

# AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Year Ended  
June 30, 2024



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## **Report of Independent Auditors**

The Board of Trustees  
University of Redlands

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of University of Redlands, which comprise the consolidated statements of financial position as of June 30, 2024 and 2023, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of University of Redlands as of June 30, 2024 and 2023, and the changes in its net assets 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). 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 University of Redlands 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.

#### ***Emphasis of Matter – Acquisitions***

As described in Note 1 to the consolidated financial statements, the University acquired Woodbury University and Presidio Graduate School with effective dates of June 3, 2024 and June 30, 2023, respectively. Our opinion is not modified with respect to these matters.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about University of Redlands' 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 consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 consolidated 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of University of Redlands' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about University of Redlands' 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.

*Moss Adams LLP*

Irvine, California  
November 21, 2024

## **Consolidated Financial Statements**

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**University of Redlands**  
**Consolidated Statements of Financial Position**  
**June 30, 2024 and 2023**

<b>ASSETS</b>		
	2024	2023
Cash and cash equivalents	\$ 15,167,052	\$ 8,914,587
Student accounts receivable, net	3,634,049	2,650,968
Other receivables	3,439,018	1,595,554
Prepaid expenses and other assets	4,834,759	2,380,599
Contributions receivable, net	5,652,972	7,000,916
Student loans receivable, net	3,489,029	3,226,160
Investments	324,262,336	291,259,670
Restricted investments	15,474,350	36,709,294
Trust receivables	2,465,499	1,047,363
Property, plant, and equipment, net	255,042,223	158,651,227
Operating lease right-of-use assets	2,509,993	4,192,416
Finance lease right-of-use assets, net	2,391,752	2,451,770
Total assets	<u>\$ 638,363,032</u>	<u>\$ 520,080,524</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 18,795,887	\$ 15,796,533
Line of credit	6,000,000	-
Deferred revenue	5,011,547	4,661,558
Pension liability	1,882,328	-
Operating lease liabilities	2,549,914	4,392,313
Finance lease liabilities	65,250	426,036
Asset retirement obligations, net	1,908,158	1,877,989
Bonds and note payable, net	124,320,440	103,059,087
Actuarial liability for split-interest agreements	14,036,792	12,275,599
Refundable U.S. government student loans	1,540,863	5,000,001
Total liabilities	<u>176,111,179</u>	<u>147,489,116</u>
<b>NET ASSETS</b>		
Without donor restrictions	157,125,512	104,174,305
With donor restrictions	305,126,341	268,417,103
Total net assets	<u>462,251,853</u>	<u>372,591,408</u>
Total liabilities and net assets	<u>\$ 638,363,032</u>	<u>\$ 520,080,524</u>

See accompanying notes.

**University of Redlands**  
**Consolidated Statements of Activities**  
**Year Ended June 30, 2024**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING ACTIVITIES</b>			
Revenue, gains, and other support			
Student revenues, net	\$ 84,001,086	\$ -	\$ 84,001,086
Sales and services for educational activities	578,531	-	578,531
Other revenues	8,345,996	202,631	8,548,627
Contributions of cash and other financial assets and private grants	3,582,969	4,224,692	7,807,661
Government grants	1,851,703	10,000,000	11,851,703
Investment return designated for operations	12,558,027	2,934,564	15,492,591
Net assets released from restrictions	6,916,797	(6,916,797)	-
 Total operating revenue, gains, and other support	 117,835,109	 10,445,090	 128,280,199
 Operating expenses			
Instruction and research	46,344,906	-	46,344,906
Public support	2,498,427	-	2,498,427
Academic support	12,983,758	-	12,983,758
Student services	23,137,276	-	23,137,276
Institutional support	27,427,031	-	27,427,031
Auxiliary enterprises	18,126,231	-	18,126,231
 Total operating expenses	 130,517,629	 -	 130,517,629
 Change in net assets from operating activities	 (12,682,520)	 10,445,090	 (2,237,430)
<b>NONOPERATING ACTIVITIES</b>			
Contributions of cash and other financial assets	640,714	4,514,102	5,154,816
Acquisition – inherent contribution	60,509,607	9,228,366	69,737,973
Investment return, net of amounts designated for operations	1,885,848	15,714,567	17,600,415
Change in value of split-interest agreements and trust receivables	(162,211)	(593,717)	(755,928)
Change in minimum pension liability	84,422	-	84,422
Other income (loss)	76,177	-	76,177
Net assets released from restrictions	2,599,170	(2,599,170)	-
 Change in net assets from nonoperating activities	 65,633,727	 26,264,148	 91,897,875
 CHANGE IN NET ASSETS	 52,951,207	 36,709,238	 89,660,445
 NET ASSETS, beginning of year	 104,174,305	 268,417,103	 372,591,408
 NET ASSETS, end of year	 \$ 157,125,512	 \$ 305,126,341	 \$ 462,251,853

See accompanying notes.



