



Financial Statements

Years Ended May 31, 2021 and 2020,
and Report of Independent Certified Public Accountants



FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

TABLE OF CONTENTS

	<u>Page</u>
Management’s Discussion and Analysis (<i>Unaudited</i>).....	1 - 9
Report of Independent Certified Public Accountants	11 - 12
Financial Statements as of and for the Years Ended May 31, 2021 and 2020	
Balance Sheets	13
Statements of Activities	14 - 15
Statements of Cash Flows.....	16
Notes to Financial Statements.....	17 - 38

BAYLOR UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)

Introduction

The leadership of Baylor University (“Baylor” or the “University”) is pleased to present this management discussion and analysis (“MD&A”) of the University’s financial statements as of May 31, 2021. The MD&A is intended to provide readers of the financial statements open and transparent insights into the University’s financial condition. The discussion presented here should be read in conjunction with the financial statements and notes that follow.

The University offers a vibrant campus community for more than 19,000 students by blending interdisciplinary research with an international reputation for educational excellence and a faculty commitment to teaching and scholarship. Baylor’s mission is to educate students for worldwide leadership and service by integrating academic excellence and Christian commitment within a caring community. Baylor University enjoys high standing among many national rating services that evaluate quality of education, research activity, affordability, baccalaureate value, and athletic excellence. These rankings recognize not only Baylor as a whole, but also the University’s many respected schools and departments, which are led by gifted, award-winning faculty. In addition to the University, these financial statements include the activity of two legally separate entities over which the University has control, the Brazos Valley Public Broadcasting Foundation and the Central Texas Technology & Research Park.

This financial report includes comparative Balance Sheets, Statements of Activities, Statements of Cash Flows, and Notes to the Financial Statements as of May 31, 2021 and 2020. The financial statements and notes are prepared in accordance with principles established for not-for-profit universities by the Financial Accounting Standards Board (FASB).

Balance Sheets

The **Balance Sheets** present the University’s assets, liabilities and net assets at May 31, 2021 and 2020. These statements provide a snapshot of the University’s financial position as of a specific point in time, as well as information regarding assets owned by the University, amounts owed to vendors, lenders, and others, and net assets.

The University’s Balance Sheets as of May 31, 2021 and 2020, are summarized below:
(in thousands of dollars)

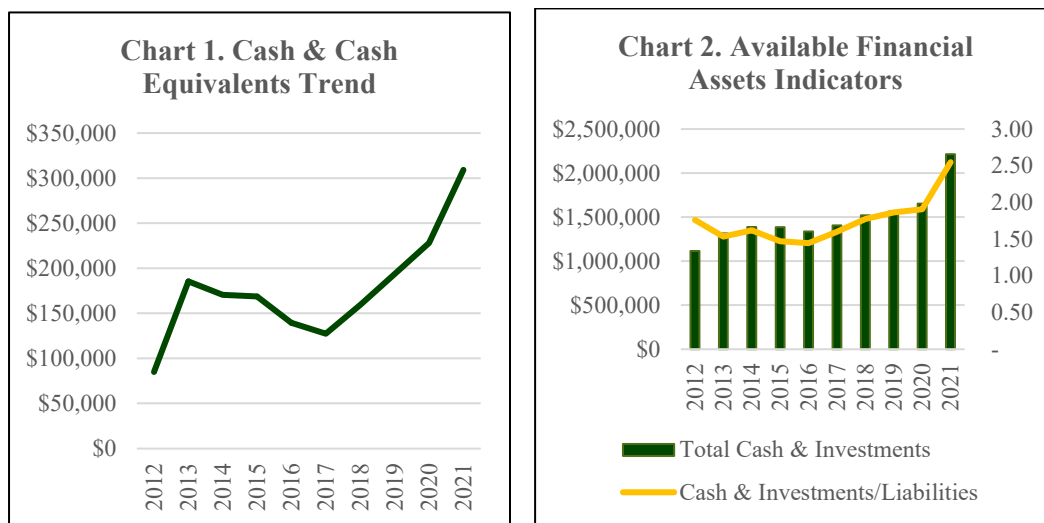
Summary Balance Sheets	2021	2020	Increase (Decrease)	
			Amount	Percentage
Cash and cash equivalents	\$ 309,236	\$ 228,052	\$ 81,184	35.6%
Receivables, net	185,877	211,059	(25,182)	(11.9)%
Prepaid expenses & other assets	31,617	37,045	(5,428)	(14.7)%
Long-term investments, at fair value	1,905,616	1,425,665	479,951	33.7%
Capital assets, net	1,070,420	1,074,881	(4,461)	(0.4)%
Total Assets	<u>\$ 3,502,766</u>	<u>\$ 2,976,702</u>	<u>\$ 526,064</u>	<u>17.7%</u>
Payables, trade and personnel-related	\$ 67,505	\$ 74,393	\$ (6,888)	(9.3)%
Notes & bonds payable, net	590,643	579,119	11,524	2.0%
Deposits & deferred revenues	129,431	129,132	299	0.2%
Other liabilities	81,145	84,151	(3,006)	(3.6)%
Net assets	2,634,042	2,109,907	524,135	24.8%
Total Liabilities & Net Assets	<u>\$ 3,502,766</u>	<u>\$ 2,976,702</u>	<u>\$ 526,064</u>	<u>17.7%</u>

**BAYLOR UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)**

Total assets grew by \$526.1 million, or 17.7%, from May 31, 2020 to May 31, 2021 as several changes occurred in the balance sheet. The largest percentage change in assets is a 35.6% increase in cash and cash equivalents. Long-term investments had the largest dollar change, resulting primarily from net investment returns totaling \$472.5 million for the year ended May 31, 2021. The largest decrease for the year was in net receivables, \$25.2 million, due primarily to payments received on contributions receivable.

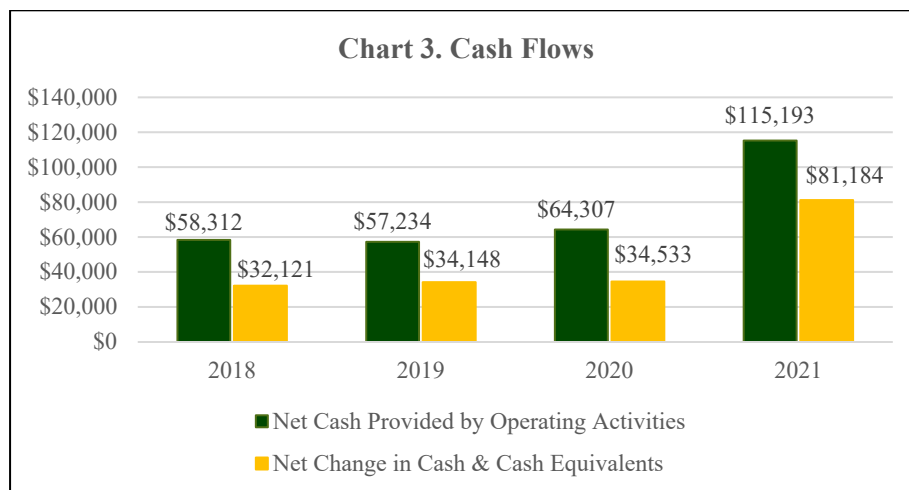
Overall, these changes demonstrate an improving financial position and increasing available financial asset balances for the University. Cash and cash equivalents have consistently increased the last four fiscal years (Chart 1) while total cash and investments has increased to 2.5 times total liabilities as depicted in Chart 2:

(in thousands of dollars)



The consistent, positive cash trend is further illustrated by Chart 3, which illustrates the net cash provided by operating activities and the net change in cash and cash equivalents for each of the past four fiscal years.

(in thousands of dollars)



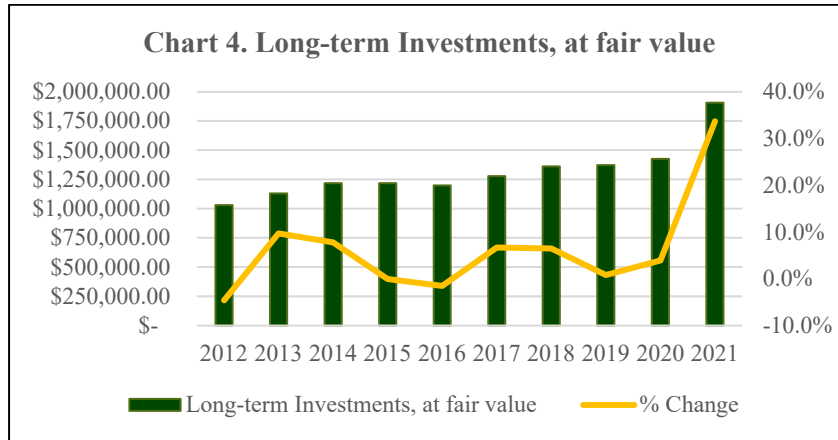
Endowment and Long-Term Investments

The University’s endowment funds are primarily invested through the Baylor University Fund (BUF). The BUF is an internally managed portfolio which is invested through over 80 managers that specialize in different sectors of the global financial market. Long-term investments, which includes endowment funds, operating funds,

BAYLOR UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)

annuities, and life income funds, total just over \$1.9 billion as of May 31, 2021. The return on long-term investments, including realized gains and losses, and unrealized gains and losses totaled \$472.5 million for FY2021 compared to \$87.9 million for FY2020. Chart 4 presents a ten-year history of long-term investments at fair value.

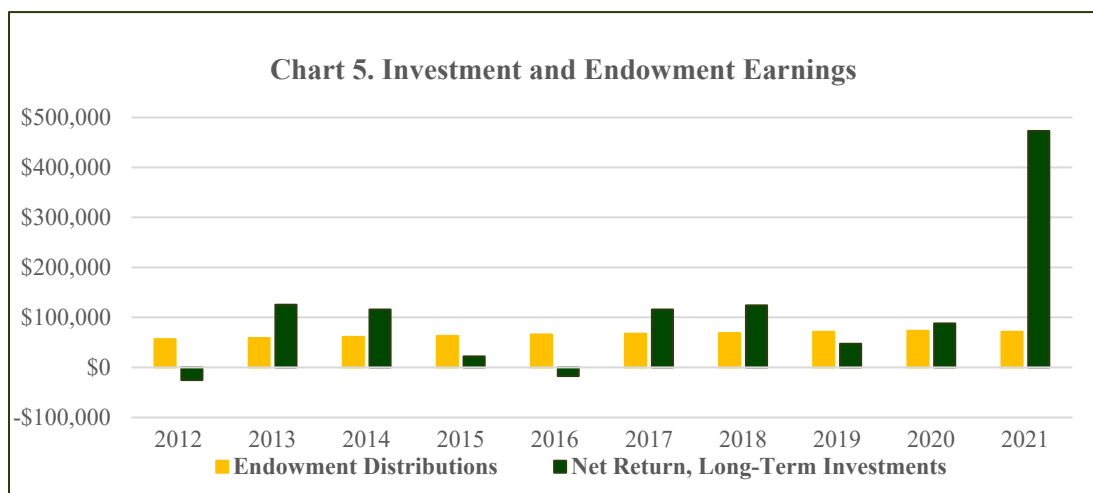
(in thousands of dollars)



While gains and losses on investments fluctuate with returns in financial markets each year, support to the University in the form of scholarships, professorships, and other important initiatives is dependable and rising.

Effective with the year ended May 31, 2020, the Board of Regents adopted a change in the University’s spending policy. Annual BUF endowment distributions are set to approximate 5% of the net asset value at the beginning of the year, with a minimum distribution equal to the total dollar amount distributed in the previous fiscal year and a maximum distribution cap of 7% of the average net asset value over the previous 36 months. This spending policy resulted in \$71.4 million of distributions to the University in FY 2021.

(in thousands of dollars)



Capital Assets

Maintaining a campus for approximately 19,000 students requires significant investments in quality facilities for instruction, research, residential life, and other functions of the University. Capital investments include renovation, replacement, and new construction of facilities. Projects are financed by a combination of donor contributions, reserves, and debt issuance. The following summary reflects capital investments over the past ten fiscal years, along with the change in capital assets, net of depreciation. Over this period, net additions have exceeded depreciation by \$436 million, an indication that the University is maintaining and enhancing facilities.

