



SOUTHERN METHODIST UNIVERSITY

Consolidated Financial Statements and
Report on Federal Awards in accordance with the Uniform Guidance

Year Ended May 31, 2023

(With Independent Auditors' Report Thereon)

SOUTHERN METHODIST UNIVERSITY

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Independent Auditors' Report

The Board of Trustees
Southern Methodist University:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Southern Methodist University (the University), which comprise the consolidated statements of financial position as of May 31, 2023 and 2022, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as of May 31, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2023, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Dallas, Texas
September 8, 2023

Southern Methodist University
Consolidated Statements of Financial Position
For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

	May 31, 2023	May 31, 2022
ASSETS:		
Cash and cash equivalents	\$ 306,110	\$ 190,390
Accounts receivable, net	44,167	70,903
Donor contributions receivable, net	273,994	259,023
Investments	2,191,664	2,182,291
Land, buildings, and equipment, net	1,379,317	1,283,216
Other assets	30,498	37,073
TOTAL ASSETS	\$ 4,225,750	\$ 4,022,896
LIABILITIES:		
Accounts payable and accrued expenses	\$ 195,662	\$ 177,982
Deposits and deferred revenue	44,589	50,555
Long-term debt, net	659,928	533,676
Other liabilities	3,339	4,567
Total Liabilities	903,518	766,780
NET ASSETS:		
Net assets without donor restrictions	\$ 846,801	\$ 793,867
Net assets with donor restrictions	2,475,431	2,462,249
Total Net Assets	3,322,232	3,256,116
TOTAL LIABILITIES AND NET ASSETS	\$ 4,225,750	\$ 4,022,896

Southern Methodist University
Consolidated Statements of Activities
For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT:						
Net tuition and fees	\$ 380,212	\$ —	\$ 380,212	\$ 369,107	\$ —	\$ 369,107
Donor contributions	10,423	141,147	151,570	16,021	231,699	247,720
Endowment income, net	6,931	8,571	15,502	8,524	14,476	23,000
Net gains (losses) on investments	(5,568)	34,080	28,512	(8,761)	(68,283)	(77,044)
Grants and contracts	31,079	—	31,079	43,934	—	43,934
Organized activities	12,440	—	12,440	7,078	—	7,078
Other sources	76,098	—	76,098	65,705	—	65,705
Auxiliary activities, net	42,413	—	42,413	41,810	—	41,810
TOTAL REVENUES, GAINS AND OTHER SUPPORT	\$ 554,028	\$ 183,798	\$ 737,826	\$ 543,418	\$ 177,892	\$ 721,310
Net assets released from restrictions	170,616	(170,616)	—	106,568	(106,568)	—
TOTAL ADJUSTED REVENUES, GAINS AND OTHER SUPPORT	\$ 724,644	\$ 13,182	\$ 737,826	\$ 649,986	\$ 71,324	\$ 721,310
EXPENSES:						
PROGRAM EXPENSES:						
Instruction	\$ 206,409	\$ —	\$ 206,409	\$ 195,773	\$ —	\$ 195,773
Academic support	104,182	—	104,182	94,084	—	94,084
Research	45,709	—	45,709	37,471	—	37,471
Organized activities	15,518	—	15,518	10,877	—	10,877
Student services	134,315	—	134,315	128,830	—	128,830
Auxiliary activities	36,053	—	36,053	26,315	—	26,315
TOTAL PROGRAM EXPENSES	542,186	—	542,186	493,350	—	493,350
Institutional support	132,149	—	132,149	113,718	—	113,718
TOTAL EXPENSES	\$ 674,335	\$ —	\$ 674,335	\$ 607,068	\$ —	\$ 607,068
Other postretirement plan changes	(2,625)	—	(2,625)	(4,772)	—	(4,772)
TOTAL EXPENSES AND ADJUSTMENTS	\$ 671,710	\$ —	\$ 671,710	\$ 602,296	\$ —	\$ 602,296
CHANGE IN NET ASSETS	\$ 52,934	\$ 13,182	\$ 66,116	\$ 47,690	\$ 71,324	\$ 119,014
BEGINNING NET ASSETS	793,867	2,462,249	3,256,116	746,177	2,390,925	3,137,102
ENDING NET ASSETS	\$ 846,801	\$ 2,475,431	\$ 3,322,232	\$ 793,867	\$ 2,462,249	\$ 3,256,116

Southern Methodist University
Consolidated Statements of Cash Flows
For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

	2023	2022
Cash flows from operating activities:		
Changes in net assets	\$ 66,116	\$ 119,014
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:</i>		
Depreciation and accretion	54,895	54,338
Long-term debt-related amortization	(3,045)	(3,285)
Loss on disposal of land, buildings, and equipment	70	1,730
Decrease (increase) in accounts and donor contributions receivable	11,765	(53,121)
Decrease (increase) in other assets	6,575	(20,115)
(Decrease) increase in accounts payable and accrued expenses for operations	(10,585)	2,572
(Decrease) increase in deposits and deferred revenue	(5,966)	1,387
Decrease in other liabilities for operations	(1,228)	(512)
Donor contributions restricted for long-term investment	(81,513)	(83,452)
Noncash donor contributions	(10,627)	(48,220)
Net realized and unrealized (gain) loss on investments	(28,512)	77,044
Income restricted for long-term investment	(4,049)	(10,547)
Net cash (used for) provided by operating activities	\$ (6,104)	\$ 36,833
Cash flows from investing activities:		
Proceeds from sales of land, buildings, and equipment	\$ —	\$ 24
Purchase of land, buildings, and equipment	(146,951)	(96,111)
Acquisition of investments	(421,741)	(540,024)
Disposition of investments	448,576	536,375
Increase in investing related accounts payable and accrued expenses	27,081	2,883
Net cash used for investing activities	\$ (93,035)	\$ (96,853)
Cash flows from financing activities:		
Donor contributions restricted for long-term investment	\$ 81,513	\$ 83,452
Income restricted for long-term investment	4,049	10,547
Net proceeds from debt issuance	149,892	—
Long-term debt payments	(20,595)	(21,685)
Net cash provided by financing activities	\$ 214,859	\$ 72,314
Net increase in cash and cash equivalents	\$ 115,720	\$ 12,294
Cash and cash equivalents at beginning of period	190,390	178,096
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 306,110	\$ 190,390

Supplemental data:

Donor contributions of investments, real estate and other	\$ 7,696	\$ 46,483
Donor contributions of land, buildings, and equipment	2,931	1,737
Cash paid for interest	21,340	21,617

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

1. Nature of Operations

Southern Methodist University (the University) is a private higher education institution providing undergraduate, graduate, and continuing educational opportunities. In addition to revenue generated by tuition and fees charged for these educational services, the University receives support from donations, revenue from investment earnings, federal grants, sponsored research, athletic events, auxiliary activities, and other sources.

During the reporting periods, the University had seven corporations under its control that are included in the *Consolidated Financial Statements*. These corporations support various University activities, including research initiatives, intercollegiate athletics, and the acquisition and management of real assets ancillary to the University's primary mission.

2. Summary of Significant Accounting Policies

The *Consolidated Financial Statements* have been prepared in accordance with generally accepted accounting principles (GAAP) established to provide meaningful information about the financial resources and operations of the University as a whole and have been prepared on an accrual basis.

(a) Net assets

As a not-for-profit entity, the University receives substantial support from donor contributions. The terms of many of these contributions restrict how the University may use the corresponding resources. Accordingly, transactions and balances are classified into two categories of net assets:

Net assets without donor restrictions – Net assets that are not subject to any donor-imposed stipulations or for which the donor-imposed stipulations have been fulfilled. The University has determined that any donor-imposed restrictions for currently budgeted programs and activities generally are met within the operating cycle of the University. Therefore, the University's policy is to record these funds as net assets without donor restrictions.

Net assets with donor restrictions – Net assets that are subject to donor-imposed stipulations which have not been fulfilled. Such stipulations may require the net assets to be held in perpetuity within the University's endowment, to support specific programs, to fund capital projects, or other University activities.

Revenues are reported as increases in "Net assets without donor restrictions" unless their use is limited by donor-imposed stipulations that are not reasonably expected to be fulfilled during the current operating cycle.

Expenses are reported as decreases in "Net assets without donor restrictions". Gains and losses on investments and other assets or liabilities are reported as increases or decreases in "Net assets without donor restrictions" unless their use is restricted by explicit donor stipulation or by law governing the use of charitable donations. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as "Net assets released from restrictions" and shown as reclassifications between net asset categories.

Income and realized and unrealized gains or losses on investments of donor-restricted net assets are reported as increases or decreases in "Net assets with donor restrictions" to the extent that the donor stipulations require the investment of the contribution (e.g., endowment related gifts, etc.).

