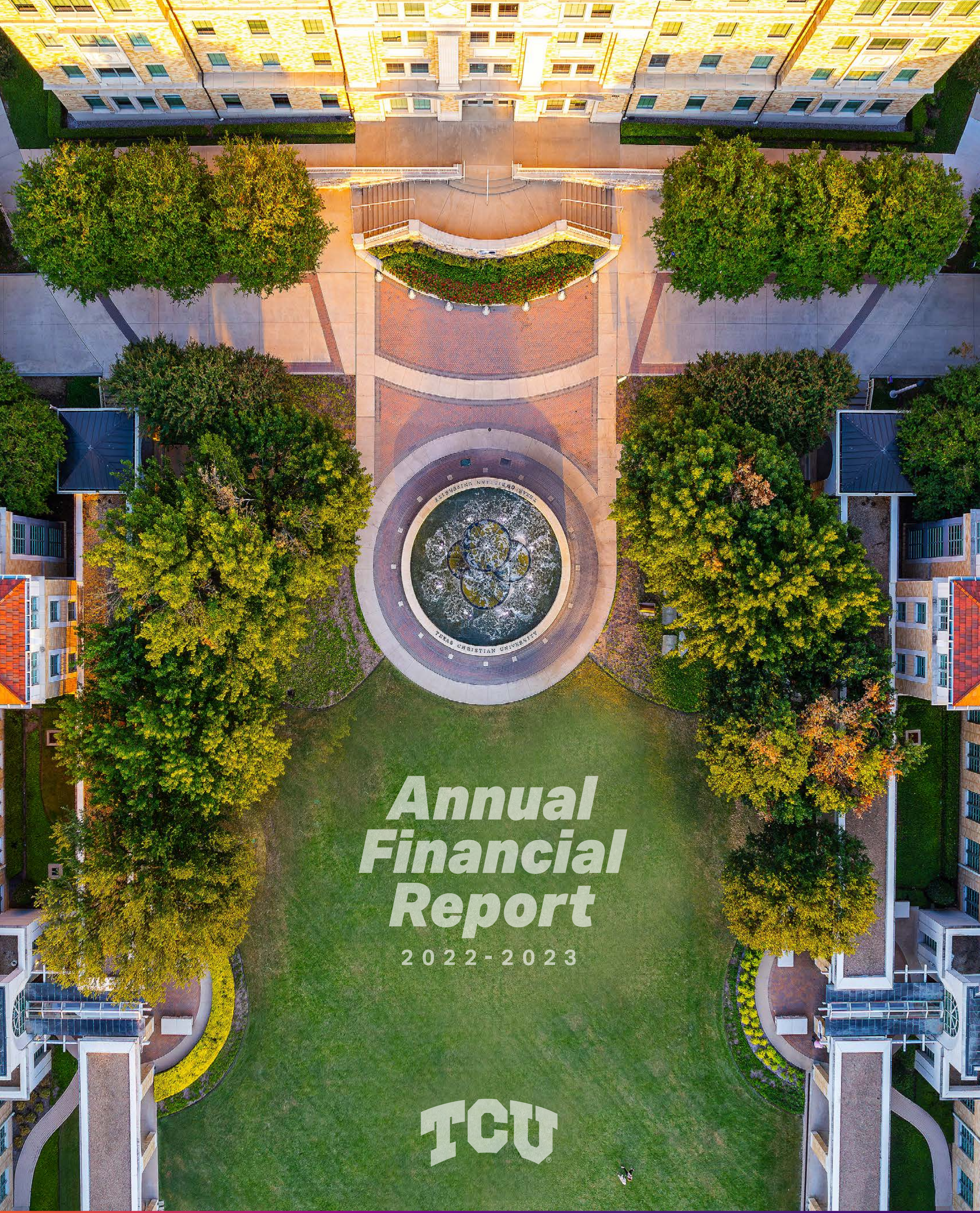

Annual Financial Report

2022-2023

TCU

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Texas Christian University
Annual Financial Report
For the year ended May 31, 2023

TEXAS CHRISTIAN UNIVERSITY

LETTER FROM CHANCELLOR VICTOR J. BOSCHINI, JR.

In this annual report, I am pleased to summarize Texas Christian University's fiscal year 2022-2023 accomplishments amidst a truly momentous time in the life of our University. Fall 2023 will conclude a historic academic year — our Sesquicentennial — here at TCU. In the fall of 2022, we began building the excitement for *Lead On: Celebrating 150 Years of TCU*, and in January 2023, we celebrated on campus and from coast to coast. Horned Frogs have recognized this milestone occasion with special events; commemorative performances, publications and videos; historical exhibitions; large-scale murals in Fort Worth, New York City, Los Angeles, Nashville and Chicago; special recognition from the City of Fort Worth, Tarrant County, the Texas Legislature, the U.S. Capitol and more.

In addition to celebrating the finale of our Sesquicentennial this fall, we also look forward to the culmination of our $1 billion *Lead On:* A Campaign for TCU in support of our people and programs, the most ambitious fundraising effort in 150 years of TCU. Approved by the Board of Trustees, the community launch of the campaign began in 2019 and has been led by Campaign Co-Chairs Ronald C. Parker and Dee J. Kelly, Jr. and Honorary Campaign Co-Chairs Kit Tennison Moncrief and J. Luther King, Jr.

As we we commemorate our past, celebrate our present and prepare for the next 150 years, we're reminded that our institution was founded in 1873 as one of the first universities to educate both men and women — groundbreaking in its day. Today, TCU boasts students from diverse backgrounds from across the globe and of course, from our hometown of Fort Worth. It's affirming that we continue to grow and thrive as a university, within a rapidly changing environment. But most importantly — we continue to achieve our mission:

"The mission of Texas Christian University, a private comprehensive university, is to educate individuals to think and act as ethical leaders and responsible citizens in the global community through research and creative activities, scholarship, service, and programs of teaching and learning offered through the doctoral level."

With the leadership and partnership of our Board of Trustees, we will continue to manage operational expenses, increase financial aid to attract high-performing and diverse students, seek out initiatives that enhance TCU's academic reputation and student experience, prioritize employee compensation and recognize performance. The budget approved in March 2023 supports the University's academic mission while preserving long-term sustainability.

Supporting a Strong Academic Community

TCU's enrollment metrics continue to be strong. Total enrollment for fall 2022 was 12,273, up 2.8 percent. Our undergraduate enrollment count for that semester was 10,523, up 2.9 percent, and graduate enrollment was 1,750, up 2 percent. Retention remained high, with 91.7 percent of fall 2022 first-time, full-time students returning for the spring 2023 semester.

TCU is dedicated to enrolling an academically talented, diverse student body and making TCU more accessible to students and families — while maintaining responsible enrollment growth for the future.

Enhancing Our Leadership Team

Like everything at the University, we achieve our goals through the excellence of our people. Our leadership team is committed to developing TCU's unmatched student experience, academic excellence, athletic strength and the unique connection culture that sets TCU apart.

The TCU President was announced after an extensive national search, with Trustee Sheryl Adkins-Green serving as chair of the Advisory Committee. In February 2023, Daniel W. Pullin, former John V. Roach Dean of the Neeley School of Business, began his new role as President. President Pullin takes on many of the strategic and operational demands of a large and complex university and leads TCU's proud community of students, faculty and staff. The Investiture ceremony to formally confer President Pullin will take place November 9, 2023. A search is underway for a new Neeley School dean.

This year I was pleased to mark 20 memorable years as Chancellor at this incredible institution. I am continuing in my role as the University's Chief Executive Officer and serving as liaison to the Board of Trustees, while devoting more time to strategic friend-raising and fundraising initiatives and travel.

I cannot overstate the importance of responsible and strategic Board of Trustees leadership on TCU's upward trajectory, especially the Board Chair role. In spring 2023, we honored Mark Johnson for his faithful and dedicated service as a TCU Trustee for more than 20 years and as Board Chair since 2017. Chairman Johnson provided steadfast leadership during his term, guiding us through some of our most dynamic years, which include a rise to national prominence and unprecedented growth. He will continue to serve on the Board as an active Trustee.

We are delighted that long-serving Trustee Kit Tennison Moncrief was elected as our next Board Chair and will help lead the University into the future of Horned Frog history as TCU's first female Chair.

We're also pleased that Tracy Hull, dean of the Mary Couts Burnett Library, agreed to delay her retirement to serve another three-year term.

Changing the Health Care Landscape in North Texas

Last fall we celebrated the historic naming of the Anne Burnett Marion School of Medicine at Texas Christian University and the immense legacy of the late Anne Burnett Marion and The Burnett Foundation's contributions to TCU over the past 100 years.

More recently, the Burnett School of Medicine achieved two major milestones by graduating its first class of medical doctors in May 2023, followed by the awarding of full accreditation from the Liaison Committee on Medical Education (LCME) the following month. On nationwide Match Day, March 17, all graduating medical students successfully "matched" with post-graduate residencies or one-year appointments, including top programs such as Stanford, Mayo Clinic, Vanderbilt, and more, across many specialties.

The Burnett School of Medicine welcomed its fifth class of students in July 2023. Securing a seat in the class remains competitive: in recruiting for the fifth class (Class of 2027) we again experienced an abundance of excellent candidates, with more than 6,300 applications for 60 slots.

The new 100,000-square-foot medical education building for the school — located in the heart of Fort Worth's medical district adjacent to several clinical collaborators — is scheduled to open in the summer of 2024, further establishing TCU as a vital partner in elevating the national profile of Fort Worth as a hub for innovation, health care and education.

Facing the Future with Conviction and Courage

The University continues to receive national attention and accolades for our academic accomplishments. TCU ranks among the top universities and colleges in the nation, including being ranked by *U.S. News & World Report* as a top 100 national university for 14 years in a row. *The Princeton Review* ranks TCU as No. 1 for Happiest Students; No. 4 for Best-Run Colleges; No. 7 for Best Quality of Life; No. 9 for Best College Dorms; No. 9 for Best Town and Gown Relations; No. 10 for Most Active Student Government; No. 10 for Lots of Greek Life; No. 11 for Best Health Services; No. 13 for Best Athletic Facilities; No. 16 for Most Beautiful Campuses; No. 20 for Best College Library; and No. 20 for Best Career Services.

In 2023, TCU also received outstanding feedback from the Southern Association of Colleges and Schools Commission on Colleges' (SACSCOC) preliminary review to reaffirm TCU's accreditation. The review process occurs every 10 years and includes a Quality Enhancement Plan that must be executed and evaluated every five years. The final report will go to the SACSCOC board in December 2023 for the reaffirmation decision.

In another triumph during its Sesquicentennial year, TCU reached its 100,000th living alum while presenting degrees to more than 2,400 graduates in four ceremonies May 13 and 14. The new graduates hailed from 49 states and 56 countries.

We celebrate these achievements as we continue to strengthen our academic reputation — not just by the numbers, but also through the accomplishments of each and every student, alum, staff and faculty member contributing to TCU's ongoing success.

Moving Toward a More Inclusive Campus

As TCU has continued to focus on strengthening the TCU experience and campus culture, the University has been recognized with the Higher Education Excellence in Diversity Award from *INSIGHT Into Diversity* magazine for five consecutive years. This designation highlights our ongoing commitment to create an inclusive culture of belonging for students, faculty and staff from diverse backgrounds in Fort Worth and across the world.

TCU celebrated its third annual Race & Reconciliation Week in April, with the theme "Cause and Common Ground." On April 19, TCU's third annual Reconciliation Day attracted a large audience for fellowship, food and entertainment and to hear a report on findings and research from the Race & Reconciliation Initiative committee and administrators. Since it launched in 2020, the academically based, historically focused initiative has made strides in creating a more inclusive campus environment.

Last fall, with the leadership of Athletics and the RRI, TCU dedicated a statue to notable alumnus Dr. James Cash '69 in front of Ed and Rae Schollmaier Arena, recognizing his contributions as TCU's first Black student-athlete and the first Black basketball player in the Southwest Conference. I proudly awarded the degree of Doctor of Science, *honoris causa,* to Dr. Cash in honor of his leadership.

Enhancing Campus Culture and Environment

Increasingly high praise for our student experience aligns with the University's commitment and investment in infrastructure – creating and improving buildings, residence halls, classrooms, labs and the overall physical campus. In recent years, TCU has had several key projects underway to support the campus experience. Some have been completed and others are in various stages of planning and construction:

- Construction on the East Campus Residence Halls and Dining Project continues with a planned completion in time for occupancy in 2025. This addition supports responsible enrollment growth and residential culture.
- Across South University Drive, the M.E. Sadler Hall Repurposing Project was completed on time and under budget; students, faculty and staff began utilizing the additional academic space in January 2023. Student collaboration spaces and group study rooms enhance this new home for the John V. Roach Honors College and other academic departments.
- Ed Landreth Hall continues to be a focus of the Buildings and Grounds Committee. A national architectural team specializing in performance spaces has been engaged and is helping develop a course of action of greatest value to the TCU community.
- Building upon the success of our NCAA programs and made possible with generous donor support, design development activities continue for the Athletics Human Performance Center Renovation and Expansion Project. Construction is anticipated to begin in early 2024 on this project, which will provide rehabilitation and wellness facilities to support all 22 varsity athletic programs.
- In addition, the Board of Trustees has commissioned a Campus Master Plan to evaluate long-range needs in support of our mission and sustainable growth. This process, which includes input from the broader university community and partners us with a world-class organization, provides an opportunity for TCU to consider how spaces on campus will support the University for the next 150 years.

