



WESLEYAN UNIVERSITY

Financial Statements

June 30, 2023

(with summarized comparative information for June 30, 2022)

(With Independent Auditors' Report Thereon)



KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

The Board of Trustees
Wesleyan University:

Opinion

We have audited the financial statements of Wesleyan University (the University), which comprise the statement of financial position as of June 30, 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 June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 that the financial statements are issued.

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



In performing an audit in accordance with 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 Summarized Comparative Information

We have previously audited the University's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Hartford, Connecticut
October 27, 2023

WESLEYAN UNIVERSITY

Statement of Financial Position

June 30, 2023

(with comparative financial information for June 30, 2022)

(In thousands of dollars)

Assets	2023	2022
Cash and cash equivalents	\$ 14,259	58,223
Deposits with trustees	17,348	40,647
Short-term investments	249,678	207,320
Receivables, net, and other assets	11,852	12,221
Pledges receivable, net	23,751	31,945
Long-term investments	1,584,363	1,610,246
Investment in plant	470,481	407,132
Total assets	<u>\$ 2,371,732</u>	<u>2,367,734</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 31,445	27,543
Liabilities associated with investments	—	16,969
Deferred revenues and other liabilities	14,843	15,304
Split-interest obligations	10,570	10,175
Postretirement benefit obligation	17,942	17,180
Long-term debt	453,257	454,119
Asset retirement obligation	9,730	12,067
Federal student loan advances	2,409	2,635
Total liabilities	<u>540,196</u>	<u>555,992</u>
Net assets:		
Without donor restrictions	604,997	585,139
With donor restrictions	1,226,539	1,226,603
Total net assets	<u>1,831,536</u>	<u>1,811,742</u>
Total liabilities and net assets	<u>\$ 2,371,732</u>	<u>2,367,734</u>

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY

Statement of Activities

Year ended June 30, 2023

(with summarized comparative financial information for the year ended June 30, 2022)

(In thousands of dollars)

	2023		Total	Total 2022
	Without donor restrictions	With donor restrictions		
Operating activities:				
Revenues and other support:				
Net student charges	\$ 185,823	—	185,823	183,410
Contributions	8,053	—	8,053	7,181
Government and foundation grants	11,258	—	11,258	19,240
Other revenues	10,939	—	10,939	7,001
Nonoperating net assets used in operations:				
Endowment return used in operations	56,192	—	56,192	47,180
Restricted and designated net assets used in operations	4,118	—	4,118	4,421
Total revenues and other support	276,383	—	276,383	268,433
Expenses:				
Salaries and benefits	153,667	—	153,667	143,150
Supplies, services and other	83,235	—	83,235	78,341
Interest	15,696	—	15,696	16,601
Depreciation	12,932	—	12,932	12,732
Total expenses	265,530	—	265,530	250,824
Changes in net assets from operating activities	10,853	—	10,853	17,609
Nonoperating activities:				
Contributions	—	29,172	29,172	58,475
Foundation grants	—	2,272	2,272	2,505
Net investment return	16,142	23,831	39,973	(84,741)
Nonoperating net assets used in operations	(60,310)	—	(60,310)	(51,601)
Other changes	—	(1,373)	(1,373)	(13,150)
Postretirement benefit obligation changes other than service cost	(793)	—	(793)	3,546
Net assets released from restrictions	53,966	(53,966)	—	—
Total non-operating activities	9,005	(64)	8,941	(84,966)
Change in net assets	19,858	(64)	19,794	(67,357)
Net assets at beginning of year	585,139	1,226,603	1,811,742	1,879,099
Net assets at end of year	\$ 604,997	1,226,539	1,831,536	1,811,742

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2023

(with comparative financial information for the year ended June 30, 2022)

(In thousands of dollars)

