ 40,087,936</u>	<u>\$ 40,100,070</u>

Total interest expense incurred on bonds and loans payable for the years ended June 30, 2022 and 2021, was \$2,114,353 and \$2,100,849, respectively.

Future principal maturities of bonds and loans payable as of June 30, 2022, were as follows:

2023	\$ 20,824
2024	20,215
2025	21,225
2026	493,196
2027	480,000
Thereafter	<u>39,520,000</u>
Total	<u>\$ 40,555,460</u>

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Note 6: Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2022 and 2021, are restricted for the following purposes or periods:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Cash restricted for operating activities	\$ 9,646,102	\$ 7,554,246
Pledges restricted for operating activities	326,392	580,759
Restricted for investment in land, building and equipment	<u>1,277,633</u>	<u>5,463,585</u>
Total subject to expenditure for specified purpose	<u>11,250,127</u>	<u>13,598,590</u>
Endowments:		
Endowment earnings in excess of original endowment donations	41,000,110	58,440,808
Original endowment donations	<u>86,727,661</u>	<u>83,068,817</u>
Total endowments	<u>127,727,771</u>	<u>141,509,625</u>
Total net assets with donor restrictions	<u>\$ 138,977,898</u>	<u>\$ 155,108,215</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

	<u>2022</u>	<u>2021</u>
Satisfaction or purpose restrictions:		
Capital expenditures	\$ 4,083,100	\$ 123,933
Educational programs	2,539,966	881,665
Financial aid	<u>649,537</u>	<u>232,890</u>
Total net assets released from restrictions	<u>\$ 7,272,603</u>	<u>\$ 1,238,488</u>

Note 7: Endowment

The University's endowment consists of approximately 298 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (Board-designated endowment

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funds). As required by GAAP, net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board interprets the Texas Prudent Management of Institutional Funds Act (TPMIFA) as requiring the preservation of the fair value of original gifts as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The University has interpreted TPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

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

1. The duration and preservation of the fund
2. General economic conditions
3. The possible effects of inflation and deflation
4. The expected total return from income and appreciation of investments
5. Other resources of the University
6. The investment policy of the University

The composition of net assets by type of endowment fund at June 30, 2022 and 2021, was as follows:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 2,550,526	\$ -	\$ 2,550,526
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	86,727,661	86,727,661
Endowment earnings in excess of original endowment donations	-	41,000,110	41,000,110
Total investment return	<u>\$ 2,550,526</u>	<u>\$ 127,727,771</u>	<u>\$ 130,278,297</u>

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	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 2,548,054	\$ -	\$ 2,548,054
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	83,068,817	83,068,817
Endowment earnings in excess of original endowment donations	-	58,440,808	58,440,808
Total investment return	<u>\$ 2,548,054</u>	<u>\$ 141,509,625</u>	<u>\$ 144,057,679</u>

Changes in endowment net assets for the fiscal years ended June 30, 2022 and 2021, were as follows:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2021	\$ 2,548,054	\$ 141,509,625	\$ 144,057,679
Investment return:			
Investment income	478	26,533	27,011
Net losses (realized and unrealized)	(238,547)	(11,374,888)	(11,613,435)
Total investment return	<u>(238,069)</u>	<u>(11,348,355)</u>	<u>(11,586,424)</u>
Discretionary reinvestment of earnings	240,541	(240,541)	-
Contributions and grants	-	2,658,553	2,658,553
Appropriation of endowment assets for expenditure	-	(4,851,511)	(4,851,511)
Endowment net assets, June 30, 2022	<u>\$ 2,550,526</u>	<u>\$ 127,727,771</u>	<u>\$ 130,278,297</u>

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2020	\$ 1,669,684	\$ 106,497,114	\$ 108,166,798
Investment return:			
Investment income	30	1,949	1,979
Net gains (realized and unrealized)	690,613	36,681,650	37,372,263
Total investment return	<u>690,643</u>	<u>36,683,599</u>	<u>37,374,242</u>
Discretionary reinvestment of earnings	187,727	(187,727)	-
Contributions and grants	-	2,701,738	2,701,738
Appropriation of endowment assets for expenditure	-	(4,185,099)	(4,185,099)
Endowment net assets, June 30, 2021	<u>\$ 2,548,054</u>	<u>\$ 141,509,625</u>	<u>\$ 144,057,679</u>

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As of both June 30, 2022 and 2021, approximately 44 percent of endowment assets are restricted for student scholarships while the remaining 56 percent is restricted for general educational and University operations, respectively.

