



Financial Statements

Years Ended May 31, 2023 and 2022,
and Report of Independent Certified Public Accountants



FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

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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, 2023. 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 community for more than 20,000 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, 2023 and 2022. 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, 2023 and 2022. 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, 2023 and 2022, are summarized below:
(in thousands of dollars)

Summary Balance Sheets	2023	2022	Increase (Decrease)	
			Amount	Percentage
Cash and cash equivalents	\$ 266,094	\$ 311,574	\$ (45,480)	(14.6)%
Bond proceeds held by Trustees	68,326	119,082	(50,756)	(42.6)%
Receivables, net	194,250	180,643	13,607	7.5%
Prepaid expenses & other assets	50,240	39,494	10,746	27.2%
Long-term investments	2,178,636	2,183,760	(5,124)	(0.2)%
Capital assets, net	1,250,529	1,098,881	151,648	13.8%
Total Assets	\$ 4,008,075	\$ 3,933,434	\$ 74,641	1.9%
Payables, trade and personnel-related	\$ 116,352	\$ 81,571	\$ 34,781	42.6%
Notes & bonds payable	721,440	736,855	(15,415)	(2.1)%
Other liabilities	166,676	199,348	(32,672)	(16.4)%
Net assets	3,003,607	2,915,660	87,947	3.0%
Total Liabilities & Net Assets	\$ 4,008,075	\$ 3,933,434	\$ 74,641	1.9%

BAYLOR UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)

Total assets grew by \$74.6 million, or 1.9%, from May 31, 2022 to May 31, 2023. Capital assets had the largest dollar change, totaling \$151.6 million, resulting primarily from large construction projects. The investment in capital assets is also reflected in the decrease of bond proceeds held by trustees of \$50.8 million.

Overall, these changes reflect the execution of several large capital projects in alignment with the University’s strategic plan while maintaining a strong financial position. Cash and cash equivalents have decreased in FY 2023 compared for FY 2022 due to investments in these projects and moving cash reserves to investment vehicles with maturities extending beyond fiscal year-end. Total cash and investments relative to total liabilities has not changed significantly, as depicted in Chart 2.

(in thousands of dollars)

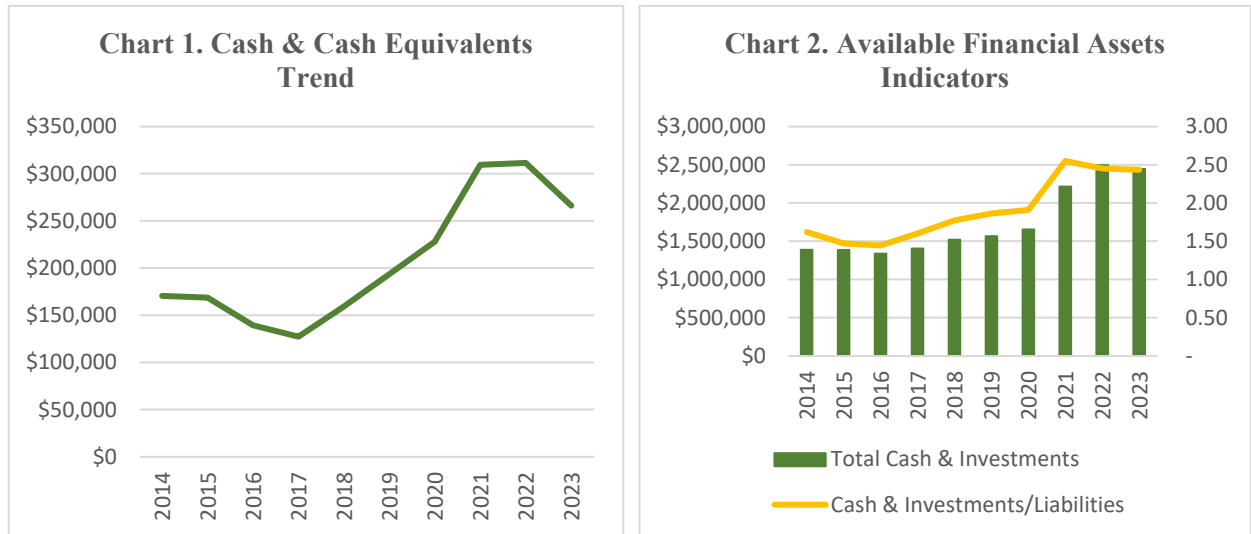
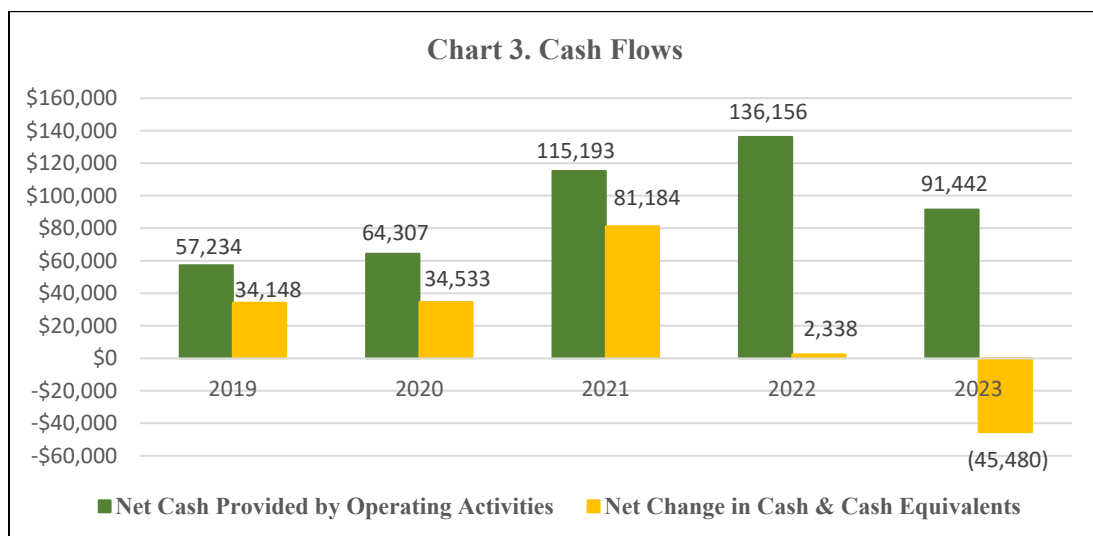


Chart 3 illustrates the net cash provided by operating activities and the net change in cash and cash equivalents for each of the last five fiscal years. As noted above, the net decrease in FY 2023 is due to approximately \$26.0 million in cash moved to long-term investments as well as capital project investments.

(in thousands of dollars)

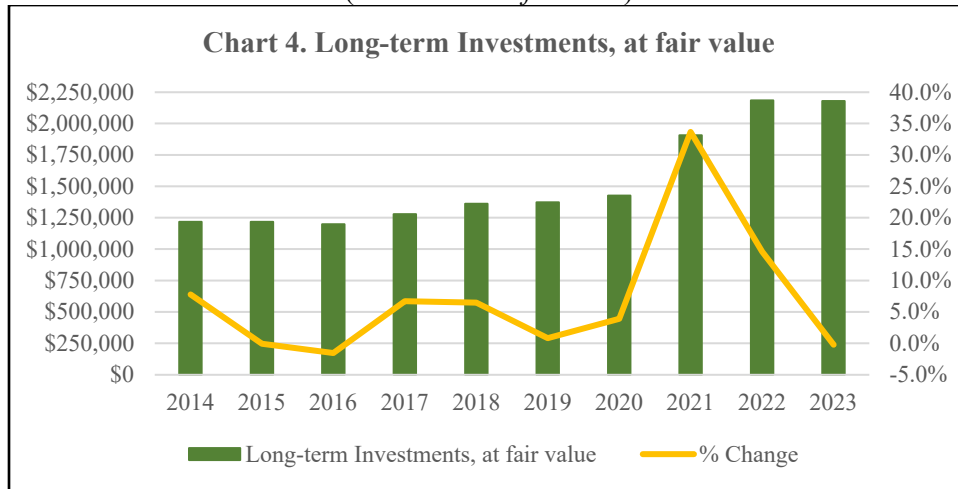


**BAYLOR UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)**

Endowment and Long-Term Investments

The University’s endowment is 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, annuities, and life income funds, total just under \$2.2 billion as of May 31, 2023. The return on long-term investments, including realized gains and losses, and unrealized gains and losses totaled \$4.0 million for FY 2023 compared to \$183.7 million for FY 2022. Chart 4 presents a ten-year history of long-term investments at fair value.