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 19,794	(67,357)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	12,932	12,675
Amortization of bond premium and cost of issuance	(862)	(797)
Net (gains) losses from investments and trusts	(39,853)	81,046
Gain on sale of property, plant and equipment	(449)	—
Gifts received for long-term investment	(32,491)	(34,225)
Postretirement benefit obligation change	762	(3,222)
Changes in assets and liabilities that provide (use) cash:		
Receivables, net and other assets	369	698
Pledges receivable, net	8,194	(3,592)
Accounts payable and accrued expenses	(4,608)	8,301
Deferred revenues and other liabilities	(461)	10,334
Change in valuation of split-interest obligations	1,287	480
Asset retirement obligation	(2,337)	86
Net cash provided by (used in) operating activities	(37,723)	4,427
Cash flows from investing activities:		
Additions to property and equipment	(69,563)	(47,697)
Proceeds from sale of property, plant and equipment	2,240	—
Change in deposit with brokers for short sales	17,213	3,703
Purchases of securities sold short	(55,887)	(20,289)
Sales of securities sold short	34,567	21,175
Purchases of long-term investments	(290,342)	(399,290)
Sales of long-term investments	353,351	429,227
Purchases of short-term investments	(352,978)	(119,546)
Sales of short-term investments	307,582	77,950
Net cash used in investing activities	(53,817)	(54,767)
Cash flows from financing activities:		
Gifts received for long-term investment	32,491	34,225
Payments to beneficiaries of split-interest agreements	(892)	(945)
Proceeds from issuance of long-term debt	—	100,856
Cost of debt issuance	—	(856)
Changes in federal student loan advances	(226)	(369)
Net cash provided by financing activities	31,373	132,911
Net change in cash, cash equivalents, and restricted cash	(60,167)	82,571
Cash, cash equivalents and restricted cash at beginning of year	102,483	19,912
Cash, cash equivalents and restricted cash at end of year	\$ 42,316	102,483
Other cash flow information:		
Cash paid for interest	\$ 18,779	18,056
Change in accounts payable related to property and equipment	8,509	(4,105)
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 14,259	58,223
Deposits with trustees	17,348	40,647
Long-term investments	10,709	3,613
Cash, cash equivalents and restricted cash	\$ 42,316	102,483

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2023

(with summarized comparative information for June 30, 2022)

(Dollars in thousands)

(1) Organization

Wesleyan University (the University), founded in 1831, is a private residential not-for-profit institution of higher learning. The University is co-educational and has approximately 3,000 undergraduate and 200 graduate students situated on a 316-acre campus in Middletown, Connecticut. The University offers Bachelor of Arts in 45 fields, plus Bachelor of Liberal Studies, Master's degrees and PhDs in selected disciplines. The University is accredited by the New England Commission of Higher Education.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by the University are described below:

(a) Basis of Reporting

The financial statements of the University have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP). The University applies the Financial Accounting Standards Board's (FASB's) Accounting Standards Codification (ASC), which is the single source of authoritative GAAP.

The financial statements include 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 GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

(b) Net Asset Classes

The accompanying financial statements present information regarding the University's financial position and activities based upon the existence or absence of donor-imposed restrictions in the following net asset categories:

With donor restrictions: net assets subject to donor restrictions that expire with the passage of time, can be fulfilled by actions pursuant to the restrictions, or which may be perpetual.

Without donor restrictions: net assets not subject to donor restrictions on their use.

(c) Statement of Activities

The statement of activities reports changes in net assets from operating and nonoperating activities. Operating revenues consist of those items attributable to the University's undergraduate and graduate education programs and research conducted by the academic departments, as well as all contributions other than those restricted for long-term investment or not available for current operations.

Nonoperating activities include investment return on long-term investments, postretirement benefit obligation adjustments other than service cost, changes in value of split-interest agreements, as well as certain items not related to the University's ongoing academic or research activities. To the extent nonoperating contributions, investment income and returns are used for operations, they are reclassified as nonoperating assets used in operations.

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(with summarized comparative information for June 30, 2022)
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(d) Revenue Recognition

(i) Net Student Charges

Net student charges consist of tuition and fees and room and board charges, which are recorded as revenue in the year in which the related services are rendered. Revenue from student charges is determined based on published rates and billed and reflected net of reductions from institutional financial aid, which may be funded by endowment funds or other institutional resources. Disbursements made directly to students for living costs or other purposes are reported as an expense. Student charges received in advance of services rendered are categorized as deferred revenues and other liabilities in the statement of financial position.

Student charges were as follows for the years ended June 30, 2023 and 2022:

	2023	2022
Tuition and fees	\$ 208,860	205,987
Room and board	55,622	56,945
Gross student charges	264,482	262,932
Less scholarships	(78,659)	(79,522)
Net student charges	\$ 185,823	183,410

(ii) COVID-19

Federal stimulus packages created by the Coronavirus Aid, Relief, and Economic Security Act (CARES), Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan (ARP) provided funding to support higher education institutions and the students they serve through the Higher Education Emergency Relief Fund (HEERF). In addition, the Federal Emergency Management Agency (FEMA) has reimbursed the University for costs incurred to mitigate the spread of COVID-19 on campus.

For the years ended June 30, 2023 and 2022, Wesleyan recognized \$2,015 and \$11,361 in support from these agencies which is recorded in government and foundation grants on the statement of activities.

(iii) Contributions

Contributions, including unconditional promises to give, are recognized in the period received. Contributions of assets other than cash are reported at their estimated fair value. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions until the assets are acquired and placed in service.