From time to time, the fair values of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TPMIFA requires the University to retain as a fund of perpetual duration.

At June 30, 2021, there were no funds with deficiencies. At June 30, 2022, funds with original gift values of \$1,565,682, fair values of \$1,437,754 and deficiencies of \$127,928 were reported in net assets with donor restrictions.

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new restricted contributions and continued appropriation for certain purposes that was deemed prudent by the Board.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs and scholarships 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, as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that equal or exceed a real rate of return of 5.0 percent, plus inflation (the Consumer Price Index) over a 10-year period. Performance goals are based upon a long-term investment horizon; therefore, interim variations should be expected.

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 that places a greater emphasis on high return investments to achieve its long-term return objectives within prudent risk constraints.

Endowment income, including realized and unrealized gains or losses on investments, is recognized in the appropriate net asset category according to the existence or absence of donor-imposed restrictions. Endowment funds, which consist primarily of marketable securities, are pooled for investment management purposes. Income from investments is allocated to each endowment based upon the relative market value and type of endowment. The endowment spending policy provides for an endowment income distribution equal to 5 percent based on a prior fiscal year's prior 12-quarter moving average of the endowment assets, excluding pledges receivable. In establishing the spending policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 5.0 percent, plus inflation annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

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The revenues from applying this endowment spending rate policy are recorded in the operating revenue section in the consolidated statements of activities. Any difference between actual total endowment return, including realized and unrealized gains and losses, and the endowment spending rate is recorded in the nonoperating section of the consolidated statements of activities.

Note 8: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2022 and 2021, are comprised of the following:

	2022	2021
Total financial assets (cash, receivables and investments)	\$ 146,269,234	\$ 171,928,182
Less donor-imposed restrictions:		
Restricted funds	1,277,633	1,277,473
Endowments	127,727,771	141,509,625
Net financial assets after donor-imposed restrictions	<u>17,263,830</u>	<u>29,141,084</u>
Less internal designations:		
Reserve funds	5,346,688	8,887,428
Gift annuities	809,976	961,370
Quasi-endowments	<u>2,550,526</u>	<u>2,548,054</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,556,640</u>	<u>\$ 16,744,232</u>

The University receives significant contributions restricted by donors and considers contributions restricted for programs, which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the years ended June 30, 2022 and 2021, restricted contributions of \$9,646,102 and \$7,554,246, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

The University's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Board-designated endowment of \$2,550,526 and \$2,548,054 as of June 30, 2022 and 2021, respectively, is subject to an annual spending rate of 5 percent as described in Note 7. Although the University does not intend to spend from this Board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

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The University manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The University strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Cash reserves held for flexibility and strategic purposes are invested in money market funds and other short-term investments.

Note 9: Revenue from Contracts with Students

Tuition, Residential Services and Meal Plan Services Revenue

Revenue from contracts with students for tuition, residential services and meal plan services is reported at the amount that reflects the consideration to which the University expects to be entitled in exchange for providing instruction and housing, food, and other services. These amounts are due from students, third-party payers and others and are net of scholarships and institutional aid of \$30,440,091 and \$33,324,289 for the years ended June 30, 2022 and 2021, respectively.

Revenue is recognized as performance obligations are satisfied, which is ratably over the academic term. Generally, the University bills students prior to the beginning of the semester, and student accounts receivable are due in full before classes begin.

If a student withdraws within dates as published on the University's website they are entitled to a refund ranging from 25 percent to a full refund depending on the date of withdrawal. The University determines the refund liability at year-end based on actual experience subsequent to year-end.

Tuition, residential services and meal plan services revenue are considered to be separate performance obligations. The University allocates the fees charged to students to tuition and housing, food, and other services based on standalone charges to students for tuition and those services.

Transaction Price and Recognition

The University determines the transaction price based on standard charges for goods and services provided, reduced by certain institutional scholarships and aid in accordance with the University's policies for granting certain merit-based aid. The University determines its estimates of explicit price concessions based on its discount practices and policies and merit awards.