BAYLOR UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Changes in Capital Assets <i>(in thousands of dollars)</i>					
Year Ended May 31,	Capital Asset Additions, net	Depreciation	Net Change	Property, Plant & Equipment, net	
2012	\$ 68,444	\$ 30,937	\$ 37,507	\$	671,840
2013	171,000	31,046	139,954		811,794
2014	223,219	34,750	188,469		1,000,263
2015	174,808	43,364	131,444		1,131,707
2016	97,710	50,532	47,178		1,178,885
2017	51,457	56,779	(5,322)		1,173,563
2018	34,073	60,155	(26,082)		1,147,481
2019	22,805	60,975	(38,170)		1,109,311
2020	25,080	59,510	(34,430)		1,074,881
2021	51,485	55,946	(4,461)		1,070,420
	<u>\$ 920,081</u>	<u>\$ 483,994</u>	<u>\$ 436,087</u>		

Net Assets

FASB standards dictate that the University classify net assets based on whether there are restrictions on the use of assets from donors, grantors, or other external parties. Internally, management or the Board of Regents may designate assets for specific purposes, but these designations do not change the balance sheet classification. The following table summarizes net assets by those with and without donor-imposed restrictions, along with additional information within these two categories of net assets:

Changes in Net Assets <i>(in thousands of dollars)</i>				
Summary of net assets	2021	2020	Increase (Decrease)	
			Amount	Percentage
Net assets without donor-imposed restrictions				
Undesignated	\$ 68,863	\$ 29,407	\$ 39,456	134.2%
Restricted by time or purpose	107,769	86,662	21,107	24.4%
Board designated endowment	323,215	247,256	75,959	30.7%
Investment in and designated for plant	<u>446,086</u>	<u>455,881</u>	<u>(9,795)</u>	<u>(2.1%)</u>
	<u>945,933</u>	<u>819,206</u>	<u>126,727</u>	<u>15.5%</u>
Net assets with donor-imposed restrictions				
Restricted by time or purpose	31,265	30,963	302	1.0%
Endowment	1,468,073	1,111,338	356,735	32.1%
Board designated endowment	38,161	22,844	15,317	67.1%
Annuities and living trusts	36,995	30,713	6,282	20.5%
Investment in plant	<u>113,615</u>	<u>94,843</u>	<u>18,772</u>	<u>19.8%</u>
	<u>1,688,109</u>	<u>1,290,701</u>	<u>397,408</u>	<u>30.8%</u>
Total net assets	<u>\$ 2,634,042</u>	<u>\$ 2,109,907</u>	<u>\$ 524,135</u>	<u>24.8%</u>

BAYLOR UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)

Both net assets with and without donor restrictions improved for the fiscal year ended May 31, 2021, with the most significant change in net assets restricted for endowment and board designated endowment.

Statements of Activities

The **Statements of Activities** present the University’s revenues, expenses, and other changes in net assets for a period of time. The Statements of Activities for the fiscal years ended May 31, 2021 and 2020, are summarized below.

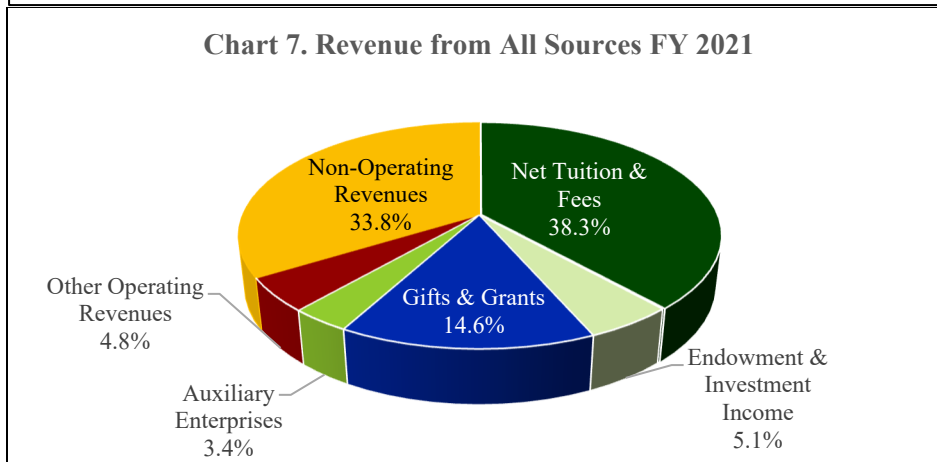
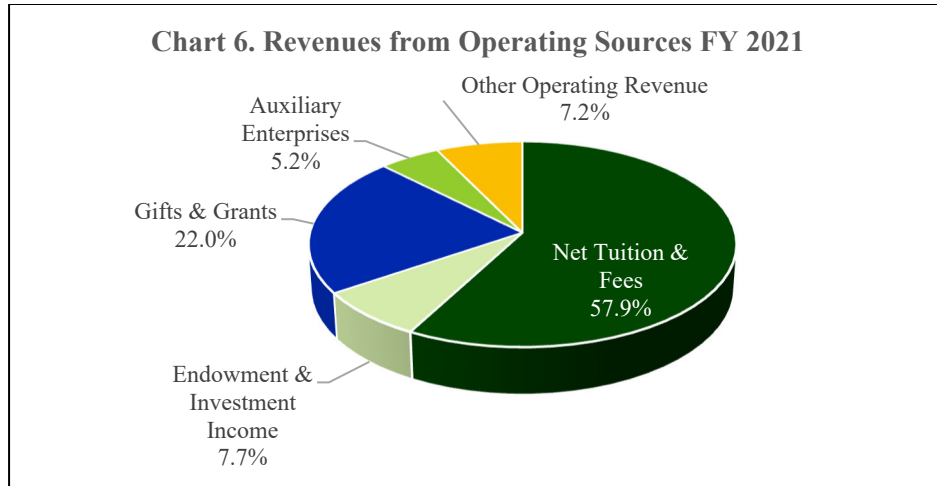
(in thousands of dollars)

Summary of the Statements of Activities	2021	2020	Increase (Decrease)	
			Amount	Percentage
Tuition & fees, net	\$ 532,653	\$ 466,084	\$ 66,569	14.3%
Endowment distributions & investment income	70,766	74,095	(3,329)	(4.5%)
Gifts & grants	202,241	109,629	92,612	84.5%
Auxiliary enterprises	47,776	46,471	1,305	2.8%
Other revenue & additions	67,105	95,451	(28,346)	(29.7%)
Operating revenue	<u>920,541</u>	<u>791,730</u>	<u>128,811</u>	<u>16.3%</u>
Salaries & wages	317,465	308,040	9,425	3.1%
Personnel benefits	91,574	90,166	1,408	1.6%
Student wages & fellowships	28,478	35,670	(7,192)	(20.2%)
Operating expenses	348,666	258,055	90,611	35.1%
Depreciation	55,946	59,510	(3,564)	(6.00%)
Interest expense	20,762	24,340	(3,578)	(14.7%)
Operating Expenses	<u>862,891</u>	<u>775,781</u>	<u>87,110</u>	<u>11.2%</u>
Operating Margin	57,650	15,949	41,701	261.5%
Non-Operating Activities	<u>466,485</u>	<u>126,493</u>	<u>339,992</u>	<u>268.8%</u>
Change in Net Assets	<u>\$ 524,135</u>	<u>\$ 142,442</u>	<u>\$ 381,693</u>	<u>268.0%</u>

Revenues

Operating revenues increased \$128.8 million, or 16.3%, from fiscal year 2020 to 2021, primarily resulting from increased gifts and grants. Gifts and grants, which includes donor contributions and grants from all sources, showed the largest percentage increase at 84.5% percent, primarily due to increased grant funding from increased research activity and Higher Education Emergency Relief Fund (HEERF) funding. Increases in non-operating activities primarily resulted from increased investment returns which were \$472.5 million in the FY2021 fiscal year, an increase of 437.5% over the previous year.

BAYLOR UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)



Net tuition and fees represent the largest share of total University revenues, at 57.9% of operating revenue and 38.3% of revenue from all sources. Within the net tuition and fees revenue category, further revenue diversification has been achieved through the growth of online graduate and professional programs, which has grown to \$85.6 million net tuition, or 16.1% of net tuition and fees for all programs.

As chart 8 illustrates, net tuition and fee revenue has increased, in a mostly linear fashion, each fiscal year from 2012 to 2021, at an average annual rate of 9.1%, through both enrollment growth and increasing net revenue per student. The share of total operating revenue funded by net tuition and fees has dipped to 57.9% in FY 2021, its lowest level over this ten year period.

BAYLOR UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)

(in thousands of dollars)

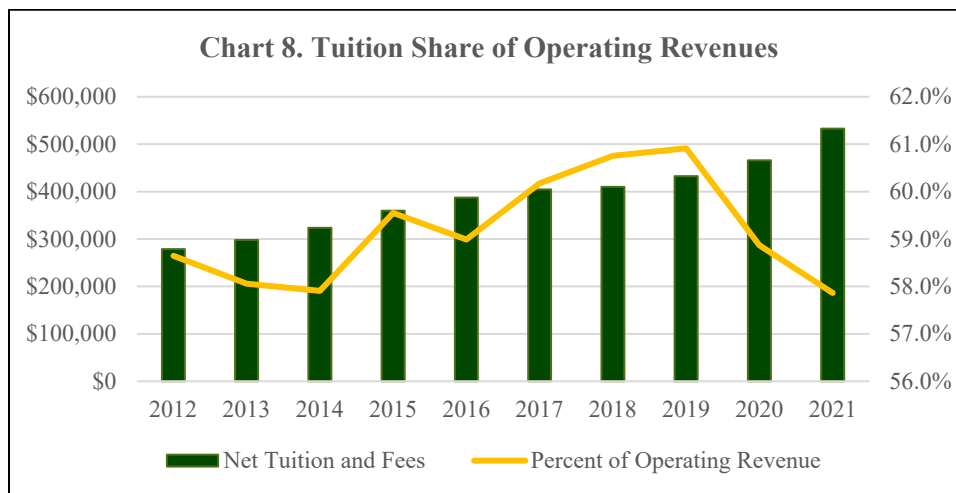
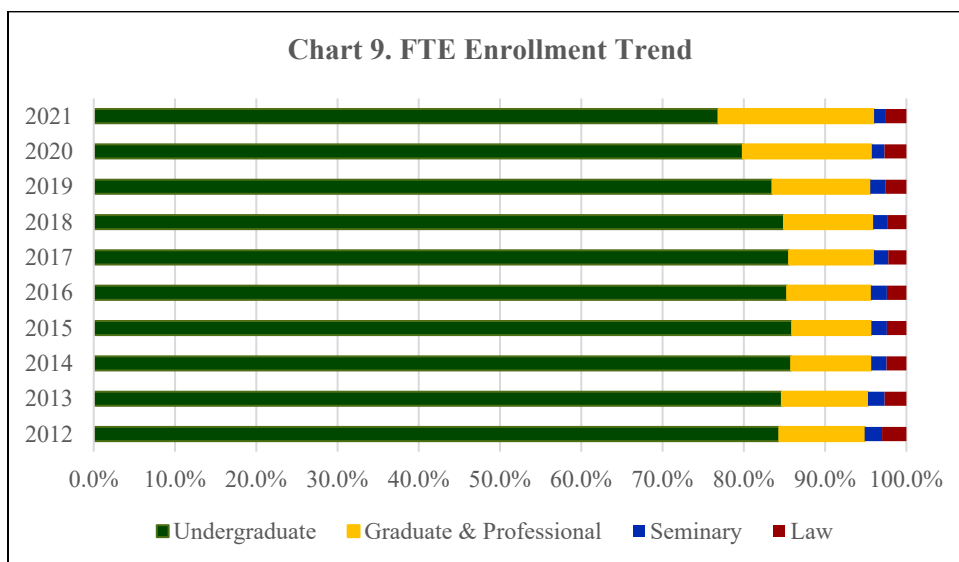


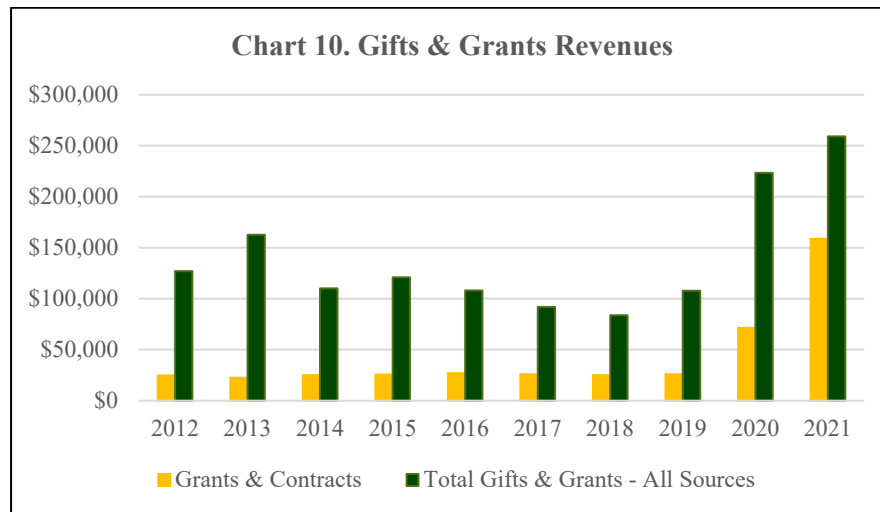
Chart 9 depicts the University’s fall semester full-time equivalent (FTE) enrollments over the past ten fiscal years. As the chart shows, reliance on undergraduate enrollments has declined the past three fiscal years as new online graduate and professional programs (GPE) have been added, increasing revenue diversification. Undergraduate enrollment has decreased to 77% of total FTE enrollment in FY 2021.



