University of the Incarnate Word®

Consolidated Financial Statements

Years Ended May 31, 2024 and 2023 with Report of Independent Auditors

University of the Incarnate Word

Consolidated Financial Statements

Years Ended May 31, 2024 and 2023

Contents

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Report of Independent Auditors

Management and the Board of Trustees
University of the Incarnate Word

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the University of the Incarnate Word (the University), which comprise the statements of financial position as of May 31, 2024 and 2023, and the related statements of activities and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University at May 31, 2024 and 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 in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States *(Government Auditing Standards)*. 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 of material misstatement, whether due to fraud or error.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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 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 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.

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Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule, *Financial Responsibility Supplementary Schedule Required by the U.S. Department of Education*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2024 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Ernst + Young LLP

October 21, 2024

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University of the Incarnate Word

Consolidated Statements of Financial Position

(Dollars in Thousands)

	May 31	
	2024	**2023**
Assets		
Cash and cash equivalents	**$ 31,382**	$ 36,386
Restricted cash	**21,760**	5,802
Due from Incarnate Word High School	**155**	158
Receivables:		
Student accounts and other receivables, net of allowances of $5,215 and $4,802 as of May 31, 2024 and 2023, respectively	**27,902**	22,216
Contributions receivable, net	**11,255**	3,472
Student loans, net of allowances of $409 and $320 as of May 31, 2024 and 2023, respectively	**1,194**	1,401
Accrued interest receivable	**273**	264
Prepaid expenses	**1,727**	916
Notes receivable	**–**	4,251
Investments	**168,349**	187,819
Property, plant, and equipment, net	**319,158**	305,171
Goodwill	**2,053**	2,053
Total assets	**$ 585,208**	$ 569,909
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 5,932**	$ 4,694
Accrued salaries and benefits	**11,429**	10,967
Lease liabilities	**13,634**	14,017
Other accrued liabilities	**1,175**	818
Deferred revenue	**12,993**	19,092
Amounts held on behalf of others	**540**	582
Notes payable, net	**–**	5,966
Bonds payable, net	**160,579**	161,320
Refundable to federal government	**1,005**	1,028
Total liabilities	**207,287**	218,484
Net assets:		
Without donor restrictions	**270,436**	267,131
With donor restrictions	**107,485**	84,294
Total net assets	**377,921**	351,425
Total liabilities and net assets	**$ 585,208**	$ 569,909

See accompanying notes.

University of the Incarnate Word

Consolidated Statements of Activities
(Dollars in Thousands)

Year Ended May 31, 2024
(With Comparative Totals for Year Ended May 31, 2023)

	Without Donor Restrictions	**With Donor Restrictions**	**Total 2024**	**Total 2023**
Operating revenues				
Net tuition and fees	**$ 146,921**	**$ –**	**$ 146,921**	$ 146,336
Contributions financial assets	**893**	**7,797**	**8,690**	13,648
Contributions nonfinancial assets	**102**	**–**	**102**	124
Government grants and contracts	**19,233**	**–**	**19,233**	14,056
Endowment distribution and investment income	**13,733**	**1,436**	**15,169**	4,538
Clinic income	**2,315**	**–**	**2,315**	2,665
Other income	**8,207**	**–**	**8,207**	10,256
Auxiliary enterprises	**16,797**	**–**	**16,797**	15,243
Net assets released from restrictions	**6,718**	**(6,718)**	**–**	–
Total operating revenues	**214,919**	**2,515**	**217,434**	206,866
Operating expenses				
Instruction	**93,380**	**–**	**93,380**	93,561
Research	**1,938**		**1,938**	2,175
Academic support	**27,861**	**–**	**27,861**	27,543
Student services	**27,990**	**–**	**27,990**	28,837
Institutional support	**48,853**	**–**	**48,853**	56,627
Fundraising	**2,241**	**–**	**2,241**	2,473
Clinics	**5,555**	**–**	**5,555**	5,309
Auxiliary enterprises	**12,391**	**–**	**12,391**	12,925
Total operating expenses	**220,209**	**–**	**220,209**	229,450
Change in net assets from operating activities	**(5,290)**	**2,515**	**(2,775)**	(22,584)
Nonoperating activities				
Contributions for endowment and property	**–**	**10,733**	**10,733**	2,058
Investment income, net of fees	**423**	**2,802**	**3,225**	2,991
Return on long-term investments	**16,703**	**8,382**	**25,085**	(7,187)
Distributions from long-term investments designated for current operations	**(9,289)**	**(1,241)**	**(10,530)**	(2,062)
Gain on disposal of property and equipment	**598**	**–**	**598**	–
Gain (loss) on foreign currency translation	**160**	**–**	**160**	(718)
Total nonoperating activities	**8,595**	**20,676**	**29,271**	(4,918)
Change in net assets	**3,305**	**23,191**	**26,496**	(27,502)
Net assets, beginning of year	**267,131**	**84,294**	**351,425**	378,927
Net assets, end of year	**$ 270,436**	**$ 107,485**	**$ 377,921**	$ 351,425

See accompanying notes.

University of the Incarnate Word

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended May 31	
	2024	**2023**
Operating activities		
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	**$ 26,496**	$ (27,502)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments and real estate	**(25,085)**	7,193
Gain on disposition of property and equipment	**598**	–
Gain or loss on foreign currency translation	**(7)**	–
Loan assignments and cancellations	**20**	397
Contributions restricted for long-term investment	**(2,865)**	(2,715)
Depreciation	**8,444**	8,379
Amortization and bond issuance costs	**(1,504)**	(1,437)
Changes in operating assets and liabilities:		
Student accounts and other receivables	**(5,598)**	13,272
Contributions receivable	**(7,783)**	1,766
Accrued interest receivable	**(9)**	(235)
Prepaid expenses	**(815)**	719
Due from affiliates	**3**	19
Accounts payable, accrued liabilities, leases, and annuities	**(2,151)**	(1,874)
Amounts held on behalf of others	**(42)**	46
Deferred revenue and other liabilities	**(5,337)**	357
Net cash used in operating activities	**(15,635)**	(1,615)
Investing activities		
Construction-in-progress and purchases of property and equipment	**(20,864)**	(2,587)
Proceeds from sale of fixed assets	**1,674**	–
Issuance of student loans	**(87)**	(140)
Collection of notes receivable	**4,251**	–
Collection of student loans	**184**	227
Proceeds from sales and maturities of investments	**75,840**	265,249
Purchases of investments	**(31,285)**	(325,694)
Net cash provided by (used in) investing activities	**29,713**	(62,945)
Financing activities		
Proceeds from contributions and income restricted for long-term investment	**2,865**	2,715
Payment on notes payable	**(5,966)**	–
Forgiveness of debt	–	(483)
Net change in refundable to federal government	**(23)**	(772)
Net cash (used in) provided by financing activities	**(3,124)**	1,460
Net increase (decrease) in cash, cash equivalents, and restricted cash	**10,954**	(63,100)
Cash, cash equivalents, and restricted cash, beginning of year	**42,188**	105,288
Cash, cash equivalents, and restricted cash, end of year	**$ 53,142**	$ 42,188
Supplemental disclosures of cash flow information		
Interest paid	**$ 5,230**	$ 5,257
Noncash construction-in-progress and purchases of property and equipment	**$ 3,826**	$ 1,798

See accompanying notes.