From time to time, the University will incur student credit balances and student deposits, which represent the excess of tuition and fees and other student payments received as compared to amounts recognized as revenue. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of June 30, 2022 and 2021, the University has a liability for student credit balances recorded in accrued liabilities of approximately \$215,000 and \$326,000, respectively.

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Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

Because all of its performance obligations relate to contracts with a duration of less than one year, the University has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to providing instruction to students. The performance obligations for these contracts are generally completed when the academic term is completed.

Disaggregation of Revenue

The composition of net student fees revenue by segment for the years ended June 30, 2022 and 2021, is as follows:

	2022	2021
Net tuition and fees	\$ 52,592,472	\$ 45,565,690
Housing	1,968,957	1,523,916
Meal plan	1,159,335	475,668
Total	\$ 55,720,764	\$ 47,565,274

Note 10: Retirement Benefits

The University has a defined contribution plan, which is available to all eligible employees as defined by the Plan Document. Employees may contribute up to the IRC current maximum annual contribution limit, if they are eligible for the IRC's catch-up contribution. The University makes a 100-percent matching contribution of up to 6 percent of eligible annual compensation for employees with at least 1,000 hours of continuous service with the University. The University's contribution expense for fiscal years 2022 and 2021 was \$1,338,319 and \$1,207,911, respectively.

Note 11: Commitments and Contingencies

The University is subject to the oversight of the U.S. Department of Education related to student financial aid and other agencies related to grant programs. Management believes that the University is in substantial compliance with the terms of these programs, and findings, if any, resulting from such oversight, would not have a material adverse impact on the University's consolidated financial statements.

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Note 12: Significant Estimates and Concentrations

GAAP requires disclosure of certain significant estimates and current vulnerabilities, due to certain concentrations. Those matters include the following.

Gifts and Donations

Four donors were responsible for approximately 80 percent of gifts and donations revenues for the year ended June 30, 2022. Two donors were responsible for approximately 37 percent of gifts and donations revenues for the year ended June 30, 2021.

Pledges Receivable

Three donors were responsible for approximately 91 percent of all pledges receivable as of June 30, 2022, and one donor was responsible for approximately 78 percent of all pledges receivable as of the year ended June 30, 2021.

General Litigation

The University is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the University. Events could occur that would change this estimate materially in the near term.

Risks and Uncertainties

Investment securities are exposed to various market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in net values of investment securities will occur in the near term and that such changes could materially affect the amounts recorded in the consolidated statements of financial position.

Note 13: Investments and Disclosures About Fair Value of Assets and Liabilities

Financial accounting standards require disclosure of fair value information about financial instruments for which it is practical to estimate fair value. As of June 30, 2022 and 2021, management estimates that (i) the carrying amounts of cash and cash equivalents; cash restricted for investment in land, building and equipment; student accounts and other receivables; prepayments; accounts payable; accrued liabilities; deferred revenue; and U.S. Government grants refundable approximate fair values because of the short maturity of these instruments; (ii) the fair values of the University's investments in marketable securities are based upon the quoted market price on the last business day of the fiscal year; (iii) the fair values of the University's alternative investments are based on values provided by the managers of the funds; and (iv) bonds and loans payable with a carrying values of \$40,087,936 and \$40,100,070 have fair values of approximately \$34,277,903 and \$39,810,115 as of June 30, 2022 and 2021, respectively.

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The University currently records long-term investments at fair value. Accounting standards establish a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the University's assumptions (unobservable inputs). Determining the level at which an asset or liability falls within the fair value hierarchy requires significant judgment and is based on the lowest-level input that is significant to the fair value measurement as a whole. The fair value hierarchy consists of three broad levels, as follows, with Level 1 being the most observable:

- Level 1** Quoted prices (unadjusted) in active markets for identical assets that the University can access at the measurement date.
- Level 2** Observable inputs other than quoted prices included in Level 1.
- Level 3** Unobservable inputs.