The costs of providing various programs and support services are summarized on a functional basis in the *Consolidated Statements of Activities*. Accordingly, expenses such as depreciation, interest, and the operation and maintenance of University facilities are allocated among the functional categories.

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

(b) Cash equivalents

Cash equivalents include operating cash investments, U.S. Treasury bills and short-term paper with maturities of three months or less from the date of purchase.

(c) Accounts receivable, net

Accounts receivable includes amounts due from students for tuition, receivables due under grant and contract agreements, payments under athletic agreements, and other general operating receivables. These amounts are valued at net realizable value.

(d) Donor contributions receivable, net

Unconditional commitments to give from University donors are included in the *Consolidated Financial Statements* as donor contributions receivable until they are collected. These amounts have been discounted to their present value using rates that the University feels appropriately reflect the risks associated with these cash flows. Amortization of discounts is recorded as additional contribution revenue.

(e) Fair value measurements

Fair value measurements reflected in the *Consolidated Financial Statements* conceptually represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP provides a hierarchy that prioritizes the inputs to fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect the University's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets and liabilities measured and reported at fair value are classified and disclosed within one of the following categories:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets as of the reporting date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations are determined through direct or indirect observations other than quoted market prices. The type of investments in Level 2 also includes certain positions in which the University is a unit of account holder within a fund or account that holds underlying assets that are traded in active exchange markets with readily available pricing.
- Level 3 – Valuations for assets and liabilities that are unobservable and derived from other valuation methodologies including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The fair value of short-term paper, stocks, and bonds is based on quoted market prices. The fair value of funds held in trust by others is based on asset values reported to the University by the respective trustee. Such values rely primarily on Level 3 techniques. The fair value of real estate and mineral rights is estimated based on the income stream those assets generate. Where the fair value of other notes receivable is not available and cannot be determined without incurring excessive costs, the amounts reflected as fair value are the same as carrying value.

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

The majority of the University's investments reported are held through limited partnerships and commingled funds, for which fair value is estimated using the net asset values (NAV) reported by the investment managers as a practical expedient. Such investments have not been categorized within the fair value hierarchy.

Notes and bonds payable are carried at the amount of debt incurred, net of unamortized issuance costs and unamortized premiums and discounts adjusted for principal payments made.

(f) Investments

Fair value for marketable securities, funds held in trust by others and equity method investments are measured based upon quoted prices in active markets, if available. If the market is inactive, fair value is determined by underlying managers. Management reviewed and evaluated the valuations and has determined that the valuation methodology and assumptions result in reasonable estimates of fair value.

The University's investments in investment funds are subject to the terms of the respective funds' agreements, private placement memoranda, and other governing agreements of such funds. These terms are typical for hedge fund and private equity arrangements. The University's investments are also subject to management and performance fees as specified in such funds' agreements. Additionally, such funds in which the University invests may restrict both the transferability of the University's interest and the University's ability to withdraw. In light of such restrictions imposed, an investment in these funds is illiquid and subject to liquidity risk.

Investment transactions are accounted for on the trade date basis, with investment income and expense recognized on an accrual basis.

(g) Derivative instruments

The University currently participates in hedging and other derivative agreements to reduce operational expense fluctuation. Current outstanding instruments qualify as a derivative financial instrument under ASC 815, *Derivatives and Hedging*. These instruments are recorded on the *Consolidated Statements of Financial Position* as either an asset or liability measured at the fair value (using Level 2 techniques) as of the reporting date. Changes in fair value of any derivatives are recognized in the *Consolidated Statements of Activities*.

(h) Land, buildings, and equipment, net

Land, buildings, and equipment (including art objects) are recorded at cost, if purchased, or at fair value at the time of donation, if donated. During the period qualifying construction projects are in progress, net interest costs are capitalized as part of the basis of capital assets. Capital assets include land, buildings, and equipment that have an acquisition cost of \$5 and over and have an estimated useful life of at least two years, with the exception of software, where the cost must exceed \$75 before the asset will be capitalized. Land improvements, buildings, and equipment (except for art objects) are depreciated on the straight-line basis over their estimated useful lives with equipment, vehicles, furniture, software and "other" depreciating in five to 15 years; land improvements depreciating in 15 to 50 years; and buildings depreciating in 20 to 40 years.

(i) Net tuition and fees

Tuition and fee revenue is recognized in accordance with ASC 606, *Revenue from Contracts with Customers*. The University applies the portfolio approach, which approximates the revenue that would be recognized by the individual contract approach. In connection with these contracts, the University has an obligation to provide instruction and access to various student facilities. Tuition and fees are generally collected in advance or over the course of the respective term with the revenue earned over the same term as the University's performance obligations are satisfied. Scholarship allowance represents a reduction in the consideration collected from students reflective of discounts as well as the use of donor contributions designated to reduce the amounts collected directly from students. "Net tuition and fees" represent the cumulative transaction price reflective of ASC 606. Student tuition and fees received in advance of the corresponding revenue recognition are reported as customer contract liabilities in "Deposits and deferred revenue."

(j) Donor contributions

Contributions from University donors, including unconditional promises to give, are recognized in the period received. Unconditional promises to give from University donors, with payments due in future periods, are recorded as increases in “Net assets with donor restrictions” at the estimated present value of future cash flows, net of an allowance for uncollectible pledges.

Donor-restricted contributions increase “Net assets with donor restrictions.” Expirations of restrictions on net assets, such as the donor stipulation being met or the passage of time, are reported as “Net assets released from restrictions” and reflect reclassifications between the net asset categories. If the donor stipulation for a restricted contribution is met in the year of the gift, the contribution is reflected in “Net assets without donor restrictions.” Temporary restrictions on gifts to acquire long-lived assets are considered met in the period when the asset is placed in service. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are met.

Donor contributions are recorded at fair value or a nominal value if fair value is not readily determinable. Recorded realized and unrealized gains on investments are reported in the appropriate net asset classifications in the *Consolidated Statements of Activities*. Gifts and income thereon that are restricted in perpetuity by the donors for the purpose of making loans to students are reported as “Net assets with donor restrictions.”

Donor contributions of land, buildings and equipment without donor stipulations, concerning the use of such long-lived assets, are reported as “Net assets without donor restrictions.” Donor contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as “Net assets with donor restrictions.” The restrictions are considered to be released when the long-lived assets are placed in service.

(k) Grants and contracts revenue and indirect cost recoveries

The University receives grants and contracts revenue for research and other services it provides pursuant to arrangements with governmental and private entities. Grants and contracts revenue includes exchange transactions and contribution transactions where the related restrictions or conditions are indicative of a research grant relationship and not a traditional donor relationship. For financial statement purposes, grants and contracts revenue is recorded at the time corresponding expenses have been incurred.

Indirect cost recoveries and grants and contracts revenue are reported at the estimated net realizable amounts due from sponsoring agencies. These grants and contracts awards generally specify the purpose for which the funds are to be used and funds are typically received as the University pays for the corresponding expenses. Revenues from sponsored grants and contracts are recognized when allowable expenditures are incurred under such agreements. These revenues, primarily from the federal government, are recorded as adjustments to “Net assets without donor restrictions.” Amounts recorded in accounts receivable, related to grants and contracts, are for grant expenditures incurred in advance of the receipt of funds.

Indirect cost recoveries are based on negotiated rates and represent recoveries of facilities and administrative costs incurred under grants and contracts agreements.

(l) Auxiliary activities

Auxiliary activities revenue is recognized in accordance with ASC 606, *Revenue from Contracts with Customers*, with the primary contracts relating to housing and dining services. The University applies the portfolio approach, which approximates the revenue that would be recognized by the individual contract approach. In connection with these contracts, the University has an obligation to provide access to housing facilities and dining services through the term of the contract and recognizes revenue as the University’s performance obligations are satisfied. Auxiliary activities also include other operations which provide services to students, faculty and staff. Fee charges are directly related to the costs of these services.

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

(m) Income taxes

The University and the controlled corporations referenced in *Note 1* have received determination letters from the Internal Revenue Service indicating they are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, as organizations described in Sections 501(c)(3) and are not private foundations under Sections 509(a)(1) and 509(a)(3), as such, contributions to these entities qualify for deduction as charitable contributions.

The University and its consolidated entities are exempt from federal income taxes except to the extent they have unrelated business income. In addition, there were no uncertain income tax positions during the reporting periods. Accordingly, no tax liability or tax benefit is required under ASC 740, *Income Taxes*.

(n) Use of estimates

The preparation of the *Consolidated Financial Statements* in conformity with GAAP requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items in the University's *Consolidated Financial Statements* subject to such estimates and assumptions include valuations for certain investments without readily determinable fair values, the determination of the allowances for uncollectible accounts and depreciation expense which is based on the estimated useful lives of the related assets.