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University of the Incarnate Word

Notes to Consolidated Financial Statements
(Dollars in Thousands)

May 31, 2024

1. Summary of Significant Accounting Policies

General

The University of the Incarnate Word (the University or UIW) is a not-for-profit Catholic institution located in San Antonio, Texas, that is sponsored by the Congregation of the Sisters of Charity of the Incarnate Word (the Congregation). Most of the students attending UIW are from south and central Texas. UIW's revenues are derived primarily from tuition, fees, and sales of auxiliary services to students. The majority of students rely on funds received from federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. As an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the United States Department of Education.

The Texas Institute for Graduate Medical Education and Research (TIGMER) is a not-for-profit organization located in San Antonio, Texas. TIGMER's revenues are derived primarily from gifts and grants to support residency programs.

The Incarnate Word Education Foundation (the Foundation) is a not-for-profit organization located in San Antonio, Texas. The Foundation's revenues are derived primarily from interest income.

St. Anthony Catholic High School (the High School) is a not-for-profit Catholic high school located in San Antonio, Texas. The High School is a four-year college preparatory program for young men and women.

UIW International Inc. (UIW Int'l) is a Texas nonprofit corporation that is the 99% member of the Universidad Liceo Cervantino (ULC). UIW Int'l also controls the Mexican nonprofit corporation that operates middle school, high school, and university campuses in Irapuato, Mexico. UIW Int'l has $2,053 in goodwill associated with ULC. UIW Int'l entered into this agreement to further UIW's mission of providing a faith-based education.

UIW Int'l also has joint venture contracts with international entities in Mexico and Germany to provide educational services to students in those countries. These joint ventures include an agreement to operate Centro Internacional Universitario Miguel Angel Incarnate Word (CIU), a not-for-profit university in Mexico City, for which UIW Int'l is a 49% member. An entity related to the Congregation is the other 51% member of CIU. Furthermore, CIU is the other 1% member of ULC.

1. Summary of Significant Accounting Policies (continued)

The financial activity related to the joint venture agreements entered into by UIW Int'l is nominal, and any related operating expenses have been absorbed by the University.

These entities are collectively referred to as the University for purposes of the consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the University, TIGMER, the Foundation, the High School, UIW Int'l, and ULC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The consolidated financial statements of the University are presented on the accrual basis, in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The University is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

The costs of providing various programs and supporting services have been summarized on a functional basis on the consolidated statements of activities. Resources are reported in separate categories of net assets based on the existence or absence of donor-imposed restrictions.

In the consolidated financial statements, net assets have been grouped into the following two categories:

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed stipulations and may be designated for specific purposes by action of the Board of Trustees.

  Net assets with donor restrictions – Net assets whose use by the University is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

1. Summary of Significant Accounting Policies (continued)

The University follows the policy of reporting restricted contributions and restricted endowment income on the statements of activities as increases in net assets with donor restrictions in the period received. Cash donations to acquire long-lived assets are recorded as donor restricted until the asset is acquired, and expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed stipulations are reclassified to the without donor restrictions category and reported as net assets released from restrictions.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period they are received or made. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received more than a year after the fiscal year-end are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is estimated based on factors including prior collection history, type of contribution, and nature of the fundraising activity.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include interest-bearing money market accounts, short-term investments with an original maturity of less than three months when purchased.

Restricted cash includes cash and cash equivalents reserved to cover new market tax credit agreements,’ management fees and compliance expenses.

Student Accounts and Other Receivables

Student accounts and other receivables consist primarily of amounts due related to tuition and fees, as well as various grant programs. An allowance for doubtful accounts is established related to the student accounts. Student accounts are considered delinquent if payment arrangements are not made in a timely manner or if payment in full is not received by the end of the respective semester. These receivables are written off after all collection efforts have been exhausted.

1. Summary of Significant Accounting Policies (continued)

Investments and Split-Interest Agreements

Investments in equity securities and publicly traded funds with a readily determinable fair value and investments in debt securities are reported at their fair value (based on quoted market prices) on the consolidated statements of financial position. Alternative investments, including private equity partnerships, are recorded at their net asset value per share, or its equivalent, as of year-end, as determined by the respective fund managers, which management has determined are reasonable estimates of fair value. Realized gains and losses are recognized when investments are sold, and unrealized gains and losses are recognized to reflect changes in the fair value of investments. Realized and unrealized gains and losses are reflected on the consolidated statements of activities.

Investments received by gift or bequest are recorded at fair value at the time of donation. If fair value is not determinable at the date of acquisition, the asset received by gift or bequest is recorded at a nominal value.

The University has split-interest agreements that are irrevocable charitable remainder trusts held by others. The University's share of the assets is adjusted during the term of the trusts for changes in the fair value of underlying assets held by the trusts.

The Board of Trustees designates unrestricted investments as endowments in order to maintain funds for the future. These investments are classified as net assets without donor restrictions on the consolidated statements of financial position.

The University's return objective is based upon a liquidity and risk level that is prudent and reasonable considering protection against capital erosion and an annual rate of return of 450 basis points above the consumer price index over a five-year rolling period. This allows the University to adopt a spending rule that directs 4.0% of the 12-quarter rolling average fair value of the endowment to be distributed for spending.

(Dollars in Thousands)

1. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs are amortized using the effective interest method over the term of the long-term debt and are offset against notes payable and bonds payable. Amortization expense for the years ended May 31, 2024 and 2023, was $84 and $117, respectively, and is allocated to various functions on the consolidated statements of activities.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost or, in the case of properties donated, at fair value at the date of the gift.

Depreciation is calculated on the straight-line method. In the year of purchase, all assets are depreciated for a period of six months, regardless of date of purchase, in accordance with the half-year convention depreciation method.

The University maintains an automobile fleet. The University's policy is to expense costs associated with the replacement of fleet vehicles due to the rapid rate of turnover.

The University capitalization threshold is $10 for equipment and $100 for buildings and other structures for assets with an estimated useful life of more than one year. The University believes that acquisitions costing less than those amounts are more appropriately considered operating expenses rather than capital assets.

Estimated useful lives for capitalized assets are as follows:

Asset Category	Estimated Useful Lives
Buildings	17–50 years
Other structures	5–20 years
Furniture, fixtures, and equipment	3–8 years

1. Summary of Significant Accounting Policies (continued)

Collections of Art

The University's works of art, historical treasures, and artifacts are protected and preserved for education, research, and public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, such collections are not recorded for financial statement purposes.

Contributed Services

Contributions of services requiring specialized skills that enhance nonfinancial assets or that would have to be purchased are recognized as revenues during the period performed at their fair value. The fair value of such services is not material to the consolidated financial statements.

Retirement Plans

Substantially all qualified employees who work a minimum of 1,000 hours per year are covered by a defined contribution retirement plan administered by an insurance company. Participants in the plan must contribute a minimum of 3% of their salaries and may contribute up to the maximum allowed by statute. The University's contributions and costs are determined as the amount necessary to match the participants' contributions with a maximum limit of 7% of the participants' salaries. University contributions for the years ended May 31, 2024 and 2023, were $5,420 and $5,262, respectively.