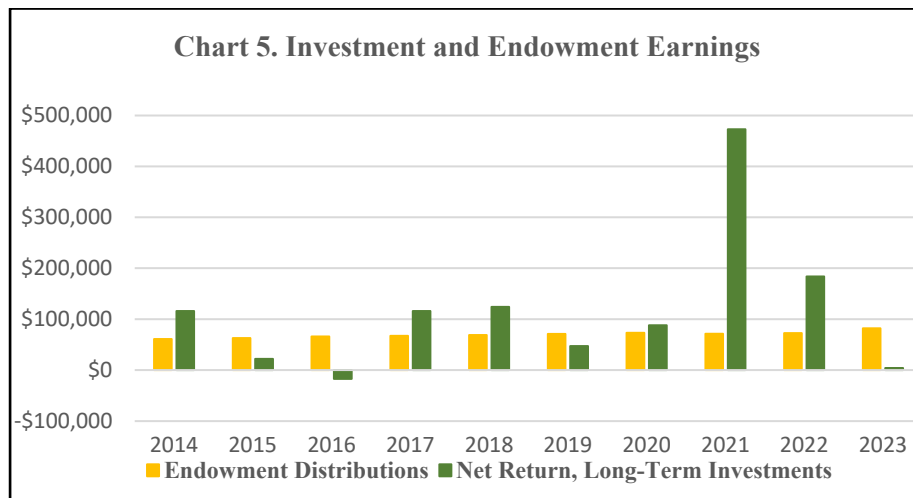
(in thousands of dollars)



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.

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 \$82.0 million of distributions to the University in FY 2023.

(in thousands of dollars)



BAYLOR UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)

Capital Assets

Maintaining a campus for approximately 20,000 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 \$438.7 million, an indication that the University is maintaining and enhancing facilities, including increased investments over the past two fiscal years.

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
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
2022	85,561	57,100	28,461	1,098,881
2023	<u>206,812</u>	<u>55,164</u>	<u>151,648</u>	1,250,529
	<u>\$ 973,010</u>	<u>\$ 534,275</u>	<u>\$ 438,735</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.

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BAYLOR UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Changes in Net Assets <i>(in thousands of dollars)</i>				
Summary of net assets	2023	2022	<u>Increase (Decrease)</u>	
			Amount	Percentage
Net assets without donor-imposed restrictions				
Undesignated	\$ 71,753	\$ 109,323	\$ (37,570)	(34.4)%
Restricted by time or purpose	161,654	130,450	31,204	23.9%
Board designated endowment	329,775	352,273	(22,498)	(6.4)%
Investment in and designated for plant	<u>583,542</u>	<u>494,428</u>	<u>89,114</u>	<u>18.0%</u>
	<u>1,146,724</u>	<u>1,086,474</u>	<u>60,250</u>	<u>5.5%</u>
Net assets with donor-imposed restrictions				
Restricted by time or purpose	42,804	34,980	7,824	22.4%
Endowment	1,586,159	1,595,089	(8,930)	(0.6)%
Board designated endowment	45,829	46,255	(426)	(0.9)%
Annuities and living trusts	28,001	30,176	(2,175)	(7.2)%
Investment in plant	<u>154,090</u>	<u>122,686</u>	<u>31,404</u>	<u>25.6%</u>
	<u>1,856,883</u>	<u>1,829,186</u>	<u>27,697</u>	<u>1.5%</u>
Total net assets	<u>\$ 3,003,607</u>	<u>\$ 2,915,660</u>	<u>\$ 87,947</u>	<u>3.0%</u>

Net assets both with and without donor restrictions increased for the fiscal year ended May 31, 2023.

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, 2023 and 2022, are summarized below.

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BAYLOR UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

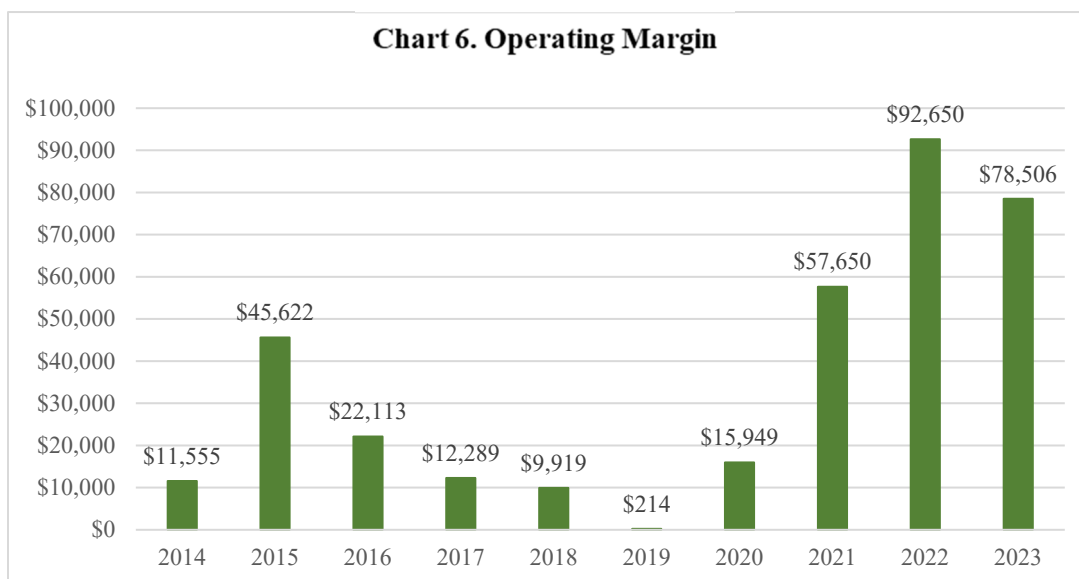
(in thousands of dollars)

Summary of the Statements of Activities	2023	2022	Increase (Decrease)	
			Amount	Percentage
Tuition and fees, net	\$587,844	\$571,707	\$16,137	2.8%
Endowment distributions and investment returns	98,510	72,131	26,379	36.6%
Gifts and grants	125,944	125,891	53	0.0%
Auxiliary enterprises and other revenue	152,555	155,402	(2,847)	(1.8)%
Operating revenue	<u>964,853</u>	<u>925,131</u>	<u>39,722</u>	<u>4.3%</u>
Compensation and benefits	496,767	456,520	40,247	8.8%
Operating expenses	312,294	295,202	17,092	5.8%
Depreciation	55,164	57,100	(1,936)	(3.4)%
Interest expense	22,122	23,659	(1,537)	(6.5)%
Operating Expenses	<u>886,347</u>	<u>832,481</u>	<u>53,866</u>	<u>6.5%</u>
Operating Margin	<u>78,506</u>	<u>92,650</u>	<u>(14,144)</u>	<u>(15.3)%</u>
Non-Operating Activities	<u>9,441</u>	<u>188,968</u>	<u>(179,527)</u>	<u>(95.0)%</u>
Change in Net Assets	<u>\$ 87,947</u>	<u>\$ 281,618</u>	<u>\$ (193,671)</u>	<u>(68.8)%</u>

Operating Margin

Operating margin, operating revenue less operating expense, decreased from \$92.7 million in FY 2022 to \$78.5 million in FY 2023.