**University of Redlands**  
**Consolidated Statements of Activities (Continued)**  
**Year Ended June 30, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING ACTIVITIES</b>			
Revenue, gains, and other support			
Student revenues, net	\$ 85,653,573	\$ -	\$ 85,653,573
Sales and services for educational activities	512,061	-	512,061
Other revenues	7,359,449	83,446	7,442,895
Contributions of cash and other financial assets and private grants	2,614,623	2,383,609	4,998,232
Government grants	218,718	-	218,718
Investment return designated for operations	11,713,352	2,860,693	14,574,045
Net assets released from restrictions	7,723,913	(7,723,913)	-
Total operating revenue, gains, and other support	115,795,689	(2,396,165)	113,399,524
Operating expenses			
Instruction and research	49,072,007	-	49,072,007
Public support	2,373,181	-	2,373,181
Academic support	13,400,316	-	13,400,316
Student services	25,093,385	-	25,093,385
Institutional support	22,660,043	-	22,660,043
Auxiliary enterprises	18,369,399	-	18,369,399
Total operating expenses	130,968,331	-	130,968,331
Change in net assets from operating activities	(15,172,642)	(2,396,165)	(17,568,807)
<b>NONOPERATING ACTIVITIES</b>			
Contributions of cash and other financial assets	750,841	4,535,348	5,286,189
Acquisition – inherent contribution	282,000	900,515	1,182,515
Investment return, net of amounts designated for operations	1,422,157	470,757	1,892,914
Change in value of split-interest agreements and trust receivables	(183,682)	128,402	(55,280)
Other income (loss)	91,951	(59)	91,892
Other changes	972,403	-	972,403
Redesignations	1,800,000	(1,800,000)	-
Net assets released from restrictions	3,371,897	(3,371,897)	-
Change in net assets from nonoperating activities	8,507,567	863,066	9,370,633
CHANGE IN NET ASSETS	(6,665,075)	(1,533,099)	(8,198,174)
NET ASSETS, beginning of year	110,839,380	269,950,202	380,789,582
NET ASSETS, end of year	\$ 104,174,305	\$ 268,417,103	\$ 372,591,408

See accompanying notes.

**University of Redlands**  
**Statements of Cash Flows**  
**Years Ended June 30, 2024 and 2023**

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 89,660,445	\$ (8,198,174)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation and amortization	11,539,111	10,305,973
Amortization of bond premiums and debt issuance costs	(206,264)	(200,498)
Write off of bond issuance costs and discounts	-	(1,740,398)
Amortization of operating lease right-of-use assets	1,904,630	2,369,319
Gain on forgiveness of U.S. government student loans	(1,145,889)	-
Change in allowance for credit losses	214,668	(256,163)
Net appreciation on investments		
restricted for long-term purposes	(23,432,151)	(8,372,628)
Net appreciation on investments not		
restricted for long-term purposes	(488,835)	(361,660)
Loss on disposition of property, plant, and equipment	-	43,968
Contributions restricted for long-term investment	(4,692,586)	(2,913,237)
Accretion on asset retirement obligations	30,169	68,859
Change in minimum pension liability	(84,422)	-
Actuarial change in value of split-interest agreements		
and trust receivables	466,626	953,927
Acquisition – inherent contribution	(69,737,973)	(1,182,515)
Changes in assets and liabilities:		
Student accounts receivable	257,760	121,751
Other receivables	(505,176)	(69,549)
Prepaid expenses and other assets	(258,662)	262,906
Contributions receivable	1,368,522	610,780
Operating lease right-of-use assets	(222,207)	(767,658)
Accounts payable and accrued expenses	(3,037,872)	6,567,022
Deferred revenue	(424,375)	(993,960)
Pension liability	(97,885)	-
Operating lease liabilities	(1,842,399)	(1,802,240)
Net cash (used in) operating activities	(734,765)	(5,554,175)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(79,726,744)	(289,323,019)
Proceeds from sale of investments	101,234,535	271,970,498
Cash received from inherent contribution	821,866	1,102,636
Disbursements of student loans	(756,412)	(569,725)
Collections of student loans	738,539	1,250,433
Acquisition of property, plant, and equipment	(22,070,093)	(29,953,875)
Net cash provided by (used in) investing activities	241,691	(45,523,052)
		(continued)

See accompanying notes.