Information about the University's long-term investments that are measured at fair value as of June 30, 2022 and 2021, and the level within the fair value hierarchy and the valuation techniques utilized to determine such fair values, is as follows:

As of June 30, 2022:

	Investments Measured at NAV (A)					
	Total	Level 1	Level 2	Level 3	NAV (A)	Total
Cash equivalents	\$ 5,346,688	\$ 5,346,688	\$ -	\$ -	\$ -	\$ 5,346,688
Equity securities:						
U.S. securities	11,784,600	11,784,600	-	-	-	11,784,600
Multi-asset fund	21,162,193	-	21,162,193	-	-	21,162,193
Alternative investments:						
Private equity funds	6,227,543	-	-	-	6,227,543	6,227,543
Investment partnership	88,403,855	-	-	88,403,855	-	88,403,855
Total	\$ 132,924,879	\$ 17,131,288	\$ 21,162,193	\$ 88,403,855	\$ 6,227,543	\$ 132,924,879

As of June 30, 2021:

	Investments Measured at NAV (A)					
	Total	Level 1	Level 2	Level 3	NAV (A)	Total
Cash equivalents	\$ 8,887,428	\$ 8,887,428	\$ -	\$ -	\$ -	\$ 8,887,428
Equity securities:						
U.S. securities	13,136,320	13,136,320	-	-	-	13,136,320
Multi-asset fund	25,117,647	-	25,117,647	-	-	25,117,647
Alternative investments:						
Private equity funds	7,826,534	-	-	-	7,826,534	7,826,534
Investment partnership	97,949,260	-	-	97,949,260	-	97,949,260
Total	\$ 152,917,189	\$ 22,023,748	\$ 25,117,647	\$ 97,949,260	\$ 7,826,534	\$ 152,917,189

- (A) Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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The investments in the multi-asset fund and the investment partnership are investments made in investment vehicles managed by The Investment Fund for Foundations (TIFF). Each of these funds are made up of many individual investments of varying type, duration and liquidity. Since the University's investment positions is the overarching fund as opposed to the component investments themselves, the assets are reported in Level 2 and Level 3 of the fair value hierarchy, respectively, although some of the underlying investments could qualify for an alternative placement within the hierarchy.

The multi-asset fund has daily liquidity and is comprised of underlying investments in funds focused on equity, debt, and commodity securities employing a variety of strategies. These strategies can be classified as follows:

Category	Strategy Concentration as a % of Total Fund Assets as of June 30, 2022	Strategy Concentration as a % of Total Fund Assets as of June 30, 2021
Equity-oriented assets	66%	66%
Diversifying strategies	21%	20%
Fixed income	13%	14%

These investment categories are defined by TIFF as follows:

Equity-oriented Assets: Positions in the equity-oriented assets category are intended to be the primary long-term driver of portfolio returns, and may include investments in global equities, high yield bonds, resource-related equity, and real estate investment trusts.

Diversifying Strategies: Assets in the diversifying strategies category are intended to generate meaningful returns while reducing equity market sensitivity. These funds may invest in hedge funds, asset-backed securities, commodity futures, and opportunistic credit assets.

Fixed Income: The fixed income strategy is intended to provide diversification, liquidity, and income generation, and may include investments in conventional bonds, treasury inflation-protected securities, and cash.

The investment partnership, made up entirely by an investment in the TIFF Keystone Fund, has quarterly liquidity with 180 days' notice. Similar to the multi-asset fund, the TIFF Keystone Fund has grouped its underlying assets into the same three strategies as previously described for the multi-asset fund. Investments within these categories are of similar types as described previously with the addition of private equity investments in the equity-oriented assets and diversifying strategies categories for the TIFF Keystone Fund. Asset allocation for the TIFF Keystone Fund by strategy is as follows.

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Category	Strategy Concentration as a % of Total Fund Assets as of June 30, 2022	Strategy Concentration as a % of Total Fund Assets as of June 30, 2021
Equity-oriented assets - marketable	33%	39%
Equity-oriented assets - private	<u>33%</u>	<u>27%</u>
Total equity-oriented assets	<u>66%</u>	<u>66%</u>
Diversifying strategies - marketable	20%	19%
Diversifying strategies - private	<u>1%</u>	<u>1%</u>
Total diversifying strategies	<u>21%</u>	<u>20%</u>
Fixed income	<u>13%</u>	<u>14%</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>

The University's exposure to private investments when taking into account the underlying assets of the multi-asset fund and the Keystone fund was approximately \$36.7 million and \$38.2 million as of June 30, 2022 and 2021, respectively. This equates to 28.0 percent and 26.3 percent of the total balances for June 30, 2022 and 2021, respectively. Additionally, total exposure to alternative investments was \$58.4 million and \$60.0 million making up 44.6 percent and 41.3 percent of the investment balances as of June 30, 2022 and 2021, respectively.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2022 and 2021. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described in the subsequent sections.