Substantially all qualified employees who work a minimum of 1,000 hours per year and have reached 40 years of age are covered by a defined contribution postretirement health plan. Currently, there are no limits on the amount of voluntary after-tax contributions the participants may make. The University sets its contribution rate each year as an equal amount per person, with an additional amount contributed for employees who were at least 55 years of age at the inception of the plan. University contributions for the years ended May 31, 2024 and 2023, were $831 and $835, respectively.

Allowances for Doubtful Accounts

Allowances for doubtful student accounts receivable, student loans, and clinics receivables are determined annually based upon historical experience, the aging of receivables, loans in default, and an analysis of collections.

1. Summary of Significant Accounting Policies (continued)

Tuition, Fees, and Auxiliary Enterprise Revenues

Revenues from students primarily consist of tuition and educational service revenues. The University also generates other revenues from student fees, dormitory/residency fees, and other education-related activities. Tuition, fees, and income from auxiliary enterprises are recognized under Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*.

Revenues from students are recognized as control of the promised goods or services is transferred to students, in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services. These revenues are presented disaggregated on the consolidated statements of activities as net tuition and fees, clinic income, other income, and auxiliary enterprises.

The University determines revenue recognition through the five-step model prescribed by Topic 606 as follows:

- Identification of the contract, or contracts, with a student
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the performance obligation is satisfied

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the student and is the unit of accounting in ASC Topic 606. At the University, all performance obligations have a separate contract. The performance obligation in each arrangement is based on the selling price of the good or service in the contract and recognized as revenue when, or as, the performance obligation is satisfied.

1. Summary of Significant Accounting Policies (continued)

The University's transaction price is determined based on gross price, net of scholarships and other discounts, refunds, and waivers. The majority of revenue is derived from tuition and educational services agreements with students and, thus, is recognized over each academic session. The University considers the knowledge gained by the student as the benefit that the student receives during the academic sessions. The University's performance obligations are primarily satisfied over time during the course of the academic term.

Dormitory/residency revenues, which are included in auxiliary enterprise revenues, are recognized over time throughout the occupancy period using the output method based on the proportional period of time elapsed, which satisfies the University's performance obligation.

The University assesses collectability on a portfolio basis prior to recording revenue. Generally, students cannot re-enroll for the next academic session without satisfactory resolution of any past-due amounts. If a student withdraws from an institution, the obligation to issue a refund depends on the refund policy at that institution and the timing of the student's withdrawal. Generally, the University's refund obligations are reduced over the course of the academic term and refunds are recorded as a reduction of tuition revenue based on the refund deadlines published in the academic calendar each year as applicable. Due to the timing of the academic calendar, there is no refund liability at year-end.

Contract Balances

The timing of billings, cash collections, and revenue recognition results in student accounts receivable (contract assets) and deferred revenue (contract liabilities). The University has various billing and academic cycles and recognizes student receivables when an academic session begins, although students generally enroll in courses prior to the start of the academic session. Receivables are recognized only to the extent it is probable that the University will collect substantially all the consideration in exchange for the goods and services that will be transferred to the student. Advance payments or deposits from students received before revenue is recognized are recorded as deferred revenue.

1. Summary of Significant Accounting Policies (continued)

Contract assets are considered accounts receivable and are included within the student accounts and other receivables. Total accounts receivable from contracts with students and other customers, net of allowances, were $27,902 and $22,216 as of May 31, 2024 and 2023, respectively. All contract asset amounts are classified as current. Contract liabilities in the amount of $12,993 and $19,092 were included within deferred revenue as of May 31, 2024 and 2023, respectively. Substantially all the contract liability balances at the beginning of the year were recognized into revenue during the year ended May 31, 2024. Refunds are recorded as a reduction of deferred revenue as applicable.

Variable Consideration

In certain cases, the University provides scholarships to students who qualify under various programs. These scholarships are recognized as direct reductions of revenue consistent with the timing of recognition associated with the related performance obligations, also known as tuition discounting. Also, for some students, the University does not expect to collect 100% of the consideration to which it is contractually entitled and, as a result, those students may receive discounts or price adjustments that, based on historical University practice, represent implied price concessions, and are accounted for as variable consideration. The majority of these price concessions relate to amounts charged to students for goods and services that management has determined will not be covered by the student's primary funding source (generally, government financial assistance) and, as a result, the student will become directly financially responsible for them. The reduction in the transaction price that results from this estimate of variable consideration reflects the amount to which the University does not expect to be entitled in exchange for the goods and services it will transfer to the students. These estimates of variable consideration are recorded as direct reductions of revenue consistent with the timing of recognition associated with the related performance obligation. Tuition discounts for the years ended May 31, 2024 and 2023, were $90,411 and $85,720, respectively.

1. Summary of Significant Accounting Policies (continued)

Tax Status

The University of the Incarnate Word, the Foundation, UIW Int'l, TIGMER, and the High School are domestic corporations that are exempt from federal income tax under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code (the Code). These entities are not private foundations. This exemption does not apply to unrelated business income (UBI), as defined by Section 512(a)(1) of the Code, which is subject to federal income tax. The University had no material tax liability resulting from such UBI in 2024 or 2023. ULC is a Mexican nonprofit corporation acquired by UIW Int'l on June 4, 2015.

U.S. GAAP requires management to evaluate uncertain tax positions taken by the University. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service or Treasury. Management has analyzed the tax positions taken by the University and has concluded that as of May 31, 2024, there are no uncertain positions taken or expected to be taken. The University has recognized no interest or penalties related to uncertain tax positions. The University is subject to routine audits by taxing jurisdictions.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each financial classification:

- *Cash and cash equivalents, student accounts and other receivables, accounts payable, accrued salaries and benefits, and other accrued liabilities* – The carrying amounts approximate fair value because of their short maturity.

- *Contributions receivable* – The fair value is determined by discounting the future cash flows of each instrument at a rate of 2% for 2024 and 2023, as a proxy for the risk-free rate, and is reflected on the consolidated statements of financial position.

- *Student loans* – All outstanding loans yield the established rates currently offered by the University; therefore, the carrying amount of these loans approximates fair value.

- *Notes payable and bonds payable* – Bonds payable are at both variable and fixed rates. The carrying amount of the variable rate bonds approximates fair value, and the University estimates the fair value of its fixed rate bonds using prices from recent trade activity. The carrying amount of notes payable approximates fair value.

Functional Allocations of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis on the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs and Fundraising Costs

The University accounts for advertising costs as an expense in the period incurred. Advertising expense for the years ended May 31, 2024 and 2023, excluding advertising barter transactions, was $1,441 and $2,052, respectively.

The University accounts for fundraising costs as an expense in the period incurred.