**University of Redlands**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2024 and 2023**

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	2024	2023
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	\$ 6,000,000	\$ -
Principal payments on line of credit	-	(3,368,116)
Proceeds from bond issuance	-	63,290,348
Payment of bond issue costs	-	(356,136)
Principal payments on bonds payable	(43,060)	(10,100,000)
Principal payments on finance leases	(433,511)	(605,268)
Return of cash to U.S. government	(2,279,322)	-
Decrease in refundable U.S. government student loans	10,424	28,986
Loans assigned to Department of Education	(44,351)	(278,112)
Contributions restricted for long-term investment	4,692,586	2,913,237
Distributions to split interest beneficiaries	(1,157,227)	(1,009,207)
	<u>6,745,539</u>	<u>50,515,732</u>
Net cash provided by financing activities	6,745,539	50,515,732
CHANGE IN CASH AND CASH EQUIVALENTS	6,252,465	(561,495)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,914,587</u>	<u>9,476,082</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 15,167,052</u>	<u>\$ 8,914,587</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 3,536,555</u>	<u>\$ 3,246,188</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Acquisition of property, plant, and equipment, included in accounts payable and accrued expenses	<u>\$ 2,650,932</u>	<u>\$ 4,604,055</u>

See accompanying notes.

# University of Redlands

## Notes to Consolidated Financial Statements

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### **Note 1 – Nature of Activities and Significant Accounting Policies**

The University of Redlands (the “University”) is a nonprofit university established to provide instruction for both students of traditional college age through its residential program, College of Arts & Sciences, the Woodbury School of Architecture and Woodbury School of Media, Culture and Design, and for primarily graduate and professional learners through its School of Business & Society, including the Presidio Center for Sustainable Solutions, School of Education, and the San Francisco Theological Seminary. The main campus is located in Redlands, California; the University also operates a campus in Marin County in Northern California, the Woodbury campus in Burbank, California, as well as other regional campuses throughout Southern California.

On June 3, 2024, the University entered into a Change of Control and Merger Agreement (“Agreement”) with Woodbury University (“Woodbury”) located in Burbank, California. As a result of this Agreement, the University of Redlands acquired Woodbury by becoming its sole corporate member. No consideration was transferred as a result of this acquisition. The University recorded an inherent contribution equal to the fair value of net assets received in the amount of \$69,737,973 as a result of the acquisition. The acquisition supports the University’s vision of expanding its geographical footprint in California with an institution having a complementary mission and results in the addition of the Woodbury School of Architecture and School of Media, Culture and Design. In accordance with Accounting Standards Codification (“ASC”) 958-805, *Not-for-Profit Mergers and Acquisitions*, the combination was accounted for on the acquisition basis of accounting at June 3, 2024, where the assets and liabilities of Woodbury were recorded on the University’s consolidated statements of financial position at fair value.

The following table summarizes the provisional fair value of the assets acquired and liabilities assumed at June 3, 2024:

Cash and cash equivalents	\$ 821,866
Investments	8,434,901
Receivables and other assets	4,316,613
Property, plant, and equipment	84,713,548
Finance lease right-of-use assets	72,725
Less:	
Accounts payable and accrued expenses	(4,029,514)
Deferred revenue	(830,097)
Pension liability	(2,064,635)
Finance lease liability	(72,725)
Note payable	(21,510,677)
Actuarial liability for split-interest agreements	(114,032)
	<hr/>
Inherent contribution	<u>\$ 69,737,973</u>

# University of Redlands

## Notes to Consolidated Financial Statements

### Note 1 – Nature of Activities and Significant Accounting Policies (continued)

On June 30, 2023, the University acquired Presidio Graduate School ("PGS") by becoming its sole corporate member. No consideration was transferred as a result of this acquisition. The University recorded an inherent contribution of \$1,182,515 as a result of the acquisition. The acquisition supports the University's vision of expanding its geographical footprint in California with an institution having a complementary mission and results in the creation of the Presidio Center for Sustainable Solutions within the University's School of Business & Society. In accordance with ASC 958-805, *Not-for-Profit Mergers and Acquisitions*, the combination was accounted for on the acquisition basis of accounting for the year ended June 30, 2023, in which the assets and liabilities of PGS were recorded on the University's consolidated statements of financial position at fair value.