Total gifts and grants, from both operating and non-operating sources, rose by a combined \$35.8 million, or 16.0%, from FY 2020 to FY 2021, which is largely due to grants and contracts revenue more than doubling from \$71.3 million to \$158.8 million while gifts for plant improvements declined \$63.4 million. This increase in grants and contracts revenue results from an emphasis of the University’s *Illuminate* strategic plan, along with funding from HEERF.

**BAYLOR UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)**

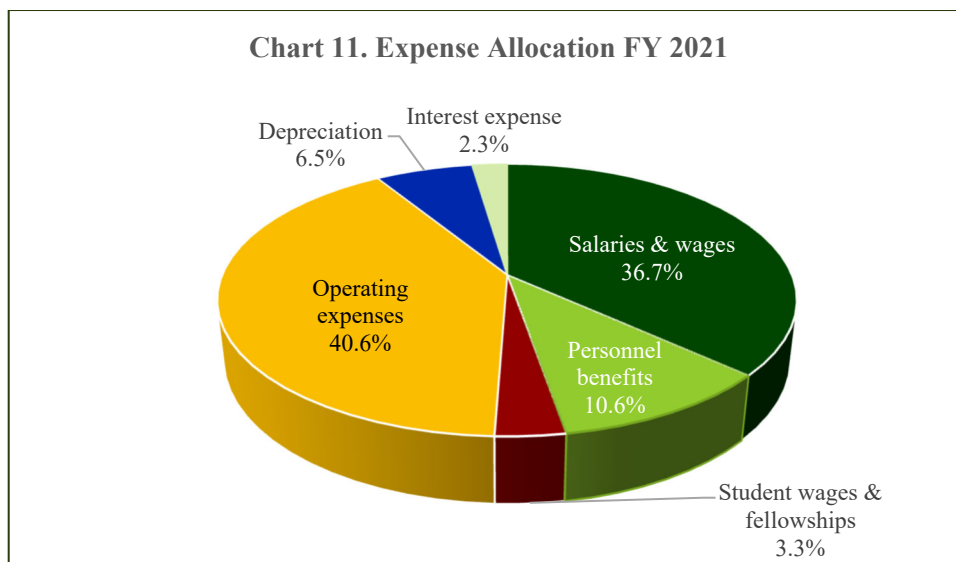
(in thousands of dollars)



Expenses and Other Changes

Total operating expenses rose in FY 2021 by \$87.1 million in comparison to FY 2020, an 11.2% increase. The most significant factors contributing to this increase are contract services for delivery of GPE programs, a \$20.7 million increase, and sponsored program subcontracts, which rose \$63 million.

Salaries and wages typically make up the largest allocation of expenses each year and are currently 36.7% of the total. However, in FY 2021, operating expenses represent the largest percentage of the total as a result of the factors outlined in the previous paragraph.



Institutional and Economic Outlook

The University continues to actively monitor the COVID-19 outbreak and apply standards based on federal, state, and local guidelines and continues to coordinate its response with local public health agencies, as well as with the Texas Department of Health. The COVID-19 pandemic or any other similar outbreak in the future and the related impact on social interaction, travel, economies, and financial markets may adversely impact the

BAYLOR UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Unaudited*)

financial condition and operations of Baylor. Potential adverse consequences to the University of a resurgence of COVID-19 or any similar outbreak in the future may include, but are not limited to, a decline in enrollment, postponement, or cancellation of athletic events, decline in demand for University housing, parking, and dining, decline in demand for University programs that involve travel or that have international connections, and a decrease in interest and investment income from the University's investment assets. The full impact of the COVID-19 pandemic or any other similar outbreak in the future and the scope of any adverse impact on Baylor's financial condition and operations cannot be fully determined at this time.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

GRANT THORNTON LLP

1717 Main Street, suite 1800
Dallas, TX 75201-4667

D +1 214 561 2300

F +1 214 567 2370

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Regents
Baylor University

We have audited the accompanying financial statements of Baylor University (the "University"), which comprise the balance sheets as of May 31, 2021 and 2020, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Baylor University as of May 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other information

Management's Discussion and Analysis ("MD&A") is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Grant Thornton LLP

Dallas, Texas
September 23, 2021

BAYLOR UNIVERSITY
Balance Sheets

May 31, 2021 and 2020
(in thousands of dollars)

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Cash & cash equivalents	\$ 309,236	\$ 228,052
Student accounts receivable, net	35,311	28,637
Contributions receivable, net	107,309	125,702
Grants & other receivables, net	37,078	49,154
Prepaid expenses & other assets	31,617	37,045
Student loans receivable, net	6,179	7,566
Long-term investments, at fair value	1,905,616	1,425,665
Property, plant & equipment, net	<u>1,070,420</u>	<u>1,074,881</u>
Total assets	<u><u>\$ 3,502,766</u></u>	<u><u>\$ 2,976,702</u></u>
<u>LIABILITIES & NET ASSETS</u>		
Liabilities		
Accounts payable	\$ 43,296	\$ 53,097
Personnel related current liabilities	24,209	21,296
Deposits & deferred revenues	129,431	129,132
Accrued postretirement benefits	52,304	53,217
Notes & bonds payable, net	590,643	579,119
Other liabilities	<u>28,841</u>	<u>30,934</u>
Total liabilities	<u>868,724</u>	<u>866,795</u>
Net Assets		
Without donor restrictions	945,933	819,206
With donor restrictions	<u>1,688,109</u>	<u>1,290,701</u>
Total net assets	<u>2,634,042</u>	<u>2,109,907</u>
Total liabilities & net assets	<u><u>\$ 3,502,766</u></u>	<u><u>\$ 2,976,702</u></u>

See accompanying notes to financial statements.

BAYLOR UNIVERSITY**Statement of Activities**

For the Year Ended May 31, 2021

(in thousands of dollars)

	Year Ended May 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
<u>OPERATING REVENUES</u>			
Tuition & fees	\$ 897,877	\$ —	\$ 897,877
Less scholarships	(365,224)	—	(365,224)
Net tuition & fees	532,653	—	532,653
Endowment distributions & investment income	66,399	4,367	70,766
Gifts & private grants	29,210	14,275	43,485
Grants & contracts	148,228	10,528	158,756
Other sources - educational & general	20,065	138	20,203
Other sources - intercollegiate athletics	46,902	—	46,902
Sales & services of auxiliary enterprises	47,776	—	47,776
Net assets released from restrictions	13,991	(13,991)	—
Total operating revenues	905,224	15,317	920,541
<u>OPERATING EXPENSES</u>			
Program expenses			
Salaries & wages	317,465	—	317,465
Personnel benefits	91,574	—	91,574
Student wages & fellowships	28,478	—	28,478
Operating expenses	348,666	—	348,666
Depreciation	55,946	—	55,946
Interest expense	20,762	—	20,762
Total operating expenses	862,891	—	862,891
Change in net assets from operating activities	42,333	15,317	57,650
<u>NON-OPERATING ACTIVITIES</u>			
Net return on long-term investments	93,256	379,241	472,497
Distributions from long-term investments	(12,450)	(58,912)	(71,362)
Endowment earnings & distributions re-invested	—	3,117	3,117
Change in value of split interest agreements	—	7,347	7,347
Gifts for endowment, annuity & living trusts	—	37,650	37,650
Gifts & grants for plant improvements, net of allowance adjustments	—	19,228	19,228
Net assets released from restrictions for plant improvements	5,580	(5,580)	—
Other components of postretirement benefits cost	(525)	—	(525)
Change in postretirement benefits obligation other than net periodic benefits cost	956	—	956
Other decreases	(2,423)	—	(2,423)
Total non-operating activities	84,394	382,091	466,485
Change in net assets	126,727	397,408	524,135
Net assets at beginning of year	819,206	1,290,701	2,109,907
Net assets at end of year	\$ 945,933	\$ 1,688,109	\$ 2,634,042

See accompanying notes to financial statements.

BAYLOR UNIVERSITY**Statement of Activities**

For the Year Ended May 31, 2020

(in thousands of dollars)

	Year Ended May 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<u>OPERATING REVENUES</u>			
Tuition & fees	\$ 806,333	\$ —	\$ 806,333
Less scholarships	(340,249)	—	(340,249)
Net tuition & fees	466,084	—	466,084
Endowment distributions & investment income	64,522	9,573	74,095
Gifts & private grants	30,323	7,987	38,310
Grants & contracts	68,992	2,327	71,319
Other sources - educational & general	26,731	109	26,840
Other sources - intercollegiate athletics	68,611	—	68,611
Sales & services of auxiliary enterprises	46,471	—	46,471
Net assets released from restrictions	19,153	(19,153)	—
Total operating revenues	790,887	843	791,730
<u>OPERATING EXPENSES</u>			
Program expenses			
Salaries & wages	308,040	—	308,040
Personnel benefits	90,166	—	90,166
Student wages & fellowships	35,670	—	35,670
Operating expenses	258,055	—	258,055
Depreciation	59,510	—	59,510
Interest expense	24,340	—	24,340
Total operating expenses	775,781	—	775,781
Change in net assets from operating activities	15,106	843	15,949
<u>NON-OPERATING ACTIVITIES</u>			
Net return on long-term investments	16,959	70,953	87,912
Distributions from long-term investments	(15,375)	(57,808)	(73,183)
Endowment earnings & distributions re-invested	—	3,020	3,020
Change in value of split interest agreements	255	1,016	1,271
Gifts for endowment, annuity & living trusts	—	31,147	31,147
Gifts & grants for plant improvements, net of allowance adjustments	—	82,589	82,589
Net assets released from restrictions for plant improvements	7,194	(7,194)	—
Other components of postretirement benefits cost	(745)	—	(745)
Change in postretirement benefits obligation other than net periodic benefits cost	(3,175)	—	(3,175)
Other increases (decreases)	(3,845)	1,502	(2,343)
Total non-operating activities	1,268	125,225	126,493
Change in net assets	16,374	126,068	142,442
Net assets at beginning of year	802,832	1,164,633	1,967,465
Net assets at end of year	\$ 819,206	\$ 1,290,701	\$ 2,109,907

See accompanying notes to financial statements.

