

William Marsh Rice University
Consolidated Financial Statements
June 30, 2023 and 2022

William Marsh Rice University
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June 30, 2023 and 2022

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Report of Independent Auditors

To the Board of Trustees of William Marsh Rice University

Opinion

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, 2023 and 2022, and the related consolidated statements of activities for the year ended June 30, 2023 and of cash flows for the years ended June 30, 2023 and 2022, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023 and 2022, the changes in its net assets for the year ended June 30, 2023, and its cash flows for the years ended June 30, 2023 and 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2022, 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 31, 2022, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information for the year ended June 30, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Responsibilities of Management for the Consolidated Financial Statements

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



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

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

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

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

PricewaterhouseCoopers LLP

October 31, 2023

William Marsh Rice University
Consolidated Statements of Financial Position
June 30, 2023 and 2022

(in thousands of dollars)

	2023	2022
Assets		
Cash and cash equivalents	\$ 43,866	\$ 34,999
Accounts receivable and other assets, net	101,295	85,686
Pledges receivable, net	174,711	197,325
Investments	8,232,265	8,423,703
Property and equipment, net	1,496,128	1,426,147
Total assets	<u>\$ 10,048,265</u>	<u>\$ 10,167,860</u>
Liabilities		
Accounts payable and other liabilities	\$ 148,195	\$ 136,015
Notes and bonds payable	1,164,012	1,144,670
Actuarial liability for life income agreements	134,055	131,195
Government refundable advances	1,018	1,546
Total liabilities	<u>1,447,280</u>	<u>1,413,426</u>
Net assets		
Without donor restrictions	3,828,440	3,953,918
With donor restrictions	4,772,545	4,800,516
Total net assets	<u>8,600,985</u>	<u>8,754,434</u>
Total liabilities and net assets	<u>\$ 10,048,265</u>	<u>\$ 10,167,860</u>

	Without Donor Restrictions	With Donor Restrictions	2023	2022
Net Assets				
Internally designated	\$ 246,294	\$ -	\$ 246,294	\$ 253,175
Restricted by donor	-	233,503	233,503	237,467
Net investment in plant	302,435	-	302,435	325,486
Endowment and designated for long-term investment	3,202,068	4,498,561	7,700,629	7,844,941
Life-income trusts	-	37,451	37,451	40,943
Student loans and other assets	77,643	3,030	80,673	52,422
Total net assets	<u>\$ 3,828,440</u>	<u>\$ 4,772,545</u>	<u>\$ 8,600,985</u>	<u>\$ 8,754,434</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, 2023
With Summarized Financial Information for the Year Ended June 30, 2022

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<i>(in thousands of dollars)</i>				
Operating revenues				
Allocation of endowment spending	\$ 374,833	\$ -	\$ 374,833	\$ 335,108
Other investment income	4,087	3,471	7,558	2,143
Student tuition and fees	272,979	-	272,979	244,250
Grants and contracts	210,702	-	210,702	167,884
Gifts and pledges	6,673	39,553	46,226	30,755
Gifts and trusts released from restrictions	41,183	(41,183)	-	-
Auxiliary enterprises	51,672	-	51,672	42,946
Other revenues	23,583	1,402	24,985	39,628
Total operating revenues	985,712	3,243	988,955	862,714
Operating expenses				
Salaries and wages	421,781	-	421,781	382,699
Benefits	95,908	-	95,908	96,085
Scholarships	64,162	-	64,162	50,564
Depreciation and amortization	78,849	-	78,849	73,899
Interest and bond costs	39,338	-	39,338	39,130
Utilities and rent	20,516	-	20,516	17,355
Other operating expenses	238,823	-	238,823	176,003
Total operating expenses	959,377	-	959,377	835,735
Net operating income	26,335	3,243	29,578	26,979
Nonoperating changes				
Gifts, grants, and pledges for property and endowment	6,946	54,088	61,034	128,506
Investment returns	47,103	127,333	174,436	(8,454)
Allocation of endowment spending to operations	(177,730)	(197,103)	(374,833)	(335,108)
Net assets released from restrictions	6,908	(6,908)	-	-
Change in liabilities due under life-income agreements	-	(8,624)	(8,624)	16,501
Other nonoperating changes, net	(35,040)	-	(35,040)	2,375
Net nonoperating changes	(151,813)	(31,214)	(183,027)	(196,180)
Total decrease in net assets	(125,478)	(27,971)	(153,449)	(169,201)
Net assets				
Beginning of year	3,953,918	4,800,516	8,754,434	8,923,635
End of year	\$ 3,828,440	\$ 4,772,545	\$ 8,600,985	\$ 8,754,434

