

**William Marsh Rice University**  
**Consolidated Financial Statements**  
**June 30, 2020 and 2019**

**William Marsh Rice University**  
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**June 30, 2020 and 2019**

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## **Report of Independent Auditors**

To the Board of Trustees of  
William Marsh Rice University

We have audited the accompanying consolidated financial statements of William Marsh Rice University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statement of activities for the year ended June 30, 2020 and consolidated statements of cash flows for the years ended June 30, 2020 and 2019.

### ***Management's Responsibility 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; this includes 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of William Marsh Rice University and its subsidiaries as of June 30, 2020 and 2019, and the changes in their net assets for the year ended June 30, 2020 and their cash flows for the years ended June 30, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America.



***Other Matter***

We previously audited the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and of cash flows for the year then ended (the consolidated statement of activities is not presented herein), and in our report dated October 25, 2019, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2019 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*PricewaterhouseCoopers LLP*

October 23, 2020

**William Marsh Rice University**  
**Consolidated Statements of Financial Position**  
**June 30, 2020 and 2019**

(in thousands of dollars)

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 31,511	\$ 25,491
Accounts receivable and other assets, net	57,383	53,165
Pledges receivable, net	190,527	226,827
Investments	6,772,836	7,078,812
Property and equipment, net	1,372,298	1,294,089
Total assets	<u>\$ 8,424,555</u>	<u>\$ 8,678,384</u>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 136,440	\$ 159,420
Notes and bonds payable	1,134,476	950,496
Actuarial liability for life income agreements	125,668	135,602
Government refundable advances	3,218	5,082
Total liabilities	<u>1,399,802</u>	<u>1,250,600</u>
<b>Net Assets</b>		
Without donor restrictions	3,213,202	3,410,997
With donor restrictions	3,811,551	4,016,787
Total net assets	<u>7,024,753</u>	<u>7,427,784</u>
Total liabilities and net assets	<u>\$ 8,424,555</u>	<u>\$ 8,678,384</u>

	Without Donor Restrictions	With Donor Restrictions	2020	2019
<b>Net Assets</b>				
Internally designated	\$ 235,436	\$ -	\$ 235,436	\$ 226,404
Restricted by donor	-	277,345	277,345	307,170
Net investment in plant	282,855	9,040	291,895	343,593
Endowment and designated for long-term investment	2,688,789	3,477,534	6,166,323	6,506,177
Life-income trusts	-	44,569	44,569	40,971
Student loans and other assets	6,122	3,063	9,185	3,469
Total net assets	<u>\$ 3,213,202</u>	<u>\$ 3,811,551</u>	<u>\$ 7,024,753</u>	<u>\$ 7,427,784</u>

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

**William Marsh Rice University**  
**Consolidated Statements of Activities**  
**For the Year Ended June 30, 2020**  
**With Summarized Financial Information for the Year Ended June 30, 2019**

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<i>(in thousands of dollars)</i>				
<b>Operating revenues</b>				
Allocation of endowment spending	\$ 311,039	\$ -	\$ 311,039	\$ 301,325
Other investment income	3,666	773	4,439	4,382
Student tuition and fees	206,835	-	206,835	195,664
Grants and contracts	149,066	-	149,066	133,706
Gifts and pledges	6,997	-	6,997	77,531
Gifts and trusts released from restrictions	24,664	(24,664)	-	-
Auxiliary enterprises	37,338	-	37,338	44,487
Other revenues	25,338	1,469	26,807	29,698
Total operating revenues	764,943	(22,422)	742,521	786,793
<b>Operating expenses</b>				
Salaries and wages	369,922	-	369,922	362,304
Benefits	79,394	-	79,394	82,785
Scholarships	36,928	-	36,928	27,532
Depreciation and amortization	68,048	-	68,048	66,501
Interest and bond costs	35,943	-	35,943	34,673
Utilities and rent	10,707	-	10,707	12,550
Other operating expenses	185,034	-	185,034	162,011
Total operating expenses	785,976	-	785,976	748,356
Net operating (loss) income	(21,033)	(22,422)	(43,455)	38,437
<b>Nonoperating changes</b>				
Gifts, grants, and pledges for property and endowment	65	53,705	53,770	28,169
Investment returns	(26,867)	(50,202)	(77,069)	551,508
Allocation of endowment spending to operations	(145,706)	(165,333)	(311,039)	(301,325)
Revenues of consolidated endowment investments	-	-	-	37,218
Expenses of consolidated endowment investments	-	-	-	(29,558)
Net assets released from restrictions	30,954	(30,954)	-	-
Change in liabilities due under life-income agreements	-	9,920	9,920	(1,970)
Other nonoperating changes, net	(35,208)	50	(35,158)	(16,863)
Net nonoperating changes	(176,762)	(182,814)	(359,576)	267,179
Total (decrease) increase in net assets	(197,795)	(205,236)	(403,031)	305,616
<b>Net assets</b>				
Beginning of year	3,410,997	4,016,787	7,427,784	7,122,168
End of year	\$ 3,213,202	\$ 3,811,551	\$ 7,024,753	\$ 7,427,784

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

**William Marsh Rice University**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended June 30, 2020 and 2019**

<i>(in thousands of dollars)</i>	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>		
Total (decrease) increase in net assets	\$ (403,031)	\$ 305,616
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation of property and equipment	68,048	66,501
Loss on disposal of property and equipment	3,524	1,263
Net realized and unrealized investment loss (gain)	127,819	(490,576)
Contributions restricted for long term purposes and noncash contributions	(64,120)	(65,894)
Donated securities received	(450)	(1,688)
Proceeds from sale of donated securities	248	755
Change in fair value of commodity swap agreements	(11,019)	16,704
Change in		
Accounts receivable and other assets	(1,560)	39,431
Pledges receivable	36,300	1,415
Accounts payable and other liabilities	<u>(9,522)</u>	<u>(11,305)</u>
Net cash used in operating activities	<u>(253,763)</u>	<u>(137,778)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	1,209,341	1,045,616
Proceeds from sale of consolidated investments	-	136,015
Purchases of investments	(979,062)	(1,025,918)
Purchases of property and equipment	<u>(153,348)</u>	<u>(96,756)</u>
Net cash provided by investing activities	<u>76,931</u>	<u>58,957</u>
<b>Cash flows from financing activities</b>		
Contributions restricted for endowment	29,540	27,144
Contributions restricted for property	34,017	38,084
Contributions restricted for trusts and other	563	627
Proceeds from sale of donated securities restricted for endowment	198	211
Proceeds from sale of donated securities restricted for property	3	722
Actuarial change in life-income agreements	(9,920)	1,970
Proceeds from issuance of taxable bonds	199,219	-
Proceeds from issuance of tax-exempt commercial paper	28,330	-
Principal payment of tax-exempt bonds	-	(3,720)
Issuance cost of taxable bonds	(555)	-
Payment of outstanding tax-exempt commercial paper	(43,195)	(3,340)
Termination payment on interest rate lock	(53,484)	-
(Decrease) increase in government refundable advances	<u>(1,864)</u>	<u>151</u>
Net cash provided by financing activities	<u>182,852</u>	<u>61,849</u>
Net increase (decrease) in cash and cash equivalents	6,020	(16,972)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>25,491</u>	<u>42,463</u>
End of year	<u>\$ 31,511</u>	<u>\$ 25,491</u>
<b>Supplemental Data</b>		
Interest paid in cash	\$ 34,759	\$ 34,874
Construction in progress payments included in accounts payable	8,909	12,476