BAYLOR UNIVERSITY

Statements of Cash Flows

For the Years Ended May 31, 2021 and 2020

(in thousands of dollars)

	<u>Year Ended May 31, 2021</u>	<u>Year Ended May 31, 2020</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 524,135	\$ 142,442
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	55,946	59,510
Net return on long-term investments	(472,497)	(87,912)
Distributions from long-term investments	71,362	73,183
Amortization of bond premium	(529)	(574)
Amortization of deferred debt issuance costs	346	231
Net gain on bond premium & debt issuance costs write-off	(8,001)	-
Losses on disposal of property & equipment	352	2,566
Fixed assets gifts-in-kind	(250)	(1,259)
Contributions of securities	(9,066)	(7,592)
Proceeds from sale of contributed securities for operations	2,127	1,422
Contributions for endowment & plant improvements	(76,382)	(38,290)
Provision for uncollectible receivables	4,343	2,625
Changes in assets & liabilities:		
Student accounts receivable	(7,610)	(7,729)
Contributions receivable	16,358	(71,296)
Grants & other receivables	10,704	(20,699)
Prepaid expenses & other	5,428	(19,435)
Accounts payable	(9,801)	26,581
Personnel related current liabilities	2,913	(8,358)
Deposits & deferred revenues	(7,326)	5,687
Accrued postretirement benefits	(913)	3,069
Other liabilities	13,554	10,135
Net cash provided by operating activities	<u>115,193</u>	<u>64,307</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Student loans disbursed	(43)	(231)
Proceeds from collections of student loans	1,430	1,401
Proceeds from sales of long-term investments	30,469	18,814
Purchases of long-term investments	(109,285)	(57,751)
Purchases of property, plant & equipment	(51,587)	(26,387)
Net cash used for investing activities	<u>(129,016)</u>	<u>(64,154)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Contributions for endowment, annuity & living trusts	27,743	23,780
Contributions for plant improvements	48,639	14,510
Proceeds from sale of contributed securities for endowment & plant	6,939	6,170
Proceeds from long-term debt	256,165	-
Repayment of long-term debt	(246,684)	(8,605)
Payment of interest rate swap liability	(7,183)	-
Premium received on long-term debt proceeds	11,412	-
Debt issuance costs	(1,186)	(362)
Change in federal student loan funds refundable	(838)	(1,113)
Net cash provided by financing activities	<u>95,007</u>	<u>34,380</u>
Net change in cash & cash equivalents	<u>81,184</u>	<u>34,533</u>
Cash & cash equivalents at beginning of year	<u>228,052</u>	<u>193,519</u>
Cash & cash equivalents at end of year	<u>\$ 309,236</u>	<u>\$ 228,052</u>

See accompanying notes to financial statements.

BAYLOR UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

OVERVIEW OF BAYLOR UNIVERSITY

Baylor University (“Baylor” or the “University”), is a private Christian University and a nationally ranked research institution, located in Waco, Texas. The University was chartered by the Republic of Texas on February 1, 1845, through the efforts of Baptist pioneer missionaries and lay leaders and is affiliated with the Baptist General Convention of Texas. The oldest continuously operating institution of higher learning in the State of Texas, Baylor has more than 145,000 alumni living in the United States and around the world and welcomes students from all 50 states, the District of Columbia, and 98 countries to study within its 12 nationally recognized academic divisions.

Since its founding in Independence, Texas, Baylor has grown to over 19,000 students, including 4,900 graduate/professional students, and more than 2,900 full-time faculty and staff. In 1886, Baylor merged with Waco University and moved to its current campus on the banks of the Brazos River. In addition to the main campus in Waco, Baylor operates the Louise Herrington School of Nursing in Dallas and offers graduate programs in Austin, Dallas, Houston, West Point, and several U.S. Army locations across the United States.

With a stated mission to educate men and women for worldwide leadership and service by integrating academic excellence and Christian commitment within a caring community, Baylor has a distinct and compelling academic mission that integrates teaching and research excellence within an unwavering Christian faith.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting & Reporting

The financial statements of Baylor University include the accounts of the University, Brazos Valley Public Broadcasting Foundation, and Central Texas Technology & Research Park, legally separate entities, over which the University has control as a sole member or for which the board of directors are chosen by the University’s Board of Regents. The University’s financial statements do not include the accounts of the Baylor Line Foundation, formerly known as the Baylor Alumni Association, or Baylor Waco Stadium Authority. These entities are excluded due to the nature of their relationship to the University or due to their aggregate assets, revenues, expenses and net assets not being significant in relation to the University.

The financial statements of the University are prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The University’s net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Without donor restrictions – net assets that are not subject to donor-imposed or legal restrictions. Net assets without donor restrictions may be designated for specific purposes by the University’s Board of Regents (the “Board”).

With donor restrictions – net assets subject to donor-imposed or legal restrictions that must be met either by actions of the University and/or the passage of time. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the University, including donor restrictions which stipulate that assets be held in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions that are not anticipated to be met in the year of receipt. Expenses are reported as decreases in net assets without donor restrictions. Income and net gains and losses on investments in donor restricted endowments are reported as increases or decreases in net assets with donor restrictions until appropriated for expenditure by the University. All other gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets are reported as net assets released from restrictions. Changes or clarifications in donor stipulations may cause certain net assets to be reclassified between net assets. These reclassifications are reported as other increases (decreases) in net assets classes.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the University, the internal accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified into funds that are in accordance with specified activities or objectives. These financial statements, however, are prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions.

BAYLOR UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

Cash & Cash Equivalents

Cash on deposit and all highly liquid financial instruments with original maturities of three months or less are classified as cash and cash equivalents, except those amounts assigned to investment managers, which are classified as investments. The University maintains its cash and cash equivalents with high quality financial institutions and these cash balances, at times, may exceed federally insured limits. Cash equivalents includes operational funds invested in bank time deposits, short-term fixed income securities having original maturities of three months or less, and highly liquid money market funds. The University has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Receivables

Student accounts receivable are stated net of allowance for doubtful accounts of \$3,322,000 and \$2,354,000 as of May 31, 2021 and 2020, respectively. Student loans receivable are stated net of allowance for doubtful accounts of \$602,000 and \$603,000 as of May 31, 2021 and 2020, respectively. The University considered the allowances recorded at May 31, 2021 and 2020, to be reasonable and adequate to absorb potential credit losses inherent in the student accounts receivable balances and the student loan portfolio.

The assets and liabilities of student loans financed primarily by the federal government and administered by the University, primarily the Federal Perkins Loan Program, are included with those of the University. The total of the federal government portion of these loans is included in other liabilities in the accompanying balance sheets. The U.S. Congress did not renew the Perkins program after September 30, 2017, and no new loans are permitted after June 30, 2018. The University has the option to continue servicing outstanding Perkins loans or to liquidate the loan portfolio and turn over all outstanding loans to the U.S. government. As of May 31, 2021, the University continues to service outstanding Perkins loans.

Grants and other receivables are stated net of allowance for doubtful accounts of \$12,713,000 and \$11,341,000 as of May 31, 2021 and 2020, respectively.

Split Interest Agreements

Split interest agreements consist primarily of gift annuities, charitable remainder trusts, life income funds, and perpetual trusts. Assets held under these agreements are included primarily in long-term investments (see Note 4). The agreements administered by HighGround Advisors and others as temporary trustees, in which the assets will be distributed to the University upon termination, are reflected at their net present value as contributions receivable (see Note 5). Annuities payable are recorded at the present value of future payments, based on the Internal Revenue Service discount rate at the time of the original gift, and are included in other liabilities in the accompanying balance sheets.

Property, Plant & Equipment

Property, plant and equipment valued at \$5,000 or more are recorded at cost at the date of acquisition or, if acquired by gift, at estimated fair value at the date of gift. Additions to plant assets are capitalized, while maintenance and minor renovations are charged to operations. Plant assets are reflected net of accumulated depreciation calculated on a straight-line basis over the estimated useful lives ranging from three to fifty years. Land and art/collections are considered non-depreciable given the nature of the assets. Equipment is removed from the records at the time of disposal.

The University recognizes asset retirement obligations (“ARO”s) 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 site specific surveys and a probability-weighted, discounted cash flow model with multiple scenarios, if applicable.

The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset is less than the carrying value. For the years ended May 31, 2021 and 2020, the University has not recognized any impairment charges.

University policy requires that any proceeds from deaccessioned collection items be used for the acquisition of additional collection items or maintenance of existing items. Disposals of collection items are rare and any proceeds received are not material to the financial statements of the University.

Deposits & Deferred Revenues

Deposits and deferred revenues consist of amounts contracted, billed, or received for education, intercollegiate athletics, auxiliary goods and services, vendor long-term contracts incentive payments, or rental space that have not yet been earned.

BAYLOR UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

Other Liabilities

Other liabilities consist of annuities payable, lease liabilities, CARES Act payroll tax deferrals, refundable advances, liability for conditional asset retirement obligations, and federal student loan funds refundable.

Tuition & Fees

Tuition and fees revenues are earned and recognized over the course of each semester as educational services are delivered. Scholarships provided by the University for tuition and fees are reflected as a reduction of tuition and fees revenues. Scholarships are awarded to students by the University from revenues without donor restrictions, restricted endowment distributed earnings, restricted gifts or government grants. Scholarships do not include payments to students for services rendered to the University.

Contributions

Contributions are recorded as revenues in the appropriate net asset class based on the presence or absence of donor-imposed restrictions. Expiration of temporary restrictions on donor contributions are reported as net assets released from restrictions. Contributions received with donor-imposed restrictions that are anticipated to be met in the same year as they are received are reported as revenues without donor restrictions.

Donor contributions to fund construction projects are classified as net assets with donor restrictions until the project is placed in service. At that time, the net assets are released from restriction and replenish net asset balances designated for plant projects. The University follows the policy of recording contributions of long-lived assets directly as invested in plant assets.

Contributions receivable are recorded, net of an allowance for uncollectible amounts, at the present value of estimated future cash flows using a discount rate appropriate to the effective date of the gift agreement. The allowance for uncollectible contributions receivable is estimated based upon management's judgment, considering such factors as prior collection history, type of contribution, relationship with donor, nature of fundraising activity, and other relevant factors.

Other Revenue Sources

Revenues from intercollegiate athletics ticket sales, media rights, licensing and royalties and other contracts are received and recognized concurrent with event-based obligations or the passage of contract terms, but typically within the fiscal year. However, season ticket proceeds received prior to the report date for events scheduled in the upcoming fiscal year are recorded as deferred revenues and recognized as the associated events are completed.

Charges to students for campus residence, dining and parking services are substantially billed and collected prior to the end of each semester. Associated revenues are earned and recognized over the course of each semester as these services are delivered.

Further classification of revenue sources by contract-based revenues and other revenues is included in Note 13.

COVID-19 Relief

The Higher Education Emergency Relief Fund (HEERF) was created through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which became law on March 27, 2020, and supplemented by the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan (ARP) in 2021. HEERF provides emergency support to higher education students and institutions in the form of grants, tax relief, and direct assistance. The Governor's Emergency Educational Relief (GEER) Fund is a grant for governors to support and assist local education agencies, higher education institutions, and other educational entities with emergency assistance due to COVID-19 through the CARES Act. The University has received support as follows.

The University recognized \$18,029,000 and \$8,176,000 in HEERF grant revenue for the fiscal years ended May 31, 2021 and 2020, respectively. Of those amounts, \$8,015,000 and \$4,088,000 were used for emergency financial aid grants to students. The University recognized \$1,023,000 in GEER revenue received through the Texas Higher Education Coordinating Board (THECB) and used for emergency financial aid awards to students for the fiscal year ended May 31, 2021. Brazos Valley Public Broadcasting Foundation received Stabilization Funds provided by the Corporation for Public Broadcasting to Community Service Grant Recipients of \$149,306 and \$75,000 in the fiscal years ended May 31, 2021 and May 31, 2020, respectively.

The University has deferred payment of certain payroll taxes until December 31, 2022 as permitted in CARES Act provisions. As of May 31, 2021 and 2020, \$11,191,000 and \$2,687,000 in deferred payroll taxes were classified as other liabilities in the financial statements.

BAYLOR UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

Brazos Valley Public Broadcasting Foundation received a Paycheck Protection Program (PPP) loan of \$73,000 granted by the Small Business Administration under the CARES Act. The loan was forgiven in June 2021.

Use of Estimates & Assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses during the reporting period, as well as the disclosure of contingent assets and liabilities. Significant items subject to such estimates and assumptions include valuations of certain investments which do not have readily determinable fair values, contributions receivable, allowances for uncollectible accounts and contingency reserves, calculations of asset retirement obligations, interest rate swap liability, and actuarially determined liabilities related to postretirement benefits. Actual results ultimately could differ from management's estimates and assumptions.

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-13, "Fair Value Measurement (Topic 820)". This new standard created additional disclosure requirements and changed certain disclosure requirements related to level 3 fair value measurements, which are included in Note 2. The University adopted the standard as of June 1, 2020.