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, 2023 and 2022

<i>(in thousands of dollars)</i>	2023	2022
Cash flows from operating activities		
Total decrease in net assets	\$ (153,449)	\$ (169,201)
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation of property and equipment	78,850	73,899
Loss on disposal of property and equipment	533	86
Net realized and unrealized investment (gain) loss	(66,589)	91,428
Contributions restricted for long term purposes and noncash contributions	(89,298)	(93,591)
Change in fair value of commodity swap agreements	(120)	(678)
Actuarial change and income restricted for life-income agreements	6,351	(15,681)
Change in		
Accounts receivable and other assets	(17,458)	(23,902)
Pledges receivable	22,614	(20,144)
Accounts payable and other liabilities	12,737	(15,907)
Net cash used in operating activities	<u>(205,829)</u>	<u>(173,691)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	984,094	1,397,650
Purchases of investments	(719,583)	(1,177,231)
Purchases of property and equipment	(147,921)	(118,296)
Net cash provided by investing activities	<u>116,590</u>	<u>102,123</u>
Cash flows from financing activities		
Contributions restricted for endowment	81,487	65,955
Contributions restricted for property	7,697	26,911
Contributions restricted for trusts and other	114	725
Changes in life income agreements from income and payments to beneficiaries	(9,804)	(13,639)
Proceeds from issuance of tax-exempt commercial paper	29,175	12,880
Payment of outstanding tax-exempt commercial paper	(10,035)	(8,730)
Decrease in government refundable advances	(528)	(697)
Net cash provided by financing activities	<u>98,106</u>	<u>83,405</u>
Net increase in cash and cash equivalents	8,867	11,837
Cash and cash equivalents		
Beginning of year	<u>34,999</u>	<u>23,162</u>
End of year	<u>\$ 43,866</u>	<u>\$ 34,999</u>
Supplemental data		
Interest paid in cash	\$ 40,139	\$ 39,123
Construction in progress payments included in accounts payable	2,610	1,167

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

William Marsh Rice University

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(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, 2022, 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.

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).

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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 (net of financial aid), 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, net of taxes and other activities related to endowment management; changes in the liability for life-income agreements; contributions related to land, buildings and equipment; gains or losses on derivatives; and other infrequent items that do not support the teaching and research mission of the University.

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.

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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.

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.

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

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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 energy hedge agreements. 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.

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

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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 need-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 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.

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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.

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, 2023 and 2022, 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.

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The portion of the excise tax associated with the current period realized gains was \$3,876 and \$4,847 for the years ended June 30, 2023 and 2022, 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, 2023, there are no significant uncertain positions taken.

Other Reporting Matters

In March 2020, a national emergency concerning COVID-19 was declared in the United States. The University incurred out-of-pocket pandemic related expenses for the years ended June 30, 2023, 2022 and 2021. These expenses have been or are in the process of being submitted to the Federal Emergency Management Agency (“FEMA”) under its Public Assistance Program for reimbursement. The University can provide no assurances as to the timing or amount, if any, of any reimbursement from FEMA. Accordingly, no amounts related to the reimbursement are recorded until the earlier of cash received or a grant notification from FEMA is received.