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Notes to Financial Statements

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(with summarized comparative information for June 30, 2022)

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The University accounts for nonexchange transfers of assets from government agencies and foundations as contributions. Contributions containing both a barrier and a right of return are accounted for as conditional contributions, and revenue is recognized when conditions are met. However, the University has elected the simultaneous release option for conditional contributions that are also subject to purpose restrictions. Under this option, net assets without donor restrictions include donor restricted- contributions for which purpose restrictions and conditions are met in the same reporting period.

(e) Cash Equivalents and Short-Term Investments

Cash equivalents include only short-term-, highly liquid working capital investments (those with original maturities three months or less), exclusive of those recorded as long-term or short-term investments. Short-term- investments include amounts invested in short-term, liquid assets selected to provide optimum return for the University's ongoing operations.

(f) Deposits With Trustees

The University maintains unspent proceeds from the issuance of CHEFA Series I as required by the associated bond agreements. The deposits with trustees of debt obligations are reported in deposits with trustees on the balance sheet.

(g) Receivables

The University extends credit to students in the form of accounts receivable and loans for educational purposes. At June 30, 2023 and 2022, student accounts receivable were \$448 and \$672, net of an allowance for doubtful accounts of \$240 and \$301, respectively. Student loans receivable at June 30, 2023 and 2022 were \$1,905 and \$2,208, respectively, net of an allowance for doubtful accounts of \$2,026.

(h) Fair Value Measurements

Investments are reported at fair value. Fair value generally represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – unobservable inputs are used when little or no market data is available.

The University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The University classifies its assets and liabilities in the hierarchy based on these inputs.

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Most of the University's investments are held through limited partnerships and commingled funds for which fair value is estimated using net asset values (NAVs) reported by the fund managers as a practical expedient. These NAV-measured investments are not categorized within the fair value hierarchy.

These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. The nature of certain investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the University's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University's interest in the funds. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the University were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

As of June 30, 2023 and 2022, the University had no specific plans or intentions to sell investments at amounts different than NAV.

(i) Investment in Plant

Investment in plant is stated at cost at the date of acquisition or estimated fair value at the date of donation in the case of gifts. Depreciation is calculated on a straight-line basis using useful lives of 50 years for buildings, 25 years for building improvements, 10 years for equipment and 7 years for computer hardware and software.

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, in accordance with ASC 410, *Asset Retirement and Environmental Obligations*, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived- asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Any difference between the cost to actually settle the asset retirement obligation and the liability recorded is recognized as an operating gain or loss in the statement of activities.

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(j) Liabilities Associated with Investments

The University may, from time to time, incur liabilities associated with its investment portfolio as a result of securities sold short or other transactions. In order to terminate a short position, the University must acquire and deliver to the lender a security identical to the one it borrowed and sold short, and a gain or loss is recognized for the difference between the short sale proceeds and the cost of the identical security acquired. Liabilities reported on the statement of financial position represent the fair value of the identical securities that must be acquired to settle the obligation to the lender. The liabilities would be classified as Level 1 in the fair value hierarchy given that they are measured based on marketable securities.

(k) Split Interest Obligations

The University has a charitable gift annuity plan whereby donors may contribute assets in exchange for the right to receive a fixed-dollar periodic payment of the gift assets during their lifetimes. Payments begin in accordance with the timing stipulated in the gift annuity contracts. The difference between the original annuity amount invested and the discounted liability for future payments, determined on an actuarial basis, is recognized as contribution revenue at the date of the gift. The actuarial liability is revalued annually and any surplus or deficiency is recognized as a change in value in the statements of activities.

Assets under Wesleyan's gift annuity program, recorded in long-term investments on the statement of financial position, were \$11,955 and \$11,953, and liabilities to donors, recorded in split interest obligations on the statement of financial position, were of \$7,857 and \$8,161, as of June 30, 2023 and 2022, respectively.

(l) Income Taxes

The University is generally exempt from income taxes under Internal Revenue Code, Section 501(a), as an organization described in Section 501(c)(3). The University assesses uncertain tax positions and determined that there were no such positions that have a material effect on the financial statements.

The University is subject to a federal excise tax of 1.4% on net investment income under the Tax Cuts and Jobs Act signed into law on December 22, 2017. Net investment income includes interest, dividends and net realized gains on the sale of investments. Estimated excise tax expense of \$310 is reported in accounts payable and accrued expenses on the statement of financial position and in other changes on the statement of activities.

The University has also made provisions for deferred taxes in the amount of \$10,900. The deferred tax liability represents future excise tax payable on unrealized gains in excess of the tax basis of the investments. The liability is reported in deferred revenues and other liabilities on the statement of financial position and changes in the liability are reported in other changes on the statement of activities.

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Notes to Financial Statements
June 30, 2023
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(m) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Risks and Uncertainties

Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in their value, it is reasonably possible that changes in these risks in the near term could materially affect amounts reported in the financial statements.