Honoring TCU's Past, Preparing For Our Future

This fall, we celebrated the successful conclusion of *Lead On:* A Campaign for TCU in conjunction with TCU's Sesquicentennial. The campaign's broad-based support is enabling us to fulfill our commitment to our students and our mission within the global community. Despite

challenges, TCU pressed on toward its $1 billion campaign goal as determined in April 2019 by the Board. The high-level, primary focus of this campaign was to secure unparalleled support for people and programs and to increase TCU's endowment in support of the University's strategic plan – *Vision in Action:* Lead On.

In October 2022, we exceeded our 2,000-donor goal for TCU Gives Day, with alumni, parents and friends of TCU coming together to support student success, giving more than $1.2 million overall. Following that trajectory, and thanks to loyal and committed donors, May 31, 2023, marked the end of the strongest year in TCU fundraising history, raising almost $180 million to support our people and programs and to set the foundation for the next 150 years of success at TCU.

TCU Athletic Programs Continue Tradition of Excellence

TCU Athletics remained strong and resilient as a proud member of the Big 12 Conference. In 2022, TCU celebrated a record-breaking football season that concluded with a win at the Fiesta Bowl and a trip to the College Football Playoff National Championship (a first for a team from Texas). Players and coaches received numerous national accolades, including Coach Sonny Dykes sweeping the major national Coach of the Year awards and Heisman runner-up Max Duggan receiving the Davey O'Brien Award for top quarterback, among other prestigious awards. In addition:

- TCU basketball received an invitation to the NCAA Men's Basketball Tournament and advanced to the second round for the second year in a row.
- TCU baseball had a successful season and advanced to the College World Series.
- Men's tennis repeated as ITA Indoor National Champions.
- Conference championships were won in baseball, rifle, men's tennis and beach volleyball.
- Women's soccer was one of just six programs in the country to reach the Sweet 16 for a third consecutive season, while volleyball joined men's basketball in advancing to the second round of the NCAA Tournament.

Competing at the highest levels in athletics is a critical ingredient of the TCU experience, positively affecting TCU's national reputation. Because of the spirited support of our Horned Frog community — students, alumni and an ever-expanding fan base — as well as our many championship wins and location in a major media market, the University remains well-positioned for growth, success and leadership in intercollegiate athletics.

I look forward with great optimism and confidence in TCU's future. The Sesquicentennial has provided a unique opportunity to share TCU's story with a wider audience, celebrating who we are, what we have accomplished and what we will achieve moving forward together.

Warm regards,

Victor J. Boschini, Jr.
Chancellor

OVERVIEW

Texas Christian University (TCU) continued to have successful results from financial operations in Fiscal Year 2023 (FY23). This occurred amidst steeply rising inflation and economic uncertainty. Over the past year, rather than returning to "business as usual," after the world-wide pandemic, TCU has focused on learning from the past. TCU has continued to build upon the platform of prudent fiscal operations, improved business services and efficiencies, and high impact student experiences and academic quality. Further, TCU has continued its commitment to appropriate financial aid and student support to meet student financial need and to impact student experiences and their ultimate academic success. TCU carefully manages its financial resources and will continue to practice disciplined financial management and optimize resources to ensure financial sustainability.

SUMMARY OF FINANCIAL RESULTS

TCU results from financial operations in Fiscal Year 2023 reflected a net surplus of $50.3 million with favorable enrollment trends and increased donor support. Fiscal Year 2023 operating revenues were $707.8 million, reflecting an increase of $23.5 million over Fiscal Year 2022 (FY22). Total expenses increased $42.8 million, or 7%, to $657.5 million in FY23. The University ended FY23 with a $50.3 million increase in net assets from operating activities compared to a $69.6 million increase in net assets from operating activities in FY22. The increases in net assets fund the University's Capital Funding Reserve and the *Lead On* Reserve to fund the University's strategic plan. Total University assets increased $291 million in FY23 with $4.5 billion in total assets. At year-end, the University's cash balance was $8.3 million and the cash and short-term investments of the working capital outside of the Endowment totaled $594.9 million.

UNIVERSITY HIGHLIGHTS

Enrollment trends. One trend that has been consistent is the demand for an education from TCU. The Fall 2022 enrollment for entering first time college students was 2,491. This resulted in an undergraduate enrollment of 10,523 students and exceeded the established strategic goal of increasing the undergraduate population to approximately 10,500 students.

In addition to solid undergraduate demand for a TCU education, graduate enrollment increased steadily to 1,750 for the Fall semester 2022 compared to 1,716 in Fall 2021. Further, the University had a total of 239 medical school students for the Summer 2022 session after welcoming the inaugural class of 60 medical school students in the Summer of 2019, and has reached its target total enrollment.

Generous donor support. The University continues to benefit from the generous support of its many loyal donors. Fiscal Year 2023 marked the strongest year in TCU fundraising history, raising more than $179.7 million in new gifts and pledges, an increase of 53% over FY22, to support our people and programs and to set the foundation for the next 150 years of success at TCU.

Total cash receipts rose to $119.8 million and the Annual Fund commitments totaled $22.1 million. The number of alumni donors was 10,632 in FY23. Alumni participation continues to compare favorably to the national average and peer institutions, and it reflects the strong financial support of our alumni. The total number of donors including alumni, parents, friends, corporations, and foundations was 16,211 for FY23, an increase of 27%.

TCU began a multi-year fund-raising effort in support of the University's strategic planning goals on June 1, 2012, and publicly launched *Lead On:* A Campaign for TCU in October 2019. The campaign was focused on scholarships, academic programs, and faculty support with emphasis on significantly increasing the University's Endowment. Gifts and pledges to the campaign surpassed the $1 billion goal by May 31, 2023, of which $369.5 million was designated to the TCU Endowment. The campaign received broad-based support with 57,000 total donors contributing through the end of FY23. TCU will celebrate the successful conclusion of *Lead On:* A Campaign for TCU in conjunction with Sesquicentennial this fall.

STATEMENT OF FINANCIAL POSITION

The *Statement of Financial Position* presents the assets, liabilities, and net assets of the University on May 31, the close of the Fiscal Year. The net assets are classified as without donor restrictions or with donor restrictions depending upon whether any restrictions were placed upon the funds at the time they were received by the University. While the Board of Trustees may designate funds for specific purposes, only donors or other external third parties may impose the restrictions as they are defined in the financial statements. Gifted Funds to the University with perpetual donor restrictions are typically held in the Endowment. The unspent earnings or market appreciation arising from such restricted gifts is combined with other expendable funds and classified as donor restricted with time or purpose in accordance with the donor instructions. Funds classified as donor restricted with time or purpose may be spent only upon the occurrence of a specified event or after a defined period of time, or may be spent only for those purposes specified by the donor. Funds without donor restrictions are available for the general support of the University in accordance with policies established by the Board of Trustees.

The *Statement of Financial Position* reflects an increase in the University's total net assets for FY23. Total University assets increased $291 million in FY23, primarily due to increases in the market value of investments increasing the University's balance sheet to the end of the year, totaling $4.5 billion in total assets. Total University liabilities increased slightly to $1.3 billion.

Cash

The University closely forecasts and monitors cash flows and liquidity in order to meet operating and contractual commitments. A majority of the University's operating and working capital is held in short-duration mutual funds. Other working capital investments include Treasury backed money market funds.

Funds are rated Aa3 by Moody's Investors Service. At year-end, the University's cash balance was $8.3 million. The University's cash and short-term investments of its working capital outside of the Endowment totaled $595 million at year-end, of which a portion was encumbered to make final payments on completed major capital projects. During FY23, the University used cash to purchase and construct capitalized assets, totaling $144 million.

Contributions Receivable

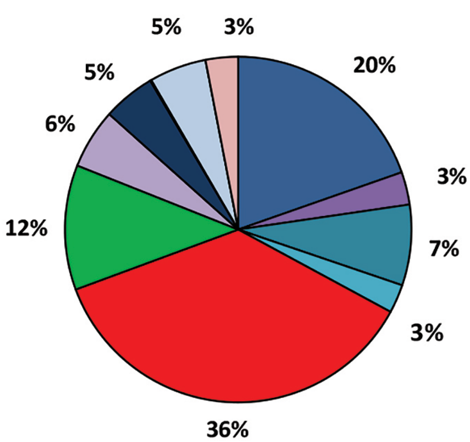
Gross contributions receivable resulting from binding donor pledges relating to the renovation construction of various projects on the University's campus represent $34.7 million as of May 31, 2023. The net value of those contribution receivables was $32.8 million as of May 31, 2023, as determined by discounting future cash flows.

Investments

The investments line on the *Statement of Financial Position* primarily consists of Endowment funds, as well as short-term investments of working capital. Investments increased by a net $243 million after making the annual Endowment payout. In the same period, annual payout from the Endowment increased to $85.9 million, as discussed further in the *Statement of Activities* section under Investment Returns Distributed for Operations.

Investments include short-term investments, equities, fixed income, real estate, and mineral interests, as well as alternative investments. The alternative investments, including equity, debt, real estate partnerships and hedge funds, represent 58.6% of total investments at year-end.

Asset Allocation
Fiscal Year 2023



(in thousands)	May 31, 2023	May 31, 2022
Short-term investments	$ 586,684	$ 424,316
Domestic equity securities	$ 91,438	$ 112,446
International equity securities	$ 225,417	$ 226,116
Corporate bonds and asset-backed securities	$ 80,047	$ 62,552
Equity partnerships	$ 1,089,591	$ 1,045,683
Debt partnerships	$ 349,036	$ 340,488
Real estate partnerships	$ 167,417	$ 164,597
Hedge funds	$ 145,846	$ 150,520
Real estate	$ 3,481	$ 2,441
Mineral interests	$ 159,416	$ 123,120
Investments held in trust by others	$ 90,653	$ 93,662
Total Investments	$ 2,989,026	$ 2,745,941

Endowment

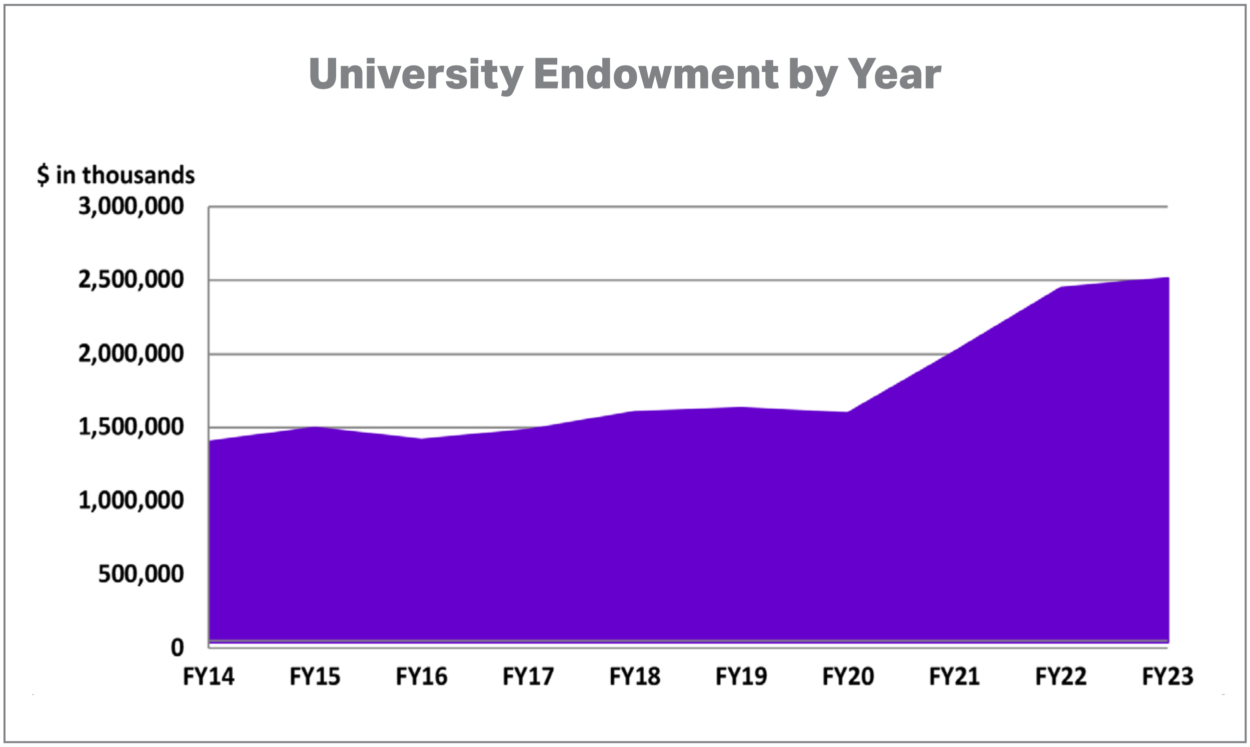
The University's Endowment funds provide enduring support for the mission of the University by infusing a substantial and reliable flow of funds into the operating budget. At May 31, 2023, the Endowment totaled $2.5 billion for the total investments balance and represented approximately 77% of the University's net assets. Contributions, total investment return, and other transfers increased the Endowment by $148.8 million, and Endowment payouts reduced the Endowment by $85.9 million for a net increase of $62.9 million, or 2.6% from the prior year. Payout to operations from the Endowment continues to be a substantial source of operating revenue for the University, covering 13.1% and 12.6% of expenses in FY23 and FY22, respectively.