(o) New accounting pronouncement

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which enhances the presentation and disclosure of contributed nonfinancial assets. It requires contributed nonfinancial assets (including fixed assets, use of facilities or utilities, materials and supplies, intangible assets and services) to be presented in a separate line item on the statement of activities. Additionally, the standard required further disaggregation and qualitative information by type in the footnotes. The University adopted the ASU as of June 1, 2022. This standard did not have a material effect on the consolidated financial statements.

(p) Reclassifications

Certain financial statement and footnote information from the prior year financial statements have been reclassified to conform with the current year presentation. Intercollegiate athletics has been deemed to be more appropriately classified as student services rather than auxiliary activities and as such has been reclassified on the *Consolidated Statements of Activities*. Accordingly, the revenue associated with intercollegiate athletics has been reclassified from auxiliary activities to other sources on the *Consolidated Statements of Activities*. There is no net impact on the total revenues or total expenses. These reclassifications are also reflected in Note 12 and Note 13.

3. Liquidity and Resource Availability

The University has various practices in place to ensure sufficient resources are available to fund the general obligations of the University including general expenditures, liabilities, and other obligations as they come due. In general, the University uses the cash and other financial assets collected during the year to fund the expenses for the same year. The University frequently collects financial assets that are designated to fund certain activities of the University including donor-restricted contributions, amounts for the University's endowment, debt proceeds restricted to specific purposes, etc. Such assets are not available for general obligations. Excess cash balances are invested with a focus on capital preservation while seeking more favorable yields to traditional savings instruments. The risk profile and duration for such investments are adjusted to match future cash needs. Financial assets expected to be available for general obligations within a year are summarized below:

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

	2023	2022
FINANCIAL ASSETS:		
Cash and cash equivalents	\$ 306,110	\$ 190,390
Accounts receivable, net	44,167	70,903
Donor contributions receivable, net	273,994	259,023
Investments	2,191,664	2,182,291
Total financial assets	2,815,935	2,702,607
Less amounts not available to be used within one year:		
Cash and cash equivalents restricted for capital projects	(31,875)	(55,654)
Cash and cash equivalents restricted for loan programs	(13,655)	(12,950)
Donor contributions receivable, net due after one year	(187,132)	(172,858)
Donor contributions receivable, net due next year with restricted purposes	(83,868)	(81,903)
Accounts receivable, net restricted to the endowment	(1,430)	(26,863)
Investments restricted for defeased debt	(1,695)	(1,709)
Investments restricted to the endowment	(1,973,242)	(1,948,969)
Investments restricted to loan programs	(1,362)	(1,899)
Investments restricted to split-interest agreements	(14,833)	(16,291)
Financial assets not available to be used within one year for general expenditures	(2,309,092)	(2,319,096)
Available borrowings for general expenditures	100,000	75,000
Resources available within a year for general expenditures	\$ 606,843	\$ 458,511

4. Donor Contributions Receivable, net

Unconditional promises to give from University donors are included in the *Consolidated Financial Statements* as “Donor contributions receivable, net” with gifts reported in the appropriate net asset categories. Donor contributions receivable are recorded at their fair value, which is determined by computing the present value of future cash flows discounted at rates ranging from 2.5% to 7.0%. The present value and the associated incremental income are reflected as gift revenue in the period the agreement is made and in the period accreted, respectively.

Unconditional donor contributions receivable as of May 31 are expected to be realized in the following periods:

	2023	2022
DONOR CONTRIBUTIONS RECEIVABLE, NET:		
In one year or less	\$ 86,862	\$ 86,165
Between one year and five years	192,357	157,799
More than five years	38,791	54,538
Less discount	(44,016)	(39,479)
Donor contributions receivable, net	\$ 273,994	\$ 259,023

Unconditional contributions receivable as of May 31 have the following restrictions:

	2023	2022
PURPOSE RESTRICTIONS:		
Endowment for departmental programs and activities	\$ 30,250	\$ 16,578
Endowment for scholarships	5,771	4,955
Capital improvements	153,653	171,922
Scholarships, departmental programs and activities	83,880	64,930
Purpose restriction met	440	638
Donor contributions receivable, net	\$ 273,994	\$ 259,023

Conditional promises to give are not recorded in the *Consolidated Financial Statements* until they become unconditional. As of May 31, the University has received donor pledges contingent on the following conditions:

	2023	2022
CONDITIONS:		
Matching donations/funding requirements	\$ —	\$ —
Other	325	2,025
Conditional promises	\$ 325	\$ 2,025

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

5. Investments

Total investments as of May 31 are as follows:

	2023	2022
Short-term paper	\$ 45,022	\$ 30,869
Stocks	270,435	192,975
Bonds	263,036	247,681
Funds held in trust by others	10,585	11,119
Notes receivable, net	1,353	1,889
Mineral rights	81,677	98,469
Private markets	610,871	570,130
Hedged strategies	397,151	563,611
Equity funds	459,458	463,528
Fixed income funds	52,076	2,020
Investments	\$2,191,664	\$2,182,291

The University has unfunded investment commitments of \$291,598 and \$303,737 as of May 31, 2023 and 2022, respectively.

Investments include assets associated with split-interest agreements. The University's split-interest agreements consist of perpetual trusts held and administered by others, gift annuities, unitrusts and annuity trusts. Perpetual trusts held and administered by others are recorded at the current fair value of the University's interest in the trust assets. Under split-interest agreements, the University has the right to receive income distributions that are reported as revenue. The University makes periodic payments to named beneficiaries in return for assets received and recognizes a liability for the fair value of the anticipated future payments connected to these agreements based on the discount rates published by the Internal Revenue Service.

	2023	2022
SPLIT-INTEREST AGREEMENTS:		
(Losses) Gains	\$ (56)	\$ 776
Assets at fair value	25,399	27,391
Liabilities included in accounts payable and accrued expenses	7,901	8,589
Net assets with donor restrictions related to split-interest agreements	6,932	7,706
Discount rate	4.98%	4.22%

The University also owns foreign investments that are included in the applicable investment classifications in the above investment table. To mitigate foreign exchange risk, the investment managers may purchase foreign currency futures contracts which result in unrealized gains and losses that are reflected in the fair values of appropriate investment categories.

Investment return is comprised of investment income, expenses, such as custodial fees and investment advisory fees, and net realized and unrealized gains. Investment returns reported in the *Consolidated Statements of Activities* for the years ended May 31, are as follows:

	2023	2022
INVESTMENT RETURN:		
Investment income	\$ 43,701	\$ 44,687
External and internal direct expenses included in "Endowment income, net"	(13,864)	(12,345)
Net Realized and unrealized gains (losses) on investments	28,512	(77,044)
Investment return	\$ 58,349	\$ (44,702)

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6. Fair Value of Financial Instruments

The following tables present information about the University's investments at fair value, the fair value hierarchy utilized to determine such fair value, and the strategies related to them as of May 31:

2023					
	Investments Classified in Fair Value Hierarchy				
	Level 1	Level 2	Level 3	Net Asset Value	Total
INVESTMENTS AT FAIR VALUE:					
Short-term paper	\$ 45,022	\$ —	\$ —	\$ —	\$ 45,022
Stocks	270,435	—	—	—	270,435
Bonds	243,231	19,805	—	—	263,036
Funds held in trust by others	—	—	10,585	—	10,585
Notes receivable, net	—	1,353	—	—	1,353
Mineral rights	—	81,677	—	—	81,677
Private markets	—	19	1,217	609,635	610,871
Hedged strategies	—	—	—	397,151	397,151
Equity funds	—	—	—	459,458	459,458
Fixed income funds	—	—	—	52,076	52,076
Investments at fair value	\$ 558,688	\$ 102,854	\$ 11,802	\$ 1,518,320	\$ 2,191,664

2022					
	Investments Classified in Fair Value Hierarchy				
	Level 1	Level 2	Level 3	Net Asset Value	Total
INVESTMENTS AT FAIR VALUE:					
Short-term paper	\$ 30,869	\$ —	\$ —	\$ —	\$ 30,869
Stocks	192,975	—	—	—	192,975
Bonds	228,913	18,768	—	—	247,681
Funds held in trust by others	—	—	11,119	—	11,119
Notes receivable, net	—	1,889	—	—	1,889
Mineral rights	—	98,469	—	—	98,469
Private markets	—	19	1,167	568,944	570,130
Hedged strategies	—	—	—	563,611	563,611
Equity funds	—	—	—	463,528	463,528
Fixed income funds	—	—	—	2,020	2,020
Investments at fair value	\$ 452,757	\$ 119,145	\$ 12,286	\$ 1,598,103	\$ 2,182,291

The following tables report the changes in fair value for assets using significant unobservable inputs (Level 3):

2023							
	Opening Balance	Transfers	Realized Gains	Unrealized Losses	Sales	Purchases	Ending Balance
Funds held in trust by others	\$ 11,119	\$ —	\$ —	\$ (258)	\$ (276)	\$ —	\$ 10,585
Private markets	1,167	—	—	—	—	50	1,217
Level 3 investments	\$ 12,286	\$ —	\$ —	\$ (258)	\$ (276)	\$ 50	\$ 11,802