The following table summarizes the fair value of the assets acquired and liabilities assumed at June 30, 2023:

Cash and cash equivalents	\$ 1,102,636
Receivables and other assets	207,397
Less: liabilities	<u>(127,518)</u>
Inherent contribution	<u><u>\$ 1,182,515</u></u>

**Supplementary pro forma information (unaudited)** – Pro forma information of changes in net assets without donor restrictions and changes in net assets with donor restrictions for operations of only the University, PGS and Woodbury for the years ended June 30, 2024 and 2023, were as follows:

	For the Year Ended June 30, 2024		
	Revenue, Gains, and Other Support	Changes in Net Assets Without Donor Restrictions	Changes in Net Assets With Donor Restrictions
University of Redlands	\$ 127,685,819	\$ (7,612,418)	\$ 27,782,448
Presidio Graduate School	2,604,963	93,317	(332,876)
Woodbury University	34,323,483	(4,070,030)	(547,201)
Total	<u><u>\$ 164,614,265</u></u>	<u><u>\$ (11,589,131)</u></u>	<u><u>\$ 26,902,371</u></u>

	For the Year Ended June 30, 2023		
	Revenue, Gains, and Other Support	Changes in Net Assets Without Donor Restrictions	Changes in Net Assets With Donor Restrictions
University of Redlands	\$ 113,399,524	\$ (6,947,075)	\$ (2,433,614)
Presidio Graduate School	3,944,260	(544,361)	18,102
Woodbury University	34,993,314	(1,475,964)	74,986
Total	<u><u>\$ 152,337,098</u></u>	<u><u>\$ (8,967,400)</u></u>	<u><u>\$ (2,340,526)</u></u>

# University of Redlands

## Notes to Consolidated Financial Statements

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### **Note 1 – Nature of Activities and Significant Accounting Policies (continued)**

The University's wholly owned subsidiaries collectively include Zanja, LLC, Redlands Property Management, Inc., Presidio Graduate School and Woodbury University.

**Basis of presentation** – The University's resources are classified for accounting and reporting purposes into two net asset categories according to the existence or absence of donor-imposed restrictions. Descriptions of the two net asset categories and types of transactions affecting each category follow:

- *Net assets without donor restrictions* – Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donors' stipulations results in the release of such restrictions.
- *Net assets with donor restrictions* – Net assets with donor restrictions are limited as to use by donor-imposed stipulations that may expire with the passage of time or that may be satisfied by action of the University. Net assets with donor restrictions are designated by donors for specific purposes and include unconditional pledges and accumulated appreciation on donor-restricted endowments which have not been appropriated by the Board of Trustees (the "Board") for distribution. Some net assets with donor restrictions are required by donors to be held in perpetuity. The donors of substantially all net assets to be held in perpetuity permit the University to use a portion of income earned on the related investments for specific purposes.
- *Expiration of donor-imposed restrictions* – Net assets are released from donor restrictions by incurring expenses to satisfy the restricted purposes and by occurrence of events specified by the donors, including the passage of time. Donor restrictions on long-lived assets or cash to construct or acquire long-lived assets are considered to have expired when the assets are placed in service.

**Principles of consolidation** – The accompanying consolidated financial statements include the financial statements of the University and its wholly owned subsidiaries. All significant inter-company accounts and transactions between the University and its subsidiaries have been eliminated.

**Accounting estimates** – The preparation of the consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America ("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 revenue and expenses during the reporting period. Actual results could differ from those estimates.



## University of Redlands

### Notes to Consolidated Financial Statements

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#### **Note 1 – Nature of Activities and Significant Accounting Policies (continued)**

**Recently adopted accounting pronouncements** – Effective July 1, 2023, the University adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326), which required the use of the current expected credit losses (“CECL”) impairment model for a broad scope of financial instruments, including financial assets measured at amortized cost (which includes loans, held-to-maturity debt securities and trade receivables), net investments in leases, and certain off statement of financial position credit exposures. The CECL model required the immediate recognition of estimated expected credit losses over the life of the financial instrument. Under this standard, disclosures are required to provide users of the consolidated financial statements with useful information in analyzing an entity’s exposure to credit risk and the measurement of credit losses. The University adopted this standard effective July 1, 2023. The impact of the adoption was not considered material to the consolidated financial statements and primarily resulted in new/enhanced disclosures only.