The Endowment is a commingled investment pool composed of hundreds of individual funds embodying a variety of designated and undesignated purposes. These funds fulfill donor wishes by financing designated programs until either a time or purpose restriction is satisfied or in perpetuity. Endowment funds with donor restrictions for time or purpose comprise 23.1% of the University's Endowment net assets, and an additional 24.4% of those net assets are for funds with perpetual donor restrictions. The remainder of the Endowment is primarily comprised of gifts and capital gains without donor restrictions, acting as Quasi-Endowment, which combine to provide a margin of excellence over and above that which tuition supports.

The financial goal for the Endowment is to preserve the inflation-adjusted purchasing power over the long term and provide a reliable, growing stream of income to support the University's mission fulfilled by its people and programs. Therefore, the University must invest the Endowment in such a way to achieve a total return which is the actual income plus appreciation that is at least equal to inflation plus actual Endowment payout over the long term.

Three key decisions govern the management of the Endowment: the target rate of return; asset allocation among various investment categories to achieve the target rate of return; and the annual rate of Endowment payout (the Endowment spending limit). In FY23, approximately 95% of the TCU Endowment was allocated to a diverse array of marketable and nonmarketable investment strategies to achieve an expected annual average total return that exceeds inflation and the annual payout rate over the long term. This target return is expected, over the long term, to maintain the purchasing power of the Endowment and support an annual payout rate of approximately 5% of the average market value over a twelve-quarter period ending December 31 of the preceding year. Using the Board of Trustees' approved spending limit, the Endowment spending rate was maintained at 5% for the fiscal years ended May 31, 2023 and 2022.

TCU's Endowment ranked nationally among the top 59 colleges and universities as noted in the June 30, 2022 NACUBO-Commonfund Study of Endowments. This remarkable achievement is due to the generous support of generations of TCU alumni and friends and to the fiduciary care exercised by the Board of Trustees.



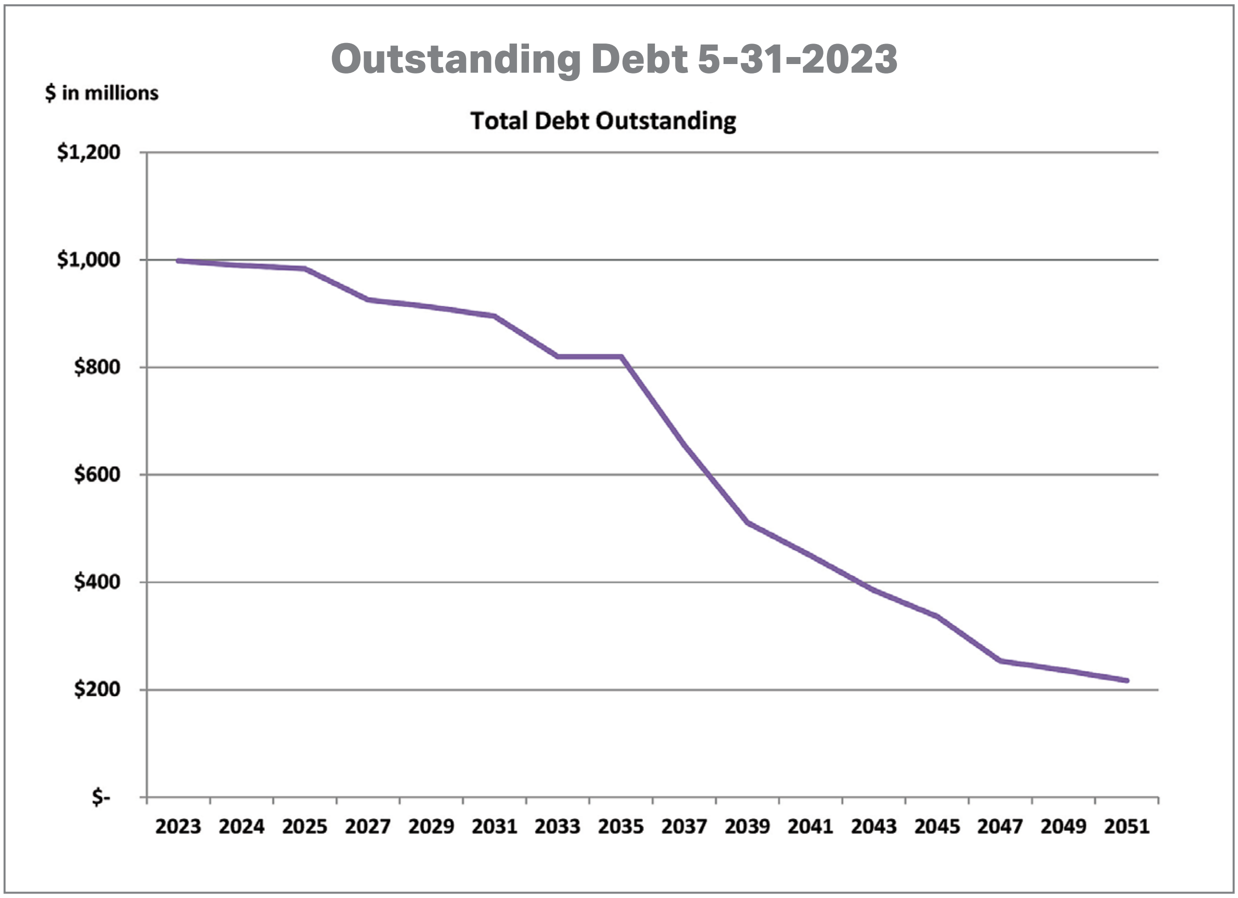
Property and Equipment

During the pandemic, while numerous projects were suspended to preserve liquidity, the University focused on completing major capital projects that had started prior to the pandemic. During FY23, the University invested $144 million in capital projects, bringing the total property and equipment before accumulated depreciation to $2.3 billion.

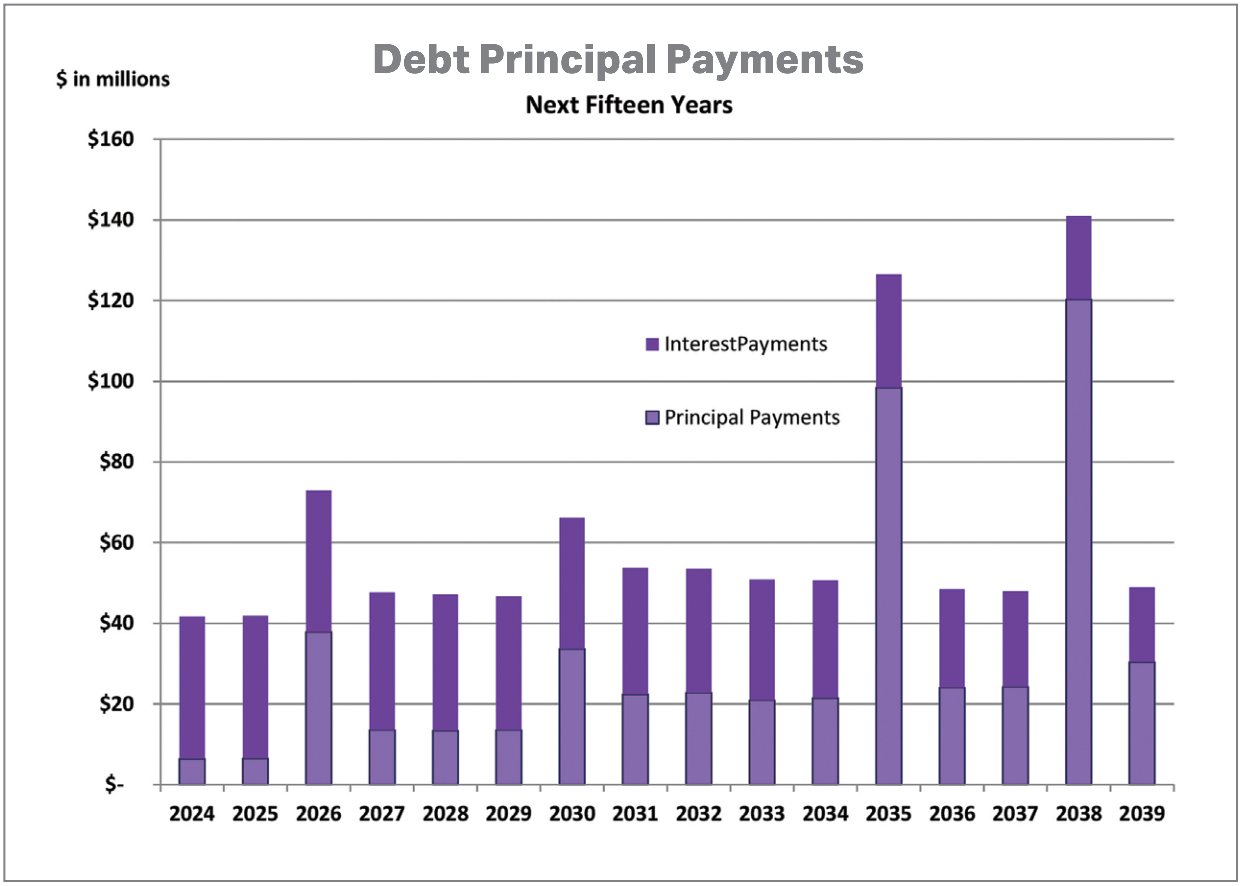
During FY23, the renovation of M. E. Sadler Hall was completed. The renovated space is used for academic programming. Several projects are planned for completion in upcoming Fiscal Years and are associated with the University's strategic plan that support people and programmatic initiatives, as well as enhancements to the University's infrastructure and deferred maintenance needs. These projects include construction of a new dining hall and residential housing on the east side of campus, a new building for the Anne Burnett Marion School of Medicine to be constructed on University-owned property in the Fort Worth medical district, and renovation of Ed Landreth Hall, a signature building in the historic precinct of campus used for the College of Fine Arts, classrooms, and other academic programming needs.

Bonds and Notes Payable

Over time, TCU has funded building projects through a combination of gifts, working capital reserves, and debt in the form of tax-exempt bonds and taxable notes. In FY23, total debt increased from $877.6 million to $989.1 million, due to the June 2022 issuance of $120 million in taxable Senior Notes with a fixed rate of 3.86% and with a final maturity in 2057. Proceeds of the notes will be used to finance the costs of the new dining hall and residential housing project and future academic projects. Total debt levels remain appropriately balanced against assets of the University and donor pledges. The Total Debt Outstanding graph below includes the outstanding debt as of May 31, 2023.



The maturity schedule calls for retirement of most of the existing debt over the next five to thirty years, with the exception of $150 million that was issued in May 2020, which has been held in reserve to manage liquidity needs during the world-wide COVID-19 pandemic. The University has not used any of the proceeds from the $150 million reserve funds. The principal and interest payments for the next fifteen are shown in the graph on the following page.



The management of the debt portfolio is ongoing and, in conjunction with the University's reporting requirements to Moody's Investors Service and other rating agencies, remains in compliance. As of May 31, 2023, the University's credit rating remained unchanged with Moody's Investors Service rating TCU's long-term bonds "Aa3", and Fitch Ratings rating the bonds "AA-", which represent strong ratings by both firms.

Right of Use Liabilities

The University records leases in accordance with Accounting Standard Codification ASC 842, *Leases.* The University leases parking, retail/office space, equestrian facilities, Athletics equipment, and dedicated ethernet under operating leases expiring at various dates through 2030, which are primarily considered operating ROU assets under ASC 842. In addition, two lease arrangements for student housing apartments for which the University collects fees from students for use and one lease arrangement for classroom and lab space for TCU School of Medicine are classified as a finance ROU asset under ASC 842, expiring at various dates through 2032. This resulted in a Right of Use liability of $69.6 million and $14.6 million for FY23 and FY22 respectively.

Net Assets Without Donor Restrictions

University net assets without donor restrictions increased $62.8 million to end the year at over $1.99 billion. Net assets without donor restrictions from operating activities increased $44.2 million, and net assets without donor restrictions from non-operating activities increased $18.6 million. The net asset increases from non-operating activities included a $4.07 million loss from actuarial changes in postretirement benefits, as well as $3.9 million in capital contributions released from restrictions, which had no effect on the total net assets and was only a reclassification from assets with donor restrictions to assets without donor restrictions. In addition, a $14 million gain from investment returns, net of the operating distributions along with a $3.8 million gain on the valuation of interest rate swaps, were posted.

Net Assets With Donor Restrictions

The net assets with donor restrictions related to time or purpose decreased $12.1 million to $643 million at year-end, and the net assets with perpetual donor restrictions increased $55 million to $610.8 million as of May 31, 2023. Therefore, total net assets with donor restrictions increased to end the year at $1.3 billion.

Unlike the net assets with donor restrictions related to time or purpose, which can be reclassed to net assets without donor restrictions upon the restricting constraint being completed or resolved, the principal value of the assets designated as with perpetual donor restrictions must be invested in perpetuity to generate income to be used only for the purposes designated by the donors.

STATEMENT OF ACTIVITIES

The *Statement of Activities* shows the revenues earned and the expenses incurred during FY23 in support of University operations, as well as the results of non-operating activity primarily related to investment activity. The University ended FY23 with a $50.3 million increase in net assets from operating activities and with depreciation expense of $81 million. This compares to a $69.6 million increase in net assets from operating activities in FY22. The increases in net assets fund the University's Capital Funding Reserve and the *Lead On* Reserve. The Capital Funding Reserve represents funds that are set aside from operations and used for recurring capital needs throughout the campus. The Capital Funding Reserve for Fiscal Year 2023 was $29.9 million, and this Reserve will be used to fund the expenditures related to building improvements, capital equipment, computers, annual capital projects and other capital activity, such as principal payments on outstanding debt. The *Lead On* Reserve represents resources that are set aside from ongoing operations to fund expenditures associated with the University's strategic plan.