The University received awards under the Higher Education Emergency Relief Act, a portion of which was to be used for the direct benefit of students and a portion of which could be used by the University for expenses or lost revenue related to the pandemic. The amount recognized was \$0 and \$1,339 for the years ended June 30, 2023 and 2022, respectively.

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:

	2023	2022
Cash and cash equivalents	\$ 43,866	\$ 34,999
Accounts receivable	84,346	70,189
Pledges receivable, due within one year	47,115	47,188
Short-term working capital investment ⁽¹⁾	313,318	268,850
Investments approved for appropriation in subsequent year ⁽²⁾	<u>407,389</u>	<u>370,631</u>
Total financial assets available within one year	896,034	791,857
Unissued commercial paper ⁽³⁾	<u>49,241</u>	<u>68,398</u>
Total financial assets and liquidity resources available within one year	<u>\$ 945,275</u>	<u>\$ 860,255</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.

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- (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.

As reflected in Note 7, the University held \$1,558,759 and \$1,852,108 in investment assets at June 30, 2023 and 2022, 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.

3. Accounts Receivable and Other Assets

Accounts receivable and other assets of the University at June 30, 2023 and 2022 were as follows:

	2023	2022
Unsettled investment sales and receivables	\$ 2,350	\$ 4,521
Investment income receivable	1,752	1,182
Student loans receivable, net of allowance of \$431 in 2023 and \$580 in 2022	3,362	4,135
Inventory, prepaid expenses, and other assets	13,587	11,362
Sponsored programs receivable, net of allowance of \$0 in 2023 and \$0 in 2022	54,509	51,533
Swap agreements	1,949	1,829
Other accounts receivable, net of allowance of \$1,849 in 2023 and \$2,834 in 2022	<u>23,786</u>	<u>11,124</u>
Total accounts receivable and other assets, net	<u>\$ 101,295</u>	<u>\$ 85,686</u>

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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, 2023 and 2022 are expected to be realized in the following periods:

	2023	2022
In one year or less	\$ 47,115	\$ 57,235
Between one year and five years	107,842	89,790
More than five years	51,563	86,884
Gross pledges receivable	<u>206,520</u>	<u>233,909</u>
Less:		
Discount to net present value	(19,418)	(22,550)
Allowance for uncollectible pledges	<u>(12,391)</u>	<u>(14,034)</u>
Net pledges receivable	<u>\$ 174,711</u>	<u>\$ 197,325</u>

Pledges receivable at June 30, 2023 and 2022 had the following restrictions:

	2023	2022
Long-term investment	\$ 51,138	\$ 67,774
Buildings	70,832	87,241
Support of University programs and activities	<u>84,550</u>	<u>78,894</u>
Gross pledges receivable	206,520	233,909
Less:		
Discount to net present value	(19,418)	(22,550)
Allowance for uncollectible pledges	<u>(12,391)</u>	<u>(14,034)</u>
Net pledges receivable	<u>\$ 174,711</u>	<u>\$ 197,325</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, 2023 and 2022. 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, 2023 and 2022, the University had conditional pledge commitments of \$36,002 and \$11,000, respectively, for program initiatives and capital projects. Conditional pledges are not reported in the consolidated financial statements.

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5. Investment Returns

The following table presents investment income and net gains for the year ended June 30, 2023 by net asset classification, with summarized information for the year ended June 30, 2022:

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Investment income	\$ 60,690	\$ 54,715	\$ 115,405	\$ 85,117
Net gains (losses) on investments	(9,500)	76,089	66,589	(91,428)
Total investment returns	51,190	130,804	181,994	(6,311)
Less:				
Earned on operating funds	(4,087)	(3,471)	(7,558)	(2,143)
(Gains) losses on life income annuities	-	(9,929)	(9,929)	29,194
Total returns for endowment and board designated funds	47,103	117,404	164,507	20,740
Less: Allocated for endowment and board designated funds spending	(177,730)	(197,103)	(374,833)	(335,108)
Endowment and board designated funds decrease	\$ (130,627)	\$ (79,699)	\$ (210,326)	\$ (314,368)

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

6. Endowments

Within 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.