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

# William Marsh Rice University

## Notes to Consolidated Financial Statements

### June 30, 2020 and 2019

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*(all dollar amounts in thousands)*

#### 1. **Basis of Presentation and Summary of Significant Accounting Policies**

##### **Basis of Presentation**

William Marsh Rice University (the “University”) is a Texas not-for-profit corporation that operates a private research university in Houston, Texas. 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 and with the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (ASC) 958, Not-for-Profit Entities, which requires the university to classify its net assets into two categories according to donor-imposed restrictions: net assets without donor-imposed restrictions and net assets with donor-imposed restrictions. All material transactions between the University and its subsidiaries have been eliminated.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University’s financial statements for the year ended June 30, 2019, from which the summarized information was derived.

The consolidated financial statements of the University include the accounts of all academic and administrative departments of the University and affiliated organizations that are controlled by the University. The noncontrolling interest amount for consolidated entities not wholly-owned is not considered material for separate presentation.

##### **Net Assets Without and With Donor Restrictions**

Net assets without donor restrictions are those net assets of a not-for-profit entity that are not subject to donor-imposed restrictions. A donor-imposed restriction is a donor stipulation that specifies a use for a contributed asset that is more specific in purpose or time than broad limits resulting from the following: a) the nature of the not-for-profit entity; b) the environment in which it operates; and c) the purposes specified in its articles of incorporation or bylaws or comparable documents.

The classification of net assets without donor restrictions includes all revenues, gains and expenses not restricted by donors. The University reports all expenditures in this class of net assets, since the use of restricted contributions in accordance with donors’ stipulations results in the release of the restriction.

Those net assets of a not-for-profit entity that are subject to donor imposed restrictions include contributions for which donor-imposed restrictions have not been met (primarily future capital projects; endowment appreciation; life income trusts; and pledges receivable).

##### **Measure of Operations**

The University’s measure of operations as presented in the consolidated statements of activities includes the allocation of endowment spending for operations, revenue from tuition and fees, grants and contracts, donor contributions for operating programs, revenue from auxiliary operations, and other revenues. Operating expenses are reported on the consolidated statements of activities by natural classification. The University’s nonoperating activity within the consolidated statements of activities includes: investment returns and other activities related to endowment



# William Marsh Rice University

## Notes to Consolidated Financial Statements

### June 30, 2020 and 2019

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*(all dollar amounts in thousands)*

management; changes in the liability for life-income agreements; contributions related to land, buildings and equipment; and gains or losses on derivatives.

#### **Contributions**

Contributions, including unconditional promises to give and irrevocable trusts held by others under which the University is the beneficiary, are recognized as revenues in the period received or promised. Contributions restricted for the acquisition of land, buildings and equipment are reported as donor-restricted revenues. These contributions are reclassified to net assets without restriction when the assets are placed in service. Promises to give that are subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in net assets with donor restrictions.

It is the University's practice to sell marketable securities received as donations upon receipt. In the Consolidated Statements of Cash Flows, the University classifies cash receipts from the sale of donated marketable securities in a manner that is consistent with cash donations received if the donated marketable securities are converted into cash on receipt or shortly thereafter.

Conditional promises to give are not recognized until the conditions on which they depend are met. Contributions of assets other than cash are reported at their estimated fair value at the date of gift. Contributions scheduled to be received after one year are discounted using a market rate (Note 3). Amortization of the discount is recorded as contribution revenue.

#### **Cash and Cash Equivalents**

The University considers all highly liquid financial instruments with an original maturity of 90 days or less to be cash equivalents, except those amounts assigned to its investment managers and unspent bond and commercial paper proceeds, which are classified as investments.

#### **Investments and Other Financial Instruments**

Investments are made within guidelines authorized by a group of individuals consisting of both trustees and nontrustees appointed by the University's Board of Trustees. The University's Board of Trustees retains overall fiduciary responsibility. Investments are initially recorded at cost at date of acquisition or fair value at date of donation in the case of gifts. Ownership of marketable securities is recognized as of the trade date. Marketable securities transactions that have not settled are recognized as accounts receivable or accounts payable until the settlement date. Endowment income is calculated net of internal and external investment management expenses, including the investment income excise tax.

Investments are stated at fair value. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The hierarchy of valuation inputs is based on the extent to which inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the University and unobservable inputs reflect assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last is unobservable, that may be used to measure fair value.

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**Notes to Consolidated Financial Statements**  
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*(all dollar amounts in thousands)*

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis (Note 7). The three levels of inputs are as follows:

- Level 1      Quoted prices in active markets for identical assets or liabilities, such as exchange-traded equity securities.
  
- Level 2      Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities, including corporate bonds and most Treasury securities.
  
- Level 3      Unobservable inputs, such as valuations supplied by the investment managers, that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including investments in certain hedge strategies and all private market strategies.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

In addition to these three valuation methodologies, as a practical expedient, the University is permitted under accounting principles generally accepted in the United States of America ("GAAP") to estimate the fair value of its investments with external managers using the external managers' reported net asset value ("NAV") without further adjustment unless the University expects to sell the investment at a value other than NAV or the NAV is not calculated in accordance with GAAP.

The estimated fair value of certain alternative investments, such as private equity and other limited partnership interests, is based on valuations provided by the general partners or partnership valuation committees. These valuations consider variables such as financial performance of investments, recent sale prices of similar investments and other pertinent information. The University reviews and evaluates the data used in determining fair value, including the valuation methods, assumptions, and values provided by the investment managers. Because alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. These differences could be material.

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*(all dollar amounts in thousands)*

Direct investments in natural resources, specifically timberland and oil and gas, as well as real estate are primarily valued using a combination of independent appraisals and/or one or more industry standard valuation techniques (e.g., income approach, market approach, or cost approach). The income approach is primarily based on the investment's anticipated future income using one of two principal methods: the discounted cash flow method or the capitalization method. Inputs and estimates developed and utilized in the income approach may be subjective and require judgment regarding significant matters such as estimating the amount and timing of future cash flows and the selection of discount and capitalization rates that appropriately reflect market and credit risks. The market approach derives investment value through comparison to recent and relevant market transactions with similar investment characteristics. The cost approach is utilized when the cost of the investment is determined to be the best representation of fair value. This method is typically used for newly purchased or undeveloped assets. The valuation process encompasses a wide range of procedures that in the aggregate allow the University to assert as to the adequacy of the fair values reported as of the measurement date.

Derivative financial instruments are recorded in the Consolidated Statements of Financial Position as either an asset or liability measured at fair value as of the reporting date. Derivative financial instruments consist of a treasury interest rate lock (2019) and energy hedge agreements (2020 and 2019). Changes in fair value of these derivatives are recognized in the Consolidated Statements of Activities as other nonoperating changes.