1. Summary of Significant Accounting Policies (continued)

New Accounting Standards and Disclosures

In March 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2022-02, on Topic 326, *Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 eliminates the accounting guidance on troubled debt restructurings for creditors and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. On June 1, 2023, the University adopted ASU 2022-02, and there was no material impact to its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, on Topic 326, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*, as amended, which requires timelier recording of credit losses on financial instruments by effectively replacing the current incurred loss methodology with one that reflects current expected credit losses (CECL) and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The CECL methodology is applicable to trade receivables, net investments in leases, loan receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. On June 1, 2023, the University adopted ASU 2016-13, and there was no material impact to its consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07 on Topic 958, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU requires nonprofits to change the financial statement presentation and disclosure of contributed nonfinancial assets, or gifts in kind, including tangible property provided to the organization; items donated to the organization to be auctioned through charitable events; items used in program activities, as well as intangible items like copyrights, patents, and royalties; and specialized volunteer services. Gifts in kind are to be presented as a separate line item, instead of remaining grouped among contributions of cash or other financial assets, on the statement of activities. On June 1, 2022, the University adopted ASU 2020-07. UIW's gift recording procedures and policies require placing a value on all gifts in kind. If the donor plans to take a tax deduction for the gift, he or she is responsible for an appraisal of the item. Once donated, the donated item becomes the property of UIW and the University retains the right to dispose of or use a gift in kind as it sees fit. The University will utilize the donated item for its programs, sell it, recycle it, dispose of it, or return it to the donor, at the University's discretion, unless a specific agreement has been made for other arrangements. For the years ended May 31, 2024 and 2023, contributed nonfinancial assets recognized within the statements of activities were $102 and $124, respectively.

(Dollars in Thousands)

2. Liquidity and Availability

The University's financial assets available within one year of the balance sheet date for general expenditures are as follows at May 31:

	2024	2023
Total assets at year-end	**$ 585,208**	$ 569,909
Less:		
Contribution receivable due in more than one year	**(6,906)**	(686)
Donor-restricted endowment investment funds	**(74,883)**	(63,799)
Board-designated endowment investment funds	**(89,289)**	(81,878)
Other non-pooled investment funds	**(14,808)**	(49,288)
Notes receivable	**–**	(4,251)
Land, buildings, and equipment, net	**(319,158)**	(305,171)
Restricted cash	**(21,760)**	(5,419)
Other assets	**(3,779)**	(2,969)
Financial assets available at year-end for current use	**$ 54,625**	$ 56,448

As part of the University's liquidity management, it has structured its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, the University has board-designated endowment investment funds of $89,289 and $81,878 as of May 31, 2024 and 2023, respectively. Although the University does not intend to spend from its board-designated endowment funds, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary. However, both the board-designated endowment funds and donor-restricted endowments contain investments with lockup provisions which reduce the total investments that could be made available.

3. Contributions Receivable

Contributions receivable consist of unconditional promises received through the years ended May 31, 2024 and 2023. Most of the long-term contributions are with donor restrictions and were received primarily for future building acquisitions.

(Dollars in Thousands)

3. Contributions Receivable (continued)

Maturities of the receivables are as follows at May 31:

	2024	2023
Less than one year	**$ 4,349**	$ 2,786
One to five years	**6,123**	805
More than five years	**1,383**	322
Gross contributions receivable	**11,855**	3,913
Less:		
Allowance for uncollectible pledges	**(222)**	(410)
Present value discount at 2%	**(378)**	(31)
Net contributions receivable	**$ 11,255**	$ 3,472

4. Notes Receivable

The Foundation entered into a new market tax credit agreement on December 8, 2016, to lend $4,251 to WF University Incarnate Word Investment Fund, LLC (WFUIW). The note balance accrues an interest rate of 1% per annum, which is paid on a quarterly basis. The principal balance may not be paid before the end of the seven-year compliance period. If a put or call option is not exercised at the end of the compliance period, then quarterly principal and interest payments commence on December 10, 2023 through maturity on December 7, 2046. For the years ended May 31, 2024 and 2023, interest earned was $23 and $43, respectively. The note is secured by certain collateral held by WFUIW. The put option was exercised on December 12, 2023, and the University successfully exited from the transaction. On May 31, 2024 and 2023, the receivable balances were $0 and $4,251, respectively.

5. Cash and Cash Equivalents, Restricted Cash and Investments

Cash and Cash Equivalents and Restricted Cash

The University invests cash in excess of daily requirements in money market accounts and certificates of deposit. At May 31, 2024 and 2023, $53,142 and $41,477, respectively, was invested in interest-bearing cash and cash equivalent accounts.

(Dollars in Thousands)

5. Cash, Cash Equivalents, and Investments (continued)

	Fair Value at May 31	
	2024	**2023**
Cash and cash equivalents and restricted cash:		
Cash	**$ 38,538**	$ 27,383
Certificates of deposit	**157**	5,251
Money market funds	**14,447**	9,554
Total cash and cash equivalents and restricted cash	**$ 53,142**	$ 42,188

On May 31, 2024 and 2023, $21,760 and $5,802, respectively, in cash is restricted for certain purposes. Of these amounts, on May 31, 2024 and 2023, $21,760 and $5,419 to fund construction and renovation costs of a multistory office building for academic and administrative functions of the University, and $0 and $383, respectively, is restricted for reserves to cover the new market tax credit agreements' management fees and administrative and compliance expenses.

Investments

Investments and restricted investments consist of the following at May 31:

	2024	**2023**
Non-pooled investments:		
Student managed/mutual funds	**$ 228**	$ 161
Treasury notes	**14,808**	49,288
Certificates of deposit	**–**	10,000
Corporate stocks	**957**	656
Real estate, mineral rights, and other	**954**	954
Total non-pooled investments	**16,947**	61,059
Pooled endowment investments:		
Corporate stocks and bonds	**112,587**	91,049
Fixed-income securities	**23,971**	24,660
Private equity funds	**6,593**	5,041
Real estate funds	**7,080**	4,646
Commodities funds	**1,171**	1,364
Total pooled investments	**151,402**	126,760
Total investments and restricted investments	**$ 168,349**	$ 187,819

5. Cash and Cash Equivalents, Restricted Cash and Investments (continued)

The University's investments in certain institutional commingled funds or alternative investments are not publicly traded. The alternative investments include private equity partnerships and real estate investments. All of the funds are diversified across strategies, managers, and geography. The University's marketable securities do not represent significant concentrations of market risk since the University's marketable securities portfolio is diversified among issuers.

Fair Value Measurements

ASC Topic 820, *Fair Value Measurement*, establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- *Level 1* – Quoted market prices for identical assets or liabilities to which an entity has access at the measurement date.

- *Level 2* – Inputs and information other than the quoted market index included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:

  a. Quoted prices for similar assets or liabilities in active markets

  b. Quoted prices for identical or similar assets in markets that are not active

  c. Observable inputs other than quoted prices for the asset or liability

  d. Inputs derived principally from, or corroborated by, observable market data by correlation or by other means

- *Level 3* – Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity, and unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

5. Cash and Cash Equivalents, Restricted Cash and Investments (continued)

The University has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date.

Investments are measured on a fund-by-fund basis and reported at fair value in one of the following categories, based on inputs:

- *Level 1* – The types of investments that are included in Level 1 include listed equity securities, mutual funds traded in active markets with daily pricing, commodities mutual funds, and public hedge funds. Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets.

- *Level 2* – The types of investments that are included in Level 2 include corporate bonds and government and mortgage-backed securities. Inputs to the valuation methodology are directly observable on the reporting date and are obtained from various sources, including market participants, dealers, and brokers.