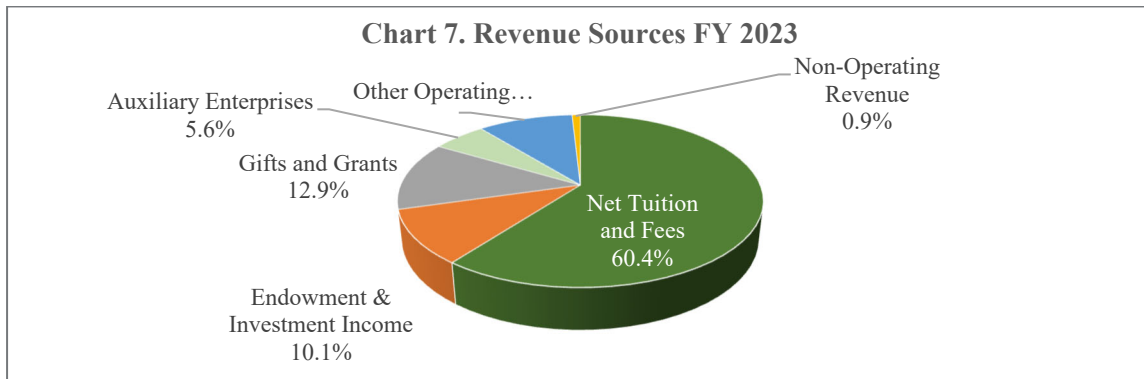
(in thousands of dollars)



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

Revenues

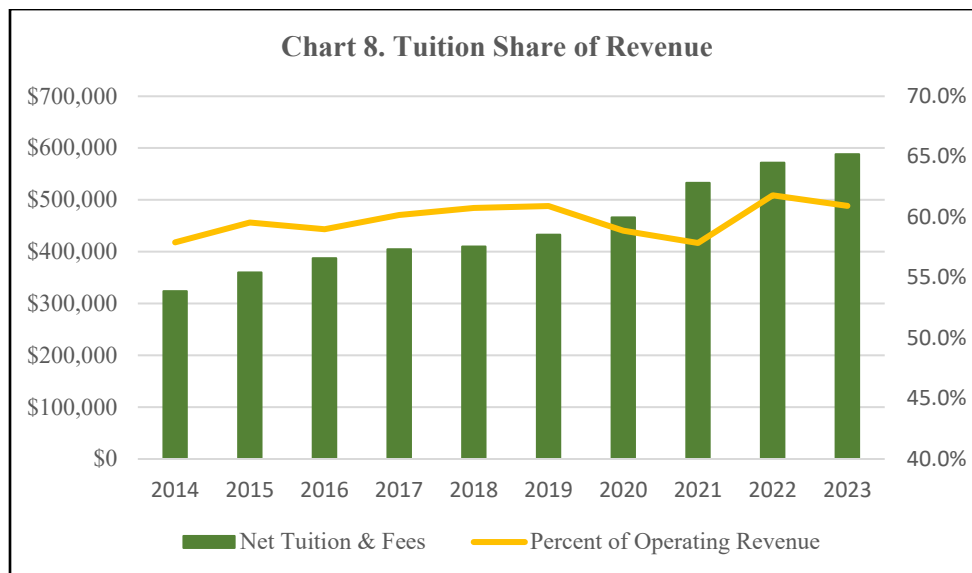
Operating revenues increased \$39.7 million, or 4.3%, from fiscal year 2022 to 2023. Net tuition and fees rose primarily due to increased tuition rates. Grants and contracts revenue is \$28.1 million less than prior year primarily due to Higher Education Emergency Relief Fund (HEERF) revenues received in FY 2022. Gifts and private grants, which includes donor contributions, increased \$28.2 million, or 69.2%, from fiscal year 2022 to 2023. Decreases in non-operating activities primarily resulted from a decline in investment returns from \$183.7 million in the FY 2022 fiscal year to \$4.0 million in FY 2023.



Net tuition and fees represent the largest share of total University revenues, including non-operating, at 60.4%, an increase from 51.7% in the prior year. The shift in revenue allocation primarily results from the change in investment returns noted above.

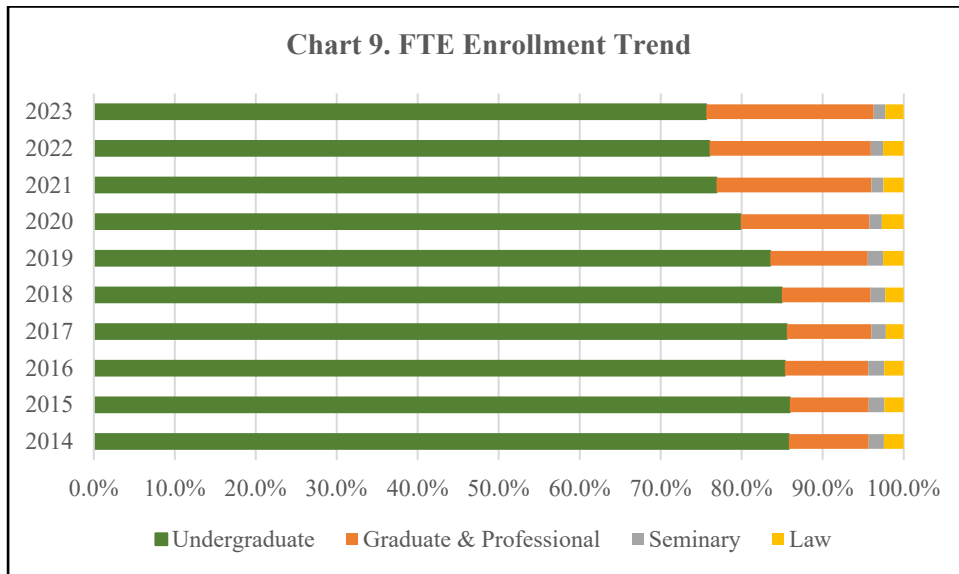
As chart 8 illustrates, net tuition and fees revenue has increased, in a mostly linear fashion, each fiscal year from 2014 to 2023, at an average annual rate of 8.2%, through both enrollment growth and increasing net revenue per student, though the rate of growth slowed in FY 2023. When non-operating revenues are excluded, net tuition and fees represents 60.9% of operating revenues for FY 2023, a decline from 61.8% in the prior year.

(in thousands of dollars)



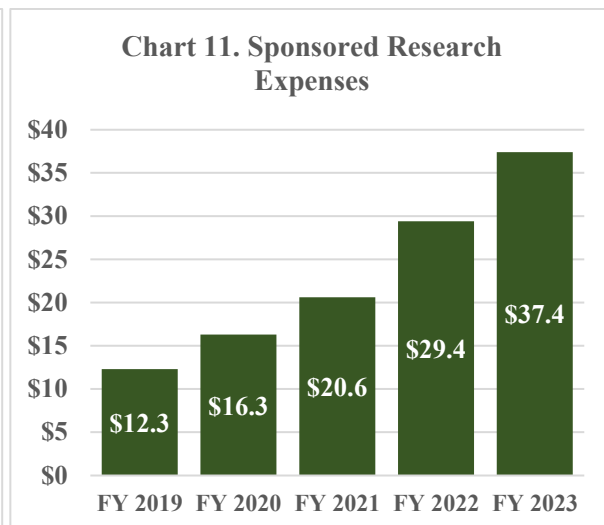
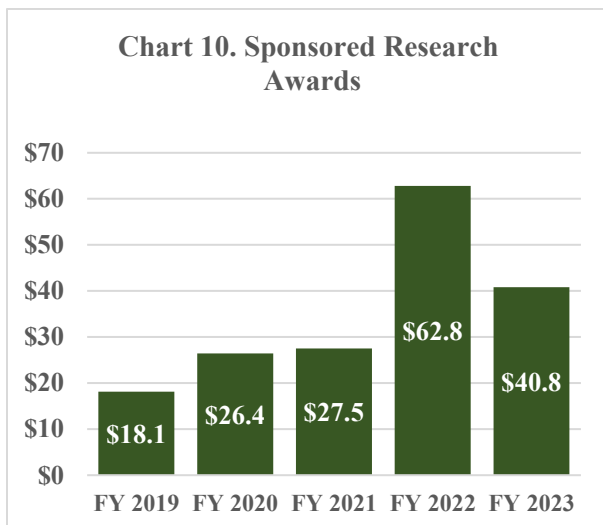
BAYLOR UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)

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 five fiscal years as online graduate and professional program (GPE) enrollments have increased. Undergraduate enrollment has decreased to 75.6% of total FTE enrollment in FY 2023 and net tuition and fees revenue from online graduate and professional programs has grown to \$99.1 million net tuition, or 16.9% of net tuition and fees for all programs, contributing to increased revenue diversification.