The University's investments are exposed to a number of risks including interest rate, market, and credit risks. Due to the level of risk exposure, it is possible that changes in the valuation of these investments may occur in the near term and that such changes could be material.

**Property and Equipment**

Property used by the University is stated at cost for purchased assets and fair value at the date of donation in the case of gifts. Interest expense incurred during the period of construction of an asset for University use is capitalized until that asset is substantially completed and ready for use. The University depreciates its physical assets using the straight-line method over their estimated useful lives. Repairs and maintenance of property and equipment are expensed as incurred. Property and equipment are removed from the records at the time of disposal. Any resulting gain or loss on disposal is recognized in the Consolidated Statements of Activities.

Works of art, historical treasures, literary works and artifacts are preserved and protected for educational, research and public exhibition purposes. Donations and purchases of such collections are recorded for financial statement purposes as property and equipment but are not depreciated.

**Asset Retirement Obligations**

The University recognizes asset retirement obligations ("AROs") that are conditional on a future event, such as the legal obligation to safely dispose of asbestos when a building is remodeled or demolished. The University measures conditional AROs at estimated fair value using a probability-weighted, discounted cash flow model with multiple scenarios, if applicable. The present value of weighted, discounted cash flows is calculated using credit-adjusted, risk-free rates applicable to the University in order to determine the estimated fair value of the conditional AROs.

# William Marsh Rice University

## Notes to Consolidated Financial Statements

### June 30, 2020 and 2019

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*(all dollar amounts in thousands)*

#### **Life Income Agreements**

Life income agreements include charitable remainder trusts and gift annuities. Charitable remainder trusts hold donated assets for which the University's subsidiary acts as trustee and periodically pays specified amounts to the designated beneficiaries. Generally, beneficiary payments are a fixed amount for annuity trusts and a fixed percentage of the fair value of the trust assets or based on income earned for other charitable remainder trusts. At a date specified in each gift instrument, usually the beneficiary's date of death, ownership of the trust assets will transfer to the University and the beneficiary payments will cease. The University also enters into gift annuity agreements, which require that the University take ownership of the assets at the date of gift with an obligation to periodically pay specified amounts to designated beneficiaries for their lifetimes. Assets held in life income trusts and those assets associated with gift annuities are included in investments at fair value. Contribution revenues are recognized at the date the trusts or gift annuities are established at the net present value calculated based on an actuarial table. Liabilities are recorded at the same time using actuarial tables and discounted according to the risk-free rate at the time of the gift. Discount rates range from 1% to 6%. The liability represents the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted annually for changes in the value of the assets and actuarial changes, which impact the estimates of future payments.

#### **Student Tuition and Fees**

Tuition and fees includes amounts charged for degree programs as well as nondegree executive and continuing education programs. Fees are recognized when assessed and tuition revenue is recognized over the period during which the courses are taken. The University has a needs-blind admission policy for domestic undergraduate students; and the university meets all financial need of enrolled undergraduate students. Awarded financial aid is applied first to tuition and required fees (see Note 11).

#### **Grants and Contracts**

The University receives funding from both government and private sources for research and other programs conducted under grants and contracts. Nearly all revenue from these sources are nonexchange transactions. Revenue associated with nonexchange transactions is recognized as the qualified expenditures are incurred up to the award amount. A limited number of grants and contracts from private sources are considered exchange transactions and are allocated to the University on a calendar basis. Revenue associated with exchange transactions is recognized as the performance obligation is met.

Unearned income from sponsored programs is amounts received by the University under the terms of agreements that generally require the exchange of assets, rights, or privileges between the University and the sponsor. Such funds are advanced for activity that will occur in the near future, generally within the next fiscal year; and are recognized in accounts payable and other liabilities.

Most grants and contracts provide for reimbursement of both direct and indirect costs. The recovery of indirect costs, also referred to as facilities and administrative costs, is recognized based on predetermined rates negotiated with the federal government or amounts set by nonfederal sponsors.

#### **Gifts and Pledges**

Gifts and pledges (contributions) are recognized when received. Gifts of securities are recorded at their fair value at the date of contribution. Nonfinancial gifts received from donors are put into use

# William Marsh Rice University

## Notes to Consolidated Financial Statements

### June 30, 2020 and 2019

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*(all dollar amounts in thousands)*

and recorded by the University at fair value. Pledges consist of unconditional promises to contribute to the University over an agreed upon schedule. Pledges, trusts, and remainder interests are reported at their estimated fair values.

The University records items of collections (such as books or manuscripts) as gifts at fair value. . In general, collections are only received for educational or research purposes and are not disposed of for financial gain or otherwise encumbered in any manner.

#### **Auxiliary Enterprises**

Revenues from auxiliary operations, which include student housing, dining, transportation and parking, are recognized over the period during which the services are provided. To the extent financial aid is awarded to students in excess of their tuition and required fees, it is next applied to room and board charges (see Note 11).

#### **Other Revenues**

Other revenues primarily consist of athletics revenues and revenues related to sales of nontuition based goods and services (e.g. textbooks, conferences, consortia fees, concerts, etc.). Other revenues related to exchange contracts are recognized as the University fulfills the terms of the agreements, which generally span less than one year. Other revenue related to nonexchange contracts is recognized as received.

#### **Use of Estimates**

Financial statements prepared in conformity with accounting principles generally accepted in the United States of America rely on estimates. Management makes certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and reported revenues and expenses during the period. Actual results could differ from these estimates.

#### **Credit Risk**

The University maintains operating cash and other cash balances in financial institutions that from time to time may exceed federally insured limits. The University periodically assesses the financial condition of these institutions and believes that the risk of loss is minimal.

The University has evaluated the credit risk associated with financing receivables, primarily student loans, and determined that both the receivables and the related allowances are immaterial to the financial statements.

#### **Tax Status**

The University is exempt from federal income tax to the extent provided under Section 501(c)(3) of the Internal Revenue Code. The IRS issued a determination letter in January 1938 that recognized the University as exempt from federal income tax under Section 501(c)(3). The IRS confirmed in 2008 that this exemption still applies.

# William Marsh Rice University

## Notes to Consolidated Financial Statements

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*(all dollar amounts in thousands)*

The University has 11 subsidiary corporations that are included in the consolidated financial statements. Two of these subsidiary corporations are exempt from federal income taxes under 501(c)(2), two are exempt under 501(c)(3), one is exempt under 501(c)(4), four are exempt under 501(c)(25) and two are subject to taxation. The University is classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code because it is described in Sections 509(a)(1) and 170(b)(1)(A)(ii) and, as such, gifts to the University qualify for deduction as charitable contributions to the extent provided by law. The University and its subsidiary corporations that are exempt from federal income tax are required to pay federal income tax on unrelated business income. The amount of income tax expense for unrelated business income for the University and its subsidiary corporations was immaterial for the years ended June 30, 2020 and 2019, respectively.

The University is part of a small group of universities that are subject to an excise tax of 1.4% on the University's net investment income and the net investment income of its subsidiary corporations. The excise tax is recognized as a reduction of the University's investment returns. The University recorded a reduction of returns of \$2,608 and \$7,530 for the years ended June 30, 2020 and 2019, respectively.