The FY23 operating revenues increased 3.4% along with an increase in expenses of 7% during the same period. The increase in revenue is primarily net tuition due to an increase in the tuition rate of 4.5% and an increase in undergraduate enrollment of 3%. The increase in expenses is primarily due to the return to "normal" following the worldwide COVID-19 pandemic.

The investment returns distributed for operations shown within the operating revenues section of the statement reflect the annual Endowment payout, in addition to the interest on short-term investments and invested bond proceeds. There are no transactions on the *Statement of Activities* titled "net assets if released from restrictions", which represent reclassifications of assets from the "with donor restrictions" category to the "without donor restrictions" category because the requisite conditions were satisfied. These reclassifications have no impact on the total revenue.

The operating expenses are displayed by function in the *Statement of Activities.* All operating expenses are classified as without donor restrictions because the assets were released from donor-imposed restrictions, if any, when the expenses satisfying the restricted purpose were incurred. The depreciation expense of $81 million, facility maintenance expense of $104.9 million, and interest expense of $34 million were allocated among the functional categories in proportion to the utilization of the underlying assets by each function.

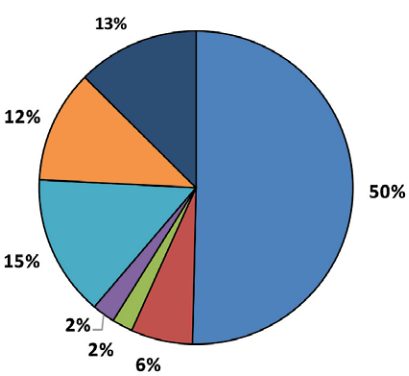
The non-operating activities include gifts to the Endowment or other capital for non-operating purposes such as new buildings. Investment returns, net of the amount distributed for operations, as well as actuarial changes in retiree benefit plans, are also accounted for in this section. The University's non-operating net assets of $55.3 million is discussed in more detail in the *Statement of Financial Position* section.

The changes in Net Assets are primarily due to capital gifts and to realized and unrealized market gains or losses that impact the carrying value of the Endowment, but do not directly impact the operating budget. TCU adopts a balanced operating budget each year. The budget is prepared using conservative revenue projections and a provision is made in support of certain strategic initiatives within *Vision in Action: Lead On* Strategic Plan. This conservative approach to budgeting allows for the University to generate an increase in net assets before the depreciation expense which are dedicated, in part, to providing an adequate contingent reserve. And, in concert with donor support, continues investment and fulfillment of the capital projects related to the strategic plan that otherwise would not be possible.

OPERATING REVENUES

The FY23 operating revenues were $707.8 million, reflecting an increase of 3.4% over FY23. The components of the University's operating revenues are shown in the table and chart below.

Current Operating Revenues
Fiscal Year 2023



	May 31,			
(in thousands)		2023		2022
Net tuition and fees	$	356,466	$	324,704
Private gifts and grants	$	45,019	$	39,889
Contributions	$	15,153	$	17,165
Government grants and contracts	$	16,683	$	38,120
Investment returns distributed for opera	$	103,181	$	114,258
Auxiliary activities	$	82,562	$	74,824
Other income	$	88,732	$	75,295
Total Operating Revenues	$	707,796	$	684,255

Net Tuition and Fees

The tuition and fees are shown net of financial aid and represent 50.4% of University operating revenues, which is a net increase of 9.8% to $356.5 million in FY23 as compared to the prior year. The increase in Net Tuition and Fees is the result of increased undergraduate student enrollment and the undergraduate tuition rate.

TCU charges a single tuition rate for full-time students taking between 12 to 18 credit hours, rather than charging on a per-credit-hour-basis. The annual tuition at TCU was $53,890 in FY23, an increase from the prior year rate of $51,760. As noted above, TCU supported the strategic goal of increasing the undergraduate population and the undergraduate enrollment increased from 9,704 students for the Fall semester 2020 to 10,523 students as of the Fall semester 2022.

Private Gifts and Grants and Government Grants and Contracts

The current year private gifts and grants represent 6.4% of the total operating revenues and increased $5.1 million to $45 million in FY23. The increase is primarily due to the timing of the gift portion for season ticket sales for athletic events. Contributions of non-financial assets totaling $15.2 million primarily represent the School of Medicine preceptors. Preceptors provide specialized clinical training services to our medical students. Government grants and contracts make up 2.4% of the University's operating revenues and decreased from $38.1 million to $16.7 million in FY23. The significant decrease is due to $23 million of Higher Education Emergency Relief Funds (HEERF) that were received in FY22 to cover COVID related expenses and lost revenue.

Investment Returns Distributed for Operations

The investment returns distributed for operations represent 14.6% of operating revenues and decreased from the prior year to $103.2 million. The operating investment returns reflect the annual Endowment payout, or the amount budgeted to be spent in support of operations for the year, in addition to the interest on short-term investments and the interest earned from $150 million in the invested taxable bond proceeds. The University's Endowment is discussed further in the *Statement of Financial Position* section.

Auxiliary Activities

The auxiliary income represents 11.7% of operating revenues and increased $7.7 million from the prior year, ending the year with $82.6 million in revenue. These revenues are composed primarily of student residential housing and dining. The increase is due to the increase in occupancy rates in residential housing and dining plans purchased by students in FY23.

Other Income

The other income represents 12.5% of operating revenues and increased $13.4 million from the prior year, ending the year with $88.7 million in revenue. These revenues include mostly athletics revenues, which primarily accounted for the increases in other income, due to the increased demand for athletic events during FY23.

Net Assets Released from Restrictions

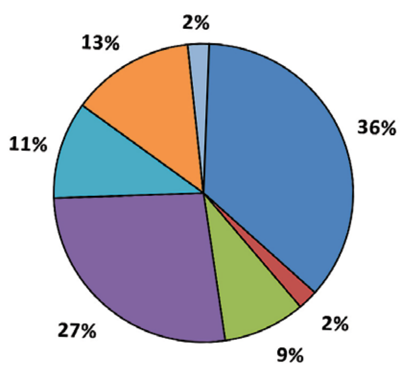
The "*Net Assets Released from Restrictions*" represent reclassifications of assets from those "with donor restriction" categories to those "without donor restriction" categories because requisite conditions were satisfied. These reclassifications have no impact on the total revenue.

OPERATING EXPENSES

Total expenses increased $42.8 million, or 7%, to $657.5 million in FY23. The operating expenses are presented in the financial statements by functional area. All expenses are classified as without donor restrictions because the assets were released from donor-imposed restrictions, if any, when the expenses satisfying the restricted purpose were incurred. The components of the University's operating expenses by function are shown in the following table and chart.

Current Operating Expenses

Fiscal Year 2023



(in thousands)		May 31, 2023		2022
Instruction	$	236,933	$	222,315
Research	$	14,205	$	11,797
Academic support	$	58,376	$	52,054
Student services	$	176,060	$	170,147
Institutional support	$	69,227	$	67,550
Auxiliary activities	$	87,650	$	77,446
Fund-raising	$	15,037	$	13,349
Total Operating Expenses	$	657,488	$	614,658

Instruction

Instruction represents 36% of the total operating expenses and increased to $236.9 million in FY23. Faculty salaries, travel, services, and the School of Medicine in-kind expenses for preceptors are the primary drivers of the increase in this functional category.

Student Services

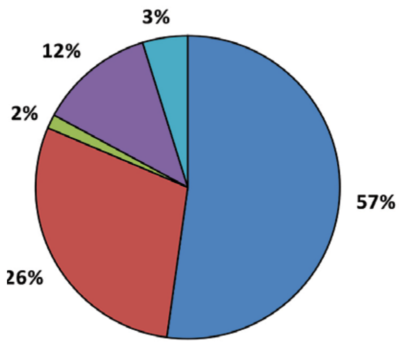
Student Services includes expenses for admissions, student activities, cultural events, intramural athletics, student organizations, and intercollegiate athletics. Student Services represent 27% of the total operating expenses and increased by 3.5% to $176.1 million in FY23. Student Services expenses are primarily related to athletic travel which increased significantly due to successful post season competition and increases in software and maintenance agreements.

Auxiliary Activities

Auxiliary Activities represent 13.2% of the total operating expenses and increased to $87.7 million in FY23. Auxiliary expenses are primarily student residential housing and dining services.

Although the operating expenses are presented in the *Statement of Activities* by functional area, the following summarizes the composition of operating expenses by natural classification:

Current Operating Expenses by Natural Classification
Fiscal Year 2023



(in thousands)	May 31, 2023		2022	
Compensation and Benefits	$	343,248	$	333,501
Supplies and Services	$	192,015	$	166,280
Utilities	$	9,850	$	9,593
Depreciation	$	80,820	$	75,223
Interest	$	31,555	$	30,061
Total Operating Expenses	$	657,488	$	614,658

FUTURE MOMENTUM

In 2023 the University will celebrate its 150th anniversary since its founding in 1873. This notable milestone presents a tremendous opportunity for leaders and all campus stakeholders to commemorate the past and to shape the future to begin the next 150-year chapter. To this end, the TCU Board of Trustees held a retreat to continue to build upon the momentum achieved through the first 150 years. Goals were identified and affirmed in four key pillars: 1) Strengthen the academic profile and reputation, 2) Strengthen the endowment, 3) Strengthen the TCU experience and campus culture, and 4) Strengthen the workforce. Specific objectives and critical activities under each goal are being identified to activate the next iteration for the *Lead On* Strategic Plan.

Achieving these goals will require financial resources and, through careful financial stewardship, the University is well-positioned to continue the pursuit of TCU's educational mission. The University's liquidity position is strong and continues to improve through positive operating cash flows. Despite increases in debt in recent years, the total debt levels remain appropriately balanced against assets of the University, donor pledges, and a maturity schedule that calls for retirement of most of the outstanding balances over the next five to twenty-five years. The cash and investment balances remain strong and operating reserves are available to continue investing in the strategic initiatives.

With the TCU's strong brand and reputation, the enduring support of campus stakeholders, alumni, and friends, and continued strong, thoughtful and prudent leadership, the University will continue to be an attractive destination for students and thought leaders who will shape and transform our world.

Financial Statements and Report of Independent Certified Public Accountants

Texas Christian University

May 31, 2023 and 2022

Contents Page

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Texas Christian University

Opinion

We have audited the financial statements of Texas Christian University (the "University"), which comprise the statement of financial position as of May 31, 2023, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

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

Basis for opinion

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Report on 2022 summarized comparative information

We have previously audited the University's 2022 financial statements (not presented here in), and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 27, 2022. In our opinion, the accompanying summarized comparative information as of and for the year ended May 31, 2022, is consistent, in all material aspects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Dallas, Texas
September 25, 2023

Texas Christian University

STATEMENTS OF FINANCIAL POSITION

May 31, 2023 and 2022
(in thousands)

	2023	2022
ASSETS		
Cash	$ 8,264	$ 16,182
Accounts receivable and accrued income, net	33,762	36,207
Contributions receivable, net	32,767	38,636
Investments	2,989,026	2,745,941
Property and equipment, net	1,467,112	1,393,275
Other assets, net	10,367	19,871
Total assets	$ 4,541,298	$ 4,250,112
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other accrued liabilities	$ 105,062	$ 86,605
Refundable government student loans	4,948	5,286
Funds held in fiduciary capacity, net	16,180	16,543
Deferred income	41,511	40,141
Accrued postretirement benefits	51,847	48,118
Interest rate swaps	11,345	15,170
Bonds and notes payable, net	989,103	877,593
Right of use liabilities	69,576	14,557
Total liabilities	1,289,572	1,104,013
Net assets		
Without donor restrictions	1,998,059	1,935,242
With donor restrictions		
Time or purpose	642,891	655,038
Perpetual	610,776	555,819
Total with donor restrictions	1,253,667	1,210,857
Total net assets	3,251,726	3,146,099
Total liabilities and net assets	$ 4,541,298	$ 4,250,112

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

Texas Christian University

STATEMENT OF ACTIVITIES

Year ended May 31, 2023
(with comparative totals for 2022)
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	2023	2022
Operating revenues				
Net tuition and fees	$ 356,466	$ —	$ 356,466	$ 324,704
Private gifts and grants	1,082	43,937	45,019	39,889
Contributions - nonfinancial	15,153	—	15,153	17,165
Government grants and contracts	16,683	—	16,683	38,120
Investment returns distributed for operations	66,059	37,122	103,181	114,258
Auxiliary activities	82,562	—	82,562	74,824
Other income	88,732	—	88,732	75,295
Net assets released from restrictions	74,990	(74,990)	—	—
Total operating revenues	701,727	6,069	707,796	684,255
Operating Expenses				
Instruction	236,933	—	236,933	222,315
Research	14,205	—	14,205	11,797
Academic support	58,376	—	58,376	52,054
Student services	176,060	—	176,060	170,147
Institutional support	69,227	—	69,227	67,550
Auxiliary activities	87,650	—	87,650	77,446
Fund-raising	15,037	—	15,037	13,349
Total operating expenses	657,488	—	657,488	614,658
Change in net assets from operating activities	44,239	6,069	50,308	69,597
Non-operating activities				
Capital and other contributions	633	65,577	66,210	61,591
Capital contributions released from restrictions	3,931	(3,931)	—	—
Postretirement benefit actuarial changes	(4,031)	—	(4,031)	21,726
Investment returns, net of operating distributions above	14,220	(25,781)	(11,561)	177,389
Gain on interest rate swaps	3,825	—	3,825	15,168
Other	—	876	876	848
Change in net assets from non-operating activities	18,578	36,741	55,319	276,722
CHANGE IN NET ASSETS	62,817	42,810	105,627	346,319
Net assets at beginning of year	1,935,242	1,210,857	3,146,099	2,799,780
Net assets at end of year	$ 1,998,059	$ 1,253,667	$ 3,251,726	$ 3,146,099

The accompanying notes are an integral part of this financial statement.