2022							
	Opening Balance	Transfers	Realized Gains	Unrealized Losses	Sales	Purchases	Ending Balance
Funds held in trust by others	\$ 12,607	\$ —	\$ —	\$ (1,904)	\$ (30)	\$ 446	\$ 11,119
Private markets	1,167	—	—	—	—	—	1,167
Level 3 investments	\$ 13,774	\$ —	\$ —	\$ (1,904)	\$ (30)	\$ 446	\$ 12,286

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The following tables present the liquidity of the University's investments at fair value at May 31:

	2023				
	Within 30 Days ¹	Quarterly ²	Semi-Annual or Annual ³	Illiquid ⁴	Total
INVESTMENTS AT FAIR VALUE:					
Funds held in trust by others	\$ —	\$ —	\$ —	\$ 10,585	\$ 10,585
Mineral rights	—	—	—	81,677	81,677
Private markets	—	—	—	610,871	610,871
Hedged strategies	—	284,593	85,702	26,856	397,151
Equity funds	237,207	222,251	—	—	459,458
Fixed income funds	497	32,836	—	18,743	52,076
<i>Investments at fair value</i>	<i>\$ 237,704</i>	<i>\$ 539,680</i>	<i>\$ 85,702</i>	<i>\$ 748,732</i>	<i>\$ 1,611,818</i>
Level 1 securities					558,688
Investments not subject to redemption terms					21,158
Total investments at fair value					\$ 2,191,664

1 With 3 business days to 30 days' notice

2 With 30 to 90 days' notice

3 With 45 to 90 days' notice

4 Includes funds under lock up

	2022				
	Within 30 Days ¹	Quarterly ²	Semi-Annual or Annual ³	Illiquid ⁴	Total
INVESTMENTS AT FAIR VALUE:					
Funds held in trust by others	\$ —	\$ —	\$ —	\$ 11,119	\$ 11,119
Mineral rights	—	—	—	98,469	98,469
Private markets	—	—	—	570,130	570,130
Hedged strategies	83,795	333,796	125,310	20,710	563,611
Equity funds	167,530	204,982	75,759	15,257	463,528
Fixed income funds	510	—	—	1,510	2,020
<i>Investments at fair value</i>	<i>\$ 251,835</i>	<i>\$ 538,778</i>	<i>\$ 201,069</i>	<i>\$ 717,195</i>	<i>\$ 1,708,877</i>
Level 1 securities					452,757
Investments not subject to redemption terms					20,657
Total investments at fair value					\$ 2,182,291

1 With 3 business days to 30 days' notice

2 With 30 to 90 days' notice

3 With 45 to 90 days' notice

4 Includes funds under lock up

7. Land, Buildings, and Equipment, net

The following table details the land, buildings, and equipment holdings of the University for fiscal years 2023 and 2022:

	2023	2022
LAND, BUILDINGS, AND EQUIPMENT:		
Land	\$ 175,438	\$ 175,438
Land improvements	117,602	117,597
Buildings	1,415,687	1,360,558
Equipment	132,610	120,818
Art	56,504	54,294
Other assets	30,025	26,863
Construction in progress	169,162	92,232
<i>Total land, buildings, and equipment, at cost</i>	<i>\$ 2,097,028</i>	<i>\$ 1,947,800</i>
Less accumulated depreciation*	(717,711)	(664,584)
Land, buildings, and equipment, net	\$ 1,379,317	\$ 1,283,216

*Includes depreciation expense of \$53,711 and \$53,338 for fiscal year 2023 and 2022, respectively.

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8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of May 31 included the following:

	2023	2022
ACCOUNTS PAYABLE AND ACCRUED EXPENSES:		
General accounts payable and accrued expenses	\$ 92,696	\$ 69,907
Asset retirement obligations	23,751	22,567
Current postretirement healthcare benefit obligation	2,480	2,528
Noncurrent postretirement healthcare benefit obligation	24,252	29,804
Ground lease contribution	44,582	44,587
Split-interest obligations	7,901	8,589
Accounts payable and accrued expenses	\$ 195,662	\$ 177,982

(a) Asset retirement obligations

In order to retire certain long-lived assets, the University is responsible for the abatement of asbestos and lead paint. The fair value of these costs is recognized in the period in which it is incurred, at the present value of expected future cash flows and is added to the carrying value of the associated asset to be depreciated over the asset's useful life.

The following table summarizes the change in the asset retirement obligation for fiscal years ended May 31, 2023 and 2022:

	2023	2022
Asset retirement obligations, beginning balance	\$ 22,567	\$ 21,568
Disposal of asset retirement obligations	(43)	(184)
Decrease in land, buildings and equipment, net of accumulated depreciation	(88)	(117)
Accretion and depreciation expense	1,315	1,300
Asset retirement obligations, ending balance	\$ 23,751	\$ 22,567

(b) Postretirement healthcare benefits

The University provides postretirement healthcare benefits for employees who meet minimum age and service requirements and retire from the University. These benefits are provided by an insured Medicare supplement product with no lifetime maximum. The funding for the premium of this product is shared between the University and plan participants.

The University accrues the expected cost of providing postretirement benefits, other than pensions, during the years that employees render services.

Actuarial assumptions used to determine the value of the accumulated postretirement benefit obligation (APBO) and the benefit costs included weighted average discount rates of 4.82% and 3.99% per annum for fiscal years 2023 and 2022, respectively.

ASC 715, *Compensation – Retirement Benefits*, requires the funded status of the postretirement benefit plan to be reported as an asset (for overfunded plans) or a liability (for underfunded plans).

The components of the net periodic benefit cost for the year ended May 31 are as follows:

	2023	2022
NET PERIODIC BENEFIT COST:		
Service cost	\$ 115	\$ 177
Interest cost	1,240	1,010
Amortization:		
Prior service cost	—	—
Unrecognized loss	—	—
Net periodic benefit cost	\$ 1,355	\$ 1,187

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Net periodic benefit cost and other changes in plan assets and benefit obligations recognized in “Net assets without donor restrictions” are as follows:

	2023	2022
PLAN COSTS AND OTHER CHANGES:		
Net periodic benefit cost recognized	\$ 1,355	\$ 1,187
Other changes in plan obligations:		
Net actuarial gain	(2,625)	(4,772)
Prior service cost	—	—
Other postretirement plan changes	(2,625)	(4,772)
Increase in net assets without donor restrictions	\$ (1,270)	\$ (3,585)

The accrued postretirement benefit obligations recognized in the University’s *Consolidated Statements of Financial Position* as of May 31 pursuant to the recognition provisions of ASC 715 are as follows:

	2023	2022
Benefit obligations, beginning balance	\$ 32,332	\$ 39,692
Service cost	115	177
Interest cost	1,240	1,010
Plan participants’ contributions	1,665	1,613
Benefit payments	(5,995)	(5,388)
Actuarial gain	(2,625)	(4,772)
Benefit obligations, ending balance	\$ 26,732	\$ 32,332

The accumulated postretirement benefit includes a current liability of \$2,480 for the claims and expenses that are expected to be paid out in the coming year and \$24,252 of noncurrent postretirement benefit liabilities.

As of May 31, 2023, the University had expected benefit payments in the following fiscal year:

EXPECTED BENEFIT PAYMENTS:		
2024		\$ 2,480
2025		2,335
2026		2,213
2027		2,157
2028		2,102
2029-2033		9,913
Expected benefit payments		\$ 21,200

(c) Ground lease contribution

“Accounts payable and accrued expenses” include \$44,582 reflecting the fair value of a ground lease contribution to The George W. Bush Foundation for the location, construction and operation of the George W. Bush Presidential Library Center facilities at the University as of May 31, 2023. This balance is being accreted over the 249 years of the lease, including extensions.