(o) Reclassifications

Certain 2022 balances have been reclassified to conform to the 2023 presentation.

(3) Financial Assets and Liquidity Resources

The University's cash flows have seasonal variations during the year attributable to billings for student charges and there is a concentration of contributions received at calendar and fiscal year ends. To manage liquidity, the University maintains a working capital portfolio conservatively invested in cash and short-term investments with daily liquidity. As further described in note 11, the University maintains two lines of credit with JPMorgan Chase that provide up to \$80,000, which can be drawn on to manage cash flows.

As of June 30, 2023, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled debt service, and capital construction costs not financed with debt, were as follows:

Financial assets:

Cash and cash equivalents	\$	14,259
Short-term investments		249,678
Accounts and student loans receivable, net due within one year		4,025
Pledges receivable, net available for operations due within one year		1,521
Fiscal 2024 Board-approved endowment appropriation		62,169
Total financial assets available within one year		331,652

Liquidity resources:

Line of credit, undrawn		80,000
Total financial assets and liquidity resources	\$	411,652

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In addition, as of June 30, 2023, subject to liquidity provisions, the University had an additional \$72,415 in working capital investments and \$363,796 in board-designated endowment, which is available for general expenditure with Board approval.

(4) Contributions Receivable

The following is a summary of unconditional promises to give at June 30 is as follows:

	2023	2022
Contributions expected to be collected within:		
Less than one year	\$ 11,660	16,605
One to five years	11,743	15,230
More than five years	1,916	1,495
	25,319	33,330
Less allowance for uncollectible pledges	(521)	(613)
Less discount for present value	(1,047)	(772)
Net unconditional promises to give	\$ 23,751	31,945

The University applies an allowance for uncollectible pledges based on factors such as prior collection history, type of contribution, nature of the fundraising activity, and future collection expectations. Discount rates used range from 0.22% to 4.27%.

As of June 30, 2023, approximately 45% of the pledge receivable balance was due from three donors.

Office of Advancement expenditures, which are primarily for fundraising purposes and alumni activity, totaled \$10,074 and \$9,133 in fiscal years 2023 and 2022, respectively.

Conditional contributions receivable as of June 30, 2023 and 2022 are \$12,522 and \$13,051, respectively.

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(5) Investments

The University's assets that are reported at estimated fair value are summarized in the following tables by their fair value hierarchy classification as of June 30, 2023 and 2022:

<u>June 30, 2023</u>	<u>Investments measured at NAV</u>	<u>Investments classified in the fair value hierarchy</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Cash and cash equivalents	\$ —	14,259	—	—	14,259
Funds on deposit with trustee*	—	17,348	—	—	17,348
Short-term investments	—	249,678	—	—	249,678
Long-term investments:					
Cash and cash equivalents	—	36,617	—	—	36,617
Fixed income	—	32,472	—	—	32,472
Global equity	364,532	37,269	—	10,016	411,817
Real assets	110,264	—	—	18,304	128,568
Private equity	711,276	—	—	4,161	715,437
Absolute return	232,795	—	—	—	232,795
Split-interest agreements*	—	17,352	—	—	17,352
Other investments	—	—	—	2,529	2,529
Funds held or administered by others	—	—	—	6,776	6,776
Total long-term investments	<u>1,418,867</u>	<u>123,710</u>	<u>—</u>	<u>41,786</u>	<u>1,584,363</u>
Total	<u>\$ 1,418,867</u>	<u>404,995</u>	<u>—</u>	<u>41,786</u>	<u>1,865,648</u>

* Invested in mutual funds with daily liquidity.

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June 30, 2022	Investments measured at NAV	Investments classified in the fair value hierarchy			Total
		Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ —	58,223	—	—	58,223
Funds on deposit with trustee*	—	40,647	—	—	40,647
Short-term investments	—	207,320	—	—	207,320
Long-term investments:					
Cash and cash equivalents	—	51,981	—	—	51,981
Fixed income	—	47,765	—	—	47,765
Global equity	377,843	37,451	—	9,678	424,972
Real assets	118,915	—	—	19,552	138,467
Private equity	696,038	—	—	—	696,038
Absolute return	224,675	—	—	—	224,675
Split-interest agreements*	—	17,112	—	—	17,112
Other investments	—	—	—	2,551	2,551
Funds held or administered by others	—	—	—	6,685	6,685
Total long-term investments	1,417,471	154,309	—	38,466	1,610,246
Total	\$ 1,417,471	460,499	—	38,466	1,916,436

* Invested in mutual funds with daily liquidity.

Short-term investments consist primarily of money market accounts and other short-term liquid assets.