2. FAIR VALUE MEASUREMENTS

The estimated fair values of financial instruments that differ from the carrying amounts have been determined by the University using available market information. The estimates are not necessarily indicative of the amounts the University could realize in a current market exchange.

The carrying amounts of cash and cash equivalents, student accounts receivable, accounts payable, personnel related, and other liabilities approximate fair value because of their short maturity.

The carrying value of loans receivable from students under government loan programs is a reasonable estimate of fair value since the loans receivable cannot be sold and can only be assigned to the U.S. government or its designees. The fair value of loans receivable from students under University loan programs approximates carrying value.

The University records long-term investments and interest rate swaps at fair value. The estimated fair value of investments is based on quoted market prices except for certain investments for which quoted market prices are not available. U.S. GAAP provides guidance for estimating the fair value of investments in investment funds that calculate net asset value ("NAV"). Accordingly, investments for which observable market prices in active markets do not exist are reported at fair value, as determined by the University, using NAV as a practical expedient of fair value and other available information. The amount determined to be fair value may incorporate the University's own assumptions, including appropriate risk adjustments for nonperformance and lack of marketability.

The estimated fair value of alternative assets managed and held in limited partnership or other private fund structures is primarily based upon the practical expedient of external investment fund managers' provided NAV, adjusted for cash flows through May 31. In instances where external investment fund managers' provided NAV are not used, the University applied additional valuation procedures furnished by qualified third parties or incorporated additional related financial data provided by fund managers to arrive at a fair value different than external investment fund manager provided values. When the University determines a different value, the investment is carried at the more conservative of the two values. Therefore, the University believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because alternative assets are not readily marketable, their estimated 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.

The fair value of private investment funds offered for sale in secondary markets is estimated utilizing valuation and market study information provided by an outside consulting firm, resulting in discounts to external investment fund managers' provided NAV.

The fair value of direct real estate holdings is determined from the most recent information available to the University (e.g., appraisals and/or property tax statements).

The fair value of mineral rights is estimated based on the expected net revenues generated by those assets. With certain holdings, geological reserve analysis can provide additional information for estimating fair value. For the years ended May 31, 2021 and 2020, the University utilized an engineering report and geological study of its largest mineral

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

interest holding to obtain a more informed estimate of fair value and incorporated the results of the study into its estimate of expected net revenues and fair value for this holding.

The fair value of income interests/perpetual trusts is estimated based on the underlying assets contributed to the trusts.

Fair value is reflected in a hierarchy which prioritizes and ranks the level of market price observability. Market price observability is impacted by a number of factors, including the type of investment, the characteristics specific to the investment, and the state of the marketplace (including the existence and transparency of transactions between market participants). Investments with readily-available actively-quoted prices or for which fair value can be measured from actively-quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

Level 1 – Quoted prices (unadjusted) are available in active markets for identical investments that the University has the ability to access as of the reporting date. The type of investments generally included in Level 1 are listed securities traded on public exchanges and open-end mutual funds and other publicly traded listed securities held indirectly through separately managed accounts, trusts, and private fund structures.

Level 2 – Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1. Fair value is determined through the use of models or other valuation methodologies. The types of investments generally included in this category are hedge funds primarily holding publicly-traded securities with significant fund level liquidity within ninety days.

Level 3 – Pricing inputs are unobservable for the investments and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation. These types of investments generally include marketable alternatives (hedge funds) with significant liquidity restrictions, private investments (private equities) and real assets held in partnership format.

Whereas Level 1 investments may be liquidated as of the reporting date at published market values, Level 2 and 3 investments may contain restrictions on the ability to liquidate assets as of the reporting date. Investments that can be liquidated within ninety days of the reporting date at NAV or its equivalent are classified as Level 2 investments. Investments classified as Level 3 have significant liquidity restrictions which would prevent redemption within ninety days of the reporting date, if at all. The following inputs were used in the valuation of Level 3 investments:

- Equities – consist of privately held stock valued at book value as of the December 31, 2020 and 2019 audited financial statements.
- Alternative assets – consist of private investment funds available for sale in secondary markets. Values reflect managers' provided NAV discounted by 30% to 50% utilizing valuation and market study information provided by an outside consulting firm.
- Real estate – consists of direct real estate holdings valued at the most recent information available, e.g., property appraisals and/or property tax statements.
- Mineral rights – consist predominately of oil & gas royalty interests valued at trailing 12 month net revenues times 4. The University utilized an engineering report and geological study of its largest mineral interest holding to obtain a more informed estimate of fair value and incorporated the results of the study into its estimate of expected net revenues and fair value for this holding.
- Income interests/perpetual trusts – consist of investments controlled by third parties in which the University has only an income interest. Values reflect the underlying value of the investments which consist primarily of publicly traded securities and alternative assets utilizing net asset values provided by managers.

U.S. GAAP permits entities to choose to measure financial instruments and other items at fair value that are not currently required to be measured at fair value. The University has elected not to value any other financial assets or liabilities at fair value as provided for in accounting guidelines.

3. ENDOWMENT

The University's endowment totals \$1,829,449,000 and \$1,381,438,000 as of May 31, 2021 and 2020, respectively, and is a component of the University's long-term investment pool. The endowment consists of \$1,468,073,000 and \$1,111,338,000 of donor-restricted endowment net assets and \$361,376,000 and \$270,100,000 of Board designated endowment net assets as of May 31, 2021 and 2020, respectively. The management of the endowment is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA").

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

The Board of the University has an established policy consistent with UPMIFA as adopted by the State of Texas. The University seeks to preserve the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the University classifies as perpetual endowment (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor agreement at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as permanent endowment is reflected in net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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

Board designated endowment net assets include gifts and other revenues that have been designated by the Board to function as endowment. These funds may be expended at the discretion of the Board. Also included are certain assets with donor restrictions that have not been expended for their restricted purpose but are being invested and the earnings expended for the restricted purpose.

Changes in endowment net assets for the year ended May 31, 2021 are as follows (*in thousands of dollars*):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2020	\$ 247,256	\$ 1,134,182	\$ 1,381,438
Investment return, net of expenses	83,391	378,856	462,247
Contributions	-	35,647	35,647
Appropriated for expenditure	(12,450)	(58,801)	(71,251)
Other changes:			
Transfers to board designated	4,979	8,393	13,372
Terminated annuities & other	39	7,957	7,996
Endowment net assets, May 31, 2021	<u>\$ 323,215</u>	<u>\$ 1,506,234</u>	<u>\$ 1,829,449</u>

Changes in endowment net assets for the year ended May 31, 2020 are as follows (*in thousands of dollars*):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2019	\$ 240,708	\$ 1,082,114	\$ 1,322,822
Investment return, net of expenses	15,146	70,935	86,081
Contributions	-	30,499	30,499
Appropriated for expenditure	(13,806)	(57,808)	(71,614)
Other changes:			
Transfers to board designated	5,168	834	6,002
Terminated annuities & other	40	7,608	7,648
Endowment net assets, May 31, 2020	<u>\$ 247,256</u>	<u>\$ 1,134,182</u>	<u>\$ 1,381,438</u>

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In such instances the difference is reported as a reduction of net assets with donor restrictions in the accompanying balance sheets. Unrealized losses of this nature exist in various donor-restricted endowment funds at May 31, 2021 and 2020, as follows (*in thousands of dollars*):

	2021	2020
Original value	\$ 2,917	\$ 103,606
Market value	2,156	97,550
Unrealized losses	\$ (761)	\$ (6,056)

Return Objectives & Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to meet three objectives: (1) provide a predictable, stable stream of earnings to participating accounts; (2) ensure that the purchasing power of this revenue stream does not decline over time; and (3) ensure that the purchasing power of the endowment assets do not decline over time. To meet its long-term rate-of-return objectives, the University relies on a total return strategy utilizing both income and growth to maximize the risk adjusted return through diversification of the assets. Under this policy, actual earnings, as well as a prudent portion of realized and unrealized gains may be distributed for operational needs or in accordance with donor restrictions. Accordingly, the endowment assets are invested in a diversified manner that is intended to produce results that exceed its long-term performance benchmarks. The University expects its endowment funds, over time, to provide an average rate of return at least equal to the spending policy requirements plus the rate of inflation. Actual returns in any given year may vary from this amount.

Spending Policy & How the Investment Objectives Relate to Spending Policy

Endowment distributions and investment income includes endowment distributions in accordance with the Baylor University Fund (“BUF”) spending policy, as well as, distributions of income from other endowment assets. The BUF is a unitized fund consisting of publicly traded equity and fixed income securities, alternative assets, and mineral rights; and serves as the primary investment vehicle for the University’s endowment and other long-term investments. As permitted under Texas law, the Board has adopted a spending policy for the BUF that authorizes a dividend to be paid for endowments participating in the BUF to be used for the purposes intended by donors. Annual BUF distributions will approximate 5% of the market value of the endowment at the beginning of each fiscal year. The minimum distribution in any year shall equal the amount distributed from the previous year, and the maximum shall not exceed 7% of the average net asset value of the previous 36 months. New contributions to the endowment within a fiscal year will participate in pro-rata distributions starting in the first month of the following fiscal year.

In establishing the spending policy, the University considered the long-term expected return on its endowment assets. Accordingly, the University expects the current spending policy to preserve the real purchasing power of the endowment assets, while helping to maintain intergenerational value of the assets, as well as to provide additional real growth through new gifts and investment return.

4. LONG-TERM INVESTMENTS

The University diversifies its investments among various financial instruments and asset categories and uses multiple investment strategies. As with most large endowments, these financial assets are managed primarily through external investment management firms selected and monitored by the University’s Office of Investments and the Baylor Executive Investment Committee in accordance with the University’s Endowment Investment Policy. The investment management firms are predominately organized in limited partnership, private fund, registered investment company (1940 Act mutual fund), separately managed account, and trust format. Excluding income interests and perpetual trusts, the University’s long-term investments were invested with 80 and 83 different managers at May 31, 2021 and 2020, respectively. Of that, alternative assets were invested with 57 and 60 different managers at May 31, 2021 and 2020, respectively.

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

Fixed income securities are assets predominately invested (directly or indirectly) in domestic and international government or corporate bonds for which active trading markets exist, including open and closed-end mutual funds holding such securities.

Public equities are assets invested (directly or indirectly) in publicly traded equity shares which are listed on national and international exchanges as well as publicly traded mutual fund trusts and private fund structures holding such securities.

Alternative assets consist of private equities and real assets (reflected as private investments), and marketable alternatives (hedge fund and long-only) investments and are primarily held in limited partnership format. Capital is allocated to domestic and international markets in the various alternative investment funds. Most of the underlying assets in the private equity and real asset partnerships and trusts are not immediately liquid. Private equity fund strategies include buyouts, venture capital, distressed/special situations, and secondary markets. Real asset funds are predominately private limited partnerships investing in various types of properties and strategies such as commercial real estate, energy, power, and infrastructure, as well as other natural resources and commodities. Private investment funds are held as long-term investments and are structured as closed-end, commitment-based investment funds where the investor commits a specified amount of capital upon inception of the fund which is then drawn down over a specified period of the fund's life. These funds generally cannot be redeemed prior to the specified termination date and will only receive distributions upon a disposition of the underlying assets of the portfolio. As a limited partner, the University will not generally have any influence over the amount and timing of capital contributions and distributions. At May 31, 2021, the remaining life of private equity and real asset funds ranged from one to twelve years. Marketable alternative investments are generally open-end funds structured in limited partnership format. These funds employ various investment strategies such as long/short equity, fundamental value, distressed asset and debt, among others. The amount of liquidity available to investors is directly related to the liquidity and risk associated with the underlying portfolio. Marketable alternative funds typically offer subscription and redemption options to investors over time periods shorter than private equity/real asset funds; however, the frequency of subscriptions or redemptions is dictated by each fund's governing documents. Liquidity of individual marketable alternative funds can vary due to the nature of underlying assets as well as contractual restrictions on redemption. Redemption terms of the marketable alternative funds within the portfolio range from monthly to rolling three years with various notice requirements. At May 31, 2021, BUF included twenty-one marketable alternative funds totaling \$524,117,000.

Real estate & other investments represent direct real estate and asset holdings of the University and are not held in the fund, limited partnership, and trust structures described above.