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9. Long-term Debt, net

Long-term debt, unamortized premiums, discounts, and issuance costs, consisted of the following at May 31:

	Average Coupon*	Final Maturity	2023	2022
TAX-EXEMPT FIXED-RATE REVENUE BONDS:				
2017 Series	4.56%	October 1, 2041	\$ 90,165	\$ 93,020
2016 Series A	4.57	October 1, 2045	96,380	102,880
2013 Series A	4.52	October 1, 2042	99,195	99,195
2007 Series	4.96	October 1, 2029	21,240	21,240
<i>Tax-exempt fixed-rate revenue bonds</i>			306,980	316,335
TAXABLE FIXED-RATE REVENUE BONDS:				
2016 Series B	3.76	October 1, 2045	25,250	25,250
2013 Series B	2.89	October 1, 2033	45,415	50,725
<i>Taxable fixed-rate revenue bonds</i>			70,665	75,975
PRIVATE PLACEMENT:				
2023 Series Taxable Notes	4.08	March 31, 2030	150,000	—
2017 Series Taxable Notes	3.55	October 1, 2047	89,785	91,975
2017 Promissory Note	Various	August 30, 2027	1,000	1,000
2015 Tax-Exempt Forward	2.53	October 1, 2032	22,330	26,070
<i>Private placement</i>			263,115	119,045
Long-term debt payable prior to amortizations			640,760	511,355
Unamortized net premiums			21,421	24,727
Unamortized bond issuance costs			(2,253)	(2,406)
Long-term debt, net			\$ 659,928	\$ 533,676

* Average coupon at time of issuance

	Escrowed Assets		Par Value	
	2023	2022	2023	2022
DEFEASSED BONDS:				
2007 Series ⁽¹⁾	\$ 1,695	\$ 1,709	\$ 1,630	\$ 1,630
<i>Long-term debt payable from escrow assets</i>			1,630	1,630
Long-term debt, net			659,928	533,676
Long-term debt, net payable from general resources			\$ 658,298	\$ 532,046

(1) Defeased with proceeds from a contribution

In addition to the above, the University has \$100,000 of borrowings available under an undrawn bank line of credit, which is available for general liquidity needs of the University.

No interest related to construction projects was capitalized during fiscal year 2023 and 2022, respectively. Interest expense on long-term debt was \$18,414 and \$17,913 for the fiscal years ended May 31, 2023 and 2022, respectively.

As of May 31, 2023, the University had scheduled principal maturities for the following fiscal years:

PRINCIPAL MATURITIES:	
2024	\$ 24,560
2025	27,855
2026	28,575
2027	30,085
2028	29,625
Thereafter	500,060
Principal outstanding	\$ 640,760

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10. Net Tuition and Fees

The University provides educational services to both undergraduate and graduate students. The below table presents a disaggregation of net tuition by these two groups:

	2023			2022		
	Undergraduate	Graduate	Total	Undergraduate	Graduate	Total
REVENUES:						
Tuition at stated rates	\$ 398,634	\$ 140,541	\$ 539,175	\$ 377,653	\$ 157,823	\$ 535,476
Student fees at stated rates	43,319	16,254	59,573	40,253	18,637	58,890
Less: Scholarship allowances	(172,104)	(46,432)	(218,536)	(171,678)	(53,581)	(225,259)
Net tuition and fee revenue	\$ 269,849	\$ 110,363	\$ 380,212	\$ 246,228	\$ 122,879	\$ 369,107

The following assets and liabilities have been recognized on the *Consolidated Statements of Financial Position* related to student accounts:

	2023	2022
Receivables included in <i>Accounts receivable, net</i>	\$ 7,826	\$ 11,968
Contract liabilities included in <i>Deposits and deferred revenue</i>	23,841	26,624

* Student accounts balances are primarily the result of tuition and fee activity, but also included are charges and payments for various other services.

11. Grants and Contracts

Grants and contracts revenue include both contribution and exchange transactions. Below is a summary of activity for fiscal years 2023 and 2022 including conditional contributions, which have not been recognized as revenue since these are contingent on the University's performance under various related agreements.

	2023			2022		
	Contributions	Exchange	Total	Contributions	Exchange	Total
Grants and contracts	\$ 17,780	\$ 13,299	\$ 31,079	\$ 30,966	\$ 12,968	\$ 43,934
Receivable, included in <i>Accounts receivable, net</i>	4,929	1,800	6,729	5,020	2,251	7,271
Contract liabilities included in <i>Deposits and deferred revenue</i>	295	6,175	6,469	673	8,202	8,875
Conditional contributions	35,284	-	35,284	34,300	—	34,300

12. Auxiliary Activities, net

Auxiliary activities revenue consisted of the following for fiscal year 2023 and 2022:

	2023	2022
REVENUES:		
Housing and dining services	\$ 44,765	\$ 44,333
Less: Scholarship allowances	(3,428)	(3,488)
Other activities	1,076	965
Auxiliary activities, net	\$ 42,413	\$ 41,810

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13. Natural Expenses

The tables below present expenses by both their nature and their function for fiscal year 2023 and 2022:

	2023							
	Instruction	Academic support	Research	Organized activities	Student services	Auxiliary activities	Institutional support	Total
EXPENSES:								
Compensation	\$ 160,660	\$ 62,173	\$ 27,766	\$ 4,713	\$ 59,516	\$ 5,560	\$ 53,672	\$ 374,060
Operations and maintenance	14,824	16,705	5,549	469	28,635	25,039	45,434	136,655
Professional fees and services	19,001	9,921	4,097	6,143	11,986	969	17,692	69,809
Travel, professional development	5,933	3,396	2,467	2,345	17,823	409	4,316	36,689
Interest	1,939	1,341	526	17	3,273	3,755	7,563	18,414
Supplies	1,064	9,295	2,171	358	2,439	286	1,495	17,108
Student support	1,565	1,276	908	55	7,200	35	3	11,042
Other	1,423	75	2,225	1,418	3,444	-	1,974	10,559
Expenses	\$ 206,409	\$104,182	\$45,709	\$ 15,518	\$ 134,315	\$ 36,053	\$132,149	\$ 674,335

	2022							
	Instruction	Academic support	Research	Organized activities	Student services	Auxiliary activities	Institutional support	Total
EXPENSES:								
Compensation	\$ 158,211	\$ 58,529	\$ 25,439	\$ 4,290	\$ 57,083	\$ 5,411	\$ 47,186	\$ 356,148
Operations and maintenance	12,459	13,691	3,237	497	25,578	15,069	34,725	105,257
Professional fees and services	17,127	8,236	3,198	3,965	11,209	654	18,208	62,597
Travel, professional development	2,792	2,337	1,021	1,092	14,783	451	3,414	25,890
Interest	1,615	1,297	272	26	3,592	4,056	7,055	17,913
Supplies	1,360	9,081	2,151	182	2,127	304	1,317	16,522
Student support	1,365	795	676	47	6,749	27	3	9,663
Other	844	118	1,477	778	7,709	343	1,810	13,078
Expenses	\$ 195,773	\$ 94,084	\$37,471	\$ 10,877	\$ 128,830	\$26,315	\$113,718	\$ 607,068

*The fiscal year 2022 table has been reclassified to conform with the current year presentation. See footnote 2(p) for further explanation.

The University incurs some expenses for the benefit of multiple functional areas such as various operations and maintenance expenses (including depreciation) and interest expense. To the extent these expenses are not attributed to a specific area, they are allocated primarily on a square-footage basis to the various functional areas.

Fundraising expenses of approximately \$24,021 and \$22,101 incurred by the University in fiscal years 2023 and 2022, respectively, are included primarily as "Institutional support expenses".

14. Defined Contribution Postemployment Plans

The University also has a defined contribution retiree medical plan intended to replace the University's defined benefit retiree medical plan. Under this program, both the University and employees contribute monthly to the employees' retiree medical accounts. The University contributed \$1,698 and \$1,636 to this program in fiscal years 2023 and 2022, respectively. The current defined benefit retiree medical plan will be phased out concurrently with funding of this defined contribution plan.

Full-time and part-time benefits-eligible employees are eligible for the 403(b) Retirement Plan at age 21. Full-time employees are required to enroll if age 36 or older. Retirement benefit expenses under this plan were \$20,643 and \$20,626 in fiscal years 2023 and 2022, respectively.

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15. Net Assets Released from Donor Restrictions

The sources of net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by donors were as follows:

	2023	2022
NET ASSETS RELEASED:		
Acquisition of buildings and equipment	\$ 50,842	\$ 10,648
Instruction, research, departmental support, scholarships and other	119,774	95,920
Net assets released from donor restrictions	\$ 170,616	\$ 106,568

16. Restrictions and Limitations on Net Assets with Donor Restrictions

Net assets with donor restrictions as of May 31 consist of the following:

	2023	2022
NET ASSETS WITH DONOR RESTRICTIONS:		
Endowment corpus, restricted in perpetuity	\$ 1,040,035	\$ 1,008,346
Endowment donor contributions, restricted in perpetuity	35,241	19,278
Endowment appreciation restricted until appropriated	837,078	886,888
Perpetual funds held in trust	10,585	11,119
Funds held in perpetuity for student loans	13,869	13,538
Split-interest agreements	6,932	7,706
Restricted for capital projects, including related donor contributions receivable	271,049	260,883
Restricted for other purposes, including related donor contributions receivable	260,642	254,491
Net assets with donor restrictions	\$ 2,475,431	\$ 2,462,249

17. Endowment Net Assets

The University's Endowment (Endowment) consists of over 1,800 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (without donor restrictions). The Endowment provides stable financial support to a wide variety of programs and activities in perpetuity, playing a critical role in enabling the University to achieve its mission. Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of relevant law