Cash Equivalents, Equity Securities and Multi-asset Fund Securities

The estimated fair values of investment securities classified as equity and fixed-income securities are included in Level 1 and Level 2 of the fair value hierarchy and are based upon quoted market prices utilizing public information for the same transactions or information provided through third-party advisers.

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Alternative Investments

The estimated fair values of investment securities classified as private equity funds and investment partnership are included in investments measured at NAV and Level 3 of the fair value hierarchy, respectively. TIFF Endowment Asset Management, LLC values all restricted securities for which quotations are not readily available at fair value for the investment classified as investment partnership.

Investments in certain entities measured at fair value using the NAV per share as a practical expedient consist of the following:

2022					
Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	
Private equity funds	(a) \$ 6,227,543	\$ 1,487,586	N/A	N/A	
2021					
Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	
Private equity funds	(a) \$ 7,826,534	\$ 1,547,252	N/A	N/A	

- (a) This category invests in a diversified group of pooled investment vehicles, commonly referred to as private equity funds that include investments in buyout funds, venture capital funds, real estate funds, and diversified debt funds. The objective of these funds is to earn in excess of the public equity markets over a long-term (10-15 years) horizon. Due to the nature of investments in this category, distributions are received through liquidation of the underlying assets and would be liquidated over 5 to 15 years. The funds may invest in investment vehicles domiciled both within and outside of the United States.

Unobservable (Level 3) Inputs

Level 3 investments consist entirely of the investments in the TIFF Keystone Fund. This partnership makes investments in various other funds run by independent asset managers.

Each of these funds has its own valuation methodology using different inputs depending upon the nature of the fund's assets. TIFF's valuation practices are as follows:

- Alternative and private investment funds: valued at fair value, as determined by "Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value Per Share (or its equivalent)," pursuant to ASC 820. Valuation of interests in underlying investment funds is based on an amount equal to the partnership's pro-rata interest in the net assets, which are at fair value, as reported by the management of the investment fund, adjusted for management and incentive fees, if any.

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- Marketable securities listed on one of the national securities exchanges: last sale price on the valuation date or, if no sale was recorded, last bid price.
- Marketable securities traded in the over-the-counter market: closing bid price on the valuation date.

Unobservable inputs are used in the valuation of TIFF assets to the extent that relevant observable inputs are not available, and consist of TIFF's own assumptions about assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available. These inputs may also include the NAV per share or its equivalent for investments in alternative investment funds and private investment funds for which the NAV per share or its equivalent is not eligible to be used as a practical expedient for fair value.

Additional information about assets that have been measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of June 30, 2022 and 2021, is as follows:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 97,949,260	\$ 74,395,611
Gains (losses), realized/unrealized	(5,299,883)	25,449,462
Distributions	(4,245,522)	(3,808,791)
Purchases	-	1,912,978
Ending balance at June 30	<u>\$ 88,403,855</u>	<u>\$ 97,949,260</u>

Investment returns including dividends, interest, realized and unrealized gains were classified under the Net Assets with Donor Restrictions net asset category, while distributions from the endowment for operations were classified under the Net Assets Without Donor Restrictions net assets category. Investment returns were reported net of custodial and investment advisory fees of approximately \$624,000 and \$516,000 for the years ended June 30, 2022 and 2021, respectively.

Accounting standards permit entities to choose to measure financial instruments and other items at fair value that are not currently required to be measured at fair value. The University elected not to value any additional investments or other financial assets or liabilities at fair value. Accordingly, there is no impact on the consolidated financial statements resulting from this standard.

Note 14: Leases

Accounting Policies

The University determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of Right of Use (ROU) assets and lease liabilities on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the

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Notes to Consolidated Financial Statements
June 30, 2022 and 2021

lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The University determines lease classification as operating or financing at the lease commencement date. Financing Lease ROU assets are included in property and equipment and lease liabilities are included in the consolidated statement of financial position.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The University uses the implicit rate when readily determinable. As most leases do not provide an implicit rate, the University uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments.