Charts 10 and 11 below show the growth trend in sponsored research awards and expenses for the past five years, with awards growing 125% and expenses increasing 204% over this period. This growth is reflected in gifts and grants revenue on the Statements of Activities.

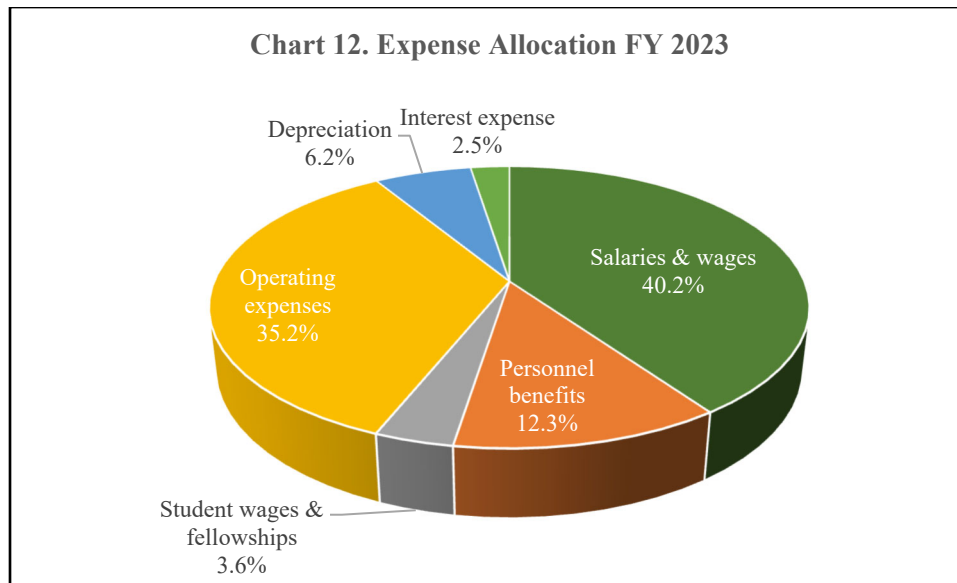
(in millions of dollars)



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

Expenses and Other Changes

Operating expenses increased in FY 2023 by \$53.9 million in comparison to FY 2022, a 6.5% increase. The most significant factor contributing to the change was \$31.5 million in new salary and wage costs, a 9.7% increase over FY 2022. This increase is driven by continued investment in research faculty and related support staff, as well as salary increases in response to rising cost of living for faculty and staff. Personnel benefits have increased 5.6% over FY 2022 due to higher salaries and wages. Operating expenses increased by \$17.1 million in comparison to FY 2022, a 5.8% increase. Salaries and wages typically make up the largest allocation of expenses each year and are currently 40.2% of the total.



Institutional and Economic Outlook

In fiscal year 2023, the University has faced economic challenges that are common across higher education, including inflationary pressures which have driven up wages and operating costs, rising interest rates, and a measure of instability in the banking sector. However, University leadership have and expect to continue to positively respond to these factors while protecting the central mission of the University through the following key strengths.

- A strong balance sheet, including an endowment of just under \$2 billion and net assets exceeding \$3 billion.
- Decreasing reliance on undergraduate tuition resulting from a strong presence in the graduate and professional education market, continued growth in research activity, and endowment growth.
- Continued investment in research infrastructure to undergird and build upon the University’s recently achieved Carnegie R1 designation.
- Strong donor support, surpassing the \$1.1 billion Give Light fundraising goal by approximately \$300 million. The campaign, which will close in late 2023 has successfully increased endowed funds by over \$500 million while also raising support for current priorities and capital needs.
- Opening of a new front door to campus in the Hurd Welcome Center, which will serve as a hub for student recruitment and alumni engagement.

University leadership remains committed to fulfilling Baylor’s mission of teaching, research, and service within an unambiguously Christian context while maintaining the long-term financial strength of the institution. At the close of fiscal year 2023, leadership are preparing for the future through a strategic planning process launched in summer 2023, capital priorities planning, and an updated five-year financial model.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Regents
Baylor University

Opinion

We have audited the financial statements of Baylor University (the "University"), which comprise the balance sheets as of May 31, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of May 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud

may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Management's Discussion and Analysis but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Grant Thornton LLP

Dallas, Texas
September 21, 2023

BAYLOR UNIVERSITY
Balance Sheets
May 31, 2023 and 2022
(in thousands of dollars)

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Cash & cash equivalents	\$ 266,094	\$ 311,574
Bond proceeds held by trustees	68,326	119,082
Student accounts receivable, net	54,159	35,784
Contributions receivable, net	98,767	96,919
Grants & other receivables, net	38,177	42,635
Prepaid expenses & other assets	50,240	39,494
Student loans receivable, net	3,147	5,305
Long-term investments, at fair value	2,178,636	2,183,760
Property, plant & equipment, net	1,250,529	1,098,881
Total assets	<u>\$ 4,008,075</u>	<u>\$ 3,933,434</u>
 <u>LIABILITIES & NET ASSETS</u>		
Liabilities		
Accounts payable	\$ 89,900	\$ 56,316
Personnel related current liabilities	26,452	25,255
Deposits & deferred revenues	112,455	129,258
Accrued postretirement benefits	39,248	41,934
Notes & bonds payable, net	721,440	736,855
Other liabilities	14,973	28,156
Total liabilities	<u>1,004,468</u>	<u>1,017,774</u>
 Net Assets		
Without donor restrictions	1,146,724	1,086,474
With donor restrictions	1,856,883	1,829,186
Total net assets	<u>3,003,607</u>	<u>2,915,660</u>
 Total liabilities & net assets	 <u>\$ 4,008,075</u>	 <u>\$ 3,933,434</u>

See accompanying notes to financial statements.

BAYLOR UNIVERSITY**Statement of Activities**

For the Year Ended May 31, 2023

(in thousands of dollars)

	Year Ended May 31, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
<u>OPERATING REVENUES</u>			
Tuition & fees	\$ 981,077	\$ —	\$ 981,077
Less scholarships	(393,233)	—	(393,233)
Net tuition & fees	587,844	—	587,844
Endowment distributions & investment income	92,542	5,968	98,510
Gifts & private grants	55,467	13,442	68,909
Grants & contracts	43,126	13,909	57,035
Other sources - educational & general	31,663	2,313	33,976
Other sources - intercollegiate athletics	63,637	—	63,637
Sales & services of auxiliary enterprises	54,942	—	54,942
Net assets released from restrictions	23,446	(23,446)	—
Total operating revenues	952,667	12,186	964,853
<u>OPERATING EXPENSES</u>			
Program expenses			
Salaries & wages	356,035	—	356,035
Personnel benefits	108,764	—	108,764
Student wages & fellowships	31,968	—	31,968
Operating expenses	312,294	—	312,294
Depreciation	55,164	—	55,164
Interest expense	22,122	—	22,122
Total operating expenses	886,347	—	886,347
Change in net assets from operating activities	66,320	12,186	78,506
<u>NON-OPERATING ACTIVITIES</u>			
Net return on long-term investments	(985)	4,972	3,987
Distributions from long-term investments	(14,096)	(67,905)	(82,001)
Endowment earnings & distributions re-invested	—	2,863	2,863
Change in value of split interest agreements	—	(577)	(577)
Gifts for endowment, annuity & living trusts	—	49,133	49,133
Gifts & grants for plant improvements, net of allowance adjustments	—	35,053	35,053
Net assets released from restrictions for plant improvements	6,571	(6,571)	—
Other components of postretirement benefits cost	136	—	136
Change in postretirement benefits obligation other than net periodic benefits cost	846	—	846
Other increases (decreases)	1,458	(1,457)	1
Total non-operating activities	(6,070)	15,511	9,441
Change in net assets	60,250	27,697	87,947
Net assets at beginning of year	1,086,474	1,829,186	2,915,660
Net assets at end of year	\$ 1,146,724	\$ 1,856,883	\$ 3,003,607

See accompanying notes to financial statements.