Mineral rights are held and managed for the benefit of the University under various contractual and revocable trust arrangements and are not held in the fund and limited partnership structures described above. The University retains ultimate ownership and control of these assets.

Income interests/perpetual trusts are held and managed by outside trustees under various annuity and trust arrangements for the benefit of Baylor. The University receives income distributions over time in accordance with the governing annuity, trust and gift instruments. The underlying investments of the income interests/perpetual trusts are primarily comprised of publicly traded equity and fixed income investments held in common trust funds and other funds managed or selected by the outside trustees.

The following table presents information about the University's long-term investments that are measured at fair value as of May 31, 2021, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (*in thousands of dollars*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Fixed income securities	\$ 18,931	\$ —	\$ 28	\$ —	\$ 18,959
Equities	442,227	—	1,408	—	443,635
Alternative assets	—	—	5,205	1,180,515	1,185,720
Real estate & other	—	—	4,231	—	4,231
Mineral rights	—	—	10,914	—	10,914
Income interests/perpetual trusts	—	—	242,157	—	242,157
Total	<u>\$ 461,158</u>	<u>\$ —</u>	<u>\$ 263,943</u>	<u>\$ 1,180,515</u>	<u>\$ 1,905,616</u>

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

The following table presents changes in assets that have been measured at fair value as of May 31, 2021, on a recurring basis using significant unobservable inputs (Level 3) (*in thousands of dollars*):

	May 31, 2020 Balance	Transfers In (Out) of Level 3	Additions	Distributions	Realized & Unrealized Gains (Losses)	May 31, 2021 Balance
Fixed income securities	\$ —	—	\$ 28	\$ —	—	\$ 28
Equities	1,222	—	—	—	186	1,408
Alternative assets	6,146	(428)	—	(1,106)	593	5,205
Real estate & other	4,590	—	10,480	(10,738)	(101)	4,231
Mineral rights	16,412	—	—	(258)	(5,240)	10,914
Income interests/ perpetual trusts	200,956	—	3,185	(297)	38,313	242,157
Total	<u>\$ 229,326</u>	<u>\$ (428)</u>	<u>\$ 13,693</u>	<u>\$ (12,399)</u>	<u>\$ 33,751</u>	<u>\$ 263,943</u>

The following table presents information about the University's long-term investments that are measured at fair value as of May 31, 2020, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (*in thousands of dollars*):

	Level 1	Level 2	Level 3	NAV	Total
Fixed income securities	\$ 86,268	\$ —	\$ —	\$ —	\$ 86,268
Equities	365,742	—	1,222	—	366,964
Alternative assets	—	—	6,146	744,329	750,475
Real estate & other	—	—	4,590	—	4,590
Mineral rights	—	—	16,412	—	16,412
Income interests/perpetual trusts	—	—	200,956	—	200,956
Total	<u>\$ 452,010</u>	<u>\$ —</u>	<u>\$ 229,326</u>	<u>\$ 744,329</u>	<u>\$ 1,425,665</u>

The following table presents changes in assets that have been measured at fair value as of May 31, 2020, on a recurring basis using significant unobservable inputs (Level 3) (*in thousands of dollars*):

	May 31, 2019 Balance	Transfers In (Out) of Level 3	Additions	Distributions	Realized & Unrealized Gains (Losses)	May 31, 2020 Balance
Equities	\$ 1,235	\$ —	\$ —	\$ —	\$ (13)	\$ 1,222
Alternative assets	20,083	—	5	(15,188)	1,246	6,146
Real estate & other	5,684	—	6,952	(8,198)	152	4,590
Mineral rights	14,257	—	—	(3,276)	5,431	16,412
Income interests/ perpetual trusts	193,495	—	1,616	(762)	6,607	200,956
Total	<u>\$ 234,754</u>	<u>\$ —</u>	<u>\$ 8,573</u>	<u>\$ (27,424)</u>	<u>\$ 13,423</u>	<u>\$ 229,326</u>

Return on long-term investments includes \$32,862,000 and \$6,705,000 change in unrealized gains and losses on Level 3 fair value measurement assets held at May 31, 2021 and May 31, 2020, respectively.

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

Whereas the preceding tables reflect income interests and perpetual trusts separately based on fair value hierarchy, the following table reflects total investments, regardless of fair value hierarchy, using traditional classification descriptions as used by the University to manage its investment portfolio. Accordingly, the underlying assets of income interests/perpetual trusts are reflected within the traditional investment classifications. Additionally, alternative assets are reflected by major asset category. Estimated fair value of long-term investments as of May 31, 2021 and 2020, are as follows (*in thousands of dollars*):

	<u>2021</u>	<u>2020</u>
Fixed income securities:		
Short-term funds	\$ 20,756	\$ 44,616
Bonds	39,103	83,107
Equities:		
Domestic	340,577	257,419
International	227,452	208,630
Alternative assets:		
Private investments	706,207	477,619
Marketable alternatives	542,973	320,522
Mineral rights	28,548	33,752
Total	<u>\$ 1,905,616</u>	<u>\$ 1,425,665</u>

Long-term investments include operating, endowment, and annuity and life income assets. The annuity and life income assets under split-interest agreements total \$29,853,000 and \$26,713,000 as of May 31, 2021 and 2020, respectively.

The cost of long-term investments was \$1,244,252,000 and \$1,166,413,000 as of May 31, 2021 and 2020, respectively.

Distributions from long-term investments include distributions of endowment assets invested in long-term investments as well as distributions from funds other than endowment that are included in the long-term investments pool. Endowment distributions and other distributions are included in endowment distributions & investment income in the statements of activities.

Both the return on long-term investments and distributions from long-term investments are shown under non-operating activities in the statements of activities.

As part of the University's alternative assets program, the University is obligated under certain limited partnership agreements to advance funding up to specified levels upon the request of the general partner. The University had unfunded commitments of private investments of \$277,564,000 and \$297,554,000 at May 31, 2021 and 2020, respectively, which are expected to be called over the next three years.

5. CONTRIBUTIONS RECEIVABLE

As gift pledges are made to the University, the intent of the donor, the circumstances surrounding the pledge and any action taken by the University in response to the pledge are considered in determining whether the pledge is an "intent to give" or an "unconditional promise to give." An unconditional promise to give is recorded as a contribution receivable at the present value of the estimated future cash flows. Unconditional promises to give related to split interest agreements are discounted based on life expectancies of the annuity recipients.

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

As of May 31, 2021 and 2020, contributions receivable consists of the following *(in thousands of dollars)*:

	2021	2020
Due in 1 year	\$ 44,197	\$ 46,945
Due in 2 to 5 years	59,277	76,469
Due in 6 to 10 years	1,500	2,600
Split interest agreements	18,299	14,137
Less: Present value adjustment	(7,718)	(6,797)
Less: Allowance for uncollectible contributions receivable	(8,246)	(7,652)
	<u>\$ 107,309</u>	<u>\$ 125,702</u>
Total contributions receivable, net	<u>\$ 107,309</u>	<u>\$ 125,702</u>

Contributions receivable expected to be fulfilled more than one year from the date of the financial statements are discounted at 0.27% to 2.89%, with the discount amortized over the life of the unconditional promise. At May 31, 2021, contributions receivable primarily consisted of unconditional promises related to endowment or capital projects, of which fourteen donors represented 90% of the total.

An intent to give is not recorded as gifts revenue until collected or converted to an unconditional promise to give. Intents to give totaled \$57,832,000 and \$67,297,000 as of May 31, 2021 and 2020, respectively. Payments on these intents to give are due in varying periods. Additionally, the University is the beneficiary under various wills and trust agreements of which the realizable amounts are not presently determinable. The University's share of such bequests is recorded when the University has an irrevocable right to the bequest and the proceeds are measurable.

Conditional promises to give depend on the occurrence of a specified future and uncertain event. Conditional promises to give totaled \$28,000,000 and \$41,000,000 as of May 31, 2021 and 2020, respectively. Conditions were met for certain promises and \$10,000,000 was recognized as revenue in the year ended May 31, 2021.

6. PROPERTY, PLANT & EQUIPMENT

At May 31, 2021 and 2020, property, plant and equipment assets consist of the following *(in thousands of dollars)*:

	2021	2020
Land	\$ 86,257	\$ 81,314
Land/leasehold improvements	116,358	116,265
Buildings	1,307,047	1,296,100
Equipment	178,682	172,800
Other	34,399	46,781
	<u>1,722,743</u>	<u>1,713,260</u>
Less accumulated depreciation	<u>(700,208)</u>	<u>(664,121)</u>
	1,022,535	1,049,139
Arts/collections	14,656	14,221
Construction-in-progress	33,229	11,521
Property, plant & equipment, net	<u>\$ 1,070,420</u>	<u>\$ 1,074,881</u>

Depreciation expense was \$55,946,000 and \$59,510,000 as of May 31, 2021 and 2020, respectively. The Equipment category includes computers, software and other types of equipment above the \$5,000 threshold. The Other category includes vehicles, library materials and miscellaneous other assets. Real and personal property were insured for \$1 billion at May 31, 2021 and 2020. The liability for conditional asset retirement obligations was \$5,119,000 and \$4,413,000 as of May 31, 2021 and 2020, respectively, and is included in other liabilities in the accompanying balance sheets.

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

7. DEPOSITS & DEFERRED REVENUES

At May 31, 2021 and 2020, deposits and deferred revenues consist of the following (*in thousands of dollars*):

	<u>2021</u>	<u>2020</u>
Tuition & fees	\$ 57,894	\$ 54,632
Student enrollment deposits	3,869	3,438
Intercollegiate athletics income	30,613	30,408
Vendor long-term contracts incentive payments	21,457	28,185
Sponsored research income	7,625	8,157
Rental & other income	<u>7,973</u>	<u>4,312</u>
Total deposits & deferred revenues	<u>\$ 129,431</u>	<u>\$ 129,132</u>

Deferred tuition and fees, student enrollment deposits, sponsored research, and other income will primarily be earned in the subsequent fiscal year. Intercollegiate athletics, vendor long-term contracts incentive payments, and rental deferred income includes advance ticket sales, football suite revenues, television income, advertising income, vendor long-term contracts incentive payments, and rental contracts advance payments that will generally be earned over the next one to fourteen years.

8. LEASES

The University leases a small portion of real estate, classroom space, vehicles and various equipment used in its operations. Most real estate leases do not require the University to pay real estate taxes but do require the University to pay insurance, certain maintenance, and other similar costs. Real estate leases do not contain purchase options. Certain of the University's real estate leases have terms that extend for several years and provide for rental rates that increase over time. Lease terms include the noncancelable portion of the underlying leases along with any reasonably certain lease periods associated with available renewal periods. The University currently has no finance leases or leases that contain purchase options, does not currently sublease any leased assets, and does not have any variable lease payments.

Supplemental cash flow information related to leases for May 31, 2021 and May 31, 2020 are as follows (*in thousands of dollars*).

	<u>2021</u>	<u>2020</u>
Cash paid for amounts included in the measurement of operating lease liabilities		
Operating cash flows from operating leases	\$ 1,381	\$ 2,206
Right-of-use assets obtained during the fiscal year in exchange for operating lease obligations	\$ -	\$ 2,645
Additional supplemental information regarding assumptions for operating leases at May 31, 2021 and 2020		
Weighted-average remaining lease term (years)	11.82	8.40
Weighted-average discount rate	2.93%	3.44%

A lessee that is not a public business entity is permitted to use a risk-free discount rate for the lease, determined using a period comparable with that of the lease term. The University has elected to use its incremental borrowing rate if the rate implicit in the lease is not readily determinable. Lessees are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients.

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

The University has elected the following practical expedients.

- (1) An entity need not reassess whether any expired or existing contracts are or contain leases.
- (2) An entity need not reassess the lease classification for any expired or existing leases.
- (3) An entity need not reassess initial direct costs for any existing leases.

Payments on short-term leases with an initial term of 12 months or less, are recognized as lease expense when the payments are incurred and excluded from the value of right-of-use assets and lease liabilities.

As of May 31, 2021 and 2020, right-of-use asset balances, included in prepaid expenses & other assets in the accompanying balance sheets, and lease liability balances, included in other liabilities in the accompanying balance sheets, are \$1,011,000 and \$4,402,000, respectively. The maturity of lease liabilities at May 31, 2021 is as follows (*in thousands of dollars*).