- *Level 3* – The types of investments that are included in Level 3 include real estate and mineral interests. Inputs to the valuation methodology are unobservable on the reporting date and are obtained from various sources, including market participants, dealers, and brokers.

The determination of the fair value of the University's investments is the responsibility of the University's management. The responsible parties manage and create the policies and processes used to determine the fair value over all investment assets. The investment policies and activity are reviewed by the Finance Committee on a regular basis. The University employs a third-party advisor and obtains selected support from portfolio managers in order to achieve desired investment results.

(Dollars in Thousands)

5. Cash and Cash Equivalents, Restricted Cash and Investments (continued)

The following tables summarize the levels in the fair value hierarchy of the University's money market and investment funds at May 31:

2024	**Total**	**Level 1 Fair Value**	**Level 2 Fair Value**	**Level 3 Fair Value**
Cash and cash equivalents and restricted cash				
Money market funds	**$ 14,447**	**$ 14,447**	$ –	**$ –**
Investments				
Unrestricted investments:				
Corporate stocks	**$ 957**	**$ 149**	$ –	**$ 808**
Treasury stock	**14,808**	**14,808**	–	**–**
Student managed funds	**228**	**228**	–	**–**
Real estate, mineral rights, and other	**954**	**–**	–	**954**
Total unrestricted investments	**16,947**	**15,185**	–	**1,762**
Endowment investments				
Corporate stocks and bonds:				
U.S. large cap	**89,785**	**89,785**	–	**–**
U.S. mid cap	**1,738**	**1,738**	–	**–**
U.S. small cap	**1,142**	**1,142**	–	**–**
International developed	**4,793**	**4,793**	–	**–**
Emerging markets	**3,866**	**3,866**	–	**–**
Equity other	**11,263**	**11,263**	–	**–**
Total corporate stocks and bonds	**112,587**	**112,587**	–	**–**
Fixed-income securities:				
Investment-grade taxable	**23,971**	**18,488**	**5,483**	**–**
Total fixed-income securities	**23,971**	**18,488**	**5,483**	**–**
Real estate	**7,080**	**605**	**–**	**6,475**
Commodities funds	**1,171**	**1,171**	**–**	**–**
Total endowment investments in fair value hierarchy	**144,809**	**132,851**	**5,483**	**6,475**
Total investments in fair value hierarchy	**161,756**	**$ 148,036**	**$ 5,483**	**$ 8,237**
Endowment investments valued at net asset value				
Private equity partnerships[a]	**6,593**			
Total investments	**$ 168,349**			

[a] Private equity partnerships include investments in five private equity funds. The strategy of these funds is for investors and funds to make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity. The funds' fair values are estimated using the net asset value or its equivalent as determined by the fund manager. As of May 31, 2024, there was $12.3M of unfunded capital commitments. Redemptions are not available for these funds.

(Dollars in Thousands)

5. Cash, Cash Equivalents, and Investments (continued)

2023	**Total**	**Level 1 Fair Value**	**Level 2 Fair Value**	**Level 3 Fair Value**
Cash and cash equivalents and restricted cash				
Money market funds	$ 9,554	$ 9,554	$ –	$ –
Investments				
Unrestricted investments:				
Corporate stocks	$ 656	$ 121	$ –	$ 535
Treasury stock	49,288	49,288	–	–
Certificates of deposit	10,000	10,000	–	–
Student managed funds	161	161	–	–
Real estate, mineral rights, and other	954	–	–	954
Total unrestricted investments	61,059	59,570	–	1,489
Endowment investments				
Corporate stocks and bonds:				
U.S. large cap	69,704	69,704	–	–
U.S. mid cap	1,727	1,727	–	–
U.S. small cap	1,629	1,629	–	–
International developed	4,021	4,021	–	–
Emerging markets	4,235	4,235	–	–
Equity other	9,733	9,733	–	–
Total corporate stocks and bonds	91,049	91,049	–	–
Fixed-income securities:				
Investment-grade taxable	24,660	19,800	4,860	–
Total fixed-income securities	24,660	19,800	4,860	–
Real estate[(a)]	4,646	1,997	–	2,649
Commodities funds	1,364	1,364	–	–
Total endowment investments in fair value hierarchy	121,719	114,210	4,860	2,649
Total investments in fair value hierarchy	182,778	$ 173,780	$ 4,860	$ 4,138
Endowment investments valued at net asset value				
Private equity partnerships[(a)]	5,041			
Total investments	$ 187,819			

[(a)] Private equity partnerships include investments in three private equity funds. The strategy of these funds is for investors and funds to make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity. The funds' fair values are estimated using the net asset value or its equivalent as determined by the fund manager. As of May 31, 2023, there were no unfunded capital commitments. Redemptions are not available for these funds.

(Dollars in Thousands)

5. Cash, Cash Equivalents, and Investments (continued)

The changes in investments classified as Level 3 are as follows for the years ended May 31, 2024 and 2023:

	Endowment Investments	Unrestricted Investments	
	Real Estate	**Real Estate/ Mineral Rights/Other**	**Corporate Stocks and Bonds**
Ending balance on May 31, 2022	$ –	$ 54	$ 416
Transfers in	2,649	900	119
Ending balance on May 31, 2023	2,649	954	535
Transfers in	**3,826**	–	**273**
Ending balance on May 31, 2024	**$ 6,475**	**$ 954**	**$ 808**

The investment management fees incurred during the years ended May 31, 2024 and 2023, amounted to $1,044 and $190, respectively. Investment management fees are deducted from investment income.

6. Property, Plant, and Equipment

Property, plant, and equipment consist of the following as of May 31:

	2024	**2023**
Land	**$ 48,938**	$ 50,140
Buildings	**304,258**	304,239
Other structures	**18,983**	16,874
Furniture, fixtures, and equipment	**35,151**	34,490
Operating leases right-of-use asset	**13,309**	13,725
	420,639	419,468
Less accumulated depreciation	**(126,628)**	(118,197)
	294,011	301,271
Construction-in-progress	**25,147**	3,900
Net property, plant, and equipment	**$ 319,158**	$ 305,171

6. Property, Plant, and Equipment (continued)

Total depreciation expense was $8,444 and $8,379 for the years ended May 31, 2024 and 2023, respectively.

7. Notes Payable

Third-Party Transactions

The University executed a loan agreement on December 8, 2016, that provided for borrowings of $4,251 and $1,749 from Enhanced Capital New Market Development Fund 81, LLC for a combined total of $6,000. The loans were used to finance equipment for the School of Osteopathic Medicine. The loans bear interest at a rate of 1.06% per annum. The principal balance could not be paid before the end of the seven-year compliance period. If a put or call option was not exercised at the end of the compliance period, then quarterly principal and interest payments were to commence on January 1, 2024 through maturity on December 7, 2046. The loans were secured by certain property, rights, and interests of the University. The put option was exercised on December 12, 2023, and the University successfully exited from the transaction.

At May 31, 2024 and 2023, the outstanding loan balance was $0 and $6,000, respectively. Notes payable on the consolidated statements of financial position are reduced by $0 and $34 of deferred financing costs at May 31, 2024 and 2023, respectively. Total interest expense on the notes for the years ended May 31, 2024 and 2023, was $37 and $64, respectively.