BAYLOR UNIVERSITY**Statement of Activities**

For the Year Ended May 31, 2022

(in thousands of dollars)

	Year Ended May 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
<u>OPERATING REVENUES</u>			
Tuition & fees	\$ 968,259	\$ —	\$ 968,259
Less scholarships	(396,552)	—	(396,552)
Net tuition & fees	571,707	—	571,707
Endowment distributions & investment income	67,234	4,897	72,131
Gifts & private grants	29,474	11,234	40,708
Grants & contracts	70,592	14,591	85,183
Other sources - educational & general	30,976	572	31,548
Other sources - intercollegiate athletics	65,332	—	65,332
Sales & services of auxiliary enterprises	58,522	—	58,522
Net assets released from restrictions	17,075	(17,075)	—
Total operating revenues	910,912	14,219	925,131
<u>OPERATING EXPENSES</u>			
Program expenses			
Salaries & wages	324,582	—	324,582
Personnel benefits	102,992	—	102,992
Student wages & fellowships	28,946	—	28,946
Operating expenses	295,202	—	295,202
Depreciation	57,100	—	57,100
Interest expense	23,659	—	23,659
Total operating expenses	832,481	—	832,481
Change in net assets from operating activities	78,431	14,219	92,650
<u>NON-OPERATING ACTIVITIES</u>			
Net return on long-term investments	42,360	141,304	183,664
Distributions from long-term investments	(12,224)	(60,371)	(72,595)
Endowment earnings & distributions re-invested	—	2,822	2,822
Change in value of split interest agreements	—	(2,959)	(2,959)
Gifts for endowment, annuity & living trusts	—	45,344	45,344
Gifts & grants for plant improvements, net of allowance adjustments	—	23,416	23,416
Net assets released from restrictions for plant improvements	18,786	(18,786)	—
Other components of postretirement benefits cost	(303)	—	(303)
Change in postretirement benefits obligation other than net periodic benefits cost	9,583	—	9,583
Other increases (decreases)	3,908	(3,912)	(4)
Total non-operating activities	62,110	126,858	188,968
Change in net assets	140,541	141,077	281,618
Net assets at beginning of year	945,933	1,688,109	2,634,042
Net assets at end of year	\$ 1,086,474	\$ 1,829,186	\$ 2,915,660

See accompanying notes to financial statements.

BAYLOR UNIVERSITY

Statements of Cash Flows

For the Years Ended May 31, 2023 and 2022

(in thousands of dollars)

	<u>Year Ended</u> <u>May 31, 2023</u>	<u>Year Ended</u> <u>May 31, 2022</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 87,947	\$ 281,618
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	55,164	57,100
Net return on long-term investments	(3,987)	(183,664)
Distributions from long-term investments	82,001	72,595
Amortization of debt premium and issuance costs	(2,337)	(755)
Losses on disposal of property & equipment	1,610	228
Fixed assets gifts-in-kind	(2,036)	(50)
Contributions of securities	(16,058)	(11,740)
Proceeds from sale of contributed securities for operations	1,739	1,434
Contributions for endowment & plant improvements	(90,442)	(80,795)
Provision for uncollectible receivables	(6,316)	(3,610)
Changes in assets & liabilities:		
Student accounts receivable	(17,757)	(2,434)
Contributions receivable	3,628	6,474
Grants & other receivables	4,750	3,931
Prepaid expenses & other	(10,746)	(7,877)
Accounts payable	33,585	13,020
Personnel related current liabilities	1,197	1,046
Deposits & deferred revenues	(16,803)	(173)
Accrued postretirement benefits	(2,686)	(10,370)
Other liabilities	(11,011)	178
Net cash provided by operating activities	<u>91,442</u>	<u>136,156</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Student loans disbursed	(216)	(265)
Proceeds from collections of student loans	2,303	1,138
Proceeds from sales of long-term investments	311,569	40,695
Purchases of long-term investments	(384,458)	(207,770)
Change in unexpended bond proceeds	50,757	(119,082)
Purchases of property, plant & equipment	(206,387)	(85,740)
Net cash used for investing activities	<u>(226,432)</u>	<u>(371,024)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Contributions for endowment, annuity & living trusts	36,060	33,564
Contributions for plant improvements	54,382	47,231
Proceeds from sale of contributed securities for endowment & plant	14,319	10,306
Proceeds from long-term debt	-	123,480
Repayment of long-term debt	(13,078)	(1,708)
Premium received on long-term debt proceeds	-	25,876
Debt issuance costs	-	(680)
Change in federal student loan funds refundable	(2,173)	(863)
Net cash provided by financing activities	<u>89,510</u>	<u>237,206</u>
Net change in cash & cash equivalents	<u>(45,480)</u>	<u>2,338</u>
Cash & cash equivalents at beginning of year	<u>311,574</u>	<u>309,236</u>
Cash & cash equivalents at end of year	<u>\$ 266,094</u>	<u>\$ 311,574</u>

See accompanying notes to financial statements.

BAYLOR UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

May 31, 2023 and 2022

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 89 countries to study within its 12 nationally recognized academic divisions.

Since its founding in Independence, Texas, Baylor has grown to over 20,000 students, including 5,400 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, 2023 and 2022

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 may include 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 believes it is not exposed to any significant credit risk on cash and cash equivalents as of May 31, 2023.

Receivables

Student accounts receivable are stated net of allowance for doubtful accounts of \$5,450,000 and \$4,713,000 as of May 31, 2023 and 2022, respectively. Student loans receivable are stated net of allowance for doubtful accounts of \$481,000 and \$602,000 as of May 31, 2023 and 2022, respectively. The University considered the allowances recorded at May 31, 2023 and 2022, 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, 2023, the University continues to service outstanding Perkins loans.

Grants and other receivables are stated net of allowance for doubtful accounts of \$809,000 and \$3,109,000 as of May 31, 2023 and 2022, 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, 2023 and 2022, 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.

BAYLOR UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

May 31, 2023 and 2022

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.

Other Liabilities

Other liabilities consist of annuities payable, lease liabilities, Coronavirus Aid, Relief, and Economic Security (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.

The University occasionally receives contributed nonfinancial assets from its donors. Such assets are recorded at fair value based on independent appraisals and current values for similar services and products. Contributions of nonfinancial assets are not material to the financial statements of the University for the years ended May 31, 2023 and 2022.

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 12.

Emergency Relief

The Higher Education Emergency Relief Fund (HEERF) was created through the 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.

BAYLOR UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

May 31, 2023 and 2022

The University recognized \$27,529,000 in HEERF grant revenue for the fiscal year ended May 31, 2022. Of that amount, \$13,765,000 was used for emergency financial aid grants to students. For the fiscal year ended May 31, 2023, the University recognized \$287,000 in Child Care Relief Funding (CCRF) revenue which was used for personnel costs. CCRF funding is made possible by Child Care Development Block Grant (CCDBG) funds that the Texas Workforce Commission (TWC) has received through several COVID-19 related pieces of federal legislation. The University recognized \$149,000 in GEER revenue received through the Texas Higher Education Coordinating Board (THECB) and used to provide emergency support to education institutions to benefit students impacted by the COVID-19 pandemic for the fiscal year ended May 31, 2023.

The University had deferred payment of certain payroll taxes until December 31, 2022 as permitted in CARES Act provisions. Deferred payroll taxes of \$0 and \$5,802,000 were classified as other liabilities in the financial statements at May 31, 2023 and 2022, respectively.

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.

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).

BAYLOR UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

May 31, 2023 and 2022

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, 2023 and 2022, 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.

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.

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 alternative assets with significant liquidity restrictions, private investments (private equities) and real assets.