Texas Christian University

STATEMENTS OF CASH FLOWS

May 31, 2023 and 2022
(in thousands)

	2023	2022
Operating activities:		
Change in net assets	$ 105,627	$ 346,319
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	81,002	75,461
Provision for bad debts	208	1,515
(Gain)/loss on disposal or sale of property and equipment	(286)	1,972
Proceeds from capital and other contributions	(66,210)	(61,591)
Investment returns, net of operating distributions	11,561	(177,389)
Gain on interest rate swaps	(3,825)	(15,168)
Proceeds from sale of contributed securities for operations	2,446	3,698
Non-cash contributions of property and equipment	(18)	(91)
Net change in charitable gift annuities	(876)	(848)
Net change in contributions receivable restricted for long-term purposes	5,869	4,638
Changes in operating assets and liabilities:		
Accounts receivable and accrued income	2,237	(11,544)
Other assets	9,474	3,479
Accounts payable and other accrued liabilities	8,195	(3,870)
Refundable government student loans	(338)	(493)
Funds held in fiduciary capacity	(363)	1,064
Deferred income	1,370	17,743
Accrued postretirement benefits	3,729	(20,933)
Right of use liabilities - operating	(10,417)	(6,345)
Net cash provided by operating activities	149,385	157,617
Investing activities:		
Purchases of property and equipment	(144,383)	(30,003)
Proceeds from sale of property and equipment	292	436
Purchases of investments	(1,906,970)	(1,785,331)
Proceeds from sales and maturities of investments	1,640,683	1,583,178
Net cash used in investing activities	(410,378)	(231,720)
Financing activities:		
Proceeds from capital and other contributions:		
Unrestricted	633	—
Endowment	55,838	51,999
Property and equipment	9,739	9,592
Payments on bonds payable	(8,641)	(8,365)
Proceeds from issuance of bonds and notes	120,000	—
Payments on finance lease obligation	(7,977)	(1,518)
Proceeds from sale of contributed securities for long-term purposes	9,194	4,731
Net change in charitable gift annuities	876	848
Net change in right of use liabilities - finance	73,413	933
Net cash provided by financing activities	253,075	58,220
NET DECREASE IN CASH	(7,918)	(15,883)
Cash at beginning of year	16,182	32,065
Cash at end of year	$ 8,264	$ 16,182
Supplemental non-cash disclosure:		
Property and equipment included in accounts payable	$ 10,262	$ 4,363

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Texas Christian University (the University or TCU) is a private, non-profit institution of higher education, which includes ten major academic units (AddRan College of Liberal Arts, the College of Science and Engineering, the Neeley School of Business, the College of Education, the College of Fine Arts, the Bob Schieffer College of Communication, the Harris College of Nursing and Health Sciences, the John V. Roach Honors College, the School of Interdisciplinary Studies, and the TCU School of Medicine).

Basis of Financial Reporting

The accompanying financial statements represent the financial position and financial activities of the University, as a whole, and present transactions according to the existence or absence of donor-imposed restrictions. Accordingly, transactions and balances are classified into two categories: net assets without donor restrictions and net assets with donor restrictions.

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

Cash

For the purpose of reporting cash flows in the statements of cash flows, cash is comprised of cash on hand and in banks. The University places its cash with high quality financial institutions and these cash balances, at times, may exceed federally insured limits. The University has not experienced any losses on such accounts.

Accounts Receivable and Accrued Income

Accounts receivable are shown net of an allowance for doubtful accounts of approximately $7.2 million at May 31, 2023 and 2022. The University estimates the allowance for doubtful accounts based on historical collections, current economic conditions, and aging of accounts receivable. Accounts receivable are written off against the allowance based on a review of specific accounts. Gross accounts receivable on the statements of financial position as of May 31 include:

	2023	2022
	(in thousands)	
Student accounts receivable	$ 11,727	$ 13,913
Student loans receivable	5,056	4,934
Accrued income	14,623	18,896
Other receivables	9,558	5,664
Total	$ 40,964	$ 43,407

Contributions Receivable

Unconditional promises to give are recorded as contributions receivable and contribution revenue when the promise is made. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. These contributions are considered fully collectible due to the giving history of the majority of the donors, and as such the University has not recorded an allowance for doubtful accounts related to contributions receivable.

As of May 31, 2023 and 2022, the University has received conditional intentions to give from donors aggregating approximately $206.1 million and $143.3 million, respectively. These conditional intentions to give consist of gifts restricted for specific purposes stipulated by the donors. These intentions to give are not reported as contributions until received because the donor statements of intent specify that they are not legally binding and the University allows donors to rescind their nonbinding intentions to give. Therefore, the intentions are not considered unconditional promises to give and are not reported in the accompanying statements of financial position. Should an intention to give become an unconditional promise to give at a later date, the amounts would be recognized in the financial statements at that time.

Statement of Activities

The University defines operating activities, as included in the accompanying statement of activities, as the revenue and expenses resulting from its educational programs and other core mission activities, along with endowment investment returns distributed for operations. Donor-restricted contributions to endowments, capital contributions, investment returns net of operating distributions, valuation changes in interest rate swaps, and actuarial changes/unrecognized prior service credits in postretirement benefit plans are excluded from operating activities and separately reported as non-operating activities in the accompanying statement of activities.

The University has adopted a total return concept for the management of all of its investments. Income generated from investments is used to meet the spending limit requirements defined by the Board of Trustees for current operating activities and may be from traditional yield plus a portion of net realized accumulated gains. If the yield is less than the defined spending limit, previously accumulated undistributed investment income and/or realized accumulated gains may be used to fund current operating activities. Any return in excess of, or deficiency from, the defined spending limit is classified as a non-operating activity. The Board-approved spending limit was 5% of the trailing 12-quarter average market value of the University’s endowment assets for the years ended May 31, 2023 and 2022. Because the spending limit policy is integral to the management of the University’s financial operations, spending limit amounts of approximately $90.0 million and $82.0 million have been included in operating activities as part of investment returns distributed for operations for the years ended May 31, 2023 and 2022, respectively.

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. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period of time as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the total of the annual payout, inflation, and fees, while assuming a moderate level of investment risk. The University’s target return is for its endowment funds, over time, to exceed a composite index of asset classes contained in the investment policy target mix. Actual returns in any year may vary from this amount.

Certain restricted gifts, grants, investment income, and other restricted resources are accounted for as revenue with donor restrictions. Upon the lapse of donor-imposed restrictions or expenditures for the intended purpose, these assets are reclassified to net assets without donor restrictions, with expenditures reported as operating expenses or non-operating capital contributions released from restrictions. Contributions received with donor restrictions which are satisfied in the same reporting period are accounted for as described above and are included in net assets released from restrictions and in capital contributions released from restrictions in the accompanying statement of activities.

Revenue from tuition and fees is recognized as earned over the related academic term within the fiscal year and is reported net of student financial aid (principally scholarships) of approximately $284.3 million and $262.8 million in 2023 and 2022, respectively, and provision for bad debts of approximately $0.2 million and $1.5 million in 2023 and 2022, respectively. Charges to students for campus housing and dining services represent separate performance obligations from the delivery of academic instruction and have been treated as separate contracts in the University's financial statements. Revenue from housing and dining contracts is recognized as earned over the related academic term within the fiscal year and is included in auxiliary activities.

Advertising costs are expensed as incurred. Advertising expense was approximately $4.7 million and $3.7 million for the years ended May 31, 2023 and 2022, respectively.

Contributions

Contributions received are recognized as revenue in the period received at their fair values. Unconditional promises to give are recognized at net realizable value when the promise is made. Contributed services are recognized as revenue if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that would typically need to be purchased if not provided by donation. Gifts of long-lived assets are recognized at fair value at the date of gift. The University does not imply a time restriction on such gifts.

Contributions of Nonfinancial Assets

For the years ended May 31, contributed nonfinancial assets recognized within the statement of activities included:

	2023	2022
	(in thousands)	
School of Medicine Preceptors	$ 14,168	$ 12,419
School of Medicine Operations	—	3,961
Horses	985	785
Total	$ 15,153	$ 17,165

The University's policy related to contributions of nonfinancial assets is to utilize the assets given in carrying out the mission of the University. The University does not accept contributions of nonfinancial assets that cannot be utilized or contributions in which the donor has placed restrictions.

The School of Medicine preceptor faculty provide specialized clinical training services to our medical students. These services require licensed and credentialed clinical faculty to train our medical students in a clinical setting in accordance with our Association of American Medical Colleges (AAMC) Uniform Clinical Training Affiliation Agreement (LCME) requirement. The value of the services is based on market rates of the preceptor faculty and the amount of time donated to provide the specialized clinical training.

Market rates are determined by AAMC Benchmark Salary data using national median income by specialty and academic rank.

On January 1, 2022, the TCU School of Medicine (SOM) transitioned from a partnership with the University of North Texas Health Sciences Center (UNTHSC) to a college solely within its degree-granting institution, Texas Christian University. Prior to the transition, TCU recorded gift in kind in support of operations provided by UNTHSC. Valuation is based on actual expenses incurred by UNTHSC.

The University periodically receives donations of horses to be utilized by students in the equestrian program. Independent appraisals from a credible source are used to value horses.

Investments

Investments, primarily debt and equity securities and assets held in trust, are carried at fair value. Fair values of securities are based on quoted market prices. Fair values of investments in private limited partnerships and hedge funds are based on net asset value (NAV) as a practical expedient in estimating fair value. Accounting principles generally accepted in the United States of America (U.S. GAAP) provide guidance for estimating the fair value of investments in investment funds that calculate NAV. NAVs are determined by the fund manager or general partner based on their best estimates using fair value estimation techniques, substantiated, in part, by their audited financial statements and supported by the due diligence of the University's investment management. Real estate held for investment by the University is carried at fair value based upon appraisals. Mineral interests are carried at fair value based upon a valuation approach using cash flows. Short-term investments are carried at cost, which approximates the fair value of such assets. Investments which are received by gift are recorded at fair value at the date of donation and adjusted for any unrealized gains/losses occurring thereafter.

Short-term investments consist principally of cash equivalents and money market funds and are not subject to significant market or credit risks. The remaining longer-term investments are subject to market and credit risks customarily associated with those investments.

Income and net realized and unrealized gains and losses on investments are classified as without donor restriction based on the absence of donor restrictions or when appropriated for expenditure. Income and net realized and unrealized gains and losses are only classified as with donor restriction based on the presence of donor restrictions or an implied time restriction on donor-restricted endowments. The restricted portion of the University's investments is subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity. Realized and unrealized gains and losses on funds held in trust in perpetuity are classified as with donor restrictions.

Depreciation and Amortization

Depreciation and amortization of property and equipment are provided on the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives for purposes of depreciation and amortization are as follows:

Land improvements	10 years
Buildings	39 years
Building renovations	25 years
Building improvements	10 years
Furniture and equipment	3 to 15 years
Library books and film	5 years

The University's asset capitalization threshold is generally $10,000 for individual asset acquisitions.

Leases

The University records leases in accordance with Accounting Standards Codification (ASC) 842, *Leases.* The University determines if an arrangement is a lease at inception. All leases are recorded on the statements of financial position, except for leases with an initial term less than 12 months for which the University made the short-term lease election.

Operating lease right-of-use assets (ROU) and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments using the University's incremental borrowing rate over the lease term. ROU assets also include adjustments related to lease payments made and lease incentives received at or before the commencement date. The ROU assets are included in other assets, net of accumulated amortization and lease incentives and the related ROU liabilities are included in ROU liabilities in the statements of financial position. Operating lease expense is recognized on a straight-line basis over the lease term within the appropriate functional category in the statement of activities. Lease terms may include options to extend or terminate the lease when it is reasonably certain the University will exercise the option. Finance lease ROU assets are included in property, plant, and equipment, net of accumulated amortization and lease incentives, and the related ROU liabilities are included in ROU liabilities, in the statements of financial position.

Debt Premium and Issuance Amounts

Debt premium and issuance amounts are amortized using the straight-line method, which approximates the effective interest method, over the period the related bonds are outstanding. Unamortized debt premium totaled approximately $3.8 million and $4.1 million at May 31, 2023 and 2022, respectively, and is included in bonds and notes payable, net, in the accompanying statements of financial position.

Debt issuance costs, net of amortization, totaled approximately $4.5 million and $4.9 million at May 31, 2023 and 2022, respectively, and are included as a reduction to bonds and other liabilities, net, in the accompanying statements of financial position.

Interest Rate Swaps

The University accounts for its interest rate swaps at their fair value at each fiscal year end. They are included as liabilities in the statements of financial position as interest rate swaps. Changes in the fair value of the interest rate swaps held by the University are included in the non-operating activities section in the accompanying statement of activities as gain on interest rate swaps.