The University's endowment is subject to the Texas State Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act). Based on the interpretation of the UPMIFA by the University's Board of Trustees, absent explicit donor stipulations to the contrary, the University holds in perpetuity (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 gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not held in perpetuity remains in the endowment until it is appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Board of Trustees considers the following factors in deciding 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 appreciation of investments
6. Other resources
7. The investment policies of the University

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Changes in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets as of May 31, 2021	\$ 92,369	\$ 1,977,510	\$ 2,069,879
Donor contributions	—	76,694	76,694
Investment return:			
Investment income, net of distributions	1,948	9,849	11,797
Net realized and unrealized gains (losses)	5,774	(66,755)	(60,981)
<i>Total investment return</i>	7,722	(56,906)	(49,184)
Endowment gains transferred for spending	(4,655)	(71,715)	(76,370)
Funds functioning as endowment net transfers	1,654	—	1,654
Endowment net assets as of May 31, 2022	\$ 97,090	\$ 1,925,583	\$ 2,022,673
Donor contributions	—	42,621	42,621
Investment return:			
Investment income, net of distributions	857	3,686	4,543
Net realized and unrealized gains	7,322	34,926	42,248
<i>Total investment return</i>	8,179	38,612	46,791
Endowment gains transferred for spending	(5,072)	(83,602)	(88,674)
Funds functioning as endowment net transfers	915	—	915
Endowment net assets as of May 31, 2023	\$ 101,112	\$ 1,923,214	\$ 2,024,326

Endowment net assets are split between donor-restricted (with donor restrictions) and funds functioning as endowment (without donor restrictions).

(b) Funds with deficiencies

From time to time, the value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or the Act requires the University to retain as a fund of perpetual duration. As of May 31, 2023, thirty-three such endowment funds with an aggregated value of \$27,928 were a total of \$700 below the minimum distribution level. As of May 31, 2022, forty-five such endowment funds with an aggregated value of \$31,268 were a total of \$1,333 below the minimum distribution level.

(c) Return objectives and risk parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested within risk tolerances of the University to provide an expected total return in excess of spending and inflation over the long term.

The principal risk to the endowment is the possibility of prolonged or severe asset depreciation that impairs the ability of the fund to preserve the value of the corpus after inflation, fees and the yearly spending distribution. The endowment's broadly diversified portfolio is designed to reduce the volatility of returns. Also, the endowment is invested in asset classes that are projected to perform well and act as a hedge in environments that could cause prolonged or severe asset depreciation such as high inflation or deflation. Risk management is a dynamic process that considers general market developments, the proliferation of new investments and the changing nature of correlation across asset classes. The University and its Investment Committee are responsible for this process, monitoring and managing the factors pertaining to credit, liquidity, market and operational risks.

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

(d) Strategies employed for achieving objectives

To satisfy its long-term return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current income (interest and dividends, etc.). The University targets a diversified asset allocation that places emphasis on public equities, private markets, hedged strategies, fixed income strategies, and real asset strategies to achieve its long-term return objectives within prudent risk constraints.

(e) Spending policy and the investment objectives relationship to spending policy

The University has adopted an endowment spending policy whereby annually the Board of Trustees authorizes amounts to be spent for the purposes intended by the donors based in part on an index of the prior year allocation for spending and in part on a stipulated percentage of the fair value of endowments participating in the investment pool. If the current income of the endowment investments is not sufficient to cover the authorized level of spending, the difference is taken from the market value in excess of the historical gift value, to the extent available.

University Administration is authorized to distribute for spending from all endowment funds invested in the Investment Pool that have sufficient realized and unrealized capital gains an amount equal to seventy percent (70%) of the spending calculated for the previous fiscal year increased by an inflation factor to be determined each fiscal year (3% for fiscal year 2023), and a percent determined for each fiscal year (4.5% for fiscal year 2023) of thirty percent (30%) of the four-quarter average of the Investment Pool per share market value for the preceding calendar year multiplied by the number of shares outstanding at the end of that calendar year. In establishing this policy, the University considers the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate at least equal to planned payouts and inflationary increases. Additional real growth will be provided through new gifts and excess investment returns.

18. Related Party Transactions

In the ordinary course of business, the University may have business transactions with entities in which University board members or employees have an interest. Although generally such transactions are immaterial, the University does engage in such business transactions that may be material. The University has invested funds totaling \$13,875 and \$13,489 in fiscal years 2023 and 2022, respectively, with investment firms with which board members are affiliated.

19. Commitments and Contingencies

The University is contractually obligated for approximately \$173,916 as of May 31, 2023 for construction projects with scheduled completion dates through fiscal year 2029.

The University is party to various lease agreements which requires the University to make future lease payments and other agreements that entitle the University to future independent operations revenues. During the fiscal year, the University incurred \$888 and \$987 in operating lease expenses for facilities and equipment and received \$3,993 and \$4,163 in rental revenue in the fiscal years ended May 31, 2023 and 2022, respectively.

Southern Methodist University
Notes to the Consolidated Financial Statements
For the Fiscal Years Ended May 31, 2023 and 2022

(Dollars in Thousands)

As of May 31, 2023, the University has lease commitments and future lease revenue for the following future fiscal years:

	Lease Commitments	Lease Revenues
2024	\$ 857	\$ 3,772
2025	787	3,467
2026	412	3,152
2027	102	2,832
2028	52	2,453
Thereafter	—	6,838
Total	\$ 2,210	\$ 22,514

The University participates in the Federal Title IV student financial aid programs and must fulfill federal requirements to qualify for these programs. Management is of the opinion that the University is in compliance with the federal requirements.

The University enters into contracts with vendors, some of which may have penalties for early termination. It is the University's practice when entering into such contracts to not cancel the contracts prior to the end of their term. If, from a business standpoint, including consideration of the cancellation penalty, the University does cancel any such contract, it does not believe there would be any material adverse effect on the University's *Consolidated Financial Statements*.

The University is a defendant in several legal actions. The outcomes of these actions cannot be determined at this time, but management is of the opinion that any liability that may result from these actions will not have a material effect on the University's financial position.

The University has entered into various agreements with banks to guarantee the construction loan debt for sorority houses built on University land. Under these agreements if the debtor's default on their obligations, the University may be required to satisfy all or part of the remaining obligation.

20. Subsequent Events

The University has evaluated subsequent events from the Statement of Financial Position date of May 31, 2023 through September 8, 2023, the issuance date of the *Consolidated Financial Statements*, and determined that there are no other subsequent events that warrant disclosure as of this date.



KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Southern Methodist University:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Southern Methodist University and its subsidiaries (the University), which comprise the consolidated statement of financial position as of May 31, 2023, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 8, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Dallas, Texas
September 8, 2023



KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

**Independent Auditors' Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Trustees
Southern Methodist University:

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Southern Methodist University's (the University) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended May 31, 2023. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal programs for the year ended May 31, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the University's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the University's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the University's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS,



Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the University's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 University's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the University's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the University as of and for the year ended May 31, 2023, and have issued our report thereon dated September 8, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Dallas, Texas
October 27, 2023

SOUTHERN METHODIST UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended May 31, 2023