**Revenue recognition** – The University uses the output measure for revenue recognition of tuition revenue which means the revenue is recognized pro rata over each instructional course as performance obligations associated with the delivery of educational services are provided. A contract is entered into with a student and covers a course or semester. The University determined there are no costs that are capitalized to obtain or fulfill a contract with a student. Revenue recognition begins once a student starts attending a course. Registration and other fees that do not relate to instruction are recognized when no longer refundable. The University’s receivables represent unconditional rights to consideration from its contracts with students; accordingly, receivables are not recorded until students have begun a course and the revenue recognition has commenced. The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during stated refund periods.

If a student withdraws at a time when only a portion, or none, of the tuition is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the tuition that was not refunded pro rata over the applicable period of instruction. The University’s business and education programs have start and end dates that differ from its fiscal year end. Therefore, at the end of each fiscal year, a portion of revenue from these programs is not yet earned and is recorded as deferred revenue in the statements of financial position. Student tuition and fees received in advance of services to be rendered are also recorded as deferred revenue.

The University also uses the output measure for revenue recognition from auxiliary enterprises and therefore revenue is recognized over time as goods or services are provided and performance obligations are met as stated in each contract. Amounts received in advance of delivery of services are recorded as deferred revenue. The auxiliary expenses include all costs incurred in providing these services.

Sales and services of educational activities revenue is earned at the time of activity or event. Other revenues activities consist of conferences, facility usage, and rents which are recognized at the time of the activity or event. Certain other revenue has been generated from assets that were contributed to the University in prior years and the terms of those agreements restrict the income earned for a particular purpose. This income is classified as with donor restrictions on the statements of activities until expended in accordance with donor stipulations.

# University of Redlands

## Notes to Consolidated Financial Statements

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### **Note 1 – Nature of Activities and Significant Accounting Policies (continued)**

Contributions and private grants, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment considering such factors as prior collection history, type of contribution, and nature of fundraising activity.

Individual governmental grant arrangements have been evaluated and determined to be nonreciprocal, meaning the granting entity has not received a direct benefit in exchange for the resources provided. Instead, revenue is recognized like a conditional contribution—when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Gains and losses on endowment investments and other endowment assets are reported as increases or decreases in net assets with donor restrictions until appropriated by the Board. Gains and losses on other investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted either by donor stipulation or by law.

**Operating measure** – The University divides its statements of activities into operating and nonoperating activities. The operating activities of the University include all income and expenses related to carrying out its educational and research mission. Operating revenues include investment income and investment gains used to fund current operations.

Nonoperating activities include current year realized and unrealized gains (losses) on investments, net of the amount of endowment appreciation used to fund operations. Endowment appreciation used to fund operating and nonoperating activities is included in net assets released from restrictions as the Board has appropriated them. Nonoperating activities also include contributions for endowments held in perpetuity, change in value of split-interest agreements and trust receivables, change in minimum pension liability, change in asset retirement obligations, and other non-operating income and losses.

**Simultaneous period contributions** – The University has adopted a policy to classify donor-restricted contributions whose restrictions are met in the same reporting period as contribution revenue without donor restriction.

**Cash and cash equivalents** – Cash and cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. For purposes of the cash flows, the University considers all highly liquid debt instruments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents managed as part of the investment pool or intended exclusively for long-term purposes are classified as investments on the consolidated statements of financial position.

## University of Redlands

### Notes to Consolidated Financial Statements

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#### **Note 1 – Nature of Activities and Significant Accounting Policies (continued)**

**Student accounts receivable, net** – Student accounts receivable are generally due within one year, are unsecured, and are carried at the unpaid balance of the original amount billed to students and are reported net of an allowance for credit losses. No interest is charged on student accounts receivable for enrolled students. The University separates student accounts receivable into risk pools based on their aging. In determining the amount of the allowance as of the consolidated statement of financial position date, the University develops a loss rate for each risk pool. This loss rate is based on management's historical collection experience, adjusted for management's expectations about current and future economic conditions. The allowance for credit losses was \$2,654,270 and \$1,597,575 as of June 30, 2024 and 2023, respectively. Student accounts receivable are written off when deemed uncollectible. Recoveries of student accounts receivable previously written off are recorded when received. For the years ended June 30, 2024 and 2023, the University had write-offs of \$449,205 and \$194,177, respectively.