<u>Maturity</u>	<u>Operating</u>
2022	\$ 580
2023	178
2024	178
2025	67
2026	30
Thereafter	708
Total undiscounted cash flows	1,741
Less: Present value discount	(730)
Total lease liabilities	<u>\$ 1,011</u>

9. NOTES & BONDS PAYABLE

Notes and bonds payable consist of both non-interest bearing unsecured notes and interest bearing unsecured and secured notes, commercial paper with varying maturities, and bonds with varying terms and maturity dates to March 1, 2050. Interest payments on a cash basis totaled \$22,051,000 and \$24,688,000, and interest expense was \$21,291,000 and \$24,914,000 for the years ended May 31, 2021 and 2020, respectively. These amounts are exclusive of premium amortization. The amount of bond premium amortization that offset interest expense was \$529,000 and \$574,000 for the years ended May 31, 2021 and 2020, respectively. Bond premiums are being amortized using the effective interest method over the life of the bonds.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

Notes and bonds payable at May 31, 2021 and 2020, consist of the following *(in thousands of dollars)*:

	<u>2021</u>	<u>2020</u>
Interest bearing secured note payable to a corporation due in quarterly installments beginning May 1, 2015 to April 30, 2025	\$ 2,171	\$ 2,684
Non-interest bearing unsecured note payable to a corporation, due in annual installments through July 31, 2022	179	489
Taxable Commercial Paper Notes, Series A, with varying maturities and discount rates rolled at each maturity	11,500	15,000
Series 2011 Clifton Higher Education Finance Corporation Tax-Exempt Fixed Rate Bonds, interest ranging from 3.00% to 5.25% payable semiannually, principal payable annually beginning March 1, 2012 to March 1, 2032	–	71,350
Series 2012 Waco Education Finance Corporation Tax-Exempt Fixed Rate Bonds, interest ranging from 4.125% to 5.00% payable semiannually, principal payable March 1, 2043	–	120,000
Series 2012A Baylor University Taxable Fixed Rate Bonds, bearing interest at 4.313% payable semiannually, principal payable March 1, 2042	200,000	200,000
Series 2017 Waco Education Finance Corporation Tax-Exempt Variable Rate Bonds, swapped to a fixed rate of 2.476% (see Note 12), interest payable monthly, principal payable annually to February 1, 2032	–	51,010
Series 2018 Baylor University Taxable Fixed Rate Bonds, interest ranging from 3.54% to 4.019% payable semiannually, principal payable March 1, 2028 & March 1, 2038	112,845	112,845
Series 2020A Waco Education Finance Corporation Tax-Exempt Fixed Rate Bonds, interest ranging from 4.00% to 5.00% payable semiannually, principal payable annually beginning March 1, 2026 to March 1, 2037	38,730	–
Series 2020B Waco Education Finance Corporation Taxable Fixed Rate Bonds, interest ranging from 1.384% to 2.944% payable semiannually, principal payable annually beginning March 1, 2026 to March 1, 2050	217,435	–
Total notes & bonds payable prior to unamortized premium & debt issuance costs	<u>582,860</u>	<u>573,378</u>
Unamortized bond premium	10,962	9,517
Unamortized bond issuance cost	<u>(3,179)</u>	<u>(3,776)</u>
Total notes & bonds payable, net	<u><u>\$ 590,643</u></u>	<u><u>\$ 579,119</u></u>

Excluding the maturity of commercial paper, scheduled principal payments on long-term notes and bonds for the periods subsequent to May 31, 2021, are as follows *(in thousands of dollars)*:

<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027 and Thereafter</u>	<u>Total</u>
<u>\$ 709</u>	<u>\$ 578</u>	<u>\$ 596</u>	<u>\$ 467</u>	<u>\$ 11,505</u>	<u>\$ 557,505</u>	<u>\$ 571,360</u>

The University has a taxable commercial paper program that provides for borrowings in the form of individual notes up to an aggregate of \$50,000,000. The notes bear a fixed discount rate, established on the borrowing date, with no more than \$15,000,000 maturing on any one day and maturities not to exceed 270 days. At May 31, 2021, the University had an outstanding balance of \$11,500,000 in commercial paper notes with a discount rate of 0.13%. The University anticipates that the commercial paper will continue to be rolled at maturity until such time that it is refunded by long-term debt or repaid by the University.

In November 2020, Baylor entered into an unsecured Credit Agreement with U.S. Bank National Association, pursuant to which Baylor may obtain loans for general corporate purposes in an aggregate principal amount at any one time outstanding not to exceed \$100 million. As of May 31, 2021, no amounts have been borrowed pursuant to this Revolving Credit Agreement.

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

On August 20, 2020, the University issued \$38,730,000 in tax-exempt (Series 2020A) and \$217,435,000 in taxable (Series 2020B) revenue refunding bonds through the Waco Education Finance Corporation. A portion of the proceeds of the Series 2020 Bonds, together with certain other funds of Baylor, were used to: (i) refund all outstanding Series 2017 Bonds on August 28, 2020; (ii) refund or refinance all outstanding Series 2011 Bonds and Series 2012 Bonds by purchasing a portfolio of obligations authorized under Texas law and deposited in separate Redemption Accounts held by the trustee for refundings to occur on March 1, 2021 (2011 Bonds) and March 1, 2022 (2012 Bonds); (iii) refinance \$3,500,000 in maturing principal amount of the outstanding Commercial Paper Notes; (iv) reimburse Baylor for an interest rate swap termination in connection with the refunding of the Series 2017 Bonds; and (v) pay costs of issuance.

See Note 20 regarding issuance of Waco Education Finance Corporation Series 2021 bonds subsequent to May 31, 2021.

10. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The University's financial assets available to meet cash needs for general expenditure within one year consist of the following as of May 31, 2021 and 2020 (*in thousands of dollars*).

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 309,236	\$ 228,052
Student accounts receivable, net	35,311	28,637
Contributions receivable, net	107,309	125,702
Grants & other receivables, net	37,078	49,154
Student loans receivable, net	6,179	7,566
Long-term investments, at fair value	<u>1,905,616</u>	<u>1,425,665</u>
Financial assets at year-end	2,400,729	1,864,776
Less assets unavailable for expenditure within one year:		
Endowment assets with perpetual restrictions	(867,196)	(823,839)
Endowment assets subject to future appropriation	(600,877)	(287,499)
Assets subject to time or purpose restrictions by donor	(181,875)	(156,519)
Board-designated endowment funds	<u>(361,376)</u>	<u>(270,100)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 389,405</u>	<u>\$ 326,819</u>

The University is substantially supported by donor-restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the University must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. In addition, as described in Note 3, the Board has established board-designated endowment in which funds may be expended for specified purposes approved by the Board. Board-designated endowment totaling \$361,376,000 as of May 31, 2021 may be drawn upon, with Board approval, in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

The University has a goal to maintain cash and cash equivalents on hand to meet a minimum of 60 days of normal cash operating expenses, which are, on average, approximately \$132,569,000. The University has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the University invests cash in excess of daily requirements in various short-term investments, including money market funds and commercial paper.

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

11. NET ASSETS

The University's net assets for the year ended May 31, 2021 are categorized by purpose as follows (*in thousands of dollars*):

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Perpetual restriction:			
Endowment	\$ –	\$ 867,196	\$ 867,196
Board-designated endowment	221,348	29,334	250,682
	<u>221,348</u>	<u>896,530</u>	<u>1,117,878</u>
Time or purpose restriction:			
Returns subject to future appropriation			
Endowment	–	600,877	600,877
Board-designated endowment	101,867	8,827	110,694
Annuity and living trusts	–	36,995	36,995
Program support	76,444	22,815	99,259
Student financial aid & student loan funds	10,730	5,540	16,270
Research	20,595	2,910	23,505
Designated for plant	140,707	–	140,707
Investment in plant	305,379	113,615	418,994
	<u>655,722</u>	<u>791,579</u>	<u>1,447,301</u>
Undesignated	68,863	–	68,863
Total net assets, May 31, 2021	<u>\$ 945,933</u>	<u>\$ 1,688,109</u>	<u>\$ 2,634,042</u>

The University's net assets for the year ended May 31, 2020 are categorized by purpose as follows (*in thousands of dollars*):

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Perpetual restriction:			
Endowment	\$ –	\$ 823,839	\$ 823,839
Board-designated endowment	216,372	20,864	237,236
	<u>216,372</u>	<u>844,703</u>	<u>1,061,075</u>
Time or purpose restriction:			
Returns subject to future appropriation			
Endowment	–	287,499	287,499
Board-designated endowment	30,884	1,980	32,864
Annuity and living trusts	–	30,713	30,713
Program support	60,039	21,479	81,518
Student financial aid & student loan funds	7,841	5,202	13,043
Research	18,782	4,282	23,064
Designated for plant	141,593	–	141,593
Investment in plant	314,288	94,843	409,131
	<u>573,427</u>	<u>445,998</u>	<u>1,019,425</u>
Undesignated	29,407	–	29,407
Total net assets, May 31, 2020	<u>\$ 819,206</u>	<u>\$ 1,290,701</u>	<u>\$ 2,109,907</u>

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

12. DERIVATIVE FINANCIAL INSTRUMENTS

On June 11, 2010, the University entered into a swap arrangement with a financial institution counterparty in order to swap the University's Series 2008A variable rate demand bonds with an original balance of \$75,860,000 as of May 31, 2010, for a fixed rate of 2.476% through February 1, 2032, in exchange for monthly payments equal to 68% of three-month London Interbank Offered Rate. On May 30, 2017, the Series 2008A bonds, with a value of \$59,750,000 were refinanced through the issuance of the Series 2017 variable rate bonds, having the same maturity schedule. The notional amount of the swap declines in accordance with the repayment of the Series 2017 bonds. See Note 9 regarding the University's termination of the interest rate swap agreement associated with the Series 2017 bonds during the year ended May 31, 2021. The fair value of the University's interest rate swap liability was \$0 and \$7,183,000 as of May 31, 2021 and May 31, 2020, respectively, and is included in other liabilities in the balance sheets. The change in the fair value of the interest rate swap resulted in a loss of \$3,180,000 for the year ended May 31, 2020. The fair value was measured using Level 2 valuation techniques.

13. REVENUES FROM CONTRACTS WITH CUSTOMERS

Student charges for tuition, fees, housing, and dining are deemed to result in separate performance obligations and have been treated as separate contracts in the University's financial statements. In the Statements of Activities, tuition and fee revenues are generally reported net of scholarships and housing and dining charges are separately reported as sales and services of auxiliary enterprises.

Other contract revenues recognized, summarized by source, for the year ended May 31, 2021 are as follows (*in thousands of dollars*):

	Contract - Based Revenues	Other revenues	Total
Other sources - educational & general	\$ 3,938	\$ 16,265	\$ 20,203
Other sources - intercollegiate athletics	44,634	2,268	46,902
Sales & services of auxiliary enterprises	44,128	3,648	47,776
Total	\$ 92,700	\$ 22,181	\$ 114,881

Other contract revenues recognized, summarized by source, for the year ended May 31, 2020 are as follows (*in thousands of dollars*):

	Contract - Based Revenues	Other revenues	Total
Other sources - educational & general	\$ 7,434	\$ 19,406	\$ 26,840
Other sources - intercollegiate athletics	61,736	6,875	68,611
Sales & services of auxiliary enterprises	43,377	3,094	46,471
Total	\$ 112,547	\$ 29,375	\$ 141,922

14. EXPENSES BY FUNCTIONAL CLASSIFICATION

While the statements of activities present expenses by natural classification, the University's expenses by functional classification for the year ended May 31, 2021, are as follows (*in thousands of dollars*):

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

	Instruction & Academic Support	Research & Public Service	Student Services & Activities	Auxiliary Enterprises	Institutional Support	Totals
Salaries & wages	\$ 198,203	\$ 15,951	\$ 62,764	\$ 3,598	\$ 36,949	\$ 317,465
Personnel benefits	55,562	3,996	15,989	1,286	14,741	91,574
Student wages & fellowships	15,829	7,270	3,423	1,871	85	28,478
Operating expenses	112,860	116,673	66,481	20,182	32,470	348,666
Depreciation	19,279	5,488	14,831	13,556	2,792	55,946
Interest on indebtedness	8,202	1,592	5,788	4,362	818	20,762
Total expenses	<u>\$ 409,935</u>	<u>\$ 150,970</u>	<u>\$ 169,276</u>	<u>\$ 44,855</u>	<u>\$ 87,855</u>	<u>\$ 862,891</u>

The University's expenses by functional classification for the year ended May 31, 2020, are as follows (*in thousands of dollars*):

	Instruction & Academic Support	Research & Public Service	Student Services & Activities	Auxiliary Enterprises	Institutional Support	Totals
Salaries & wages	\$ 194,314	\$ 15,457	\$ 61,345	\$ 2,388	\$ 34,536	\$ 308,040
Personnel benefits	59,676	3,706	16,332	773	9,679	90,166
Student wages & fellowships	18,922	6,274	7,901	2,056	517	35,670
Operating expenses	103,617	47,837	61,336	13,064	32,201	258,055
Depreciation	18,211	6,266	19,005	13,056	2,972	59,510
Interest on indebtedness	9,824	1,300	6,267	6,006	943	24,340
Total expenses	<u>\$ 404,564</u>	<u>\$ 80,840</u>	<u>\$ 172,186</u>	<u>\$ 37,343</u>	<u>\$ 80,848</u>	<u>\$ 775,781</u>

Expenses such as depreciation, interest expense, and operation and maintenance of plant have been allocated directly or based on square footage among the functional categories. Expenses for information technology have been allocated based on the number of devices, the number of full-time equivalent employees, or other functional expenses; depending on the type of expense allocated.