The lease term may include options to extend or to terminate the lease that the University is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The University has elected not to record leases with an initial term of 12 months or less on the consolidated statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

The University has entered the following lease arrangements:

Financing Leases

These leases mainly consist of Information Technology (IT) equipment for the use of IT infrastructure improvements. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

Operating Leases

The University has leases for office-related equipment that expire in 2023. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

Quantitative Disclosures

The ROU asset and corresponding liability associated with future lease payments at June 30, 2022 and 2021 are as follows.

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	2022		
	Operating	Finance	Total
ROU assets	\$ 203,404	\$ -	\$ 203,404
Equipment	-	1,746,314	1,746,314
Lease liability	198,866	1,075,137	1,274,003
Weighted-average discount rate	4.55%	4.55%	
Remaining lease term (years)	2.5	3.4	
	2021		
	Operating	Finance	Total
ROU assets	\$ 57,909	\$ -	\$ 57,909
Equipment	-	1,746,314	1,746,314
Lease liability	57,871	1,409,089	1,466,960
Weighted-average discount rate	4.55%	4.55%	
Remaining lease term (years)	1.2	4.4	

Lease costs reported in the consolidated statements of activities for the year ended June 30, 2022 and 2021, are as follows:

	2022	2021
Finance:		
Amortization of ROU assets	\$ 318,239	\$ 293,701
Interest on lease liability	40,119	43,807
Total	358,357	337,508
Operating:		
Operating lease costs	75,477	106,728
Total lease costs	\$ 433,834	\$ 444,236

Future minimum lease payments and reconciliation to the consolidated statements of financial position at June 30, 2022, are as follows.

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Notes to Consolidated Financial Statements
June 30, 2022 and 2021

	Finance Leases	Operating Leases
2023	\$ 381,031	\$ 90,343
2024	381,031	90,343
2025	<u>381,031</u>	<u>52,700</u>
Total future undiscounted lease payments	1,143,093	233,386
Less interest	<u>67,956</u>	<u>34,520</u>
Lease liabilities	<u>\$ 1,075,137</u>	<u>\$ 198,866</u>

Note 15: Future Rental Revenue

Adoption of FASB Topic 842 elections described above in Note 13 were also elected for lease revenue.

Future minimum rental receipts due under operating leases that have initial or remaining noncancelable lease terms after June 30, 2022, are as follows:

Years Ending June 30,	Amount
2023	\$ 1,792,627
2024	1,270,169
2025	768,639
2026	487,676
2027	<u>486,655</u>
Total minimum lease receipts	<u>\$ 4,805,766</u>

Note 16: Asset Retirement Obligation

As of June 30, 2022 and 2021, the University has an asset retirement obligation (ARO) related to asbestos remediation in accordance with state regulations. FASB ASC 410-20, *Asset Retirement Obligations*, requires a liability for an ARO to be recorded at fair value if a reasonable estimate of fair value can be made. The University's practice is to remediate asbestos containing materials whenever a renovation, remodel, repair or demolition has an impact on specific asbestos containing materials. A liability has not been recognized in the accompanying consolidated financial statements because the range of time over which the University may liquidate the

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obligation is unknown and cannot be reasonably estimated. The University continually evaluates the facts and circumstances surrounding the ARO and will recognize a liability when sufficient information is available to reasonably estimate fair value.

Note 17: COVID-19 Pandemic and Related Funding

On March 27, 2020, December 27, 2020, and March 11, 2021, the U.S. Government signed into law the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), the *Coronavirus Response and Relief Supplement Appropriations Act* (CRRSAA), and the *American Rescue Act* (ARPA), respectively. The CARES, CRRSAA and ARPA Acts created Higher Education Emergency Relief Funds specifically for emergency aid grants to students for expenses related to the disruption of campus operations due to COVID-19 and also direct aid to institutions to cover costs associated with the significant changes to the delivery of instruction due to COVID-19. The University was awarded a total of \$12,272,108 under these programs, of which \$5,013,653 was designated for distribution directly to students. As of June 30, 2022, \$12,272,108 had been expended. An institution would recognize revenue related to the institutional costs portion only to the extent that the institution has provided grants to students.