Student Loans

The assets and liabilities of the Federal Perkins Loan Program, Nursing Student Loan Program, and Nurse Faculty Loan Program, which are financed primarily by the federal government and administered by the University, are included with those of the University. The total of the federal government portion of these net assets is shown as refundable government student loans in the accompanying statements of financial position. The University also has loan funds received by means of gifts or grants that are included in net assets with donor restrictions due to donor stipulations that the funds and the income earned must remain in perpetuity for loan purposes.

Income Tax Status

The University is a tax-exempt institution under Section 501(a) of the Internal Revenue Code of 1986 (IRC), as an organization described in Section 501(c)(3) of the IRC. The University has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the financial statements regarding uncertain tax provisions. As of May 31, 2023, the University's tax years ended May 31, 2020 through 2023, generally remain subject to examination.

Fair Value of Financial Instruments

The University has estimated the fair values of its financial instruments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that the University could realize in a current market exchange. Determinations of fair value are based on subjective data and significant judgment relating to timing of payments and collections and the amounts to be realized, and may include audited financial statements and the due diligence of the University's investment management. Different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. There have been no significant changes in the estimation methodologies used by the University to measure the fair value of its financial instruments. The University believes that the carrying amounts of the various categories of financial instruments approximate fair value.

The University records financial instruments in accordance with the fair value guidance as contained within ASC 820, *Fair Value Measurement*. In accordance with ASC 820, fair value is defined as the price the University would receive from the sale of an asset, or pay to transfer the liability, in a timely transaction with an independent buyer in a principal market. This guidance establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the University's assets and liabilities. The University's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument and is more fully described in Note F. The inputs are summarized in three levels as outlined below:

Level 1 Inputs - Quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 assets include publicly traded securities and mutual funds. Valuations of these instruments do not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.

Level 2 Inputs - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Assets in this category generally include non-exchange-traded equity mutual funds, fixed income funds, and interest rate caps. Liabilities in this category include interest rate swaps. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions.

Level 3 Inputs - Unobservable inputs for the valuation of the asset or liability. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. Assets in this category generally include real estate; investments held in trust by others; mineral interests; and other similar assets. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management.

Fair values of investments in private limited partnerships and hedge funds may be based on NAV as a practical expedient in estimating fair value in accordance with ASC 820. Under this standard, investments for which fair value is measured at NAV per share (or its equivalent using the practical expedient) are removed from the fair value hierarchy. The requirements of this standard are reflected in the tables in Note F.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results could differ from these estimates and assumptions.

Prior Year Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended May 31, 2022, from which the summarized information was derived.

Recent Accounting Pronouncements

The University adopted Accounting Standards Update (ASU) 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958) effective June 1, 2022. The new pronouncement requires disclosure of contributed nonfinancial assets as a separate line item in the statement of activities, separate from contributions of cash and other financial assets such as donated securities. Additional disclosures required include contributed nonfinancial assets by category, qualitative information on use of the asset or monetization, policy for monetizing, existence of donor-imposed restrictions and valuation techniques. Reporting of this standard has been applied retrospectively and therefore, prior year financial information previously reported has been amended and presented for comparative purposes.

NOTE B - BRITE DIVINITY SCHOOL

Brite Divinity School (Brite) is a separately incorporated 501(c)(3) organization with its own Board of Trustees. The assets, liabilities, and activities of Brite are not included in the accompanying financial statements except for investments at fair value totaling approximately $16.3 million and $16.7 million at May 31, 2023 and 2022, respectively, which are included in investments, at fair value, and also as an offsetting liability in funds held in fiduciary capacity, net, in the accompanying statements of financial position. Funds held in fiduciary capacity, net, include a receivable from Brite of approximately $295,000 and $212,000 at May 31, 2023 and 2022, respectively.

Brite pays annual maintenance and administrative fees to the University to cover a portion of these expenses, as a majority of these functions are performed by University personnel. Brite also reimburses the University for expenses directly attributable to its operations. The fees and reimbursements totaled approximately $2.0 million and $1.9 million for the years ended May 31, 2023 and 2022, respectively. The fees are included in other income and the expense reimbursements are included as offsets to operating expenses in the accompanying statement of activities.

NOTE C - LIQUIDITY AND AVAILABILITY

The University's financial assets available for general expenditure within one year as of May 31 are as follows:

	2023	2022
	(in thousands)	
Cash	$ 8,264	$ 16,182
Accounts receivable and accrued income, net	27,259	29,824
Contributions receivable, net due within one year	24,208	26,173
Investments not subject to donor restrictions or board designations	464,559	273,325
Financial assets available at year end for current use	$ 524,290	$ 345,504

The University has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term investments. As of May 31, 2023 and 2022, the University had available revolving lines of credit totaling $90.0 million and $100.0 million , which it could draw upon in the event of an anticipated liquidity need.

Student loan balances and certain other long-term amounts recorded in accounts receivable are not available to meet general expenditures.

In addition to financial assets available to meet general expenditures within one year, the Board of Trustees-approved spending limit for the subsequent year ending May 31, 2024 of $97.8 million is expected to be released from donor-restricted and board-designated financial assets over the next 12 months.

The University has board-designated endowment investments of $1.1 billion and $1.2 billion as of May 31, 2023 and 2022, respectively. Although the University does not intend to spend from its board-designated endowment funds other than spending limit amounts appropriated for general expenditure, amounts from its board-designated endowment could be made available at the discretion of the Board of Trustees.

NOTE D - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following unconditional promises to give with donor restrictions at May 31:

	2023	2022
	(in thousands)	
Unconditional promises expected to be collected in:		
Less than one year	$ 24,208	$ 26,173
One to five years	5,515	9,879
More than five years	5,000	5,000
Contributions receivable	34,723	41,052
Less discount	(1,956)	(2,416)
Contributions receivable, net	$ 32,767	$ 38,636

Gross contributions receivable resulting from unconditional promises to give relating to the renovation and construction of various projects on the University's campus represent approximately $34.7 million and $41.1 million as of May 31, 2023 and 2022, respectively. The net value of those contributions receivable was approximately $32.8 million and $38.6 million, as determined by discounting future cash flows, of which 39.2% is concentrated in five donors as of May 31, 2023 and 38.9% is concentrated in six donors as of May 31, 2022. The rates used for calculation of the discount ranged from 0.19% to 4.04% for 2023 and 0.19% to 3.1% for 2022.

NOTE E - INVESTMENTS

The fair values of investments at May 31 are as follows:

	2023	2022
	(in thousands)	
Short-term investments	$ 586,684	$ 424,316
Equities:		
Domestic securities	91,438	112,446
International securities	225,417	226,116
Fixed income:		
U.S. government securities	29,508	653
Corporate bonds and asset-backed securities	50,539	61,899
Alternatives:		
Equity partnerships	1,089,591	1,045,683
Debt partnerships	349,036	340,488
Real estate partnerships	167,417	164,597
Hedge funds	145,846	150,520
Real estate	3,481	2,441
Mineral interests	159,416	123,120
Investments held in trust by others	90,653	93,662
Total investments	$ 2,989,026	$ 2,745,941

Short-term investments consist of cash and cash equivalents, such as investments in money market funds, Treasury Bills, and mutual funds.

The amounts reported for the University's investments in hedge funds and limited partnerships are the estimates of the University's alternative investment managers, based on their best estimates using fair value estimation techniques, substantiated, in part, by the investments' audited financial statements and supported by the due diligence of the University's investment management. However, given the inherent limitations in any estimation technique, the values presented herein are not necessarily indicative of the amount that the University could realize in a current transaction. Future events could affect the estimates of fair value and could be material to the financial statements.

Direct investments in real estate and mineral interests are carried at fair value. The University believes that fair value accurately reflects the value of these investments, and records the change in fair value in investment returns, net of operating distributions in the statement of activities.

Mineral interests consist primarily of royalty interests in oil, natural gas, and natural gas liquids, which are developed and produced by oil and gas companies independent of the University. The mineral interests are primarily located in Texas, Oklahoma, New Mexico, Louisiana, Arkansas, and Mississippi. The University's valuation process for determining the fair value of producing mineral interests is based upon cash flows. Under the cash flows valuation method, the fair value of mineral interests is determined using a multiple of the average monthly net cash flows from producing royalties for the fiscal year. The resulting fair value determination is reviewed by an independent petroleum engineer in conjunction with management's due diligence process. In addition, non-producing mineral and non-participating royalty interests are valued by an independent petroleum engineer annually based on bonus potential and net mineral acreage retained by the University.

The following table summarizes the fair value measurement of the University's investments in certain entities that calculate NAV per share as of May 31, 2023:

		Fair Value (in millions)	Unfunded Commitments	Redemption Frequency	Redemption Notice
Investments in:					
Hedge funds	(a)	$ 146	$ —	(c)	(d)
Limited partnerships	(b)	1,606	498	n/a	n/a

(a) This category includes seven hedge funds with multiple strategies such as long/short equity, absolute return, multi-strategy, event-driven and global macro. The fair values of the investments in this category have been estimated using NAV per share of the investments, substantiated in part by the investments' audited financial statements. Three investments have gates which may potentially impose limitations on redemption amounts. Some hedge fund managers have withdrawal provisions established upon entering their funds which limit an investor's ability to withdraw amounts without a variable charge of up to 5%.

- Two investments, valued at $16.3 million, can be redeemed on a quarterly basis. Both of these investments have been notified of full redemption as of 5/31/23.
- One investment, valued at $49.9 million, can be redeemed on an annual basis.
- One investment, valued at $27.8 million, can be redeemed every two years from the date of issuance.
- One investment, valued at $41.5 million, can be redeemed every three years from the date of issuance.
- One investment, valued at $10.3 million, is gated.

(b) This category includes private equity limited partnerships that invest primarily in diversified leveraged buyout and venture capital companies, opportunistic distressed debt/equity securities, senior secured mortgages, and secondary investments. This category also includes real asset limited partnerships invested primarily in commercial mortgages and properties located almost exclusively in North America. The fair values of the investments in this category have been estimated using the NAV of the University's ownership interest in the partners' capital. NAVs are determined by the fund manager or general partner based upon the latest investee information available, including financial statements and other similar data necessary to the valuation process. Pending capital commitments by the University to these partnerships total approximately $498.0 million. Generally, partnership investments cannot be redeemed because the investments are structured as closed-end funds with maturity dates 10 or more years from initial acquisition. All funds in this category can be redeemed in the secondary market at a discount or premium to current fair value depending on the market for each particular fund subject to, in some cases, certain approval rights of the general partners.

(c) Hedge fund redemption frequency varies by fund and may occur the last day of each calendar quarter, annually on December 31, every two years on December 31, or every three years on October 1.

(d) Hedge fund redemption notice varies by fund and may be from 60 to 90 days depending on the fund.

Investments held in trust by others consist primarily of investments in securities and mineral-producing interests. The fair values are presented as follows from information provided by independent trustees as of May 31:

	2023	2022
	(in thousands)	
Milton E. Daniel Trust	$ 62,224	$ 64,670
Charles H. Harris Foundation	9,017	9,285
Charitable remainder trusts, net, at estimated net present value	15,294	15,428
Other estates and trusts	4,118	4,279
Total investments held in trust by others	$ 90,653	$ 93,662

The University has received as contributions various types of split-interest agreements and investments held in trust by others, including charitable gift annuities, pooled income funds, charitable remainder trusts, and perpetual trusts. The assets for charitable remainder trusts and perpetual trusts are neither in the possession nor under the control of the University, but are held and administered by fiscal agents independent of the University. These assets are included in the accompanying financial statements because the University has legally enforceable, irrevocable rights or claims, including those as to income or eventual distribution of the assets. The associated net assets included in pooled income funds and perpetual trusts are recorded in investments and are revalued to fair value at each year end based upon valuations provided by trustees. The associated net assets under charitable remainder trusts and charitable gift annuities are recorded in investments and are revalued to fair value at each year end using standard IRS-required valuation methodologies. The assumed rate of return used was 7.19% at May 31, 2023 and 2022. There were no contributions to split-interest agreements for the year ended May 31, 2023. Split-interest contributions were $0.3 million for the year ended May 31, 2022.

Under the charitable gift annuity arrangements, the University has recorded the assets at fair value and the liabilities to the donors or the donors' beneficiaries at the present value of the estimated future payments to be distributed by the University to such individuals. The amount of the contribution is the difference between the assets and the liability and is recorded as contribution revenue with donor restrictions.

Under the pooled income fund and charitable remainder trust agreements, the University has recorded the contribution with donor restrictions at the present value of the estimated future benefits to be received based on the ultimate disposition of the assets dependent on the donor's intent. Subsequent changes in fair value for charitable remainder trusts are recorded as changes in value in net assets with donor restrictions and are reflected in the statement of activities as investment returns, net of operating distributions.

Under the perpetual trust agreements, the assets are held in perpetuity and recorded in investments in the accompanying statements of financial position. The University has recorded the assets and has recognized contribution revenue with donor restrictions at the fair value of the University's beneficial interest in the trust assets. Income earned on the trust assets is included in investment returns distributed for operations in the accompanying statement of activities. Subsequent changes in the fair value of the beneficial interest in the trust assets are recorded in the statement of activities as investment returns with donor restrictions, net of operating distributions.