8. Bonds Payable

The University also has the following outstanding bonds payable as of May 31, 2024 and 2023:

On July 1, 2021, the City of San Antonio, Texas Higher Education Facilities Corporation Higher Education Revenue Improvement and Refunding Bonds – Series 2021 were issued bearing interest at coupon rates ranging from 1.74% to 4.00% until maturity on April 1, 2054. Annual principal payments and semiannual interest payments will be required. Principal payments begin on April 1, 2025. The amount outstanding at May 31, 2024, was $146,340. The fair value of these bonds at May 31, 2024, was $117,205. In addition, the unamortized bond issue premium related to the Series 2021 bonds included in bonds payable on the consolidated statement of financial position was $15,183 at May 31, 2024.

(Dollars in Thousands)

8. Bonds Payable (continued)

The proceeds from these bonds were used to refinance the Direct Placement Bank Advancing Loan – Series 2019; the Education Facilities Tri-Party Loan – Series 2016; and the City of Olmos Park, Texas Higher Education Facilities Corporation, Higher Education Revenue Improvement and Refunding Bonds – Series 2012, and to fund construction and renovation costs of a multistory office building for academic and administrative functions of the University (to be known as Founders Hall).

The scheduled principal maturities for the University's bonds as of May 31, 2024, are as follows:

	Principal	
	Series 2021	**Total**
2025	$ 3,010	$ 3,010
2026	3,060	3,060
2027	3,125	3,125
2028	3,190	3,190
2029	3,270	3,270
2030 and thereafter	130,685	130,685
	$ 146,340	$ 146,340

Bonds payable on the consolidated statements of financial position are reduced by $944 and $993 of deferred financing costs at May 31, 2024 and 2023, respectively. Interest expense on the bonds for both years ended May 31, 2024 and 2023, was $5,193 and is allocated to various functions on the consolidated statements of activities.

9. Allocation of Expenses

The University allocates maintenance of plant, interest, and depreciation to the program and support expenses reported on the accompanying consolidated statements of activities based upon each functional category's percentage of the total.

(Dollars in Thousands)

9. Allocation of Expenses (continued)

The following table reports the amount of these expenses included on the consolidated statement of activities for the year ended May 31, 2024:

Functional Category	Direct Expenses	Plant Maintenance	Interest	Depreciation	Total Expenses
Instruction	**$ 82,381**	**$ 6,375**	**$ 1,456**	**$ 3,168**	**$ 93,380**
Research	**1,667**	**155**	**37**	**79**	**1,938**
Academic support	**23,961**	**2,225**	**532**	**1,143**	**27,861**
Student services	**24,030**	**2,327**	**513**	**1,120**	**27,990**
Institutional support	**41,873**	**3,953**	**922**	**2,105**	**48,853**
Fundraising	**1,922**	**189**	**41**	**89**	**2,241**
Clinics	**4,764**	**451**	**108**	**232**	**5,555**
Auxiliary enterprises	**10,656**	**991**	**236**	**508**	**12,391**
Plant maintenance	**16,666**	**(16,666)**	–	–	–
Interest	**3,845**	–	**(3,845)**	–	–
Depreciation	**8,444**	–	–	**(8,444)**	–
	$ 220,209	**$ –**	**$ –**	**$ –**	**$ 220,209**

The following table reports the amount of these expenses included on the consolidated statement of activities for the year ended May 31, 2023:

Functional Category	Direct Expenses	Plant Maintenance	Interest	Depreciation	Total Expenses
Instruction	$ 81,489	$ 7,044	$ 1,963	$ 3,065	$ 93,561
Research	1,846	189	55	85	2,175
Academic support	23,387	2,389	695	1,072	27,543
Student services	24,444	2,593	701	1,099	28,837
Institutional support	48,094	4,890	1,392	2,251	56,627
Fundraising	2,095	224	60	94	2,473
Clinics	4,496	467	136	210	5,309
Auxiliary enterprises	10,974	1,122	326	503	12,925
Plant maintenance	18,918	(18,918)	–	–	–
Interest	5,328	–	(5,328)	–	–
Depreciation	8,379	–	–	(8,379)	–
	$ 229,450	$ –	$ –	$ –	$ 229,450

10. Commitments and Lease Obligations

The University has various operating leases for real estate. UIW determines whether a lease exists at the inception of a contract. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

For leases that commenced before the effective date of ASU 2016-02, UIW elected the permitted practical expedients not to reassess (i) whether any expired or existing contracts contain leases, (ii) the lease classification for any expired or existing leases, and (iii) initial direct costs for any existing leases.

Right-of-use assets represent UIW's right to use an underlying asset during the lease term, and lease liabilities represent UIW's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the commencement date, based on the net present value of lease payments over the lease term. UIW's lease terms include options to extend or terminate the lease when it is reasonably certain that the options will be exercised. Since most of UIW's operating leases do not provide an implicit rate, UIW uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. UIW considered the communication with its local banking institution and its indicative rates from its leasing group. These rates estimate the rate of interest its clients would have to pay to borrow an amount equal to the total lease payments on a collateralized basis over a term like the lease. UIW maintains that incorporating collateral will not have a material impact on its financial statements. Indicative rates for a taxable five- to seven-year fully amortizing lease would range from 2.25% to 3.25%. UIW also considered previous debt issuances as well as recent debt issuances when calculating its incremental borrowing rate of 2.96%. Operating lease expense is recognized on a straight-line basis over the lease term. The UIW right-of-use asset is included in the property, plant, and equipment total and the corresponding lease liability is included in the other accrued liabilities total on the statement of financial position.

(Dollars in Thousands)

10. Commitments and Lease Obligations (continued)

Operating lease right-of-use assets and lease liabilities as of May 31 were as follows:

	2024	2023
Operating leases		
Property, plant, and equipment:		
Right-of-use assets:		
Operating lease assets	**$ 13,309**	$ 13,725
Other operating liabilities:		
Lease liabilities	**$ 13,634**	$ 14,017

Total rental expense under operating leases was $2,305 and $2,648 for the years ended May 31, 2024 and 2023, respectively.

Cash paid for amounts included in the measurement of lease liabilities for the years ended May 31 is as follows:

	2024	2023
Operating cash flows for operating leases	**$ 1,850**	$ 2,882

At May 31, 2024, future minimum rental payments required under operating leases for office equipment and real property that have noncancelable lease terms in excess of one year are as follows:

	2024 Operating Leases	2023 Operating Leases
2025	**$ 2,141**	$ 2,102
2026	**2,047**	1,940
2027	**2,081**	1,843
2028	**2,115**	1,877
2029	**2,146**	1,908
2030 and thereafter	**5,716**	7,199
	16,246	16,869
Less interest	**(2,612)**	(2,852)
Present value of lease liabilities	**$ 13,634**	$ 14,017

(Dollars in Thousands)

10. Commitments and Lease Obligations (continued)

Average lease term and discount rates at May 31 were as follows:

	2024	2023
Weighted average remaining lease term (years):		
Operating leases	**12.12**	13.08
Weighted average discount rate	**2.97%**	2.97%

The University is leasing various office, classroom, multiuse, and clinic space under operating leases with third parties. The leases require annual payments ranging from $15 to $1,800, plus the cost of insurance and other expenses related to the properties through May 2030.