Fundraising expenses of \$14,882,000 and \$19,903,000 incurred by the University in 2021 and 2020, respectively, are included primarily in the institutional support category in the statements of activities.

15. RETIREMENT PLAN

The University provides a defined contribution retirement income plan and a voluntary tax deferred annuity program for faculty and staff that are administered by outside sources. The defined contribution plan is not a matching plan. Retirement benefits equal the amount accumulated to each individual employee's credit at the date of retirement. The University's contributions to the plan for the years ended May 31, 2021 and 2020, were \$29,367,000 and \$29,344,000, respectively.

16. POSTRETIREMENT BENEFITS

The University provides medical and life insurance benefits for eligible retired faculty and staff. Employees are eligible for such benefits if they retire after attaining specified age and service requirements while employed by the University. Group medical benefits have no lifetime maximum, and the maximum benefit for life insurance is \$20,000.

Through May 31, 2002, full-time faculty and staff became eligible for these benefits upon reaching age fifty-five and having twenty years of full-time service at retirement. Effective June 1, 2002, employees with twenty years of continuous, full-time service at the University as of May 31, 2007, continue under the postretirement medical and life insurance programs in effect before June 1, 2002. Employees not meeting the above eligibility requirements may still participate in the postretirement medical program upon reaching age fifty-five and having ten years of full-time service at retirement. These employees will not receive postretirement life insurance benefits and will not be reimbursed for

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

Medicare Part B premiums. Effective June 1, 2002, upon death of a retiree, the surviving spouse (current spouse upon retirement) has the same option of continuation in the postretirement medical program. These surviving spouses will not receive postretirement life insurance benefits and will not be reimbursed for Medicare Part B premiums.

Effective January 1, 2014, retirees age 65 and over transitioned from the existing medical benefits plan to a Health Reimbursement Arrangement to provide fixed annual contributions for medical expenses. Retirees age 65 and over, with twenty years of continuous, full-time service at the University as of May 31, 2007, continue to receive a Medicare Part B premium reimbursement.

Effective December 31, 2015, the University approved the establishment of a Health Reimbursement Arrangement (“HRA”) to provide fixed annual contributions for pre-65 retiree medical expenses. Current pre-65 retirees, and those retiring prior to January 1, 2017, may elect to remain in the group medical plan; or, beginning January 1, 2017, opt into the HRA.

The following tables set forth the required disclosures for postretirement benefits, as well as the components of net periodic benefits costs and weighted-average assumptions as of the measurement date, May 31, 2021 and 2020 (*in thousands of dollars*):

<u>Change in benefits obligation:</u>	<u>2021</u>	<u>2020</u>
Measurement date	<u>5/31/2021</u>	<u>5/31/2020</u>
Accumulated postretirement benefits obligation (APBO)		
at beginning of year	\$ 53,217	\$ 50,148
Service cost	1,494	1,305
Interest cost	1,689	1,954
Plan participants’ contributions	216	202
Actuarial (gain) loss	(2,120)	1,966
Benefit payments	(2,192)	(2,358)
Accumulated postretirement benefits obligation (APBO)		
at end of year	<u>\$ 52,304</u>	<u>\$ 53,217</u>
<u>Change in plan assets:</u>		
Fair value of plan assets at beginning of year	\$ –	\$ –
Employer contributions	1,976	2,156
Plan participants’ contributions	216	202
Benefit payments	(2,192)	(2,358)
Fair value of plan assets at end of year	<u>\$ –</u>	<u>\$ –</u>
<u>Funded (unfunded) status of plan</u>	<u>\$ (52,304)</u>	<u>\$ (53,217)</u>

Amounts recognized as changes in unrestricted net assets
arising from postretirement benefits plan but not yet
included in periodic benefits cost:

	<u>2021</u>	<u>2020</u>
Prior service cost (credit)	\$ (6,034)	\$ (8,007)
Net loss	16,398	19,326
Total	<u>\$ 10,364</u>	<u>\$ 11,319</u>

The University expects to amortize, from accumulated unrestricted net assets, \$1,973,000 of prior service cost credits and \$634,000 of net losses as components of net periodic benefits cost during the year ending May 31, 2022.

<u>Weighted-average assumptions at measurement date:</u>	<u>5/31/2021</u>	<u>5/31/2020</u>
Discount rate	3.21%	3.24%
Health care cost trend rate	6.50%	6.75%
Ultimate health care cost trend rate	4.50%	4.50%
Year ultimate trend rate reached	2032	2029

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

The inflation rates for retiree contributions are assumed to be the same as the medical cost inflation rates.

Plan contributions:

The University expects to contribute \$2,356,000 to its postretirement benefits plan during the year ending May 31, 2022. The tables below provide additional information related to projected cash flows and fiscal year costs (*in thousands of dollars*):

Projected Cash flows:

	2022	2023	2024	2025	2026	Fiscal years 2027-2031
Gross benefits payments net of employee contributions:	\$ 2,356	\$ 2,408	\$ 2,459	\$ 2,500	\$ 2,556	\$ 13,444

Components of net periodic postretirement benefits cost:

	6/1/2020- 5/31/2021	6/1/2019- 5/31/2020
Measurement date	5/31/2020	5/31/2019
Service cost	\$ 1,494	\$ 1,305
<u>Other components of postretirement benefits cost:</u>		
Interest cost	\$ 1,689	\$ 1,954
Amortization of:		
Prior service cost	(1,973)	(1,973)
Actuarial loss	809	764
Total other components of postretirement benefits cost	\$ 525	\$ 745
Total net periodic postretirement benefits cost	\$ 2,019	\$ 2,050

Other changes in plan assets & benefits obligation recognized:

Net actuarial (gain) loss	\$ (2,120)	\$ 1,966
Amortization of:		
Prior service cost	1,973	1,973
Actuarial gain	(809)	(764)
Change in postretirement benefits obligation other than net periodic benefits cost	\$ (956)	\$ 3,175
Total recognized in net assets & net periodic benefits cost	\$ 1,063	\$ 5,225

**Weighted-average assumptions for net periodic postretirement
benefits cost:**

	5/31/2020	5/31/2019
Measurement date		
Discount rate	3.24%	3.98%
Health care cost trend rate	6.75%	7.25%
Ultimate health care cost trend rate	4.50%	4.50%
Year ultimate trend rate reached	2029	2028
Average future working lifetime (years)	17.6	17.2

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

Other information: (in thousands of dollars:)	<u>6/1/2020-</u> <u>5/31/2021</u>	<u>6/1/2019-</u> <u>5/31/2020</u>
1% increase in trend rates		
Effect on service + interest cost	–	–
Effect on APBO	2	6
1% decrease in trend rates		
Effect on service + interest cost	–	–
Effect on APBO	(2)	(6)

17. TAX STATUS & ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The University is exempt from income tax under section 501(a) of the Internal Revenue Code (“IRC”) of 1986, as amended, as an organization described in section 501(c)(3) of the IRC as evidenced by its most recent determination letter dated May 23, 2002. The University has been classified as an organization that is not a private foundation because it qualifies under section 509(a)(1) as an educational institution, and donations to it qualify for deduction as charitable contributions. However, income generated from activities unrelated to the University's exempt purpose is subject to tax under IRC section 511. The University files unrelated business income tax and other returns as required by government authorities.

Tax positions taken relating to the University's tax-exempt status, unrelated business income activities taxable income and deductibility of expenses, and other miscellaneous tax positions taken by the University would more likely than not be sustained by examination. Accordingly, the University has not recorded an income tax liability for uncertain tax positions. As of May 31, 2021, the University's tax years ended May 31, 2018 through 2021, generally, remain subject to examination.

18. RELATED PARTY TRANSACTIONS

Members of the University’s Board of Regents and senior administration may, from time to time, be associated, either directly or indirectly, with entities doing business with the University. Accordingly, the University has Board of Regents, faculty, and staff conflict of interest policies that require any such association, including those of immediate family members, to be disclosed on an annual basis and updated as appropriate during the year. If such associations exist, measures are taken to mitigate any actual or perceived conflict. For the years ended May 31, 2021 and 2020, there were no related party transactions that were not effectively mitigated.

19. COMMITMENTS & CONTINGENCIES

Capital Expenditures & Other Commitments

At May 31, 2021, the University has commitments to expend approximately \$11,255,000 to fulfill contracts related to building renovations and other capital projects.

The University also is contractually obligated under various agreements ensuring access to, or advantageous pricing of, goods and services used in the operations of the University.

Leases

The University incurred \$2,175,000 and \$2,403,000 in operating lease expenses for facilities and equipment in the years ended May 31, 2021 and 2020, respectively. Lease commitments for future periods are described in Note 8.

Contingencies

The University is a party to various investigations, legal proceedings and claims associated with the University’s implementation of Title IX of the Education Amendments of 1972 and the Violence Against Women Reauthorization Act of 2013, some of which are covered by insurance. Although it is impossible to predict with certainty the outcome, the administration is not aware of any current claims or contingencies, that either are not already reflected in the financial statements or will not be covered by insurance, which would materially impact the financial position of the University.

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

Additional claims relating to such matters may be asserted in the future; however, sufficient information is not currently available to predict the potential outcome or financial impact.

Baylor is the defendant in a lawsuit filed in the United States District Court for the Western District of Texas, Waco Division, asserting a class action claim on behalf of all Baylor undergraduate and graduate students from the Spring 2020 semester seeking damages due to the shift to online instruction and diminished on-campus activities in the second half of the Spring 2020 semester. Substantially similar lawsuits have been filed against many other institutions of higher education. The Court granted a Motion to Dismiss and on April 14, 2021, entered a Final Judgment dismissing all claims against Baylor with prejudice. The plaintiff has filed a Notice of Appeal with the United States Court of Appeals for the Fifth Circuit. While the outcome cannot be predicted at this time, the University intends to vigorously defend this lawsuit. No assurance can be given that future lawsuits or other legal proceedings will not be initiated against the University in connection with COVID-19. The scope of any adverse impact to the University resulting from any such claim or proceeding cannot be determined at this time.

The University is a party to various other legal proceedings and complaints arising in the ordinary course of business, some of which are covered by insurance. The resolution of such matters is not currently expected to have a material impact on the financial position of the University.

20. SUBSEQUENT EVENTS

On July 8, 2021, the University issued \$123,480,000 in tax-exempt (Series 2021) revenue bonds through the Waco Education Finance Corporation. Proceeds of the bonds will be used to (i) finance and refinance the costs of certain buildings, equipment, facilities and other improvements benefitting Baylor, including all or a portion of the costs relating to the construction and equipping of the Mark and Paula Hurd Welcome Center and the renovation and equipping of the Collins, Memorial and Alexander Residence Halls; and (ii) pay certain costs of issuance of the Series 2021 Bonds.

The University has evaluated subsequent events through September 23, 2021, the date when financial statements were issued, and concluded that there were no additional material subsequent events requiring adjustment or disclosure.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]