The following tables present the University's activity for the fiscal years ended June 30, 2023 and 2022 for Level 3 investments:

Level 3 roll forward	June 30, 2023				
	Beginning balance as of June 30, 2022	Additions	Sales and maturities	Net realized and unrealized gains (losses)	Ending balance as of June 30, 2023
Real assets	\$ 19,552	—	(924)	(324)	18,304
Other investments	2,551	—	(42)	20	2,529
Private equity	—	2,883	—	1,278	4,161
Global equity	9,678	—	—	338	10,016
Funds held or administered by others	6,685	—	—	91	6,776
	\$ 38,466	2,883	(966)	1,403	41,786

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<u>Level 3 roll forward</u>	<u>June 30, 2022</u>				
	<u>Beginning balance as of June 30, 2021</u>	<u>Additions</u>	<u>Sales and maturities</u>	<u>Net realized and unrealized gains (losses)</u>	<u>Ending balance as of June 30, 2022</u>
Real assets	\$ 16,011	—	(865)	4,406	19,552
Other investments	2,609	—	(80)	22	2,551
Global equity	15,750	—	(6,072)	—	9,678
Funds held or administered by others	8,373	—	—	(1,688)	6,685
	<u>\$ 42,743</u>	<u>—</u>	<u>(7,017)</u>	<u>2,740</u>	<u>38,466</u>

The University has committed to invest in various limited partnerships. Under the terms of the partnership agreements, the University is obligated to remit additional funding periodically as managers exercise capital calls. These partnerships have a limited existence, generally 10 years, and such agreements may provide annual extensions for the purpose of disposing portfolio holdings and returning capital to investors. Depending on market conditions, an inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. As a result, the timing and amount of future capital calls expected in any particular future year is uncertain within a range of between 1 and 11 years. The aggregate amount of unfunded commitments associated with investments as of June 30, 2023 was \$358,719.

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Investment liquidity as of June 30, 2023 is aggregated below based on redemption or sale terms:

	<u>In</u> <u>liquidation</u>	<u>Daily</u>	<u>Monthly to</u> <u>quarterly</u>	<u>Semi-annual</u> <u>to annual</u>	<u>Initial</u> <u>lockup</u>	<u>Illiquid</u>	<u>Total</u>
Cash and cash equivalents	\$ —	14,259	—	—	—	—	14,259
Deposits with trustees	—	17,348	—	—	—	—	17,348
Short-term investments	—	249,678	—	—	—	—	249,678
Long-term investments:							
Money market funds and cash equivalents	—	36,617	—	—	—	—	36,617
Fixed income	—	32,472	—	—	—	—	32,472
Global Equity	68,192	10,013	98,066	65,846	104,102	65,598	411,817
Real assets	—	—	—	—	—	128,568	128,568
Private equity	—	492	—	—	—	714,945	715,437
Absolute return	26,802	—	71,322	77,119	40,265	17,287	232,795
Split-interest agreements	—	17,352	—	—	—	—	17,352
Other investments	—	—	—	—	—	2,529	2,529
Funds held or administered by others	—	—	—	—	—	6,776	6,776
Total long-term investments	<u>94,994</u>	<u>96,946</u>	<u>169,388</u>	<u>142,965</u>	<u>144,367</u>	<u>935,703</u>	<u>1,584,363</u>
Total	<u>\$ 94,994</u>	<u>378,231</u>	<u>169,388</u>	<u>142,965</u>	<u>144,367</u>	<u>935,703</u>	<u>1,865,648</u>

Certain funds contain lockup provisions. Under such provisions, share classes of the investment are available for redemption at prescribed dates in accordance with the partnership agreement of the fund. In some cases, funds may impose fees in exchange for advanced liquidity opportunities. A portion of the underlying investments within the categories of monthly to quarterly and semi-annual to annual may include private or side-pocket investments from which the University may not have an ability to redeem. Additionally, tranches of certain funds within these categories may restrict redemptions to a portion of the value over a rolling quarterly or annual basis.

(6) Endowment

The University classifies net assets of donor-restricted endowment funds consistent with the requirements of the State of Connecticut's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

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The University's endowment consists of approximately 1,300 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Relevant Law

The University classifies as net assets with donor restrictions (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. Also included in net assets with donor restrictions is accumulated appreciation on donor-restricted endowment funds until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

UPMIFA provides standards for investing in a prudent manner by establishing a duty to minimize cost; diversify the investments; investigate facts relevant to the investment of the fund; and consider tax consequences of investment decisions and that investment decisions be made in light of the fund's entire portfolio as a part of an investment strategy having risk and return objectives reasonably suited to the fund and to the University. UPMIFA also permits the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, thereby eliminating the restriction that a fund could not be spent below its historical dollar value. The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

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Endowment funds consisted of the following at June 30, 2023 and 2022:

	2023				
	Without donor restrictions	With donor restrictions			Total funds
		Original gift	Accumulated gains (losses)	Total donor restricted	
Board designated endowment funds \$	363,796	687	531	1,218	365,014
Donor-restricted endowment funds:					
Underwater	—	38,024	(3,171)	34,853	34,853
Other	—	394,330	687,776	1,082,106	1,082,106
Sub-total	363,796	433,041	685,136	1,118,177	1,481,973
Working capital funds	72,415	—	—	—	72,415
Total endowment assets \$	<u>436,211</u>	<u>433,041</u>	<u>685,136</u>	<u>1,118,177</u>	<u>1,554,388</u>
	2022				
	Without donor restrictions	With donor restrictions			Total funds
		Original gift	Accumulated gains (losses)	Total donor restricted	
Board designated endowment funds \$	368,086	687	555	1,242	369,328
Donor-restricted endowment funds:					
Underwater	—	29,743	(1,898)	27,845	27,845
Other	—	381,936	705,911	1,087,847	1,087,847
Sub-total	368,086	412,366	704,568	1,116,934	1,485,020
Working capital funds	79,501	—	—	—	79,501
Total endowment assets \$	<u>447,587</u>	<u>412,366</u>	<u>704,568</u>	<u>1,116,934</u>	<u>1,564,521</u>

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Changes in endowment funds for the years ended June 30, 2023 and 2022 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment assets, June 30, 2022	\$ 447,587	1,116,934	1,564,521
Investment return	9,669	22,674	32,343
Contributions	—	20,675	20,675
Working capital changes	(9,380)	—	(9,380)
Other increases, net	2,421	—	2,421
Appropriation of endowment assets for expenditure	<u>(14,086)</u>	<u>(42,106)</u>	<u>(56,192)</u>
Endowment assets, June 30, 2023	<u>\$ 436,211</u>	<u>1,118,177</u>	<u>1,554,388</u>

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment assets, June 30, 2021	\$ 493,105	1,176,691	1,669,796
Investment return	(22,061)	(57,891)	(79,952)
Contributions	—	33,307	33,307
Working capital changes	(13,818)	—	(13,818)
Other increases, net	2,368	—	2,368
Appropriation of endowment assets for expenditure	<u>(12,007)</u>	<u>(35,173)</u>	<u>(47,180)</u>
Endowment assets, June 30, 2022	<u>\$ 447,587</u>	<u>1,116,934</u>	<u>1,564,521</u>

Working capital funds are operating reserves invested in the endowment and are not subject to the endowment spending policy.

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. These deficiencies result from unfavorable market fluctuations that occur after the investment of new donor-restricted contributions and/or appropriation from such funds. Subsequent market gains will be used to restore this reduction in net assets.

(c) Return Objectives and Risk Parameters

A portion of the endowment assets is included in an investment pool that is accounted for on a unitized market value basis, with each individual fund subscribing to or disposing of units on the basis of the market value per unit of the pool at the end of the calendar month within which the transaction took place. The value of the units is based on a total return investment policy.

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The University has adopted investment and spending policies for the endowment that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets.

(d) Strategies Employed for Achieving Objectives

To satisfy its long term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places emphasis on investments in equities, fixed income, and alternative investments to achieve its long-term return objectives with prudent risk constraints.

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The University follows a spending policy known as the Tobin rule, named for James Tobin, recipient of the 1981 Nobel Prize in Economics. This rule sets the annual distribution using a quantitative formula that combines elements of stability and market conditions. The University's endowment spending is 70% based on the prior year's spending plus inflation (measured by the Higher Education Price Index (HEPI) as of June 30 of the past fiscal year) and 30% from 4.5% of the market value of endowment as of June 30 of the previous fiscal year. For fiscal 2023 and 2022, \$56,192 and \$47,180 was appropriated, respectively.

(7) Net Assets

At June 30, 2023 and 2022, net assets without donor restrictions were comprised as follows:

	<u>2023</u>	<u>2022</u>
Undesignated	\$ 82,283	64,861
Net investment in plant	86,503	72,691
Board designated endowment	363,796	368,002
Working capital & reserves	<u>72,415</u>	<u>79,585</u>
Total	<u>\$ 604,997</u>	<u>585,139</u>

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At June 30, 2023 and 2022, net assets with donor restrictions were comprised as follows:

<u>2023</u>	<u>Held in perpetuity</u>	<u>Subject to endowment appropriation</u>	<u>Subject to time and/or donor restrictions</u>	<u>Total net assets with donor restrictions</u>
Capital projects	\$ —	—	83,375	83,375
Financial aid	245,209	240,895	1,105	487,209
Instruction & research	153,929	191,067	8,928	353,924
Library	4,081	17,885	4	21,970
General purpose and other	33,585	241,237	5,239	280,061
	<u>\$ 436,804</u>	<u>691,084</u>	<u>98,651</u>	<u>1,226,539</u>