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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, 2023, with summarized information for the year ended June 30, 2022.

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Faculty chairs and academic department support	\$ 371,956	\$ 2,180,847	\$ 2,552,803	\$ 2,589,841
Discretionary	12,742	-	12,742	13,080
Library	5,202	55,223	60,425	59,466
Operation and maintenance of plant	345,724	59,989	405,713	393,800
Research	37,532	152,122	189,654	165,205
Scholarships and fellowships	67,271	1,052,251	1,119,522	1,121,182
Student services	2,564	216,127	218,691	206,404
Miscellaneous	141,298	-	141,298	137,506
Undesignated	<u>2,217,779</u>	<u>782,002</u>	<u>2,999,781</u>	<u>3,158,457</u>
Total endowment and board designated funds	3,202,068	4,498,561	7,700,629	7,844,941
Pledges restricted for long-term investment, net of discount and allowance	-	(41,758)	(41,758)	(54,779)
Endowment and board designated funds, excluding pledges	<u>\$ 3,202,068</u>	<u>\$ 4,456,803</u>	<u>\$ 7,658,871</u>	<u>\$ 7,790,162</u>

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:

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.

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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, 2023, with summarized information for the year ended June 30, 2022, were as follows:

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Endowment net assets at beginning of year	\$ 3,325,884	\$ 4,519,057	\$ 7,844,941	\$ 8,080,292
Investment returns				
Investment income	56,603	46,364	102,967	85,121
Net realized and unrealized gains (losses)	(9,500)	71,040	61,540	(71,282)
Total investment returns	47,103	117,404	164,507	13,839
Contributions	263	50,187	50,450	78,362
Appropriation of endowment assets for expenditure	(177,730)	(197,103)	(374,833)	(335,108)
Other changes				
Transfers to board designated endowment funds	6,548	-	6,548	3,026
Donor designation	-	7,832	7,832	50
Other transfers	-	1,184	1,184	4,480
Change in endowment net assets	(123,816)	(20,496)	(144,312)	(235,351)
Endowment net assets at end of year	\$ 3,202,068	\$ 4,498,561	\$ 7,700,629	\$ 7,844,941

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, 2023 and 2022, 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):

	2023				Total
	Level 1	Level 2	Level 3	NAV	
Investments					
Short term investments and fixed income securities					
Short term investments	\$ 313,321	\$ 276,551	\$ -	\$ -	\$ 589,872
Investment grade U.S. bonds	-	314,952	-	-	314,952
Equity securities	461,960	-	-	-	461,960
Equity funds	-	-	-	1,184,970	1,184,970
Limited partnerships and other funds					
Private equity and venture capital	-	-	-	2,030,639	2,030,639
Hedge	-	-	-	1,156,600	1,156,600
Real estate	-	-	-	499,431	499,431
Energy and natural resources	-	-	-	795,950	795,950
Real assets, oil and gas, and other	20,929	-	1,005,810	-	1,026,739
Life income agreements	170,818	228	106	-	171,152
Total investments at fair value	\$ 967,028	\$ 591,731	\$ 1,005,916	\$ 5,667,590	\$ 8,232,265
Swaps receivable	\$ -	\$ -	\$ 1,949	\$ -	\$ 1,949

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	2022			NAV	Total
	Level 1	Level 2	Level 3		
Investments					
Short term investments and fixed income securities					
Short term investments	\$ 331,026	\$ 549,520	\$ -	\$ -	\$ 880,546
Investment grade U.S. bonds	-	315,047	-	-	315,047
Equity securities	384,227	-	-	-	384,227
Equity funds	-	-	-	1,045,214	1,045,214
Limited partnerships and other funds					
Private equity and venture capital	-	-	-	2,041,652	2,041,652
Hedge	-	-	-	1,167,251	1,167,251
Real estate	-	-	-	507,078	507,078
Energy and natural resources	-	-	-	800,203	800,203
Real assets, oil and gas, and other	31,542	-	1,079,171	-	1,110,713
Life income agreements	171,459	207	106	-	171,772
Total investments at fair value	<u>\$ 918,254</u>	<u>\$ 864,774</u>	<u>\$ 1,079,277</u>	<u>\$ 5,561,398</u>	<u>\$ 8,423,703</u>
Swaps receivable	\$ -	\$ -	\$ 1,829	\$ -	\$ 1,829