Whereas Level 1 investments predominately 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 classified as Level 3 have significant liquidity restrictions which would prevent redemption within ninety or more days of the reporting date. 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, 2022 and 2021 audited financial statements, and/or discounted below book value based on available information.
- Alternative assets – consist of private investment funds available for sale in secondary markets. Values reflect managers' provided NAV discounted utilizing valuation and market study information provided by an outside consulting firm or other data from fund managers and other sources.
- 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 and 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 \$1,961,763,000 and \$1,993,617,000 as of May 31, 2023 and 2022, respectively, and is a component of the University's long-term investment pool. The endowment consists of \$1,586,159,000 and \$1,595,089,000 of donor-restricted endowment net assets and \$375,604,000 and \$398,528,000 of Board-designated endowment net assets as of May 31, 2023 and 2022, 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, 2023 and 2022

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, 2023 are as follows (*in thousands of dollars*):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2022	\$ 352,273	\$ 1,641,344	\$ 1,993,617
Investment return, net of expenses	1,109	5,028	6,137
Contributions	(91)	48,267	48,176
Appropriated for expenditure	(14,096)	(67,905)	(82,001)
Other changes:			
Transfers to/(from) board designated	(9,518)	1,054	(8,464)
Terminated annuities & other	98	4,200	4,298
Endowment net assets, May 31, 2023	<u>\$ 329,775</u>	<u>\$ 1,631,988</u>	<u>\$ 1,961,763</u>

Changes in endowment net assets for the year ended May 31, 2022 are as follows (*in thousands of dollars*):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2021	\$ 323,215	\$ 1,506,234	\$ 1,829,449
Investment return, net of expenses	32,862	141,189	174,051
Contributions	-	45,014	45,014
Appropriated for expenditure	(12,223)	(60,371)	(72,594)
Other changes:			
Transfers to board designated	8,332	5,594	13,926
Terminated annuities & other	87	3,684	3,771
Endowment net assets, May 31, 2022	<u>\$ 352,273</u>	<u>\$ 1,641,344</u>	<u>\$ 1,993,617</u>

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2023 and 2022

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, 2023 and 2022, as follows (*in thousands of dollars*):

	2023	2022
Original value	\$ 41,975	\$ 3,451
Market value	40,884	2,720
Unrealized losses	\$ (1,091)	\$ (731)

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 formats. Excluding income interests and perpetual trusts, the University’s long-term investments were invested with 86 and 81 different managers at May 31, 2023 and 2022, respectively. Of that, alternative assets were invested with 62 and 56 different managers at May 31, 2023 and 2022, respectively.

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.

BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

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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, 2023, the remaining life of private investment funds ranged from approximately 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 bi-monthly to rolling three years with various notice requirements. At May 31, 2023, BUF included twenty-seven marketable alternative funds totaling \$592,938,000.

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, 2023, 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	\$ 115,992	\$ –	\$ 18	\$ –	\$ 116,010
Equities	351,292	–	45	–	351,337
Alternative assets	–	–	106,752	1,347,127	1,453,879
Real estate & other	–	–	3,938	–	3,938
Mineral rights	–	–	18,361	–	18,361
Income interests/perpetual trusts	–	–	235,111	–	235,111
Total	<u>\$ 467,284</u>	<u>\$ –</u>	<u>\$ 364,225</u>	<u>\$ 1,347,127</u>	<u>\$ 2,178,636</u>

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The following table presents changes in assets that have been measured at fair value as of May 31, 2023, on a recurring basis using significant unobservable inputs (Level 3) (*in thousands of dollars*):

	May 31, 2022 Balance	Transfers In (Out) of Level 3	Additions	Distributions	Realized & Unrealized Gains (Losses)	May 31, 2023 Balance
Fixed income securities	\$ 22	(1)	\$ –	\$ (3)	–	\$ 18
Equities	1,408	–	–	(397)	(966)	45
Alternative assets	134,645	(48,617)	40,500	(16,444)	(3,332)	106,752
Real estate & other	3,988	–	8,983	(9,359)	326	3,938
Mineral rights	17,074	–	616	(5,302)	5,973	18,361
Income interests/ perpetual trusts	237,032	–	11,548	(683)	(12,786)	235,111
Total	<u>\$ 394,169</u>	<u>\$ (48,618)</u>	<u>\$ 61,647</u>	<u>\$ (32,188)</u>	<u>\$ (10,785)</u>	<u>\$ 364,225</u>

The following table presents information about the University's long-term investments that are measured at fair value as of May 31, 2022, 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	\$ 88,921	\$ –	\$ 22	\$ –	\$ 88,943
Equities	424,941	–	1,408	–	426,349
Alternative assets	–	–	134,645	1,275,729	1,410,374
Real estate & other	–	–	3,988	–	3,988
Mineral rights	–	–	17,074	–	17,074
Income interests/perpetual trusts	–	–	237,032	–	237,032
Total	<u>\$ 513,862</u>	<u>\$ –</u>	<u>\$ 394,169</u>	<u>\$ 1,275,729</u>	<u>\$ 2,183,760</u>

The following table presents changes in assets that have been measured at fair value as of May 31, 2022, on a recurring basis using significant unobservable inputs (Level 3) (*in thousands of dollars*):

	May 31, 2021 Balance	Transfers In (Out) of Level 3	Additions	Distributions	Realized & Unrealized Gains (Losses)	May 31, 2022 Balance
Fixed Income Securities	\$ 28	\$ –	\$ –	\$ (6)	\$ –	\$ 22
Equities	1,408	–	–	–	–	1,408
Alternative assets	5,205	102,654	100,014	(70,211)	(3,017)	134,645
Real estate & other	4,231	–	13,119	(13,680)	318	3,988
Mineral rights	10,914	–	437	(2,497)	8,220	17,074
Income interests/ perpetual trusts	242,157	–	4,107	–	(9,232)	237,032
Total	<u>\$ 263,943</u>	<u>\$ 102,654</u>	<u>\$ 117,677</u>	<u>\$ (86,394)</u>	<u>\$ (3,711)</u>	<u>\$ 394,169</u>

Return on long-term investments includes \$21,590,000 and \$29,900,000 change in unrealized gains and losses on Level 3 fair value measurement assets held at May 31, 2023 and May 31, 2022, respectively.

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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, 2023 and 2022, are as follows (*in thousands of dollars*):

	<u>2023</u>	<u>2022</u>
Fixed income securities:		
Short-term funds	\$ 20,275	\$ 19,773
Commercial Paper	99,390	73,029
Bonds	43,410	36,822
Equities:		
Domestic	293,336	332,192
International	163,703	201,236
Alternative assets:		
Private investments	919,721	970,630
Marketable alternatives	604,184	515,171
Mineral rights	34,617	34,907
Total	<u>\$ 2,178,636</u>	<u>\$ 2,183,760</u>

Long-term investments include operating, endowment, and annuity and life income assets. The annuity and life income assets under split-interest agreements total \$26,692,000 and \$27,442,000 as of May 31, 2023 and 2022, respectively.

The cost of long-term investments was \$1,497,650,000 and \$1,418,810,000 as of May 31, 2023 and 2022, 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 \$371,268,000 and \$338,351,000 at May 31, 2023 and 2022, respectively.

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BAYLOR UNIVERSITY
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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.

As of May 31, 2023 and 2022, contributions receivable consists of the following (*in thousands of dollars*):

	2023	2022
Due in 1 year	\$ 20,294	\$ 48,930
Due in 2 to 5 years	66,418	39,016
Due in 6 to 10 years	23,251	15,970
Split interest agreements	9,531	12,067
Less: Present value adjustment	(9,731)	(7,227)
Less: Allowance for uncollectible contributions receivable	(10,996)	(11,837)
Total contributions receivable, net	<u>\$ 98,767</u>	<u>\$ 96,919</u>

Contributions receivable expected to be fulfilled more than one year from the date of the financial statements are discounted at 0.27% to 3.97%, with the discount amortized over the life of the unconditional promise. At May 31, 2023, contributions receivable primarily consisted of unconditional promises related to endowment or capital projects, of which twenty donors represented 62% 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 \$62,237,000 and \$49,753,000 as of May 31, 2023 and 2022, 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 \$17,036,000 and \$18,036,000 as of May 31, 2023 and 2022, respectively. Conditions were met for certain promises and \$12,500,000 was recognized as revenue in the year ended May 31, 2023.