<u>2022</u>	<u>Held in perpetuity</u>	<u>Subject to endowment appropriation</u>	<u>Subject to time and/or donor restrictions</u>	<u>Total net assets with donor restrictions</u>
Capital projects	\$ —	—	68,987	68,987
Financial aid	232,516	249,394	1,387	483,297
Instruction & research	146,496	198,011	7,770	352,277
Library	3,547	18,305	3	21,855
General purpose and other	32,896	245,227	22,064	300,187
	<u>\$ 415,455</u>	<u>710,937</u>	<u>100,211</u>	<u>1,226,603</u>

(8) Investment in Plant

At June 30, 2023 and 2022, the components of the University's investment in plant were as follows:

	<u>2023</u>	<u>2022</u>
Campus land and improvements	\$ 37,782	37,488
Buildings and improvements	499,885	492,163
Equipment	138,769	127,876
Construction in progress	105,774	48,635
Total	782,210	706,162
Less accumulated depreciation	(311,729)	(299,030)
Total investment in plant	<u>\$ 470,481</u>	<u>407,132</u>

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The construction in progress balance at June 30, 2023 primarily relates to construction of two academic buildings.

(9) Operating Expenses

Expenses presented by natural classification and function are as follows for the year ended June 30, 2023 and 2022:

<u>2023</u>	<u>Salaries and benefits</u>	<u>Supplies, services and other</u>	<u>Interest expense</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 96,014	24,500	4,685	3,860	129,059
Research	5,003	3,713	1,570	1,293	11,579
Academic support	4,689	5,923	1,144	943	12,699
Student services	14,974	755	328	270	16,327
Institutional support	25,925	7,406	452	372	34,155
Auxiliary activities	7,062	40,938	7,517	6,194	61,711
Total	<u>\$ 153,667</u>	<u>83,235</u>	<u>15,696</u>	<u>12,932</u>	<u>265,530</u>

<u>2022</u>	<u>Salaries and benefits</u>	<u>Supplies, services and other</u>	<u>Interest expense</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 88,978	18,203	4,955	3,793	115,929
Research	4,308	3,190	1,660	1,271	10,429
Academic support	4,652	5,821	1,210	926	12,609
Student services	14,517	2,883	347	266	18,013
Institutional support	24,227	9,238	478	391	34,334
Auxiliary activities	6,468	39,006	7,951	6,085	59,510
Total	<u>\$ 143,150</u>	<u>78,341</u>	<u>16,601</u>	<u>12,732</u>	<u>250,824</u>

The University allocates physical plant operations, depreciation, and interest expenses to functional expenditure categories based on square footage of facilities identified for each functional expenditure category.

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(10) Debt

At June 30, 2023 and 2022, long-term debt consisted of the following:

	<u>2023</u>	<u>2022</u>
Taxable bonds, Series 2021	\$ 55,520	55,520
Taxable bonds, Series 2020	75,000	75,000
Taxable bonds, Series 2016	250,000	250,000
Revenue bonds payable (CHEFA Series I)	35,390	35,390
Revenue bonds payable (CHEFA Series H)	20,105	20,105
Term loans	<u>12,920</u>	<u>12,920</u>
Total	448,935	448,935
Unamortized costs of issuance	(3,760)	(3,862)
Unamortized premium	<u>8,082</u>	<u>9,046</u>
Long term debt	<u>\$ 453,257</u>	<u>454,119</u>

(a) Taxable Bonds, Series 2021

In July 2021, the University issued \$55,520 of taxable bonds at a fixed rate of 2.872% with all principal due in 2052.

(b) Taxable Bonds, Series 2020

In January 2020, the University issued \$75 million of taxable bonds at a fixed rate of 3.37% with all principal due in 2050. The University is required to make semi-annual payments of interest.

(c) Taxable Bonds, Series 2016

In May 2016, the University issued \$250 million of taxable bonds at a fixed rate of 4.78% with all principal due in 2116. The University is required to make semi-annual payments of interest.

(d) CHEFA Series I

In July 2021, the University issued tax-exempt bonds with \$35,390 in par outstanding with a fixed coupon of 4.0% payable semi-annually. Series I was issued at a premium with an unamortized balance at June 30, 2023 of \$8,082. All principal is due July 1, 2031.

(e) CHEFA Series H

\$20,105 variable rate demand bonds have their interest rates set weekly. The interest rate at June 30, 2023 and 2022 was 3.7% and 0.84% respectively. The University makes monthly payments of interest. The University may make prepayments of principal and is required to pay any remaining principal balance on July 1, 2040. The University maintains sufficient liquidity to purchase the bonds if remarketing is not successful.