U.S. GAAP requires the University to evaluate its tax positions to recognize a tax liability (or asset) if the University has taken an uncertain tax position that, more likely than not, would not be sustained upon examination by the IRS. The University has analyzed the tax positions taken and has concluded that as of June 30, 2020, there are no significant uncertain positions taken.

#### **New Pronouncements**

In February 2016, the FASB issued new guidance related to leases in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new guidance was originally effective for fiscal years beginning after December 15, 2019; however, the FASB extended in June 2020 the required effective date for private companies and private not-for-profit organizations to fiscal years beginning after December 15, 2021. The University expects to adopt this standard with the consolidated financial statements beginning in fiscal year 2021.

#### **Other Reporting Matters**

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. The World Health Organization declared COVID-19 a "Public Health Emergency of International Concern."

In March 2020, a national emergency concerning COVID-19 was declared in the United States. The U.S. and local governments implemented enhanced screenings, travel restrictions and quarantine and social distancing requirements in connection with the COVID-19 outbreak. At that time, the University suspended in-person classes and moved the curriculum online, asked students to return home (with few exceptions), and requested University faculty and staff to work remotely where possible. Auxiliary and other revenues were impacted as partial refunds were made in line with the period of closure.

The University's emergency response, planning, and decision-making process, which began early in calendar year 2020, is on-going, continues to evolve with changing circumstances, and remains focused on the University's top priorities of health and safety, academic continuity (teaching,

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(all dollar amounts in thousands)

research and learning), and faculty and student recruitment and retention. The University's fall 2020 semester is in session with students living on campus and remotely.

As the COVID-19 pandemic is complex and rapidly evolving, the University cannot reasonably estimate the duration and severity of this pandemic, which could have an adverse impact on the University's results of operations, financial position and cash flows. The University is taking prudent measures to mitigate the financial impact of COVID-19 in order to realize assets and satisfy liabilities in the normal course of business.

**2. Liquidity and Availability**

Financial assets available within one year of the balance sheet date for general expenditures, such as operating and capital expenses, are summarized as follows at June 30:

	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 31,511	\$ 25,491
Accounts receivable	41,986	37,586
Pledges receivable, net due within one year	54,911	72,544
Short-term working capital investment <sup>(1)</sup>	177,860	214,770
Investments approved for appropriation in subsequent year <sup>(2)</sup>	<u>308,013</u>	<u>309,229</u>
Total financial assets available within one year	614,281	659,620
Unissued commercial paper <sup>(3)</sup>	<u>78,180</u>	<u>63,315</u>
Total financial assets and liquidity resources available within one year	<u>\$ 692,461</u>	<u>\$ 722,935</u>

(1) The University manages liquidity by structuring financial assets to be available as its general expenditures, liabilities, and other obligations come due. The University invests cash in excess of operational requirements in short-term investments.

(2) Each spring the Board of Trustees appropriates the amount of investments that can be used in the subsequent fiscal year. These funds are available beginning July 1 of each subsequent fiscal year.

(3) As described in Note 10, the University has a commercial paper program. With Board of Trustees approval taxable commercial paper could be used to manage unanticipated liquidity needs. The Board has approved a total commercial paper authority of \$100 million. This amount could be increased with Board approval.

As reflected in Note 7, the University held \$1,795,786 and \$2,102,413 in investment assets at June 30, 2020 and 2019 respectively that were measured using Level 1 and 2 fair value inputs.

Although these assets are generally liquid within the near term, they are only considered available for general expenditure to the extent they are designated as short term working capital investments or approved for distribution during the annual budget process under the University's endowment distribution policy described in Note 6. Investments approved for distribution in the subsequent year are calculated based on a board-approved spending rate. The University also has the ability to make additional one-time appropriations from funds functioning as endowment without donor restrictions, subject to Board approval and to the extent that there are sufficient liquid investment assets.

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**3. Accounts Receivable and Other Assets**

Accounts receivable and other assets of the University at June 30, 2020 and 2019 were as follows:

	<b>2020</b>	<b>2019</b>
Unsettled investment sales and receivables	\$ 6,013	\$ 3,672
Investment income receivable	1,195	2,678
Student loans receivable, net of allowance of \$580 in 2020 and \$1,427 in 2019	4,680	5,661
Inventory, prepaid expenses, and other assets	10,717	9,918
Sponsored programs receivable, net of allowance of \$375 in 2020 and \$339 in 2019	23,719	21,489
Swap agreements	1,385	1,250
Other accounts receivable, net of allowance of \$2,913 in 2020 and \$1,420 in 2019	9,674	8,497
Total accounts receivable and other assets, net	<u>\$ 57,383</u>	<u>\$ 53,165</u>

**4. Pledges Receivable**

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting to the present value of expected future cash flows. Unconditional promises to give at June 30, 2020 and 2019 are expected to be realized in the following periods:

	<b>2020</b>	<b>2019</b>
In one year or less	\$ 54,911	\$ 72,544
Between one year and five years	97,811	126,373
More than five years	68,532	62,278
Gross pledges receivable	<u>221,254</u>	<u>261,195</u>
Less:		
Discount to net present value	(17,453)	(18,697)
Allowance for uncollectible pledges	(13,274)	(15,671)
Net pledges receivable	<u>\$ 190,527</u>	<u>\$ 226,827</u>



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Pledges receivable at June 30, 2020 and 2019 had the following restrictions:

	<b>2020</b>	<b>2019</b>
Long-term investment	\$ 30,145	\$ 25,210
Buildings	66,266	82,568
Support of University programs and activities	<u>124,843</u>	<u>153,417</u>
Gross pledges receivable	221,254	261,195
Less:		
Discount to net present value	(17,453)	(18,697)
Allowance for uncollectible pledges	<u>(13,274)</u>	<u>(15,671)</u>
Net pledges receivable	<u>\$ 190,527</u>	<u>\$ 226,827</u>

Rates ranging from 1% to 6% are used to discount pledges. A reserve rate of 6% was used for the allowance for uncollectible pledges as of June 30, 2020 and 2019. The reserve rate is reviewed annually to ensure adequate provision for uncollectible amounts. Periodically unconditional promises to give are reviewed for collectability. As a result, the allowance for uncollectible pledges may be adjusted and some pledges may be adjusted or cancelled. Such changes will be reflected in the consolidated financial statements as they occur.

At June 30, 2020 and 2019, the University had conditional pledge commitments of \$30,130 and \$25,300 respectively for program initiatives and capital projects. Conditional pledges are not reported in the consolidated financial statements.

## 5. Investment Returns

The following table presents investment income and net gains (losses) for the year ended June 30, 2020 by net asset classification, with summarized information for the year ended June 30, 2019:

	<b>2020</b>			<b>2019</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	<b>Total</b>
Investment Income	\$ 31,696	\$ 23,493	\$ 55,189	\$ 65,315
Net gain on sale of consolidated endowment investment	-	-	-	153,055
Net (losses) gains on investments	<u>(54,897)</u>	<u>(72,922)</u>	<u>(127,819)</u>	<u>337,520</u>
Total investment returns	(23,201)	(49,429)	(72,630)	555,890
Less: Earned on operating funds	(3,666)	(773)	(4,439)	(4,382)
Losses (gains) on life income annuities	<u>-</u>	<u>6,020</u>	<u>6,020</u>	<u>(4,603)</u>
Total returns for endowment and board designated funds	(26,867)	(44,182)	(71,049)	546,905
Less: Allocated for endowment and board designated funds spending	<u>(145,706)</u>	<u>(165,333)</u>	<u>(311,039)</u>	<u>(301,325)</u>
Endowment and board designated funds (decrease) / increase	<u>\$ (172,573)</u>	<u>\$ (209,515)</u>	<u>\$ (382,088)</u>	<u>\$ 245,580</u>

Return on investments is presented net of investment management fees. Certain investments report net returns without specific identification of management fees.