**Student loans receivable, net** – Student loans receivable are carried at the amount of the unpaid principal and are reported net of an allowance for credit losses. In accordance with ASC 326-20-30-2, the University determined that similar risk characteristics existed for receivables with similar days outstanding, so that the pools for which the allowance for credit losses was calculated were based on aging buckets. This is consistent with the methodology under the previous incurred loss model. The University compiles historical loss information for its student receivables annually and updates its credit loss percentages based on the previous five-year average write off history to calculate loss rates using a "roll-rate" methodology. Under a roll-rate methodology, the historical loss rates for each aging bucket take into account the migration of each balance through the various aging buckets to determine the appropriate credit loss rate for each aging bucket. The University considered other available external data and management's reasonable and supportable forecasts of current and future economic conditions over the life of the receivables and adjusted the historical loss information. Management's five-year historical loss rate information does not include periods of rising inflation or recession. The allowance for credit losses was \$565,991 and \$617,000 as of June 30, 2024 and 2023, respectively. Student loans receivable are written off when deemed uncollectible. Recoveries of student loans receivable previously written off are recorded when received.

Interest is charged on student loans receivable after a student is no longer enrolled as a full-time student and recognized as payments are received. Students may be granted a deferment, forbearance, or cancellation of their student loans receivable based on eligibility requirements defined by the U.S. Department of Education or, in the case of loan funds of the University, based on the respective loan program.

**Investments** – Investments are generally recorded at fair value, except for certain investments, which are carried at cost. Alternative investments, such as private equity and absolute return hedge funds, consist primarily of investments that are not readily marketable.

Investments in these categories are valued utilizing the most current information provided by the general partner or manager of the fund. Because these alternative investments are not readily marketable, their estimated value is subject to judgment and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. The University has the ability to liquidate its alternative investments on a periodic basis in accordance with the provisions of the respective investment fund agreements. Under the terms of certain limited partnership agreements, the University is obligated periodically to advance additional funding for private equity investments (Notes 6 and 18).

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 1 – Nature of Activities and Significant Accounting Policies (continued)

**Restricted investments** – Restricted investments are carried at fair value and represent the portion of unspent bond proceeds and the capitalized interest fund. Restricted investments include certain cash equivalent mutual funds that are available for reinvestment and therefore classified as investments.

**Trust receivables** – The receivable for the University's interest in trusts held by others is recorded at fair value, calculated using the discounted present value of the University's remainder interest. The fair value of trust assets, as provided by the donor at the time of gift and adjusted annually when reported by the trustee, is reduced for amounts due to beneficiaries based on the trust agreements and actuarial factors derived from Internal Revenue Service ("IRS") formulas. The discounted present value of the University's remainder interest was determined using discount rates ranging from 0.0% to 2.0% over the estimated lives according to the 2012 Individual Annuity Reserving ("IAR") Mortality Tables as of June 30, 2024, and from 0.6% to 6.0% over the estimated lives according to the Annuity 2000 Mortality Tables as of June 30, 2023.

Assets held in trust by others include cash, mutual funds, fixed income instruments, common stock, trust deeds, and real estate.

**Contributions of long-lived assets** – The University reports the contribution of long-lived assets without donor stipulations concerning the use of such assets as net assets without donor restrictions.

**Property, plant, and equipment** – Property, plant, and equipment are stated at cost or, in the case of gifts, at the fair value at the date of donation less accumulated depreciation. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the costs of those assets. Generally, property, plant, and equipment purchases in excess of \$5,000 are capitalized if they have an expected useful life of more than one year. Depreciation is provided using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Equipment	3 – 10
Land improvements	5 – 20
Buildings and building improvements	5 – 40

**Debt acquisition costs** – Debt acquisition costs represent unamortized bond issuance costs. These costs are amortized using the interest method over the term of the related debt. Debt issuance costs related to a recognized debt liability are presented in the consolidated statements of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

**Deferred revenue** – Deferred revenue represents tuition from students billed and received in advance of attendance and other fees for future services, including food service vendor contribution, trips, conferences, workshops, and events.

**Asset retirement obligations** – The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset.

# University of Redlands

## Notes to Consolidated Financial Statements

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### **Note 1 – Nature of Activities and Significant Accounting Policies (continued)**

Over time, the liability is accreted to its present value each year, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of activities. The obligation to perform the asset retirement activity is not conditional, even though the timing or method may be conditional. Substantially all of the University's conditional asset retirement obligations relate to the estimated cost to remove asbestos and lead paint from campus facilities. The University reviews its estimate annually and adjusts the recorded liability as needed (Note 12).