11. Restrictions and Limitations on Net Asset Balances

Net assets with donor restrictions consist of gifts and other unexpended revenues and gains available for the following purposes at May 31:

	2024	2023
Academic programs	**$ 28,841**	$ 24,197
Operational support	**37,859**	23,108
Scholarships	**40,785**	36,989
	$ 107,485	$ 84,294

11. Restrictions and Limitations on Net Asset Balances (continued)

Net assets with donor restrictions consist of endowment gifts and funds restricted for student loans. The income from these invested net assets must be spent on instruction, scholarships, and operations.

12. Endowment

Interpretation of Relevant Law

The 2007 Uniform Prudent Management of Institutional Funds Act of Texas (UPMIFA) provides statutory guidelines for management, investment, and expenditure of endowment funds held by charitable organizations, which apply in the absence of explicit donor stipulations. The University has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies the following 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.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund
2. The purposes of the University and the endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The University's investment policy

(Dollars in Thousands)

12. Endowment (continued)

Funds With Deficiencies (Underwater)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor, under UPMIFA, requires the University to retain as a fund of perpetual duration. Deficiencies of this nature for the years ended May 31, 2024 and 2023, were $0 and $326, respectively, and are recorded as unrealized losses in net assets without donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new donor-restricted contributions and continued appropriation for certain programs that were deemed prudent by the University.

Endowments that are underwater will not be distributed until the market value exceeds the principal value.

Changes in Endowment Net Assets

Activity of endowments and funds functioning as endowments for the years ended May 31, 2024 and 2023, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment, net assets, May 31, 2022	$ 108,464	$ 65,659	$ 174,123
Investment return:			
Net appreciation of investments	(4,433)	(2,851)	(7,284)
Investment income	1,782	1,209	2,991
Contributions, net of transfers	964	1,486	2,450
Appropriation of endowment assets for expenditure	(359)	(1,704)	(2,063)
Endowment, net assets, May 31, 2023	106,418	63,799	170,217
Investment return:			
Net appreciation of investments	**15,669**	**8,382**	**24,051**
Investment income	**423**	**2,802**	**3225**
Other income	**9**	**–**	**9**
Contributions, net of transfers	**599**	**1,140**	**1,739**
Appropriation of endowment assets for expenditure	**(9,289)**	**(1,240)**	**(10,529)**
Endowment, net assets, May 31, 2024	**$ 113,829**	**$ 74,883**	**$ 188,712**

(Dollars in Thousands)

13. Net Assets

The University's net assets as of May 31 include the following:

Nature of Net Assets	2024 Without Donor Restrictions	2024 With Donor Restrictions	2024 Total Net Assets	2023 Without Donor Restrictions	2023 With Donor Restrictions	2023 Total Net Assets
Undesignated	**$ 7,409**	**$ –**	**$ 7,409**	$ 8,035	$ –	$ 8,035
Donor restricted	**–**	**32,602**	**32,602**	–	20,495	20,495
Donor-restricted endowment	**–**	**74,883**	**74,883**	–	63,799	63,799
Board-designated endowment	**113,829**	**–**	**113,829**	106,418	–	106,418
Net physical assets	**149,198**	**–**	**149,198**	152,678	–	152,678
Total	**$ 270,436**	**$ 107,485**	**$ 377,921**	$ 267,131	$ 84,294	$ 351,425

14. Functional and Natural Expenses

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied.

The expenses that are allocated include depreciation, interest, and operation and maintenance of plant and are allocated based upon each functional category's percentage of the total.

For the year ended May 31, 2024, natural expense categories consist of the following:

	Program Activities		Supporting Activities			
	Academic Programs	Program Total	Administrative Support	Fundraising	Support Total	Total
Salaries and benefits	**$ 109,854**	**$ 109,854**	**$ 24,517**	**$ 1,007**	**$ 25,524**	**$ 135,378**
Professional services	**155**	**155**	**1,360**	**1**	**1,361**	**1,516**
Occupancy	**2,026**	**2,026**	**4,754**	**7**	**4,761**	**6,787**
Depreciation	**6,092**	**6,092**	**2,263**	**89**	**2,352**	**8,444**
Interest on indebtedness	**2,759**	**2,759**	**1,045**	**41**	**1,086**	**3,845**
Other operating expenses	**34,720**	**34,720**	**28,423**	**1,096**	**29,519**	**64,239**
Total expenses	**$ 155,606**	**$ 155,606**	**$ 62,362**	**$ 2,241**	**$ 64,603**	**$ 220,209**

(Dollars in Thousands)

14. Functional and Natural Expenses (continued)

For the year ended May 31, 2023, natural expense categories consist of the following:

	Program Activities		Supporting Activities			
	Academic Programs	Program Total	Administrative Support	Fundraising	Support Total	Total
Salaries and benefits	$ 107,306	$ 107,306	$ 24,432	$ 1,066	$ 25,498	$ 132,804
Professional services	163	163	3,918	1	3,919	4,082
Occupancy	1,804	1,804	6,297	11	6,308	8,112
Depreciation	6,113	6,113	2,172	94	2,266	8,379
Interest on indebtedness	3,872	3,872	1,396	60	1,456	5,328
Other operating expenses	35,762	35,762	33,742	1,241	34,983	70,745
Total expenses	$ 155,020	$ 155,020	$ 71,957	$ 2,473	$ 74,430	$ 229,450

15. Contingencies

The University is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the University's consolidated financial position, results of operations, or liquidity.

The University participates in various federal loan programs. The amount of loans disbursed by lenders under the Federal Direct Loan Program for the years ended May 31, 2024 and 2023, was $109,543 and $111,794, respectively. Federal regulations require that amounts questioned as a result of audits, if any, may result in the University purchasing the loans from the lender as the loans may have lost their guaranteed status. Management believes that such amounts, if any, would be immaterial to the consolidated financial statements. The University performs certain administrative functions in accordance with federal regulations required to participate in the programs. If the University fails to perform these functions, it may be liable to the lenders for a portion of the outstanding loans. However, management believes it is performing these administrative functions properly and, as such, does not feel that the University will be liable for any portion of these outstanding loans.

15. Contingencies (continued)

The University offers tuition waivers to certain employees, former employees, and retirees, as well as their dependents. Additionally, the University has granted these waivers in certain other situations. Due to the nature of these waivers and uncertainty as to when and how frequently they will be used, management feels it is impractical to estimate and record a liability on the consolidated statements of financial position. In the years ended May 31, 2024 and 2023, waivers of $4,693 and $4,371, respectively, have been granted and are reported as tuition and tuition discounts on the consolidated statements of activities.

16. Federal Financial Awards

The federal government awards the University various monies restricted for student financial aid. The monies are awarded through three federal programs: Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grant (SEOG), and Federal Work Study (FWS). The University considers this financial aid an integral part of its educational and general activities.