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**6. Endowments**

Within the investments the University has approximately 2,000 individual donor-restricted endowment funds and approximately 200 funds that are not donor-restricted for either purpose or time, but have been designated by the Board of Trustees for operational or capital purposes and are managed as endowment funds. In addition to being invested and managed alongside the endowment funds, they also receive a yearly allotment for spending generically referred to as the endowment spending allocation. The net assets associated with each are classified and reported based on the existence or absence of donor-imposed restrictions.

The following table presents net assets for endowment and funds functioning as endowment by purpose based on the nature of the restriction(s) given by the donor or the designation provided by the Board for the year ended June 30, 2020, with summarized information for the year ended June 30, 2019.

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Faculty chairs and academic department support	\$ 293,461	\$ 1,695,011	\$ 1,988,472	\$ 2,076,510
Discretionary	10,398	-	10,398	11,196
Library	4,127	42,074	46,201	49,202
Operation and maintenance of plant	249,707	42,029	291,736	298,045
Research	28,753	86,586	115,339	122,412
Scholarships and fellowships	45,619	796,910	842,529	886,067
Student services	2,011	151,745	153,756	160,293
Miscellaneous	114,939	-	114,939	126,160
Undesignated	1,939,774	663,179	2,602,953	2,776,292
Total endowment and board designated funds	2,688,789	3,477,534	6,166,323	6,506,177
Pledges restricted for long-term investment, net of discount and allowance	-	(26,783)	(26,783)	(22,203)
Endowment and board designated funds, excluding pledges	\$ 2,688,789	\$ 3,450,751	\$ 6,139,540	\$ 6,483,974

These are intended to be broad categories that contain a wide array of individual funds with varying degrees of specificity as to how the endowment earnings allocation is to be used. Funds functioning as endowment are established by the Board and are generally specified for a general purpose. Most of the earnings allocation is used for general support of operations; however, management is able to use those funds as it determines best and sometimes uses the funds to launch or help sustain strategic initiatives. Undesignated funds are funds that can be used for general operations and are not limited to how the funds are used. This category also contains some recent endowment gifts that are limited to use; however the donor has not yet finalized the spending stipulations.

In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the University considers the following factors in making a determination to appropriate or accumulate endowment funds:

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*(all dollar amounts in thousands)*

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

#### **Endowment Investment Policies**

The University has adopted endowment investment policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain and, if possible, enhance the purchasing power of endowment assets. The University has a diversified approach to management of the endowment investment portfolio. By diversifying among asset classes and rebalancing toward policy target allocations, the University strives to manage and maintain the risk profile implied by policy targets.

To achieve its long term return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The University's diversified asset allocation places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk and liquidity constraints. The long term investment objectives of the endowment are to attain an average annual real total return in excess of endowment spending and to outperform various strategic policy and comparable industry universe benchmarks over the long term.

#### **Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives**

The Board of Trustees of the University approves the appropriation of endowment funds for expenditure. In establishing a distribution policy, the Board of Trustees considered a number of factors, including the expected long term investment rate of return on the endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment assets to grow, consistent with its intention to maintain the purchasing power of the endowment assets while providing a relatively predictable and stable (in real terms) stream of earnings for current use. Under the University's endowment earnings distribution policy, endowment returns on donor-restricted endowments, net of operating distributions, remain in the investment pool as net assets with donor-restrictions and endowment returns on board-designated endowment funds remain in the investment pool as net assets without donor-restrictions.

#### **Endowment Funds With Deficits**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts creating a deficit. These deficits generally result when unfavorable market fluctuations occur shortly after the investment of newly established endowments.

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Changes in endowment net assets for the year ended June 30, 2020, with summarized information for the year ended June 30, 2019, were as follows:

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Endowment net assets at beginning of year</b>	\$ 2,856,330	\$ 3,649,847	\$ 6,506,177	\$ 6,228,857
Investment returns				
Investment income	28,030	25,138	53,168	62,697
Net realized and unrealized (losses) gains	(54,897)	(69,320)	(124,217)	484,208
Total investment returns	(26,867)	(44,182)	(71,049)	546,905
Contributions	37	34,601	34,638	10,917
Appropriation of endowment assets for expenditure	(145,706)	(165,333)	(311,039)	(301,325)
Other changes				
Transfers to board designated endowment funds	4,995	-	4,995	12,779
Donor designation	-	983	983	1,471
Other transfers	-	1,618	1,618	6,573
Change in endowment net assets	(167,541)	(172,313)	(339,854)	277,320
<b>Endowment net assets at end of year</b>	<b>\$ 2,688,789</b>	<b>\$ 3,477,534</b>	<b>\$ 6,166,323</b>	<b>\$ 6,506,177</b>

**7. Financial Instruments**

The following tables present the financial instruments carried at fair value on the Consolidated Statements of Financial Position as of June 30, 2020 and 2019, by category, in accordance with the valuation hierarchy defined in Note 1. Certain alternative investments, such as hedge funds, that do not have readily determinable fair values, are shown at investee-reported net asset value (NAV):

	2020				
	Level 1	Level 2	Level 3	NAV	Total
<b>Investments</b>					
Short term investments and fixed income securities					
Short term investments	\$ 267,017	\$ 509,437	\$ -	\$ -	\$ 776,454
Investment grade U.S. bonds	-	333,669	-	-	333,669
Equity securities	468,205	-	-	-	468,205
Equity funds	-	-	-	954,517	954,517
Limited partnerships and other funds					
Private equity and venture capital	-	-	-	1,261,516	1,261,516
Hedge	-	-	-	1,067,158	1,067,158
Real estate	-	-	-	440,766	440,766
Energy and natural resources	-	-	-	439,753	439,753
Real assets, oil and gas, and other	47,728	-	813,234	-	860,962
Life income agreements	169,556	174	106	-	169,836
Total investments at fair value	<b>\$ 952,506</b>	<b>\$ 843,280</b>	<b>\$ 813,340</b>	<b>\$ 4,163,710</b>	<b>\$ 6,772,836</b>
Swaps receivable	\$ -	\$ -	\$ 1,385	\$ -	\$ 1,385