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
Fair value at July 1, 2022	\$ 1,079,171	\$ 106	\$ 1,079,277
Unrealized losses	(89,089)	-	(89,089)
Capital calls/purchases	34,422	-	34,422
Other	(18,694)	-	(18,694)
Fair value at June 30, 2023	<u>\$ 1,005,810</u>	<u>\$ 106</u>	<u>\$ 1,005,916</u>

	Real Assets, Oil and Gas, and Other	Life Income Agreements	Total
Fair value at July 1, 2021	\$ 961,388	\$ 106	\$ 961,494
Unrealized gains	79,736	-	79,736
Capital calls/purchases	42,305	-	42,305
Other	(4,258)	-	(4,258)
Fair value at June 30, 2022	<u>\$ 1,079,171</u>	<u>\$ 106</u>	<u>\$ 1,079,277</u>

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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	2023 Rates	2022 Rates
	2023	2022				
Real estate	\$ 627,064	\$ 648,853	Discounted cash flow, sales	Discount rate	6.0%–9.0%	5.0%–8.5%
Timber	96,000	89,300	Income approach, cost, sales	Discount rate	4%–7%	5%–7%
Oil and gas	121,800	185,800	Discounted cash flow, net asset	Discount rate	7%–45%	7%–45%
Directly held private stock	31,067	33,840	Varies	Varies	Varies	Varies
Other	129,879	121,378	Varies	Varies	Varies	Varies
	<u>\$ 1,005,810</u>	<u>\$ 1,079,171</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 2023 and 2022.

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 1 to 37 months of \$371,991 and \$422,128 at June 30, 2023 and 2022, respectively, and side pockets of \$121,443 and \$122,585 at June 30, 2023 and 2022, respectively, that had indeterminate redemption periods. Certain of the University's investments in limited partnerships and other funds (non-hedge), shown at NAV in the tables above, restrict the ability to withdraw, which limits the University's ability to respond quickly to changes in market conditions. These investments are therefore illiquid.

Swap Agreements

	2023	2022
Fair value at July 1	\$ 1,829	\$ 1,151
Net realized and unrealized gains	120	678
Fair value at June 30	<u>\$ 1,949</u>	<u>\$ 1,829</u>

The University entered into an agreement to hedge a portion of the cost of electricity that took effect on January 1, 2023 and extends through January 1, 2024. The estimated fair value of the arrangement was an asset of \$1,949 at June 30, 2023. The change in value is reported as other nonoperating change on the Consolidated Statements of Activities.

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8. Property and Equipment

Property and equipment at June 30, 2023 and 2022 were as follows:

	Estimated Useful Lives (Years)	2023	2022
Land	-	\$ 40,470	\$ 40,470
Buildings and improvements	20-50	1,942,783	1,921,458
Equipment, furniture and library books	2-20	518,157	503,013
Art	-	14,638	14,152
Construction in progress	-	198,690	115,253
Less: Accumulated depreciation	-	<u>(1,218,610)</u>	<u>(1,168,199)</u>
Total property and equipment, net		<u>\$ 1,496,128</u>	<u>\$ 1,426,147</u>

9. Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2023 and 2022 were as follows:

	2023	2022
Unsettled investment purchases and advances	\$ 2,902	\$ 4,901
Vendor accounts payable	18,880	12,695
Accrued payroll and employee benefits	37,141	33,399
Sponsored programs unearned income	19,978	54,389
Other unearned income	4,939	4,739
Asset retirement obligations	3,292	3,464
Accrued interest payable	5,033	4,605
Other liabilities	<u>56,030</u>	<u>17,823</u>
Total accounts payable and other liabilities	<u>\$ 148,195</u>	<u>\$ 136,015</u>