6. PROPERTY, PLANT & EQUIPMENT

At May 31, 2023 and 2022, property, plant and equipment assets consist of the following (*in thousands of dollars*):

	2023	2022
Land	\$ 87,798	\$ 87,725
Land/leasehold improvements	119,252	116,883
Buildings	1,336,355	1,329,627
Equipment	169,893	157,291
Other	16,825	16,893
	<u>1,730,123</u>	<u>1,708,419</u>
Less accumulated depreciation	(750,986)	(702,976)
	979,137	1,005,443
Arts/collections	15,469	14,887
Construction-in-progress	255,923	78,551
Property, plant & equipment, net	<u>\$ 1,250,529</u>	<u>\$ 1,098,881</u>

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Depreciation expense was \$55,164,000 and \$57,100,000 for the years ended May 31, 2023 and 2022, 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, 2023 and 2022. The liability for conditional asset retirement obligations was \$5,178,000 and \$5,395,000 as of May 31, 2023 and 2022, respectively, and is included in other liabilities in the accompanying balance sheets.

7. DEPOSITS & DEFERRED REVENUES

At May 31, 2023 and 2022, deposits and deferred revenues consist of the following (*in thousands of dollars*):

	<u>2023</u>	<u>2022</u>
Tuition & fees	\$ 64,875	\$ 63,357
Student enrollment deposits	2,604	2,806
Intercollegiate athletics income	22,527	27,196
Vendor long-term contracts incentive payments	12,424	14,500
Sponsored research income	8,323	9,571
Rental & other income	<u>1,702</u>	<u>11,828</u>
Total deposits & deferred revenues	<u>\$ 112,455</u>	<u>\$ 129,258</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 fifteen 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. Two real estate leases contain purchase options but the University has not exercised, and does not expect to exercise, either purchase option. 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, 2023 and May 31, 2022 are as follows (*in thousands of dollars*):

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of operating lease liabilities		
Operating cash flows from operating leases	\$ 6,487	\$ 4,773
Right-of-use assets obtained during the fiscal year in exchange for operating lease obligations	\$ –	\$ 5,066
Additional supplemental information regarding assumptions for operating leases at May 31, 2023 and 2022		
Weighted-average remaining lease term (years)	8.50	2.72
Weighted-average discount rate	3.16%	2.28%

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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.

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. The University incurred \$6,487,000 and \$4,773,000 in operating lease expenses for facilities and equipment in the years ended May 31, 2023 and 2022, respectively.

As of May 31, 2023 and 2022, 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 \$1,167,000 and \$6,489,000, respectively. The maturity of lease liabilities at May 31, 2023 is as follows (*in thousands of dollars*);

<u>Maturity</u>	<u>Operating</u>
2024	\$ 621
2025	120
2026	82
2027	74
2028	32
Thereafter	<u>645</u>
Total undiscounted cash flows	1,574
Less: Present value discount	<u>(407)</u>
Total lease liabilities	<u>\$ 1,167</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 expense is reported net of premium amortization and capitalized interest and consist of the following (*in thousands of dollars*):

	<u>2023</u>	<u>2022</u>
Interest paid on cash basis	\$ 25,783	\$ 23,853
Net change in accrued interest payable	(44)	1,331
Amortization of bond premium	(2,537)	(956)
Interest capitalized to financed projects	<u>(1,080)</u>	<u>(569)</u>
Interest expense	<u>\$ 22,122</u>	<u>\$ 23,659</u>

Bond premiums are being amortized using the effective interest method over the life of the bonds.

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Notes and bonds payable at May 31, 2023 and 2022, consist of the following *(in thousands of dollars)*:

	<u>2023</u>	<u>2022</u>
Interest bearing secured note payable to a corporation due in quarterly installments beginning May 1, 2015 to April 30, 2025	\$ 1,063	\$ 1,631
Non-interest bearing unsecured note payable to a corporation, due in annual installments through July 31, 2022	–	11
Taxable Commercial Paper Notes, Series A, with varying maturities and discount rates rolled at each maturity	–	11,500
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 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	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	217,435
Series 2021 Waco Education Finance Corporation Tax-Exempt Fixed Rate Bonds, interest ranging from 3.00% to 5.00% payable semiannually, principal payable annually beginning March 1, 2022 to March 1, 2051	<u>121,480</u>	<u>122,480</u>
Total notes & bonds payable prior to unamortized premium & debt issuance costs	691,553	704,632
Unamortized bond premium	33,345	35,881
Unamortized bond issuance cost	<u>(3,458)</u>	<u>(3,658)</u>
Total notes & bonds payable, net	<u>\$ 721,440</u>	<u>\$ 736,855</u>

Scheduled principal payments on long-term notes and bonds for the periods subsequent to May 31, 2023, are as follows *(in thousands of dollars)*:

<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029 and Thereafter</u>	<u>Total</u>
<u>\$ 3,326</u>	<u>\$ 3,302</u>	<u>\$ 14,455</u>	<u>\$ 14,815</u>	<u>\$ 27,515</u>	<u>\$ 628,140</u>	<u>\$ 691,553</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, 2023, the University had no outstanding commercial paper notes under this program.

The University has 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 \$100,000,000. As of May 31, 2023, no amounts have been borrowed pursuant to this Revolving Credit Agreement.

On July 8, 2021, the University issued \$123,480,000 in tax-exempt (Series 2021) revenue bonds through the Waco Education Finance Corporation. A portion of the proceeds of the Series 2021 Bonds, together with certain other funds of Baylor, will be used for the purpose of financing and refinancing the costs of any or all of the following projects: the acquisition, construction, renovation, and equipping of educational facilities, housing facilities and facilities incidental, subordinate, or related thereto or appropriate in connection therewith, including other related facilities, improvements, equipment and utility infrastructure, all as authorized by the Act and all to be located on the Institution's campus in Waco, Texas, including the following specific projects: (i) the construction and equipping of the Mark and Paula Hurd Welcome Center; and (ii) the renovation and equipping of the Collins, Memorial and Alexander Residence Halls.

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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, 2023 and 2022 (*in thousands of dollars*).

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 266,094	\$ 311,574
Student accounts receivable, net	54,159	35,784
Contributions receivable, net	98,767	96,919
Grants & other receivables, net	38,177	42,635
Student loans receivable, net	3,147	5,305
Long-term investments, at fair value	<u>2,178,636</u>	<u>2,183,760</u>
Financial assets at year-end	2,638,980	2,675,977
Less assets unavailable for expenditure within one year:		
Endowment assets with perpetual restrictions	(968,938)	(917,032)
Endowment assets subject to future appropriation	(617,221)	(678,057)
Assets subject to time or purpose restrictions by donor	(224,895)	(187,842)
Board-designated endowment funds	<u>(375,604)</u>	<u>(398,528)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 452,322</u>	<u>\$ 494,518</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 endowments in which funds may be expended for specified purposes approved by the Board. Board-designated endowment totaling \$375,604,000 as of May 31, 2023 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 \$136,633,000. 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.

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11. NET ASSETS

The University's net assets for the year ended May 31, 2023 are categorized by purpose as follows (*in thousands of dollars*):

	Without Donor Restrictions	With Donor Restrictions	Total
Perpetual restriction:			
Endowment	\$ —	\$ 968,938	\$ 968,938
Board-designated endowment	226,692	35,982	262,674
	<u>226,692</u>	<u>1,004,920</u>	<u>1,231,612</u>
Time or purpose restriction:			
Returns subject to future appropriation			
Endowment	—	617,221	617,221
Board-designated endowment	103,083	9,847	112,930
Annuity and living trusts	—	28,001	28,001
Program support	121,095	34,152	155,247
Student financial aid & student loan funds	17,035	8,607	25,642
Research	23,524	45	23,569
Designated for plant	256,065	—	256,065
Investment in plant	327,477	154,090	481,567
	<u>848,279</u>	<u>851,963</u>	<u>1,700,242</u>
Undesignated	71,753	—	71,753
Total net assets, May 31, 2023	<u>\$ 1,146,724</u>	<u>\$ 1,856,883</u>	<u>\$ 3,003,607</u>

The University's net assets for the year ended May 31, 2022 are categorized by purpose as follows (*in thousands of dollars*):