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	2019				
	Level 1	Level 2	Level 3	NAV	Total
<b>Investments</b>					
Short term investments and fixed income securities					
Short term investments	\$ 228,656	\$ 499,362	\$ -	\$ -	\$ 728,018
Investment grade U.S. bonds	-	315,874	-	-	315,874
Equity securities	770,057	-	-	-	770,057
Equity funds	-	-	-	1,041,953	1,041,953
Limited partnerships and other funds					
Private equity and venture capital	-	-	-	1,201,889	1,201,889
Hedge	-	-	-	990,681	990,681
Real estate	-	-	-	418,507	418,507
Energy and natural resources	-	-	-	557,971	557,971
Real assets, oil and gas, and other	113,132	-	765,327	-	878,459
Life income agreements	175,165	167	71	-	175,403
Total investments at fair value	<u>\$ 1,287,010</u>	<u>\$ 815,403</u>	<u>\$ 765,398</u>	<u>\$ 4,211,001</u>	<u>\$ 7,078,812</u>
Swaps receivable (payable)	<u>\$ -</u>	<u>\$ (15,690)</u>	<u>\$ 1,250</u>	<u>\$ -</u>	<u>\$ (14,440)</u>

Life income agreement assets consist primarily of mutual funds, with some directly held assets in real estate, oil and gas, and bonds. Life income investments included in Level 1 are cash and cash equivalents and mutual funds investing in equities, real estate funds and fixed income securities. Life income investments included in Level 2 are directly held bonds and U.S. Treasury securities. Life income investments included in Level 3 are directly held interests in real estate, oil and gas, and other investments. The life income agreement investments are managed by an external manager.

The following tables present the changes in amounts included in the Consolidated Statements of Financial Position for financial instruments classified by the University within Level 3.

**Investments**

	Real Assets, Oil and Gas, and Other	Life Income Agreements	Total
<b>Fair value July 1, 2019</b>	\$ 765,327	\$ 71	\$ 765,398
Unrealized losses	(23,529)	-	(23,529)
Capital calls/purchases	73,115	35	73,150
Other	(1,679)	-	(1,679)
<b>Fair value June 30, 2020</b>	<u>\$ 813,234</u>	<u>\$ 106</u>	<u>\$ 813,340</u>

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	Real Assets, Oil and Gas, and Other	Life Income Agreements	Total
<b>Fair value July 1, 2018</b>	\$ 743,505	\$ 71	\$ 743,576
Unrealized losses	(12,030)	-	(12,030)
Capital calls/purchases	50,092	-	50,092
Distributions	(36,319)	-	(36,319)
Transfers	22,500	-	22,500
Other	(2,421)	-	(2,421)
<b>Fair value June 30, 2019</b>	<u>\$ 765,327</u>	<u>\$ 71</u>	<u>\$ 765,398</u>

The following table presents a summary of Level 3 valuation techniques and quantitative information utilized in determining the value of real assets, oil and gas, and other investments, where no practical expedient to using the external managers' reported NAV exists.

Asset type	Fair Value		Valuation Technique	Unobservable Input	2020 Rates	2019 Rates
	2020	2019				
Real estate	\$ 513,107	\$ 431,149	Discounted cash flow, sales	Discount rate	5.5%-8.5%	5.5%-8.5%
Timber	88,000	85,000	Income approach, cost, sales	Discount rate	5%-7%	5%-7%
Oil and gas	84,100	130,000	Discounted cash flow, net asset	Discount rate	8%-45%	8%-25%
Directly held private stock	46,432	55,583	Varies	Varies	Varies	Varies
Other	81,595	63,595	Varies	Varies	Varies	Varies
	<u>\$ 813,234</u>	<u>\$ 765,327</u>				

The University recognizes transfers between levels as of the end of the reporting period. There were no transfers between Level 1 and Level 2 in 2020 and 2019.

Hedge funds held by the University may be subject to restrictions that limit (i) the University's ability to redeem/withdraw capital from such funds during a specified period of time subsequent to the University's investment of capital (lockups) and/or (ii) the amount of capital that investors may redeem/withdraw as of given redemption/withdrawal dates (side pockets). Capital available for redemption/withdrawal may also be subject to redemption/withdrawal charges and may or may not include capital attributable to the University's participation in illiquid investments. These funds generally limit redemptions to monthly, quarterly, semiannually, annually or longer, at NAV, and require between 30 and 90 days prior written notice, limiting the University's ability to respond quickly to changes in market conditions. The value of hedge funds classified at NAV included investment lockups that will expire over the next 6 to 36 months of \$439,898 and \$428,724 at June 30, 2020 and 2019, respectively, and side pockets of \$67,536 and \$53,961 at June 30, 2020 and 2019, respectively, that had indeterminate redemption periods. Certain of the University's nonhedge fund investments restrict the ability to withdraw, which limits the University's ability to respond quickly to changes in market conditions. These investments are therefore illiquid.

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**Swap Agreements**

	<b>2020</b>	<b>2019</b>
<b>Fair value July 1</b>	\$ (14,440)	\$ 2,264
Net realized and unrealized losses	(37,659)	(16,704)
Termination of interest rate lock agreement	53,484	-
<b>Fair value June 30</b>	<u>\$ 1,385</u>	<u>\$ (14,440)</u>

The University entered into an agreement to hedge a portion of the cost of electricity that took effect on January 1, 2016 and extends through December 31, 2020. The estimated fair value of the arrangement was an asset of \$1,385 and \$1,250 at June 30, 2020 and 2019, respectively. The change in value is reported as other nonoperating change on the Consolidated Statements of Activities.

Effective December 14, 2018, the University entered into a treasury interest rate lock agreement for a notional amount of \$100,000 at 3.2455% with a maturity date of December 15, 2020. It was settled in April of 2020. The estimated fair value of this arrangement was a liability of \$0 and \$15,690 at June 30, 2020 and 2019 respectively. The change in value is reported as other nonoperating change on the Consolidated Statements of Activities.

**8. Property and Equipment**

Property and equipment at June 30, 2020 and 2019 were as follows:

	<b>Estimated Useful Lives (Years)</b>	<b>2020</b>	<b>2019</b>
Land	-	\$ 40,470	\$ 42,279
Buildings and improvements	20-50	1,793,104	1,664,474
Equipment, furniture and library books	2-20	476,404	454,646
Art	-	12,331	12,135
Construction in progress	-	87,671	93,892
Less: Accumulated depreciation	-	<u>(1,037,682)</u>	<u>(973,337)</u>
Total property and equipment, net		<u>\$ 1,372,298</u>	<u>\$ 1,294,089</u>

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**9. Accounts Payable and Other Liabilities**

Accounts payable and other liabilities at June 30, 2020 and 2019 were as follows:

	<b>2020</b>	<b>2019</b>
Unsettled investment purchases and advances	\$ 6,211	\$ 5,218
Vendor accounts payable	26,926	32,957
Accrued payroll and employee benefits	21,151	21,383
Sponsored programs unearned income	61,819	56,839
Other unearned income	4,054	7,889
Asset retirement obligations	3,901	4,075
Accrued interest payable	4,806	4,400
Treasury lock agreement	-	15,690
Other liabilities	7,572	10,969
	<u>136,440</u>	<u>159,420</u>
Total accounts payable and other liabilities	<u>\$ 136,440</u>	<u>\$ 159,420</u>

**10. Notes and Bonds Payable**

Notes and bonds payable at June 30, 2020 and 2019 were as follows:

	<b>2020</b>	<b>2019</b>
Taxable bonds, Series 2020, maturing 2050, with an average coupon of 2.598% per annum payable semiannually	\$ 200,000	\$ -
Taxable bonds, Series 2017, maturing 2045 through 2047 with an average coupon of 3.567% per annum payable semiannually	102,915	102,915
Taxable bonds, Series 2015, maturing 2045 and 2055, with an average coupon of 3.686% per annum payable semiannually	680,000	680,000
Taxable bonds, Series 2013, maturing 2061 through 2063, with an average coupon of 4.626% per annum payable semiannually	113,985	113,985
Tax-exempt revenue bonds, Series 2010B, maturing 2031 through 2048, with an average coupon of .08% per annum payable monthly	23,045	23,045
Total bond liability	<u>1,119,945</u>	<u>919,945</u>
Tax-exempt commercial paper notes, Series A, with interest ranging from 0.20% to 1.45% at June 30, 2020 per annum payable upon maturity	21,820	36,685
Net of deferred financing costs, premiums and discounts on bond issuances	(7,289)	(6,134)
Total notes and bonds payable	<u>\$ 1,134,476</u>	<u>\$ 950,496</u>



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The University incurred interest expense and bond costs, net of interest earned, of approximately \$35,473 and \$34,004 in 2020 and 2019, respectively. Interest expense of \$35,943 and \$34,673 was charged to operations in 2020 and 2019, respectively. Interest expense of \$440 and \$511 was capitalized in 2020 and 2019, respectively.

#### **Taxable Bonds**

##### **Series 2020**

On March 13, 2020, the University issued taxable bonds at par value of \$200,000 with an underwriters discount of \$781 and issuance costs of \$555. Both will be amortized over the term of the bond issue. Interest payments on the bonds are payable semiannually. The bonds mature May 15, 2050 with mandatory sinking fund redemption payments required in each of the five years leading up to the maturity date.

The proceeds from these bonds were used to settle a treasury interest rate lock agreement for \$53,484, refinance capital projects that had used commercial paper for bridge financing between debt issuances, and to fund long-term capital projects.

Unspent bond proceeds of \$88,566 at June 30, 2020 were invested in a short-term investment fund.

##### **Series 2017**

On November 17, 2017, the University issued taxable bonds with a par value of \$102,915 with an underwriters discount of \$473 and issuance costs of \$468. Both will be amortized over the term of the bond issue. Interest payments on the bonds are payable semiannually. The bonds mature November 15, 2047 with mandatory sinking fund redemption payments required in each of the three years leading up to the maturity date..

Proceeds from these bonds were used to advance refund the Series 2010A revenue bonds of \$94,485 by irrevocably placing assets with a trustee to pay principal and other associated costs on the obligations. The total set aside was \$101,974.

##### **Series 2015**

On April 22, 2015, the University issued taxable bonds with a par value of \$700,000 with an underwriters discount of \$4,045 and issuance costs of \$662. Both will be amortized over the term of the bond issue. Interest payments on the bonds are payable semiannually. In May 2016 \$20,000 matured and was repaid. The remaining bonds mature in the amount of \$340,000 due on May 15, 2045 and \$340,000 due on May 15, 2055. Mandatory sinking fund redemption payments are required in each of four years leading up to the maturity dates.

Unspent bond proceeds of \$0 and \$9,725 at June 30, 2020 and 2019, respectively, were invested in a short-term investment fund.

##### **Series 2013**

On June 26, 2013, the University issued \$113,985 of taxable bonds at par value. Interest payments on the bonds are payable semiannually beginning November 15, 2013. Principal payments start May 15, 2061 and continue annually until their maturity on May 15, 2063.

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The proceeds of the bonds were used to refund all of the Series 2008A revenue bonds of \$100,000, refund a portion of the outstanding commercial paper notes of \$13,000, and pay the costs of issuance of the bonds of \$985.

**Tax-Exempt Revenue Bonds**

***Series 2010B***

On June 2, 2010, the University issued Series 2010B revenue bonds through the City of Houston Higher Education Finance Corporation. The revenue bonds, with a face value of \$39,765, were issued as variable rate demand bonds (“VRDBs”), which are subject to optional and mandatory tender. The University is not required to obtain or maintain a liquidity facility for the bonds.

In the event that the University receives notice of any optional tender on the bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University is obligated to purchase the bonds tendered at 100% of par value on the tender date.

Interest payments are payable monthly. Principal payments begin May 15, 2041 and continue annually until their maturity date on May 15, 2048.

Principal maturities for notes and bonds payable as of June 30, 2020, excluding commercial paper and unamortized discounts and premiums, were as follows:

2021	\$	-
2022		-
2023		-
2024		-
Thereafter		<u>1,119,945</u>
	<u>\$</u>	<u>1,119,945</u>

**Commercial Paper Notes**

The University has a tax-exempt commercial paper program that provides for borrowings in the form of individual notes up to an aggregate of \$100,000. The notes bear a fixed rate of interest, established on the borrowing date, over their individual terms, not to exceed 270 days.

The University also established a taxable commercial paper program in May 2015 that provides for borrowings in the form of individual notes up to an aggregate of \$100,000. The notes bear a fixed rate of interest, established on the borrowing date, over their individual terms, not to exceed 270 days.

The University Board of Trustees has limited management’s use of commercial paper to a maximum of \$100,000 between both programs.

The outstanding balance under the tax-exempt facility was \$21,820 with an average interest rate of 0.73% and an average maturity of 9 days at June 30, 2020.

The outstanding balance under the tax-exempt facility was \$36,685 with an average interest rate of 1.64% and an average maturity of 33 days at June 30, 2019.

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*(all dollar amounts in thousands)*

**11. Student Financial Aid**

Student tuition and fees revenues at published rates of \$346,795 and \$318,607 in 2020 and 2019, respectively, are presented in the consolidated financial statements net of scholarship and fellowship awards of \$139,960 and \$122,943, respectively. Auxiliary enterprises revenue was reduced by scholarship awards applied to room and board charges of \$9,417 and \$8,608 in 2020 and 2019, respectively. On a per student basis, scholarship and fellowship awards in excess of the above amounts are reported as expense. Financial aid provided to students in all forms was as follows:

	<b>2020</b>	<b>2019</b>
Scholarships and fellowship awards applied to tuition and fees	\$ 139,960	\$ 122,943
Scholarships applied to room and board charges	9,417	8,608
Scholarships and fellowship awarded in excess of the above amounts	<u>36,928</u>	<u>27,532</u>
Total financial aid provided to students	<u>\$ 186,305</u>	<u>\$ 159,083</u>

**12. Grants and Contracts**

The major components of grants and contracts revenue for the years ended June 30, 2020 and 2019 were as follows:

	<b>2020</b>	<b>2019</b>
<b>Government</b>		
Direct	\$ 80,386	\$ 70,784
Indirect	<u>23,404</u>	<u>21,894</u>
Total government	<u>103,790</u>	<u>92,678</u>
<b>Foundation, industrial, and other</b>		
Direct	40,749	36,665
Indirect	<u>4,527</u>	<u>4,363</u>
Total foundation, industrial, and other	<u>45,276</u>	<u>41,028</u>
Total grants and contracts	<u>\$ 149,066</u>	<u>\$ 133,706</u>

Grant and Contract awards for which the contractual performance obligations have not yet been met totaled \$12,524 and \$9,187 as of June 30, 2020 and 2019, respectively. Awards which are contractually authorized by the sponsor, but for which costs have not yet been incurred, totaled \$175,206 and \$132,895 as of June 30, 2020 and 2019, respectively.