Federal grantor/program title/pass through grantor	Federal ALN Number	Payment source	Agency or pass-through number	Amount provided to subrecipients	Federal expenditures
Student Financial Aid Cluster:					
Department of Education – Prime Awards:					
Federal Supplemental Educational Opportunity Grant Program	84.007	Direct		\$ —	985,450
Federal Work Study Program	84.033	Direct		—	621,047
Federal Perkins Loan Program (note 5)	84.038	Direct		—	1,063,198
Federal Pell Grant Program	84.063	Direct		—	4,610,973
Federal Direct Loan Program (note 6)	84.268	Direct		—	74,493,730
Total Student Financial Aid				—	81,774,398
Research & Development Cluster:					
Department of Defense:					
U.S. Office of Naval Research	12.300	Direct	N00014-20-1-2520,2287,2603	29,340	182,761
U.S. Army Core of Engineers ERDC	12.630	Direct	W912HZ-19-C-0013	—	93,774
U.S. Air Force Office of Scientific Research (AFOSR)	12.800	Direct	FA9550-19-1-0375	—	37,595
U.S. Air Force Office of Scientific Research (AFOSR)	12.800	Direct	FA7000-23-2-0003	—	11,156
Subtotal (ALN 12.800)				—	48,751
U.S. Air Force Technical Application Center (AFTAC)	12.xxx	Direct	FA7022-22-C-0001	—	371,713
U.S. Air Force Technical Application Center (AFTAC)	12.xxx	Direct	FA7022-20-C-0003	628,468	2,122,056
U.S. Army Research Office	12.xxx	Direct	W15QKN-21-C-0052-P00002	—	108,312
ML/AI Research and Development	12.xxx	Direct	PO 4400551927	—	154,045
Enabling Improvements for Geo ARMY ERDC	12.xxx	Direct	W912HZ20C0032	—	365,031
Defense Advanced Research Projects Agency, DARPA	12.xxx	Direct	HR0011-16-C0028/P00009	—	29,236
Pass-through programs from:					
University of Alaska-Defense Threat Reduction Agency(DTRA)	12.xxx	Pass-through	UA21-0111, Mod 5	—	578,860
USAMRA	12.xxx	Pass-through	W81XWH-19-C-0012	—	3,826
LWIR SLS-based Linear PT.	12.xxx	Pass-through	W909MY-22-C-0017	—	96,262
Subtotal (ALN 12.xxx)				628,468	3,829,341
University of Alaska-Defense Threat Reduction Agency	12.740	Pass-through	PO# 1056267 HJF	—	32,468
MIT & WPI Uni	12.800	Pass-through	S4643/PO 204125, Amd 411377-GR	—	84,123
University of New Mexico – Army Research Laboratory	12.431	Pass-through	433672-87CJ	—	54,047
Total Department of Defense				657,808	4,325,265
National Aeronautics & Space Administration:					
NASA Space Operations	43.001	Direct		—	827,659
Pass-through programs from:					
Lynntech	43.001	Pass-Through	80NSSC19-C-0189	—	37,518
JETPROPLAB	43.001	Pass-Through	JPL-1673004	—	125,548
University of Illinois	43.001	Pass-Through	095503-17473	—	36,995
University of Colorado / Building a global record of lunar	43.001	Pass-Through	1588899	—	28,613
Total National Aeronautics & Space Administration				—	1,056,333
Department of Health & Human Services:					
HHSC, Biology, Roles of p53-Regulated Pro-Survival Signals	93.396	Direct	R15CA267892-01A1	—	18,056
HHSC, Exploring Tarrant County Head Start and Early	93.600	Direct	90YR0145-01-00	—	36,016
National Heart, Lung, and Blood Institute	93.838	Direct	5R01HL142775-03	342,432	503,519
National Institute of Neurological Disorders and Stroke	93.853	Direct		—	1,032,524
Pass-through programs from:					
University of California-National Institute of Health	93.242	Pass-Through	0875 G WA627	—	291,762
Johns Hopkins University-National Institute of Health	93.242	Pass-Through	2003881437, Amd 5	—	67,577
University of Texas-Austin	93.242	Pass-Through	UTA20-001202	—	27,278
Subtotal (ALN 93.242)				—	386,617
University of Wisconsin	93.279	Pass-Through	740K353	—	14,921
University of Wisconsin	93.279	Pass-Through	234502, 237463	—	21,609
Subtotal (ALN 93.279)				—	36,530
National Cancer Institute, Psychology	93.394	Direct	1R21CA260360-02	36,443	199,736
Pass-through programs from:					
University of Texas at Arlington – National Cancer Institute	93.394	Pass-Through	2020GC0373	—	40,362
Subtotal (ALN 93.394)				36,443	240,098
National Institute of Allergy and Infectious Diseases Chemistry	93.855	Direct	1R15AI142699-01	—	88,590
Pass-through programs from:					
University of Notre Dame	93.855	Pass-Through	204160SMU, Amd 02	—	74,838
Subtotal (ALN 93.855)				—	163,428
University of Texas Southwestern Medical Center	93.395	Pass-Through	210414/PO#00000231949A	—	14,580
University of Texas Southwestern Medical Center	93.837	Pass-Through	GMO 190603 PO#000001782	—	2,731
National Institute on Biomedical Research	93.859	Direct		72,872	518,657
Pass-through programs from:					
BIOLUM, CORP.	93.859	Pass-Through	1R41GM140575-01, 220923	—	74,388
Subtotal (ALN 93.859)				72,872	593,045
Wayne State University	93.865	Pass-Through	WSU18066-A6	—	90,009
National Institute of Aging Research	93.866	Direct		—	526,158
Pass-through programs from:					
UTSW, Psychology, Effects of Obesity in the Aged	93.866	Pass-Through	1R01AG070262-01A1/GMO: 220221	—	34,059
Subtotal (ALN 93.866)				—	560,217
LESTAN, UNI	93.867	Pass-Through	Y62610246-167717	—	13,061
Total Department of Health & Human Services				451,747	3,690,431
National Science Foundation:					
Geosciences	47.050	Direct		—	286,376
Social Behavioral and Economic Sciences	47.075	Direct		92,363	357,918
Engineering	47.041	Direct		—	460,661
Pass-through programs from:					
Electrical Engineering ISU & UNL	47.041	Pass-Through	4207284A25-0511-0235-011	—	50,443
Subtotal (ALN 47.041)				—	511,104

SOUTHERN METHODIST UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended May 31, 2023

Federal grantor/program title/pass through grantor	Federal ALN Number	Payment source	Agency or pass-through number	Amount provided to subrecipients	Federal expenditures
Mathematical and Physical Sciences	47.049	Direct		\$ 248,912	1,969,039
Pass-through programs from:					
Mathematical and Physical Sciences	47.049	Pass-Through	93443/1172884/2 M&O, Amd2	—	306,978
Subtotal (ALN 47.049)				<u>248,912</u>	<u>2,276,017</u>
Engineering, Math and Chemistry	47.070	Direct		—	523,950
Pass-through programs from:					
Teach and Learn Spons Projects	47.070	Pass-Through	UTA19-001429 Amendment N	—	14,258
Subtotal (ALN 47.070)				<u>—</u>	<u>538,208</u>
Mec. Engineering and Chemistry	47.074	Direct		—	102,368
Pass-through programs from:					
Chemistry	47.074	Pass-Through	127507 G004188	—	11,470
Subtotal (ALN 47.074)				<u>—</u>	<u>113,838</u>
Edu, Guildhall, Math, teaching	47.076	Direct		176,884	1,544,976
Pass-through programs from:					
Education and Human Resources	47.076	Pass-Through	Letter	—	77,928
Subtotal (ALN 47.076)				<u>176,884</u>	<u>1,622,904</u>
Total National Science Foundation				<u>518,159</u>	<u>5,706,365</u>
Department of Education:					
Learning Through Gaming: VR and AD Address Learning Loss	84.215	Direct	S215K220138	300,000	663,282
Institute of Education Sciences – Education Research	84.305D	Direct	R305D200038 – 22	51,719	176,211
Institute of Education Sciences – Collaboration and Partnerships	84.305H	Direct	R305H-1800-15	—	3,174
Special Education-Research to Improve Services for Children with Disabilities	84.324A	Direct	R324A-200151	453,588	673,297
Project CONNECT:Creating the Ongoing Networked Needed to Engage Communities	84.365Z	Direct	T365Z160106-20 Action#6	—	29,875
Scalability, Capacity, and Learning Engagement (SCALE) for Fraction Face-Off	84.411B	Direct	S411B210032	—	1,104,451
Institute of Education Sciences – Education Research, Development, and Dissemination	84.305A	Direct	R305A-20401-23	248,963	652,030
Pass-through programs from:					
University of Oregon-Measure of Reading Fluency	84.305A	Pass-Through	225030A, Amd 2	—	163,959
University of Texas-Education Research, Development and Dissemination	84.305A	Pass-Through	UTA20-001027, Amd 3	—	70,051
Subtotal (ALN 84.305A)				<u>248,963</u>	<u>886,040</u>
UOMISS Uni-Research-Supporting Teaching of Algebra: Individual Readiness (STAIR)	84.326M	Pass-Through	H326M170006/C00059710-	—	29,928
UOMISS Uni-Research-Supporting Teaching of Algebra: Individual Readiness (STAIR)	84.324	Pass-Through	C00076462-1	—	104,461
UT Uni. Training Personnel Preparation in Mathematics Special Education	84.325	Pass-Through	UTAUS-SUB00000235, Amd 01	—	145,272
Total Department of Education				<u>1,054,270</u>	<u>3,815,991</u>
Department of Energy:					
OFED, DOE	81.049	Direct	DE-SC0010129, DE-SC002893	—	1,054,904
Pass-through programs from:					
OFED, DOE- TALL, RDUSA	81.049	Pass-Through	212773	—	44,042
Subtotal (ALN 81.049)				<u>—</u>	<u>1,098,946</u>
Sandia National Laboratory	81.xxx	Direct	2211721, 2353759	—	110,637
Pass-through programs from:					
Brookhaven National Laboratory	81.xxx	Pass-Through	368247	—	—
Lawrence Livermore National Laboratory	81.xxx	Pass-Through	B639898-Mod2	—	56,274
UT-Battelle Oak Ridge National Laboratory Seismo-acoustic Wavefield,	81.xxx	Pass-Through	4000189928	—	112,806
Fermi National Accelerator Center	81.xxx	Pass-Through	657016, 658652 Mod 5	—	319,290
Lawrence Berkley National	81.xxx	Pass-Through	7533020, Mod 5	—	28,246
Brookhaven National Laboratory	81.xxx	Pass-Through	346940, 378917, 382256	—	83,252
Subtotal (ALN 81.xxx)				<u>—</u>	<u>710,505</u>
Uni. of N. Carolina Resilient Community Microgrids	81.087	Pass-Through	20200875-01-SMU, Amd 4	—	152,749
CSU Univ. Accelerating Pipeline Methane Leak Detection	81.089	Pass-Through	G-31951-05	—	50,080
Total Department of Energy				<u>—</u>	<u>2,012,280</u>
Department of Transportation:					
Federal Highway Administration	20.215	Pass-Through	693JJ32245026 & xxxx63	—	6,938
FRA, Enhancing Railroad Workforce Training	21.xxx	Pass-Through	693JJ622C000023	—	15,235
FRA, Rail Bridge Strike	21.xxx	Pass-Through	693JJ620C000005	—	118,437
Subtotal (ALN 21.xxx)				<u>—</u>	<u>133,672</u>
Colorado State University	20.723	Pass-Through	693JK32010011POTA & 693JK32210006POTA	—	2,951
Total Department of Transportation				<u>—</u>	<u>143,561</u>
Department of Homeland Security:					
Radiation Background Characterization for Enhanced Anomaly Detection	97.077	Direct	18DNARI00029-05-00	130,405	252,364
Total Department of Homeland Security				<u>130,405</u>	<u>252,364</u>
U.S. Geological Survey:					
Office of Personnel Management – Intergovernmental Personnel Agreement	27.011	Direct	IPA, IPA200723	—	124,603
USGS Leveraging machine-learning	15.807	Direct	G22AP00362-00	—	24,374
USGS Joint R&D of Remote Sensing Capabilities for Landslide	15.808	Direct	G22AC00595-00	—	46,429
USGS Mapping the Teutonia	15.810	Direct	G21AC10738	—	3,323
Total U.S. Geological Survey				<u>—</u>	<u>198,729</u>
Department of Justice:					
Human Trafficking Project	16.xxx	Direct	15PNJI-22-GK-00246-BRND	—	490,456
Total DOJ Award				<u>—</u>	<u>490,456</u>
National Oceanic and Atmospheric Administration:					
University of South Alabama	11.417	Pass-Through	NA200AR4170494	—	21,696
Total NOAA Award				<u>—</u>	<u>21,696</u>
Total Research & Development				<u>2,812,389</u>	<u>21,713,471</u>