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10. Notes and Bonds Payable

Notes and bonds payable at June 30, 2023 and 2022 were as follows:

	2023	2022
Taxable bonds, Series 2020, maturing 2050, with an average coupon of 2.598% per annum payable semiannually	\$ 200,000	\$ 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 3.674% 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 3.510% per annum payable monthly	23,045	23,045
Total bond liability	<u>1,119,945</u>	<u>1,119,945</u>
Tax-exempt commercial paper notes, Series A, with interest ranging from 1.24% to 2.77% at June 30, 2023 and from 0.85% to 1.55% at June 30, 2022 per annum payable upon maturity	50,759	31,605
Net of deferred financing costs, premiums and discounts on bond issuances	<u>(6,692)</u>	<u>(6,880)</u>
Total notes and bonds payable	<u>\$ 1,164,012</u>	<u>\$ 1,144,670</u>

The University incurred interest expense and bond costs, net of interest earned, of approximately \$41,971 and \$38,668 in 2023 and 2022, respectively. Interest expense and bonds costs of \$42,508 and \$39,130 was charged to operations in 2023 and 2022, respectively. Interest expense of \$1,228 and \$331 was capitalized in 2023 and 2022, 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 \$0 and \$62,045 at June 30, 2023 and 2022, respectively, were invested in a short-term investment fund.

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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.

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.

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.

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Principal maturities for notes and bonds payable as of June 30, 2023, excluding commercial paper and unamortized discounts and premiums, were as follows:

2023	\$	-
2024		-
2025		-
2026		-
Thereafter		1,119,945
	\$	<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 \$50,745 with an average interest rate of 1.44% and an average maturity of 75 days at June 30, 2023.

The outstanding balance under the tax-exempt facility was \$31,605 with an average interest rate of 0.93% and an average maturity of 107 days at June 30, 2022.

There were no outstanding balances under the taxable facility at either June 30, 2023 or 2022.

Line of Credit

On August 30, 2023, subsequent to date of the Statement of Financial Position, the University established a \$100,000 variable line of credit with a commercial bank to provide incremental liquidity for operating and capital purposes. The arrangement also provides the possibility of an additional \$100,000 at the discretion of the bank if requested by the University. The line of credit expires on March 29, 2024.

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11. Student Financial Aid

Student tuition and fees revenues, based on published rates, of \$446,599 and \$420,650 in 2023 and 2022, respectively, are presented in the consolidated financial statements net of scholarship and fellowship awards of \$173,620 and \$176,400, respectively. Auxiliary enterprises revenue was reduced by scholarship awards applied to room and board charges of \$11,475 and \$9,980 in 2023 and 2022, 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:

	2023	2022
Scholarships and fellowship awards applied to tuition and fees	\$ 173,620	\$ 176,400
Scholarships applied to room and board charges	11,475	9,980
Scholarships and fellowships awarded in excess of the above amounts	<u>64,162</u>	<u>50,564</u>
Total financial aid provided to students	<u>\$ 249,257</u>	<u>\$ 236,944</u>

12. Grants and Contracts

The major components of grants and contracts revenue for the years ended June 30, 2023 and 2022 were as follows:

	2023	2022
Government		
Direct	\$ 126,748	\$ 90,748
Indirect	<u>28,870</u>	<u>26,196</u>
Total government	<u>155,618</u>	<u>116,944</u>
Foundation, industrial, and other		
Direct	51,406	47,522
Indirect	<u>3,678</u>	<u>3,418</u>
Total foundation, industrial, and other	<u>55,084</u>	<u>50,940</u>
Total grants and contracts	<u>\$ 210,702</u>	<u>\$ 167,884</u>

Grant and Contract awards for which the contractual performance obligations have not yet been met totaled \$20,780 and \$18,107 as of June 30, 2023 and 2022, respectively. Awards which are contractually authorized by the sponsor, but for which costs have not yet been incurred, totaled \$196,918 and \$186,260 as of June 30, 2023 and 2022, respectively.