**Leases** – The University recognizes operating and finance lease liabilities and right-of-use ("ROU") assets for all leases, including operating leases with an expected term greater than 12 months, on its consolidated statements of financial position. Operating and finance lease ROU assets and liabilities are recognized on the consolidated statements of financial position at commencement date, which is the date that the University gains access to the property or underlying asset. The lease liability is determined based on the present value of the minimum rental payments using a risk-free incremental borrowing rate in effect at the time of the lease commencement when the implicit rate is not readily available. The borrowing rates ranged from 4.01% to 4.80% and 2.66% to 4.42% for the years ended June 30, 2024, and 2023, respectively. The ROU asset is determined based on the lease liability adjusted for lease incentives received. Lease costs are recognized on a straight-line basis over the lease term. Certain optional renewal periods were not included in the determination of the lease liability and ROU asset if management determined it was not reasonably certain that the lease would be extended. The University has lease agreements with lease and non-lease components, which are generally accounted for separately with amounts allocated to the lease and non-lease components based on stand-alone prices. For certain finance leases the University accounts for the lease and non-lease components as a single lease.

**Split-interest agreements** – The University receives gifts in which the beneficial interest is shared with one or more other parties, referred to as split-interest agreements. The assets are recorded at the fair value of the assets contributed based on quoted market prices or appraised value at the date of the gift. An actuarial liability for trusts payable and pooled income funds is determined using the payout rate for each agreement and life expectancies derived from IRS formulas. The liability for annuities payable is determined based on calculations mandated by the State of California. All split-interest agreement obligations are recorded at their discounted present value. The actuarial liability is based on the present value of obligations to beneficiaries discounted at rates ranging from 0.6% to 6.0% as of June 30, 2024, and ranging from 0.6% to 6.0% as of June 30, 2023, over the estimated lives according to the 2012 IAR Mortality Tables and Annuity 2000 Mortality Tables, respectively.

The net interest in all split-interest agreements is determined annually based on revised fair value, actuarial and earnings data, and the effect of terminated trusts and other agreements. The actuarial adjustment, net of payments to beneficiaries, is reported in the consolidated statements of activities as change in value of split-interest agreements and trust receivables.

# University of Redlands

## Notes to Consolidated Financial Statements

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### **Note 1 – Nature of Activities and Significant Accounting Policies (continued)**

*Assets held in trust by the University* – Assets held in trust by the University are comprised of marketable debt and equity securities and in certain collective trust funds that are invested in accordance with University investment policies. Marketable security fair values are based on quoted market prices for identical securities and discounted, when appropriate. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Investments in collective trust funds are measured using net asset value (“NAV”).

*Beneficial interest in trusts held by others* – The University’s beneficial interest in trusts held by others is valued at fair value using the quoted market prices of the underlying securities. If a quoted market price is not available, fair value is determined using the net present value of future cash flows.

**Refundable U.S. government student loans** – Funds provided by the United States government under the Federal Perkins Loan Program were originally loaned to qualified students. On October 1, 2017, the Federal Perkins Extension Act of 2015 expired and no longer permits disbursements to students of any kind. These funds are ultimately refundable to the government and are included as liabilities in the consolidated statement of financial position. The University continues to collect payments on past loans and remits payments to the U.S. government for the federal share as they are notified to do so.

**Student financial assistance** – Student financial assistance is offered by the University to attract and retain students. Financial assistance is offered to students in the form of merit-based scholarships and need-based grants at the University’s discretion. Student financial assistance has been classified as a reduction of student revenues (Note 16).

**Advertising costs** – The University follows the policy of charging advertising costs to expense as incurred. Amounts paid for advertising in the years ended June 30, 2024 and 2023, were \$4,137,238 and \$3,378,810, respectively, which included costs for direct mail, radio, newsprint, publications, and internet advertising. These costs are primarily included in student services and institutional support.

**Fundraising costs** – The University incurred fundraising costs of \$2,432,453 and \$1,994,909 during the years ended June 30, 2024 and 2023, respectively, which are included in institutional support.

**Income taxes** – The University is recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The University is subject to federal and state income taxes on net income from unrelated business activities and files federal and state returns to report unrelated business income, as appropriate. Management has evaluated the University’s material tax positions; there were no uncertain tax positions identified as of June 30, 2024 and 2023.