Pell is received by the University on behalf of students who have been identified by the federal government to assist the students in defraying the cost of postsecondary education. During fiscal years 2024 and 2023, the University received and disbursed Pell monies of $12,331 and $10,913, respectively, which are not reported on the accompanying consolidated statements of activities. Activity of the Pell program is considered to be agency transactions.

SEOG provides eligible students with a foundation of financial aid to assist with defraying the cost of postsecondary education. During fiscal years 2024 and 2023, the University received and disbursed SEOG monies of $793 and $1,048, respectively, which are reported as grant revenue and tuition discounts.

The FWS program provides part-time employment to students who need the earnings to help meet their postsecondary education costs. The program is also intended to broaden the range of worthwhile job opportunities for qualified students. The University received and disbursed $1,258 and $933 of FWS awards during fiscal years 2024 and 2023, respectively. These amounts are reported as grant revenue and payroll expense, which is allocated in the various functional categories on the consolidated statements of activities. The University provided matching funds of $12 and $13 during fiscal years 2024 and 2023, respectively.

(Dollars in Thousands)

16. Federal Financial Awards (continued)

Funds provided by the U.S. government under the Federal Perkins Loan Program (Perkins), Nursing Student Loan Program, and Nurse Faculty Loan Program are loaned to qualified students and may be re-loaned after collection. These funds are ultimately refundable to the government and, therefore, are recorded as a liability. However, the authority for schools to make new Perkins loans ended on September 30, 2017. Perkins funds will be returned to the U.S. government as required.

17. Supplemental Disclosures

The Department of Education issued regulations on February 23, 2019, which became effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under federal Title IV regulations. The following disclosures include additional information used in the required calculations. The following amounts are for the year ended May 31, 2024.

Net assets with donor restrictions, as reported on the consolidated statement of financial position, are disaggregated below:

Net assets (not perpetually restricted)	$ 69,305
Net assets restricted in perpetuity	38,180
Total net assets with donor restrictions	$ 107,485

All debt obtained for long-term purposes, as reported on the consolidated statement of financial position, does not exceed total net property, plant, and equipment for the expendable net assets calculation. The details are presented below:

Debt obtained for long-term purposes:	
Bonds payable, net	$ 160,579
Total debt obtained for long-term purposes	$ 160,579

(Dollars in Thousands)

17. Supplemental Disclosures (continued)

For the purpose of calculating the total revenue without donor restrictions and gains without donor restrictions, the investment returns reported under both operating and nonoperating activities on the consolidated statement of activities are aggregated as follows:

Investment income, net of fees	$ 423
Gain on long-term investments	16,703
Investment distribution designated for operations	(9,289)
Net investment gain	$ 7,837

18. Related Party Transactions

The University is leasing various properties from the Congregation under several operating leases. The leases require annual payments ranging from $55 to $130 through January 2058, plus the cost of insurance, utilities, taxes, and other expenses related to the properties.

The University has entered into construction contracts totaling $93,500. Of this amount, $18,405 has been expended on these contracts through May 31, 2024, leaving outstanding construction commitments totaling $75,095 as of May 31, 2024.

The University has entered into a construction contract with a company owned by a board of trustee member. The amount of $16,927 has been expended on this contract for the year ended May 31, 2024.

19. Subsequent Events

Based on evaluation of subsequent events after May 31, 2024, the University has determined there were no events or transactions that would require adjustment or disclosure in the accompanying consolidated financial statements. This evaluation was conducted through October 21, 2024, which is the date the consolidated financial statements were available to be issued.

Supplemental Schedule

University of the Incarnate Word

Financial Responsibility Supplemental Schedule
Required by the U.S. Department of Education
(In Thousands)

Year Ended May 31, 2024

Primary Reserve Ratio

Expendable Net Assets

Financial Statement/ Footnote Disclosure	**Line Item Description**		**Amount**
Consolidated statements of financial position (SFP) – Net assets without donor restrictions, page 4	Net assets without donor restrictions	$	270,436
SFP – Net assets with donor restrictions	Net assets with donor restrictions		107,485
Note 17	Net assets with donor restrictions: restricted in perpetuity		(38,180)
SFP – Goodwill	Intangible assets		(2,053)
SFP – Property, plant, and equipment, net	Net property, plant, and equipment		(319,158)
Note 17	All debt obtained for long-term purposes, not to exceed total net property, plant, and equipment		160,579
SFP – Due from IWHS	Unsecured related-party receivables		(155)
	Expendable net assets	**$**	**178,954**

Total Expenses Without Donor Restrictions and Losses Without Donor Restrictions

Financial Statement/ Footnote Disclosure	**Line Item Description**		**Amount**
Consolidated statements of activities (SOA) – Total operating expenses	Total operating expenses	$	220,209
Note 17	Nonoperating – Investment income (loss), net of distribution without donor restrictions		7,837
SOA – Gain on foreign currency translation	SOA – Gain on foreign currency translation		160
SOA – Gain on disposal of property and equipment	Gain on disposal of asset		598
	Total expenses without donor restrictions and losses without donor restrictions	**$**	**228,804**

University of the Incarnate Word

Financial Responsibility Supplemental Schedule
Required by the U.S. Department of Education (continued)
(In Thousands)

Equity Ratio

Modified Net Assets

Financial Statement/ Footnote Disclosure	Line Item Description		Amount
Consolidated statement of financial position (SFP) – Net assets without donor restrictions	Net assets without donor restrictions	$	270,436
SFP – Net assets with donor restrictions	Net assets with donor restrictions		107,485
SFP – Goodwill	Intangible assets (minus)		(2,053)
Note 17	Unsecured related-party receivables (minus)		(155)
	Modified net assets	**$**	**375,713**

Modified Assets

Financial Statement/ Footnote Disclosure	Line Item Description		Amount
SFP – Total assets	Total assets	$	585,208
SFP – Goodwill	Intangible assets (minus)		(2,053)
Note 17	Unsecured related-party receivables (minus)		(155)
	Modified assets	**$**	**583,000**

Net Income Ratio

Change in Net Assets Without Donor Restrictions

Financial Statement/ Footnote Disclosure	Line Item Description		Amount
Consolidated statement of activities (SOA)	**Change in net assets without donor restrictions**	**$**	**(3,305)**

University of the Incarnate Word

Financial Responsibility Supplemental Schedule
Required by the U.S. Department of Education (continued)
(In Thousands)

Total Revenue Without Donor Restrictions and Gains Without Donor Restrictions

Financial Statement/ Footnote Disclosure	**Line Item Description**		**Amount**
SOA	Total operating revenue without donor restrictions	$	214,919
Note 17	Nonoperating – Investment income (loss), net of distribution without donor restrictions		7,837
SOA	Gain on foreign currency translation		160
	Total revenue without donor restrictions and gains without donor restrictions	**$**	**222,916**

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

Management and The Board of Trustees
University of the Incarnate Word

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of the University of the Incarnate Word (the University), which comprise the statement of financial position as of May 31, 2024, and the related statements of activities and cash flows for the year then ended, and the related notes (collectively referred to as the financial statements), and have issued our report thereon dated October 21, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

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Report on Compliance and Other Matters

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

Purpose of This Report

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

Ernst & Young LLP

October 21, 2024

A member firm of Ernst & Young Global Limited