While the COVID-19 global pandemic continues to impact the global economy and supply chains, the impact on the University's operations has been reduced dramatically. Accordingly, while there remains the possibility of unforeseen impacts on operations which may be caused by outbreaks, new variants, or other unforeseen factors, the University does not anticipate that the pandemic will have a materially adverse impact on the University operations. The University anticipates that there may be lingering impacts resulting from global inflation and reduced availability of certain goods and services, but the impacts of these factors are not expected to be significant.

Note 18: Related-party Transactions

In the ordinary course of business, the University may have business transactions with related parties, including board members and entities in which University board members or employees have an interest. For the years ended June 30, 2022 and 2021, there were \$2,106,981 and \$1,776,660, respectively, in related-party transactions comprised entirely of contributions received from board members.

Note 19: Subsequent Events

The University has evaluated subsequent events through December 14, 2022, which is the date the consolidated financial statements were issued.

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Note 20: U.S. Department of Education Financial Responsibility Ratio Information

The following information is required by the U.S. Department of Education for the year ended June 30, 2022:

Unsecured related-party receivable	\$ 395,000
Property, plant and equipment, including construction in progress, net of accumulated depreciation - pre-implementation	\$ 107,801,072
Property, plant and equipment, including construction in progress, net of accumulated depreciation - post-implementation without outstanding debt for original purchase	<u>14,196,065</u>
Total property, plant and equipment, net	<u>\$ 121,997,137</u>
Right-of-use lease asset - operating leases, net of accumulated amortization - post-implementation	\$ 127,927
Right-of-use lease asset - finance leases, net of accumulated amortization - post-implementation	1,134,374
Long-term debt obtained for long-term purposes - post-implementation	28,855,390
Long-term debt obtained for long-term purposes - post-implementation	496,487
Operating lease liability - post-implementation	198,866
Finance lease liability - post-implementation	1,075,137

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Financial Responsibility Supplemental Schedule Required
by the U.S. Department of Education
June 30, 2022

Ratio Element	Reference to Financial Statements and/or Notes	2022
Primary Reserve Ratio		
Expendable Net Assets		
Net assets without donor restrictions	Statement of Financial Position	\$ 79,240,541
Net assets with donor restrictions	Statement of Financial Position	138,977,898
Net assets with donor restrictions - restricted in perpetuity	Note 7	<u>86,727,661</u>
Unsecured related-party receivable	Note 20	<u>395,000</u>
Property, plant and equipment, including construction in progress, net of accumulated depreciation - pre-implementation	Note 20	107,801,172
Property, plant and equipment, including construction in progress, net of accumulated depreciation - post-implementation without outstanding debt for original purchase	Note 20	<u>14,196,065</u>
Total property, plant and equipment, net	Statement of Financial Position	<u>121,997,237</u>
Right-of-use lease asset - operating leases, net of accumulated amortization - post-implementation	Note 14	127,927
Right-of-use lease asset - finance leases, net of accumulated amortization - post-implementation	Note 14	1,134,374
Long-term debt obtained for long-term purposes - post-implementation	Note 20	28,855,390
Long-term debt obtained for long-term purposes - post-implementation	Note 20	496,487
Operating lease liability - post-implementation	Note 14	198,866
Finance lease liability - post-implementation	Note 14	<u>1,075,137</u>
Total Expenses and Losses		
Total expenses without donor restrictions	Statement of Activities	<u>90,990,548</u>
Endowment gain/(loss) in excess of amounts designated for current operations, net	Statement of Activities	(890,557)
Change in fair value of split interest agreements	Statement of Activities	<u>(26,088)</u>
Net investment losses - without donor restrictions		<u>(916,645)</u>
Equity Ratio		
Modified Net Assets		
Net assets without donor restrictions	Statement of Financial Position	79,240,541
Net assets with donor restrictions	Statement of Financial Position	138,977,898
Modified Assets		
Total assets	Statement of Financial Position	271,596,626
Net Income Ratio		
Change in net assets without donor restrictions	Statement of Activities	<u>(7,850,369)</u>
Total operating revenue	Statement of Activities	79,733,183
Nonoperating loss	Statement of Activities	(890,557)
Discretionary reinvestment of endowment earnings	Statement of Activities	240,541
Change in fair value of split interest agreements	Statement of Activities	(26,088)
Net assets released from restrictions	Statement of Activities	<u>4,083,100</u>
Total revenue and gains without donor restrictions		<u>\$ 83,140,179</u>