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**13. Functional Expenses**

Expenses of the University by major functional category for the years ended June 30, 2020 and 2019 were as follows:

<b>Natural Expense</b>	<b>Instruction and University Research</b>	<b>Sponsored Research</b>	<b>Student Services and Scholarship</b>	<b>Other Programs</b>	<b>Programs Subtotal</b>	<b>Management</b>	<b>Fundraising</b>	<b>Other Support</b>	<b>Support Subtotal</b>	<b>Total</b>
Salaries and wages	195,821	54,936	45,150	10,359	\$ 306,266	\$ 23,800	\$ 9,513	\$ 30,343	63,656	\$ 369,922
Benefits	42,683	11,974	9,841	2,258	66,756	4,725	1,889	6,024	12,638	79,394
Scholarships	-	26,143	10,686	27	36,856	62	9	1	72	36,928
Depreciation and amortization	13,822	6,087	8,433	7,785	36,127	745	421	30,755	31,921	68,048
Interest and bond costs	15,851	6,213	51	-	22,115	693	300	12,835	13,828	35,943
Utilities and rent	499	165	127	11	802	736	76	9,092	9,905	10,707
Other operating expenses	66,777	52,316	52,755	17,587	189,435	2,155	3,083	(9,639)	(4,401)	185,034
Total 2020	\$ 335,453	\$ 157,834	\$ 127,043	\$ 38,027	\$ 658,357	\$ 32,916	\$ 15,291	\$ 79,411	\$ 127,619	\$ 785,976

<b>Natural Expense</b>	<b>Instruction and University Research</b>	<b>Sponsored Research</b>	<b>Student Services and Scholarship</b>	<b>Other Programs</b>	<b>Programs Subtotal</b>	<b>Management</b>	<b>Fundraising</b>	<b>Other Support</b>	<b>Support Subtotal</b>	<b>Total</b>
Salaries and wages	185,380	51,288	42,491	12,910	292,069	28,294	9,671	32,270	70,235	362,304
Benefits	41,467	11,472	9,505	2,888	65,332	7,031	2,403	8,019	17,453	82,785
Scholarships	-	20,701	6,831	-	27,532	-	-	-	-	27,532
Depreciation and amortization	13,431	5,915	8,194	7,787	35,327	801	409	29,964	31,174	66,501
Interest and bond costs	14,836	5,809	188	-	20,833	555	342	12,943	13,840	34,673
Utilities and rent	459	39	252	65	815	72	144	11,519	11,735	12,550
Other operating expenses	69,560	44,130	34,231	27,544	175,465	5,622	3,092	(22,168)	(13,454)	162,011
Total 2019	\$ 325,133	\$ 139,354	\$ 101,692	\$ 51,194	\$ 617,373	\$ 42,375	\$ 16,061	\$ 72,547	\$ 130,983	\$ 748,356

Expenses are presented by functional classification similar to the way the University views its mission. Each functional area is presented with the natural expenses underlying the function. Natural expenses attributable to more than one functional expense category are allocated using reasonable cost allocation techniques. Depreciation, utilities and rent, and operation and maintenance expenses are allocated directly and/or based on square footage of facilities associated with the function. Interest expense is allocated based on the functional category which benefited from the proceeds of the underlying debt.

The major category included in Other Programs is the library at \$31,537 and \$30,025 for the years ended June 30, 2020 and 2019, respectively and the major activity in Other Support is auxiliaries at \$70,006 and \$70,679 for the years ended June 30, 2020 and 2019, respectively. The negative amount in Other operating expenses in the Other Support program represents interdepartmental charges to other functions at the University. Typical charges include certain charges for operating and maintenance, internal charges for housing and dining, delivery services, and similar items.

**14. Related Party Transactions**

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or through interlocking board memberships, with entities doing business with the University. The University employs a conflict of interest policy that requires any such associations to be disclosed in writing on an annual basis and updated as appropriate during the year. When such associations exist, measures are taken to mitigate any actual or perceived conflict, including recusal of the board or senior management member from any decisions involving the entity doing business with the University. The transactions with entities associated with trustees or senior management are not considered to be significant and may include investment

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management, common membership in investment partnerships or other investment vehicles, or the purchase of goods or services.

**15. Retirement Plans**

Substantially all employees are eligible to participate in a defined contribution retirement plan, which is administered by a third party. The plan operates in accordance with Section 401(a) of the Internal Revenue Code. University contributions are made to this plan. In addition, employees may elect to participate in plans created under Section 403(b) of the Internal Revenue Code. The contributions of the University and its employees can be applied to a range of investments. The University's contributions to the plan of \$27,632 and \$26,524 were recorded as expense in the appropriate functional categories in 2020 and 2019, respectively.

**16. Commitments and Contingencies**

A number of suits and claims are pending against the University. While final outcomes cannot be determined at this time, management believes, after consultation with its legal counsel, that the uninsured liability, if any, resulting from these suits and claims will not have a material adverse effect on the University's financial position, operations, or cash flows.

The University receives funding from federal government agencies for research and other programs conducted under government grants and contracts. The costs recovered by the University in support of sponsored programs are subject to audit and adjustment.

In connection with its private equity investment program (Note 4), the University is obligated under certain limited partnership agreements to advance additional funding up to levels specified in each agreement upon the request of the general partner. At June 30, 2020 and 2019, for private equity and market alternative investments, the University had unfunded commitments of approximately \$1,219,000 and \$1,171,000, respectively, which are expected to be called primarily over the next five to seven years.

Additionally, the University was committed under contracts at June 30, 2020 and 2019 for capital construction and improvements and major maintenance of approximately \$82,325 and \$100,080, respectively, to be financed primarily from gifts and net assets designated for long-term investments, and from debt to the extent other resources are not available. Other purchasing commitments of approximately \$15,443 and \$15,554 were also outstanding at June 30, 2020 and 2019, respectively.

**17. Subsequent Events**

The University evaluated subsequent events from July 1, 2020 to October 23, 2020, the date these consolidated financial statements were issued, for events that occurred after the financial position date that could have a material impact on the University's consolidated financial statements or require disclosure.

On September 2, 2020 The Robert A. Welch Foundation announced a 10 year, \$100 million gift to the University to establish The Welch Institute. The Welch Institute is in the process of organizing with the IRS as a support organization and will be operated exclusively for the benefit of, to perform the function of, or to carry out the purposes of William Marsh Rice University. It will be

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located on the Rice campus, with a focus that combines fundamental research in chemistry and materials science with the latest in machine learning and artificial intelligence to accelerate the discovery, design and manufacture of the next generation of materials with applications to new energy systems, sustainable water, space systems, telecommunications, manufacturing, transportation, security and more. The Institute's researchers and staff will be Rice employees.

This announcement does not have an impact on these consolidated financial statements.