The net investment return for the years ended May 31 consists of the following:

	2023	2022
	(in thousands)	
Dividends and interest	$ 64,334	$ 57,197
Mineral income	17,487	14,585
Net realized and unrealized gain	9,798	219,865
Net investment return	$ 91,619	$ 291,647

NOTE F - FAIR VALUE MEASUREMENT

The schedule below classifies certain of the University's assets and liabilities carried at fair value based upon the three-tier hierarchy required by ASC 820 as of May 31, 2023 (in thousands):

		Fair Value Measurements at May 31, 2023 Using			
Description	2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at NAV
Short-term investments	$ 586,684	$ 566,923	$ 19,761	$ —	$ —
Equities	316,855	316,855	—	—	—
Fixed income	80,047	—	80,047	—	—
Hedge funds	145,846	—	—	—	145,846
Limited partnerships	1,606,044	—	—	—	1,606,044
Real estate	3,481	—	—	3,481	—
Mineral interests	159,416	—	—	159,416	—
Investments held in trust by others	90,653	—	—	90,653	—
Total investments	2,989,026	883,778	99,808	253,550	1,751,890
Interest rate swaps	(11,345)	—	(11,345)	—	—
Total	$ 2,977,681	$ 883,778	$ 88,463	$ 253,550	$ 1,751,890

The schedule below classifies certain of the University's assets and liabilities carried at fair value based upon the three-tier hierarchy required by ASC 820 as of May 31, 2022 (in thousands):

		Fair Value Measurements at May 31, 2022 Using			
Description	2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at NAV
Short-term investments	$ 424,316	$ 416,381	$ 7,935	$ —	$ —
Equities	338,562	338,562	—	—	—
Fixed income	62,552	—	62,552	—	—
Hedge funds	150,520	—	—	—	150,520
Limited partnerships	1,550,768	—	—	—	1,550,768
Real estate	2,441	—	—	2,441	—
Mineral interests	123,120	—	—	123,120	—
Investments held in trust by others	93,662	—	—	93,662	—
Total investments	2,745,941	754,943	70,487	219,223	1,701,288
Interest rate swaps	(15,170)	—	(15,170)	—	—
Total	$ 2,730,771	$ 754,943	$ 55,317	$ 219,223	$ 1,701,288

The schedule below summarizes the activity for the items above, which have been classified as Level 3 investments:

	Real Estate	Mineral Interests (in thousands)	Investments Held in Trust
Ending balance at May 31, 2021	$ 21,040	$ 69,900	$ 103,296
Sales, issuances and settlements (net)	(18,863)	—	—
Net gains/(losses)	264	53,220	(9,634)
Ending balance at May 31, 2022	2,441	123,120	93,662
Purchases, acquisitions, and additions	898	—	—
Sales, issuances and settlements (net)	(259)	—	—
Net gains/(losses)	401	36,296	(3,009)
Ending balance at May 31, 2023	$ 3,481	$ 159,416	$ 90,653

Unrealized and realized gains and losses on the investments valued using significant unobservable inputs are included, net of investment management fees and related expenses, in investment returns distributed for operations and investment returns, net of operating distributions, in the accompanying statement of activities. Specific valuation techniques are not disclosed because all valuation information is provided by third parties. For the year ended May 31, 2023, net unrealized gains of approximately $33.7 million relate to Level 3 assets still held at May 31, 2023. For the year ended May 31, 2022, net unrealized gains of approximately $43.9 million related to Level 3 assets still held at May 31, 2022.

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment, at cost or fair market value at the date of receipt by gift, are as follows at May 31:

	2023	2022
	(in thousands)	
Land improvements	$ 70,898	$ 70,217
Buildings, renovations, and improvements	1,731,447	1,707,644
Furniture and equipment	214,734	203,747
Library books and film	36,022	34,944
Finance lease	78,676	3,962
Property and equipment	2,131,777	2,020,514
Less accumulated depreciation	(824,486)	(749,866)
	1,307,291	1,270,648
Land	102,313	101,566
Construction-in-progress	57,508	21,061
Property and equipment, net	$ 1,467,112	$ 1,393,275

Depreciation expense was approximately $80.8 million and $75.2 million for the years ended May 31, 2023 and 2022, respectively.

The University had outstanding commitments for construction and renovation of approximately $132.4 million and $18.5 million at May 31, 2023 and 2022, respectively.

NOTE H - LEASES

The University leases parking, retail/office space, equestrian facilities, Athletics equipment, and dedicated ethernet under operating leases expiring at various dates through 2030, which are primarily considered operating ROU assets under ASC 842. In addition, two lease arrangements for student housing apartments for which the University collects fees from students for use and one lease arrangement for classroom and lab space for TCU School of Medicine are classified as a finance ROU asset under ASC 842 expiring at various dates through 2032.

	2023	2022
	(in thousands)	
Lease cost for the year ended May 31:		
Operating lease cost	$ 1,651	$ 260
Variable lease cost	—	6,095
Finance lease cost:		
Amortization of right of use assets	7,095	1,224
Interest on lease liabilities	2,063	30
Total finance lease cost	9,158	1,254
Total lease cost	$ 10,809	$ 7,609

	2023	2022
	(in thousands)	
Supplemental cash flow related to leases:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,627	$ 6,364
Operating cash flows from finance leases	$ 604	$ 30
Financing cash flows from finance leases	$ 7,977	$ 1,518

	Operating	
	2023	2022
Supplemental information related to leases:		
Right of use assets	$ 4,666	$ 25,238
Accumulated amortization	(1,555)	(12,213)
Right of use assets, net	$ 3,111	$ 13,025
Right of use liabilities, current	$ 1,585	$ 5,280
Right of use liabilities, non-current	1,583	8,306
Right of use liabilities	$ 3,168	$ 13,586
Weighted-average remaining lease term	3.80	6.03
Weighted-average discount rate	3.32%	1.70%

	Finance	
	2023	2022
Supplemental information related to leases:		
Right of use assets	$ 78,676	$ 3,962
Accumulated amortization	(12,709)	(2,738)
Right of use assets, net	$ 65,967	$ 1,224

Right of use liabilities, current	$ 7,265	$ 971
Right of use liabilities, non-current	59,143	—
Right of use liabilities	$ 66,408	$ 971
Weighted-average remaining lease term	9.16	1.00
Weighted-average discount rate	3.65%	1.95%

Lease maturity table:	
Years ending May 31,	
2024	$ 9,490
2025	8,369
2026	8,500
2027	8,750
2028	8,921
Thereafter	37,641
	81,671
Less effects of discounting	(12,095)
Total	$ 69,576

NOTE I - BONDS AND NOTES PAYABLE AND REVOLVING LINE OF CREDIT

The carrying value of bonds and notes payable, net, consisted of the following at May 31:

	2023	2022
	(in thousands)	
2000 Red River Higher Education Variable Rate Demand Revenue Bonds, partially refunded in 2020, due March 1, 2030, bearing interest at variable rates (3.30% at May 31, 2023 and 0.80% at May 31, 2022)	$ 30,000	$ 30,000
2006 Red River Higher Education Variable Rate Demand Revenue Bonds, due March 15, 2035, bearing interest at variable rates (3.30% at May 31, 2023 and 0.72% at May 31, 2022)	80,000	80,000
2013 Red River Higher Education Revenue Bonds, partially advance-refunded in 2020, called March 15, 2023.	—	2,535
2015A Taxable Senior Notes, due March 15, 2045, bearing interest at 3.97%	50,000	50,000
2016 Red River Higher Education Loan, due in annual payments through March 15, 2027, bearing interest at 2.30%	20,035	24,765
2016A Red River Higher Education Revenue Refunding Bonds, due in annual payments through March 15, 2038, bearing interest at rates between 4% and 5%, net of unamortized premium of $3.8 million and $4.1 million at May 31, 2023 and 2022, respectively	29,150	30,527
2017 Red River Higher Education Revenue Refunding Notes, due in annual payments through March 15, 2026, bearing interest at 2.44%	30,071	30,327
2017A Taxable Senior Notes, due August 11, 2037, bearing interest at 3.61%	100,000	100,000
2019 Taxable Senior Notes, due April 9, 2043, bearing interest at 3.82%	75,000	75,000
2020 Red River Higher Education Revenue and Improvement Refunding Taxable Bonds, due in annual payments March 15, 2026 through March 15, 2045, bearing interest at rates between 2.164% and 3.397%	309,385	309,385
2020A Taxable Senior Notes, due May 14, 2060, bearing interest at 3.6%	150,000	150,000
2022 Taxable Senior Notes, due in annual payments beginning in 2046 through March 15, 2057, bearing interest at 3.86%	120,000	—

	2023	2022
	(in thousands)	
Bonds and notes payable	$ 993,641	$ 882,539
Unamortized debt issuance costs	(4,538)	(4,946)
Bonds and notes payable, net	$ 989,103	$ 877,593

The 2000 and 2006 bonds are variable rate bonds in a weekly mode and can be tendered by holders upon demand. Remarketing agents selected by the University determine the interest rates and market the bonds at rates that will price the bonds at a market value of approximately 100% of the principal balance outstanding, plus accrued interest. The University has $110.0 million of bank-supported standby bond purchase agreements (SBPA). In the event that the remarketing agent is unable to market the bonds at any given time, the bonds could become callable and the SBPA bank would be required to pay the balance at that time. The SBPAs mature in May 2025.

On March 3, 2005, the University entered into, at no cost, a 29.1-year $80.0 million notional amount interest rate swap, in which the University agrees to pay an annual fixed rate of 4.34%. The University entered into this rate swap to minimize the interest rate risk related to the 2006 bonds. The fair value of the swap represented a liability to the University of approximately $11.3 million and $15.2 million at May 31, 2023 and 2022, respectively. Periodic settlements of the swap are recorded as a component of interest expense.

On August 11, 2017, the University entered into an agreement with a private lender to issue $100.0 million of Taxable Senior Notes at a fixed rate of 3.61% and due on August 11, 2037. Identified functionally as Series 2017A, the proceeds from the Notes were used to renovate and expand the Neeley School of Business facilities and construct a new School of Music Performance Hall. The Neeley School of Business renovation was a $75.0 million capital project for which approximately $57.9 million and $57.8 million in binding written pledges, non-binding agreements, and donor gifts had been committed through May 31, 2023 and 2022, respectively. The School of Music Performance Hall is a $53.0 million capital project for which approximately $12.5 million and $12.4 million in binding written pledges, non-binding agreements, and donor gifts had been committed through May 31, 2023 and 2022, respectively.

On April 9, 2019, the University entered into an agreement with a private lender to issue $75.0 million of Taxable Senior Notes at a fixed rate of 3.82% and due on April 9, 2043. Identified functionally as Series 2019, the proceeds of the Notes were used to fund the construction of The Harrison administration building, a $57.0 million capital project, and to expand the east side of Amon G. Carter Stadium, a $113.0 million capital project. Approximately $66.1 million and $64.4 million in binding written pledges, non-binding agreements, and donor gifts had been committed toward the stadium expansion through May 31, 2023 and 2022, respectively.

On January 30, 2020 the University entered into an agreement to issue $309.0 million in Higher Education Revenue Refunding and Improvement Taxable Bonds at fixed rates ranging from 2.16% to 3.40%, based on maturities ranging from March 15, 2026 to March 15, 2045. Identified functionally as Series 2020, the proceeds refinanced in part or all of Series 2000, 2010A, 2011, 2013A, and issued $75.0 million in new funds to construct projects including two dormitories, a new Fine Arts building, and parking. Additionally, proceeds were placed in escrow to refund a portion the Series 2013 bonds which were called in March 2023. The unrefunded portion of Series 2013 fully amortized in March 2023, coinciding with the Series 2013 call date. The Series 2013 issuance is now fully retired.

On May 15, 2020, the University entered into an agreement with a private lender to issue $150.0 million of Taxable Senior Notes at a fixed rate of 3.60% and due on May 14, 2060. Identified functionally as

Series 2020A, the proceeds from the Notes were held in reserve to manage liquidity given the uncertainty of the worldwide COVID-19 pandemic. Currently, the proceeds are invested alongside the endowment until otherwise needed. As of May 31, 2023, no proceeds have been spent.

On June 17, 2022, the University entered into an agreement with a private lender to issue $120.0 million of Taxable Senior Notes at a fixed rate of 3.86% and due on March 15, 2057. Identified functionally as Series 2022, the proceeds of the note will be used to construct a new residence hall and dining facility and renovate a performance hall.

ASC 815, *Derivatives and Hedging*, states that not-for-profit organizations are not permitted special hedge accounting for derivatives used to hedge forecasted transactions. Accordingly, the interest rate swaps have not been accounted for by the University as a hedge. Changes in the fair value of the swaps are included as non-operating activities in the statement of activities as gain on interest rate swaps.

Aggregate scheduled maturities of bonds and notes payable are as follows (in thousands):

Year Ended May 31	
2024	$ 6,272
2025	6,454
2026	37,790
2027	13,475
2028	13,395
Thereafter	912,445
Total bonds and notes payable	989,831
Unamortized premium	3,810
Unamortized bond issuance costs	(4,538)
Bonds and notes payable, net	$ 989,103

As of May 31, 2023, the University had available revolving lines of credit totaling $90.0 million, supporting operations, with staggered maturities through March 2024. No borrowings were outstanding under any line of credit at May 31, 2023. Borrowings under the revolving lines of credit would be unsecured and bear interest at rates which fluctuate with Secured Overnight Financing Rate (SOFR) (5.06% at year end).

Cash payments of interest totaled approximately $34.1 million and $30.2 million for the years ended May 31, 2023 and 2022, respectively. Interest capitalized totaled approximately $2.6 million and $0.3 million for the years ended May 31, 2023 and 2022, respectively. Interest expense was approximately $31.5 million and $29.9 million for the years ended May 31, 2023 and 2022, respectively.