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(f) Term Loans

In January 2016, the University entered into a term loan with Farmington Bank in the amount of \$12,920. Farmington Bank was subsequently acquired by People's United Bank in 2020 which was acquired by M&T Bank in 2022. In February 2021, the loan agreement was amended to lower the fixed interest rate from 2.9% to 1.1%. The University makes semi-annual payments of interest and all principal is due in February 2024.

(g) Debt Maturities

Payments for the principal of all long-term debt for each of the next five fiscal years and thereafter are as follows:

Fiscal year	Amount due
2024	\$ 12,920
2025	—
2026	—
2027	—
2028	—
Thereafter	436,015
Total outstanding debt	\$ 448,935

(h) Debt Covenants

The University is subject to certain financial covenants that would be imposed if the University does not maintain its credit rating. The University maintained its credit rating during the years ended June 30, 2023 and 2022, and thus the financial covenants were not applicable.

(11) Lines of Credit

As of June 30, 2023, the University had the following revolving loan agreements with JPMorgan Chase:

Expiration date	Amount
June 28, 2024	\$ 40,000
July 7, 2026	40,000
Total lines of credit	\$ 80,000

The interest rate on both loans is set at 60 basis points above Secured Overnight Financing Rate (SOFR). The University did not utilize these lines in fiscal 2023 or 2022. No amounts were outstanding as of June 30, 2023 and 2022.

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(12) Benefit Plans

(a) Defined Contribution Plan

The University has defined contribution retirement plans, with contributions based on a percentage of salary, covering substantially all employees. Total expense was \$10,556 and \$9,747 for fiscal 2023 and 2022, respectively.

(b) Postretirement Benefits

The University provides certain postretirement health care benefits to employees. Employees become eligible to receive medical and life insurance benefits at various age and service requirements based on their group classifications (faculty, non-faculty, or physical plant bargaining unit). The University recognizes the cost of providing such benefits to the employees and dependents, if applicable, in the financial statements during the employees' active working lives. Those who elect early retirement before they are eligible for Medicare can continue in plans for active faculty and staff, which require premium sharing. Upon reaching Medicare eligibility, retirees may elect to participate in the Medicare Part D supplement plan or receive an annual fixed annuity payment.

The status of the University's plan and the amounts recognized in the statements of financial position at June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Change in benefit obligation:		
Benefit obligation as of beginning of year	\$ 17,180	20,402
Service cost	655	706
Interest cost	759	505
Plan participants' contributions	147	145
Plan amendments	—	1,458
Benefits paid	(885)	(575)
Medicare Part D Subsidy	52	48
Actuarial (gain) loss	34	(5,509)
Benefit obligation and funded status as of end of year	<u>\$ 17,942</u>	<u>17,180</u>

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Components of net periodic benefit cost are as follows for the years ended June 30:

	2023	2022
Operating:		
Service cost	\$ 655	706
Total operating, included in salaries and benefits	655	706
Nonoperating:		
Interest on accumulated postretirement benefit obligation	759	505
Prior service cost amortization	130	33
Amortization of actuarial gain	(1,641)	(1,538)
Total nonoperating	(752)	(1,000)
Total net periodic benefit cost	\$ (97)	(294)

For measurement purposes, an annual rate of increase of 7.2% in the per capita cost of covered healthcare and prescription drug benefits was assumed as of June 30, 2023. The rates were assumed to decrease to 4.7% by 2043 and remain at that level thereafter. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans.

The weighted average discount rates used to determine benefit obligations are 4.9% and 4.4% for fiscal 2023 and 2022, respectively.

The weighted average discount rates used to determine net periodic benefit costs were 4.4% and 2.5% for fiscal 2023 and 2022, respectively.

The benefits, as of June 30, 2023, expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter, are as follows:

Fiscal year	Amount
2024	\$ 1,086
2025	1,183
2026	1,128
2027	1,184
2028	1,271
Five fiscal years thereafter	7,520

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(13) Commitments and Contingencies

All funds expended in conjunction with government grants and contracts are subject to audit by governmental agencies. In the opinion of management, any potential liability resulting from these audits will not have a material effect on the University's financial position.

The University is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability not reflected on the statement of financial position, if any, will not have a material effect on the University's financial position.

(14) Related-Party Transactions

Members of the Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly with companies doing business with the University. The University has a written conflict of interest policy that requires annual reporting by each Board member as well as the University senior management. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arms' length, based on terms in the best interest of the University.

(15) Subsequent Events

Management has evaluated events subsequent to June 30, 2023 and through October 27, 2023, the date on which the financial statements were issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. No additional disclosures were deemed to be necessary.