	Without Donor Restrictions	With Donor Restrictions	Total
Perpetual restriction:			
Endowment	\$ —	\$ 917,032	\$ 917,032
Board-designated endowment	230,710	34,928	265,638
	<u>230,710</u>	<u>951,960</u>	<u>1,182,670</u>
Time or purpose restriction:			
Returns subject to future appropriation			
Endowment	—	678,057	678,057
Board-designated endowment	121,563	11,327	132,890
Annuity and living trusts	—	30,176	30,176
Program support	94,329	26,470	120,799
Student financial aid & student loan funds	14,350	5,891	20,241
Research	21,771	2,619	24,390
Designated for plant	170,720	—	170,720
Investment in plant	323,708	122,686	446,394
	<u>746,441</u>	<u>877,226</u>	<u>1,623,667</u>
Undesignated	109,323	—	109,323
Total net assets, May 31, 2022	<u>\$ 1,086,474</u>	<u>\$ 1,829,186</u>	<u>\$ 2,915,660</u>

BAYLOR UNIVERSITY
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May 31, 2023 and 2022

12. 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, 2023 are as follows (*in thousands of dollars*):

	Contract -Based Revenues	Other revenues	Total
Other sources - educational & general	\$ 8,743	25,233	\$ 33,976
Other sources - intercollegiate athletics	62,096	1,541	63,637
Sales & services of auxiliary enterprises	51,792	3,150	54,942
Total	<u>\$ 122,631</u>	<u>29,924</u>	<u>\$ 152,555</u>

Other contract revenues recognized, summarized by source, for the year ended May 31, 2022 are as follows (*in thousands of dollars*):

	Contract - Based Revenues	Other revenues	Total
Other sources - educational & general	\$ 8,192	\$ 23,356	\$ 31,548
Other sources - intercollegiate athletics	62,197	3,135	65,332
Sales & services of auxiliary enterprises	55,231	3,291	58,522
Total	<u>\$ 125,620</u>	<u>\$ 29,782</u>	<u>\$ 155,402</u>

13. 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, 2023, are as follows (*in thousands of dollars*):

	Instruction & Academic Support	Research & Public Service	Student Services & Activities	Auxiliary Enterprises	Institutional Support	Totals
Salaries & wages	\$ 212,988	\$ 24,760	\$ 70,458	\$ 4,236	\$ 43,593	\$ 356,035
Personnel benefits	66,903	6,507	18,318	1,619	15,417	108,764
Student wages & fellowships	17,824	7,869	4,096	1,943	236	31,968
Operating expenses	124,040	33,123	89,075	22,486	43,570	312,294
Depreciation	18,701	7,446	13,512	12,516	2,989	55,164
Interest on indebtedness	7,792	1,639	5,583	6,319	789	22,122
Total expenses	<u>\$ 448,248</u>	<u>\$ 81,344</u>	<u>\$ 201,042</u>	<u>\$ 49,119</u>	<u>\$ 106,594</u>	<u>\$ 886,347</u>

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BAYLOR UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

May 31, 2023 and 2022

The University's expenses by functional classification for the year ended May 31, 2022, are as follows (*in thousands of dollars*):

	Instruction & Academic Support	Research & Public Service	Student Services & Activities	Auxiliary Enterprises	Institutional Support	Totals
Salaries & wages	\$ 196,807	\$ 22,201	\$ 64,345	\$ 3,876	\$ 37,353	\$ 324,582
Personnel benefits	62,449	5,553	17,945	1,512	15,533	102,992
Student wages & fellowships	12,959	9,862	3,307	2,107	711	28,946
Operating expenses	120,207	26,707	93,209	17,885	37,194	295,202
Depreciation	19,415	6,837	14,068	13,427	3,353	57,100
Interest on indebtedness	8,230	1,661	5,891	7,049	828	23,659
Total expenses	<u>\$ 420,067</u>	<u>\$ 72,821</u>	<u>\$ 198,765</u>	<u>\$ 45,856</u>	<u>\$ 94,972</u>	<u>\$ 832,481</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 \$18,006,000 and \$17,992,000 incurred by the University in 2023 and 2022, respectively, are included primarily in the institutional support and student services & activities categories in the statements of activities.

14. 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, 2023 and 2022, were \$31,987,000 and \$30,546,000, respectively.

15. 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 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.

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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, 2023 and 2022 (in thousands of dollars):

<u>Change in benefits obligation:</u>	<u>2023</u>	<u>2022</u>
Measurement date	5/31/2023	5/31/2022
Accumulated postretirement benefits obligation (APBO)		
at beginning of year	\$ 41,934	\$ 52,304
Service cost	847	1,300
Interest cost	1,793	1,642
Plan participants' contributions	74	106
Actuarial (gain) loss	(2,774)	(10,922)
Benefit payments	(2,626)	(2,496)
Accumulated postretirement benefits obligation (APBO)		
at end of year	<u>\$ 39,248</u>	<u>\$ 41,934</u>
<u>Change in plan assets:</u>		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	2,551	2,390
Plan participants' contributions	75	106
Benefit payments	(2,626)	(2,496)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
<u>Funded (unfunded) status of plan</u>	<u>\$ (39,248)</u>	<u>\$ (41,934)</u>

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

	<u>2023</u>	<u>2022</u>
Prior service cost (credit)	\$ (2,088)	\$ (4,061)
Net loss	2,023	4,842
Total	<u>\$ (65)</u>	<u>\$ 781</u>

The University expects to amortize, from accumulated unrestricted net assets, \$1,973,000 of prior service cost credits as a component of net periodic benefits cost during the year ending May 31, 2024.

<u>Weighted-average assumptions at measurement date:</u>	<u>5/31/2023</u>	<u>5/31/2022</u>
Discount rate	5.19%	4.40%
Health care cost trend rate	7.50%	7.50%
Ultimate health care cost trend rate	4.50%	4.50%
Year ultimate trend rate reached	2034	2033

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

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May 31, 2023 and 2022

Plan contributions:

The University expects to contribute \$2,551,000 to its postretirement benefits plan during the year ending May 31, 2024. The tables below provide additional information related to projected cash flows and fiscal year costs (*in thousands of dollars*):

<u>Projected Cash flows:</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Fiscal years</u> <u>2029-2033</u>
Gross benefits payments net of employee contributions:	\$ 2,551	\$ 2,569	\$ 2,582	\$ 2,592	\$ 2,611	\$ 13,360

Components of net periodic postretirement benefits cost:

Measurement date	<u>6/1/2022- 5/31/2023</u>	<u>6/1/2021- 5/31/2022</u>
<u>Service cost</u>	\$ 847	\$ 1,300
<u>Other components of postretirement benefits cost:</u>		
Interest cost	\$ 1,792	\$ 1,642
Amortization of:		
Prior service cost	(1,973)	(1,973)
Actuarial loss	45	634
Total other components of postretirement benefits cost	\$ (136)	\$ 303
Total net periodic postretirement benefits cost	\$ 711	\$ 1,603

Other changes in plan assets & benefits obligation recognized:

Net actuarial (gain) loss	\$ (2,774)	\$ (10,922)
Amortization of:		
Prior service cost	1,973	1,973
Actuarial gain	(45)	(634)
Change in postretirement benefits obligation other than net periodic benefits cost	\$ (846)	\$ (9,583)
Total recognized in net assets & net periodic benefits cost	\$ (135)	\$ (7,980)

Weighted-average assumptions for net periodic postretirement benefits cost:

Measurement date	<u>5/31/2022</u>	<u>5/31/2021</u>
Discount rate	4.40%	3.21%
Health care cost trend rate	7.50%	6.50%
Ultimate health care cost trend rate	4.50%	4.50%
Year ultimate trend rate reached	2033	2032
Average future working lifetime (years)	14.7	14.5

16. 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

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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, 2023, the University's tax years ended May 31, 2020 through 2023, generally remain subject to examination.

17. 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, 2023 and 2022, there were no related party transactions that were not effectively mitigated.

18. COMMITMENTS & CONTINGENCIES

Capital Expenditures & Other Commitments

At May 31, 2023, the University has commitments to expend approximately \$172,152,000 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

Lease expenses and 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. 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 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. 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.

19. SUBSEQUENT EVENTS

The University has evaluated subsequent events through September 21, 2023, the date when financial statements were issued, and concluded that there were no material subsequent events requiring adjustment or disclosure.