NOTE J - RETIREMENT BENEFITS

All full-time University faculty and staff hired on or after June 1, 2020 may participate in retirement plans administered by the Teachers Insurance and Annuity Association/College Retirement Equities Fund or Pension Fund of the Christian Church the first month after hire date with a five-year full vesting period. Full-time University faculty and staff hired before June 1, 2020 with less than two years of service were able to begin participating as of June 1, 2020 with immediate vesting. The University's contributions to the plans were 8% of the participant's salary base. Contributions to the plans by the University were approximately $16.7 million and $14.8 million for the years ended May 31, 2023 and 2022, respectively.

In addition to retirement contributions, the University provides certain health care benefits for retired employees. Normal retirement age is 65. For employees hired prior to January 1, 2005, early retirement is possible, beginning at age 55, with a minimum of five years of service, provided that a retiree's years of service plus age equal or exceed 75 at the date of retirement. For employees hired after December 31, 2004, early retirement is possible, beginning at age 55, with a minimum of 10 years of service, provided that a retiree's years of service plus age equal or exceed 75 at the date of retirement.

The University provides Medicare eligible retirees with a monthly benefit amount toward the purchase of individual medical and prescription drug coverage through a private Medicare exchange. Insured dental benefits are offered to all eligible retirees. Self-insured medical and prescription drug benefits are provided by the plan for pre-Medicare eligible retirees and the University partially subsidizes the premium on a current basis. The cost for the plan for participants who are not Medicare eligible is projected to increase in the future at the health care cost trend rates disclosed below.

Effective January 1, 2021, the University modified its plan so that only employees who attain age 45 on or before December 31, 2020, are eligible for the health care benefits currently available to retired employees. Current employees under the age of 45 on January 1, 2021, and any new hires after January 1, 2021, will be eligible for the defined contribution retiree health savings program (RHSP). All eligible employees will be automatically enrolled in the RHSP the month following their 40th birthday. Employees in the RHSP will vest after 10 years of service.

The following tables set forth information regarding postretirement benefits attributable to employees of the University at May 31 (determined using a measurement date of May 31):

Change in benefit obligation:

	2023	2022
	(in thousands)	
Accumulated postretirement benefit obligation at beginning of year	$ 48,118	$ 69,051
Service cost	1,227	2,228
Interest cost	2,337	2,026
Actuarial (gain)/loss	4,031	(21,726)
Plan participants' contributions	647	874
Benefit payments	(4,513)	(4,335)
Accumulated postretirement benefit obligation at end of year	$ 51,847	$ 48,118

Reconciliation of funded status:

	2023	2022
	(in thousands)	
Accumulated postretirement benefit obligation (unfunded)	$ 51,846	$ 48,118
Unrecognized actuarial loss	(15,565)	(12,186)
Unrecognized prior service credit	2,925	6,775
Accrued postretirement benefit cost	$ 39,206	$ 42,707

Reconciliation of accrued postretirement benefit cost:

	2023	2022
	(in thousands)	
Accrued postretirement benefit cost at beginning of year	$ 42,707	$ 43,467
Net periodic postretirement benefit cost	366	2,701
University contributions	(3,866)	(3,461)
Accrued postretirement benefit cost at end of year	$ 39,207	$ 42,707

Components of net periodic postretirement benefit cost:

	2023	2022
	(in thousands)	
Service cost	$ 1,227	$ 2,228
Interest cost	2,337	2,026
Recognized actuarial loss	651	2,296
Amortization of prior service credit	(3,849)	(3,849)
Net periodic postretirement benefit cost	$ 366	$ 2,701

Change in plan assets:

	2023	2022
	(in thousands)	
Fair value of plan assets at beginning of year	$ —	$ —
University contributions	3,866	3,461
Plan participants' contributions	647	874
Benefit payments	(4,513)	(4,335)
Fair value of plan assets at end of year	$ —	$ —

Postretirement benefit changes reported as non-operating activities:

	Projected 2024 (unaudited)	2023	2022
		(in thousands)	
Recognized actuarial loss included in net periodic benefit cost	$ 931	$ 651	$ 2,296
Unrecognized actuarial loss (gain) adjustment	—	3,380	(24,022)
Actuarial loss/(gain)	$ 931	$ 4,031	$ (21,726)

Weighted-average assumptions used in calculating amounts relating to postretirement benefit obligations:

	2023	2022
Discount rate used	5.25%	5.00%
Health care cost trend rates:		
Initial post-65 trend rate	N/A	N/A
Ultimate post-65 trend rate	N/A	N/A
Years to decrease to ultimate trend rate	N/A	N/A
Initial pre-65 trend rate	5.00%	5.50%
Ultimate pre-65 trend rate	5.00%	5.00%
Years to decrease to ultimate trend rate	0	1
Initial dental trend rate	5.00%	5.00%
Ultimate dental trend rate	5.00%	5.00%
Years to decrease to ultimate trend rate	-	-

Effect of a 1-percentage point increase in health care cost trend rate on:

	2023	2022
	(in thousands)	
Accumulated postretirement benefit obligation as of May 31	$ 548	$ 541
Service cost plus interest cost for year beginning June 1	66	71

Effect of a 1-percentage point decrease in health care cost trend rate on:

	2023	2022
	(in thousands)	
Accumulated postretirement benefit obligation as of May 31	$ (493)	$ (482)
Service cost plus interest cost for year beginning June 1	(58)	(62)

Expected postretirement benefit payments, net of expected plan participants' contributions (in thousands):

2024	$ 3,556
2025	3,613
2026	3,642
2027	3,672
2028	3,697
Years 2029 - 2033	19,161

The University expects to contribute $3.6 million to the plan during the year ended May 31, 2024.

NOTE K - NET ASSETS

At May 31, net assets are categorized by purpose as follows:

	Without Donor Restrictions	With Donor Restrictions	2023	2022
	(in thousands)			
Internally designated for specific programs and net investment in plant	$ 682,218	$ —	$ 682,218	$ 651,013
Restricted by donor for plant	—	8,156	8,156	2,349
Restricted by donor for scholarships and programs	—	56,835	56,835	51,090
Endowment funds	1,315,841	1,187,728	2,503,569	2,440,718
Student loan funds	—	948	948	929
Total net assets	$ 1,998,059	$ 1,253,667	$ 3,251,726	$ 3,146,099

Net assets with donor restrictions includes balances restricted by donors and the income from such assets which is either restricted until appropriated for expenditure or unrestricted based on donor stipulations. This category also includes balances restricted by donors subject to certain time or purpose limitations.

NOTE L - ENDOWMENT

The University's endowment consists of individual endowment 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. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The University interprets the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) enacted in the State of Texas as allowing the University, absent explicit donor stipulations to the contrary as stated in the gift instrument, to appropriate as much of a donor-restricted endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. As a result of this interpretation, the University classifies as perpetual endowments (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 is classified as donor-restricted net assets only until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the University and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the University; and (7) the investment policies of the University.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of donor-restricted contributions and continued appropriation for certain programs that were deemed prudent by the University. There were no deficiencies of this nature as of May 31, 2023 or 2022. Deficiencies of this nature would be included in investment returns, net of operating distributions in the statement of activities and reported in net assets with donor restrictions in the statements of financial position.

Endowment Net Assets

Endowment net assets consist of the following at May 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
		(in thousands)	
Donor-restricted endowment funds	$ —	$ 1,187,728	$ 1,187,728
Board-designated endowment funds	1,315,841	—	1,315,841
Total endowment net assets	$ 1,315,841	$ 1,187,728	$ 2,503,569

Endowment net assets consist of the following at May 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
		(in thousands)	
Donor-restricted endowment funds	$ —	$ 1,156,489	$ 1,156,489
Board-designated endowment funds	1,284,229	—	1,284,229
Total endowment net assets	$ 1,284,229	$ 1,156,489	$ 2,440,718

Changes in endowment net assets for the years ended May 31, 2023 and 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
		(in thousands)	
Endowment net assets at May 31, 2021	$ 970,975	$ 1,030,862	$ 2,001,837
Contributions	—	52,191	52,191
Total investment return	170,861	107,209	278,070
Endowment spending	(43,878)	(33,773)	(77,651)
Transfers to create designated funds	186,271	—	186,271
Endowment net assets at May 31, 2022	1,284,229	1,156,489	2,440,718
Contributions	—	55,790	55,790
Total investment return	77,115	11,280	88,395
Endowment spending	(50,090)	(35,831)	(85,921)
Transfers to create designated funds	4,587	—	4,587
Endowment net assets at May 31, 2023	$ 1,315,841	$ 1,187,728	$ 2,503,569

NOTE M - EXPENSES BY NATURAL CLASSIFICATION

The University categorizes operating expenses according to functional classifications in its statement of activities. The natural classifications of University operating expenses according to major budget categories are presented below. Interest expense on external debt is allocated to the functional categories, which have benefited from the proceeds of the external debt. Directly attributable depreciation expense is reported in each functional category based on usage of assets. All expenses associated with utilities and operation and maintenance of facilities are allocated to the functional classifications based on square footage occupancy.

Operating expenses by natural classification at May 31, 2023:

	Compensation							
	Faculty	Exempt Staff	Non Exempt and Other Wages	Benefits	Utilities	Supplies Services and Other	Depreciation	2023 Total
				(in thousands)				
Instruction	$ 98,397	$ 10,413	$ 15,532	$ 35,628	$ 2,732	$ 55,661	$ 18,570	$ 236,933
Research	—	4,229	3,104	1,987	23	4,675	187	14,205
Academic support	431	18,086	5,200	7,141	497	19,202	7,819	58,376
Student services	120	45,669	14,047	17,250	2,562	72,652	23,760	176,060
Institutional support	219	22,699	6,029	9,392	539	24,377	5,972	69,227
Auxiliary activities	422	4,048	8,575	3,426	3,483	43,964	23,732	87,650
Fund-raising	—	7,426	1,031	2,747	14	3,039	780	15,037
Total operating expenses	$ 99,589	$ 112,570	$ 53,518	$ 77,571	$ 9,850	$ 223,570	$ 80,820	$ 657,488

Operating expenses by natural classification at May 31, 2022:

	Compensation							
	Faculty	Exempt Staff	Non Exempt and Other Wages	Benefits	Utilities	Supplies Services and Other	Depreciation	2022 Total
				(in thousands)				
Instruction	$ 93,116	$ 8,943	$ 16,020	$ 36,410	$ 2,666	$ 47,177	$ 17,983	$ 222,315
Research	—	3,330	2,766	1,833	23	3,693	152	11,797
Academic support	300	16,249	5,582	7,014	489	14,476	7,944	52,054
Student services	—	42,049	22,124	17,182	2,563	61,963	24,266	170,147
Institutional support	68	20,612	5,612	8,188	532	26,552	5,986	67,550
Auxiliary activities	406	3,809	7,961	3,489	3,307	40,359	18,115	77,446
Fund-raising	—	6,694	1,052	2,692	13	2,121	777	13,349
Total operating expenses	$ 93,890	$ 101,686	$ 61,117	$ 76,808	$ 9,593	$ 196,341	$ 75,223	$ 614,658

NOTE N - SCHOOL OF MEDICINE

The Anne Burnett Marion School of Medicine at TCU was awarded full accreditation from the Liaison Committee on Medical Education of the Association of American Medical Colleges on June 15, 2023.

NOTE O - CONTINGENCIES

During the normal course of business, the University is involved in various litigation and disputes. The University does not believe that the ultimate resolution of any of these matters will have a material impact on the financial position, results of operations or cash flows of the University.

NOTE P - IMPACT OF COVID-19 PANDEMIC

In Fiscal Year 2022, the University received assistance in covering some of the economic impacts of the COVID-19 pandemic through distributions from the Higher Education Emergency Relief Fund (HEERF). HEERF provides emergency financial aid for students and grants to institutions to defray costs associated with the pandemic including lost revenue, significant changes to the delivery of instruction, and efforts to monitor and suppress the coronavirus in accordance with public health guidelines.

HEERF has been distributed to universities in three different tranches (HEERF I, II, III), each with an institutional and student portion. The University has received allocations under HEERF II and III. HEERF II required that all money allocated for students be distributed to students with the aid prioritized for those with need. The student portion of HEERF II received by the University totaled $2.9 million and was disbursed to students in the form of financial aid. The institutional portion of HEERF II received by the University totaled $5.7 million. These funds were used to reimburse the University for lost revenue due to discounts provided for classes being converted to online courses.

HEERF III required that at least half of the allocated funding be distributed to students. The University was allocated $7.7 million for direct support to students for financial aid. The full award was disbursed prior to May 31, 2022. The institutional portion of HEERF III received by the University totaled $7.7 million. These funds were used to cover portions of lost tuition in the form of financial aid as well as defray costs for ongoing coronavirus monitoring and suppression on campus during the year ended May 31, 2022.

The University records HEERF receipts as revenue within Government Grants and Contracts and amounts distributed to students are expensed within Student Financial aid which is netted against Tuition Revenue in the statement of activities.

NOTE Q - SUBSEQUENT EVENTS

The University has evaluated events through September 25, 2023, the date these financial statements were issued. The University has entered into contract negotiations to purchase a residential facility. The University currently leases this facility to provide student housing. It is expected that the University will complete this transaction in the Fall of 2024 for approximately $64.5 million.

TEXAS CHRISTIAN UNIVERSITY

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