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13. Functional Expenses

Expenses of the University by major functional category for the years ended June 30, 2023 and 2022 were as follows:

Natural Expense	Instruction and University Research	Sponsored Research	Student Services and Scholarship	Other Programs	Programs Subtotal	Management	Fundraising	Other Support	Support Subtotal	Total
Salaries and wages	\$ 208,548	\$ 64,551	\$ 33,614	\$ 11,517	\$ 318,230	\$ 48,118	\$ 11,813	\$ 43,620	\$ 103,551	\$ 421,781
Benefits	44,894	20,293	8,309	2,825	76,321	5,312	3,072	11,203	19,587	95,908
Scholarships	-	7,198	56,964	-	64,162	-	-	-	-	64,162
Depreciation and amortization	16,537	7,282	9,122	7,705	40,646	1,025	607	36,571	38,203	78,849
Interest and bond costs	20,577	7,613	-	-	28,190	-	-	11,148	11,148	39,338
Utilities and rent	1,192	42	461	16	1,711	2,241	218	16,346	18,805	20,516
Other operating expenses	65,096	87,990	53,515	25,315	231,916	21,038	15,512	(29,643)	6,907	238,823
Total 2023	\$ 356,844	\$ 194,969	\$ 161,985	\$ 47,378	\$ 761,176	\$ 77,734	\$ 31,222	\$ 89,245	\$ 198,201	\$ 959,377

Natural Expense	Instruction and University Research	Sponsored Research	Student Services and Scholarship	Other Programs	Programs Subtotal	Management	Fundraising	Other Support	Support Subtotal	Total
Salaries and wages	\$ 199,163	\$ 53,395	\$ 31,346	\$ 10,993	\$ 294,897	\$ 38,606	\$ 9,814	\$ 39,382	\$ 87,802	\$ 382,699
Benefits	49,745	14,024	10,215	2,739	76,723	5,412	2,636	11,314	19,362	96,085
Scholarships	-	10,683	39,878	-	50,561	3	-	-	3	50,564
Depreciation and amortization	15,162	6,677	9,250	7,619	38,708	904	556	33,731	35,191	73,899
Interest and bond costs	19,024	7,035	6	-	26,065	29	-	13,036	13,065	39,130
Utilities and rent	377	72	159	31	639	131	89	16,496	16,716	17,355
Other operating expenses	79,229	64,654	53,388	12,310	209,581	(5,338)	6,525	(34,765)	(33,578)	176,003
Total 2022	\$ 362,700	\$ 156,540	\$ 144,242	\$ 33,692	\$ 697,174	\$ 39,747	\$ 19,620	\$ 79,194	\$ 138,561	\$ 835,735

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 \$39,131 and \$26,401 for the years ended June 30, 2023 and 2022, respectively, and the major activity in Other Support is auxiliaries at \$88,892 and \$78,040 for the years ended June 30, 2023 and 2022, 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 facility work orders, 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 \$28,556 and \$27,076 were recorded as expense in the appropriate functional categories in 2023 and 2022, 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. In October 2023, the University settled a class action lawsuit in which it had been named a co-defendant along with sixteen other universities. The agreed upon settlement amount of \$33,750 is included in other nonoperating changes, net in the 2023 Consolidated Statement of Activities.

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, 2023 and 2022, for private equity and market alternative investments, the University had unfunded commitments of approximately \$1,431,952 and \$1,352,924, 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, 2023 and 2022 for capital construction and improvements and major maintenance of approximately \$70,776 and \$98,615, 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 \$44,956 and \$8,957 were also outstanding at June 30, 2023 and 2022, respectively.

17. Subsequent Events

The University evaluated subsequent events from July 1, 2023 to October 31, 2023, 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.