SOUTHERN METHODIST UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended May 31, 2023

<u>Federal grantor/program title/pass through grantor</u>	<u>Federal ALN Number</u>	<u>Payment source</u>	<u>Agency or pass-through number</u>	<u>Amount provided to subrecipients</u>	<u>Federal expenditures</u>
TRIO Cluster:					
Department of Education:					
TRIO_Talent Search	84.044A	Direct	P044A210027, P044A210028	\$ —	487,811
Upward Bound	84.047A	Direct	P047A220655, P0471220675	—	887,975
Upward Bound	84.047M	Direct	P047M220105, P047M220106	—	578,444
TRIO_McNair Post-Baccalaureate Achievement	84.217A	Direct	P217A220127, P217A170142	—	230,874
Total TRIO Cluster				<u>—</u>	<u>2,185,104</u>
Other Programs:					
Education Stabilization Fund:					
Department of Education:					
Covid-19 – Higher Education Emergency Relief Fund (HEERF) Institutional Costs	84.425F	Direct		—	529,684
Governor Emergency Education Relief (GEER)	84.425C	Direct		—	43,296
Total CARES Cluster				<u>—</u>	<u>572,980</u>
Department of Health and Human Services:					
Texas Workforce Commission, HHS Adm for Children and Families	93.558	Pass-Through	2922SMP003, 2101TXTANF	—	86,307
Texas Workforce Commission, HHS Adm for Children and Families	93.558	Pass-Through	2923SMP004, 2301TXTANF	—	10,281
Total Department of Health and Human Services				<u>—</u>	<u>96,588</u>
Department of Labor:					
Texas Workforce Commission	17.278	Pass-Through	AA-33258-19-55-A-48	—	71,088
Texas Workforce Commission	17.278	Pass-Through	AA-34797-20-55-A-48	—	431
Total Department of Labor				<u>—</u>	<u>71,519</u>
Institute of Museum & Library Services:					
Texas State Library and Archives Commission	45.310	Direct	LS-24990-OLS-21	—	1,614
Texas State Library and Archives Commission	45.310	Direct	LS-252486-OLS-22	—	22,651
Total Institute of Museum & Library Services				<u>—</u>	<u>24,265</u>
Total Federal Assistance				<u>\$ 2,812,389</u>	<u>106,438,325</u>

SOUTHERN METHODIST UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2023

(1) General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal financial assistance programs of Southern Methodist University (the University). All federal awards passed through from other entities have been included in the Schedule.

(2) Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting, which is described in note 1 to the University's consolidated financial statements.

(3) Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule may not agree with the amounts reported in the related federal financial reports filed with grantor agencies because of accruals which would be included in the next report filed with the agencies.

(4) Relationship to Consolidated Financial Statements

The following is a reconciliation of federal financial assistance revenue as reported in the University's consolidated financial statements to the schedule of expenditures of federal awards:

Total grants and contracts revenue as reported in the consolidated financial statements	\$ 31,079,000
Perkins loans	1,063,198
Direct loans	74,493,730
Pell grants	4,610,973
Nonfederal grant and contract revenues	<u>(4,808,576)</u>
Federal expenditures per accompanying Schedule	<u>\$ 106,438,325</u>

(5) Perkins Loan Program

At May 31, 2023, the University reported Perkins loans receivable of approximately \$1,063,198. The University made no loans in the program during the year.

(6) Federal Direct Loan Program

The University began participation in the Federal Direct Loan Program June 14, 2010. This was mandated by the Student Aid and Fiscal Responsibility Act that terminated the Federal Family Education Loan Program (FFELP) as of July 1, 2010. This program provides loans directly from the U.S. Department of Education to students with Federal Stafford, Grad PLUS and Parent PLUS loans rather than from a bank or other lending institution.

The University originates the loans and performs certain administrative duties. The institution has no repayment responsibilities, therefore the outstanding loans are not included in the University's consolidated financial statements.

SOUTHERN METHODIST UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2023

(7) Subrecipients

Of the federal expenditures presented in the Schedule, the University provided federal awards to subrecipients in the Research & Development (R&D) Cluster totaling \$2,812,389.

(8) Indirect Cost Rate

The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

SOUTHERN METHODIST UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended May 31, 2023

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major program:
 - Student Financial Aid Cluster – Various Assistance Listing Numbers (ALN)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low risk auditee: **No**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None



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SOUTHERN METHODIST UNIVERSITY

Summary Schedule of Prior Year Findings

Year ended May 31, 2023

Finding number: 2021-001

Update and Corrective Action Taken:

The notification process uses a PeopleSoft system functionality that generates an email to all students who had a federal loan disbursed. The date for this mass email is retrieved by a manually executed PeopleSoft query. Due to human error the query did not retrieve the full list of students because of an incorrect date criterion was used. This was discovered and the students were subsequently notified later in the aid year. To prevent this from reoccurring, the loan notification process is being transferred to an automated PeopleSoft SQR program to eliminate the risk of human error.

The process referenced above has been successfully automated through an application engine process. This was put into production in August of 2022 to begin the new aid year 2022/2023 fall term disbursements.

Finding number: 2021-002

Update and Corrective Action Taken:

The University acknowledged it did not properly document the reasons for utilizing non-competitive procurement process for supplies and service expenses charged to HEERF grants.

The Purchasing Department added additional documentation/justification for non-competitive purchases greater than \$10,000 from Federal funding sources to its Vendor/Price Justification Form. For Federally funded expenses the justification requires one of the circumstances listed in section 2 C.F.R. § 200.320 to be identified as the reason for utilizing the non-competitive procurement exception. The non-competitive justification is included in the procurement file as part of the procurement process. The Purchasing Department and Grant and Contract Accounting review the non-competitive justification prior to the commitment of an order. The review also includes verification that the vendor is not listed on the suspension and debarment list on the United States Government System for Awards Management. This has been fully remediated and corrective action was taken.

World Changers Shaped Here

University Budgets and Finance

Southern Methodist University PO Box 750233 Dallas TX 75275-0233

214-768-2000 Fax 214-768-1131 smu.edu

Finding number: 2021-003

Update and Corrective Action Taken:

The University acknowledges that it did not retroactively post the first calendar 2021 quarter report and acknowledges there was a discrepancy in the date the students were notified of the grant versus what the website states.

The University put in place controls to continually review guidance to ensure we are properly publishing reports according to Federal guidelines. The review of posting dates and reporting for HEERF was added to the monthly meetings. This has been fully remediated and corrective action was taken.