**Functional allocation of expenses** – The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include interest, depreciation, employee benefits and taxes, and operation and maintenance of plant expenses. Interest, depreciation, and operation and maintenance of the physical plant are allocated based on building square footage dedicated to that specific function. Employee benefits and taxes are allocated based on estimated use.



# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 1 – Nature of Activities and Significant Accounting Policies (continued)

**Reclassifications** – Certain amounts presented in the prior year financial statements have been reclassified to conform to the current year presentation.

**Subsequent events** – Accounting standards establish general standards for and disclosure of events that occur after the consolidated statements of financial position date but before the consolidated financial statements are issued. The University recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The University does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statements of financial position but arose after the consolidated statements of financial position date and before the consolidated financial statements are issued. The University has evaluated subsequent events through November 21, 2024, which is the date the consolidated financial statements were issued.

### Note 2 – Other Receivables

Other receivables consist of the following as of June 30:

	2024	2023	2022
Conferences	\$ 184,946	\$ 202,289	\$ 81,721
Investment income	222,103	48,622	88,479
Grant receivables	525,415	220,105	106,250
Federal Direct Student Loans receivable, net	988,037	271,565	446,081
Property management receivable	533,847	183,714	294,354
Other	984,670	669,259	445,786
	<u>\$ 3,439,018</u>	<u>\$ 1,595,554</u>	<u>\$ 1,462,671</u>
Total other receivables			

All other receivables at June 30, 2024 and 2023, are considered by management to be fully collectible, and accordingly, an allowance for credit losses and uncollectible accounts has not been provided.

### Note 3 – Contributions Receivable

Unconditional contributions receivable are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Unconditional contributions receivable are recorded at the present value of the future cash flows based on discount rates ranging from 0.16% to 5.40%. An allowance is provided for amounts anticipated to be uncollectible.

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 3 – Contributions Receivable (continued)

Unconditional contributions receivable as of June 30 are expected to be realized in the following years:

	2024	2023
Contributions receivable, gross	\$ 6,239,702	\$ 7,666,560
Less: present value discount	(500,656)	(559,792)
Less: allowance for uncollectible contributions	(86,074)	(105,852)
Contributions receivable, net	<u>\$ 5,652,972</u>	<u>\$ 7,000,916</u>
Amounts due in:		
Less than one year	\$ 3,397,880	\$ 3,225,478
One to five years	2,255,092	3,689,688
More than five years	-	85,750
	<u>\$ 5,652,972</u>	<u>\$ 7,000,916</u>

Contributions receivable as of June 30 have the following restrictions:

	2024	2023
Endowments held in perpetuity (Note 7)	\$ 1,995,142	\$ 2,583,951
Property and plant improvements	301,727	441,067
Department programs and activities, including pledges without donor restrictions for future periods	3,356,103	3,975,898
	<u>\$ 5,652,972</u>	<u>\$ 7,000,916</u>

### Note 4 – Student Loans Receivable

The University's student loans receivable consist of a revolving loan fund for Federal Perkins Loans for which the University acts as an agent for the federal government in administering the loan program and an institutional loan fund created by the University to assist students in funding their education.

The University determined its allowance for estimated losses on these student loans by reviewing historical default rates and analyzing the aging of the past due loans. Collectability is reviewed both individually and in the aggregate. Allowances have been established based on historical experience, and balances deemed uncollectible are written off through a charge to bad debt expense or the provision for doubtful accounts and a decrease to accounts, notes, or contributions receivable. The University follows federal guidelines for determining when student loans are delinquent or past due for both federal and institutional loans.

# University of Redlands

## Notes to Consolidated Financial Statements

### Note 4 – Student Loans Receivable (continued)

At June 30, student loans receivable consisted of the following:

	2024	2023
Student loans receivable	\$ 4,055,020	\$ 3,843,160
Less allowance for credit losses		
Beginning of the year	(617,000)	(864,000)
Change in estimate for provision and recoveries on loans previously charged off	51,009	247,000
End of the year	(565,991)	(617,000)
Student loans receivable, net	\$ 3,489,029	\$ 3,226,160

The aging of the gross student loan portfolio by classes of loans as of June 30, 2024 and 2023, is presented gross as follows:

Classes of Loans	2024						Total
	Not in Repayment	Current	240 Days or Less Past Due	Greater Than 240 Days, but 2 Years or Less Past Due	Greater Than 2 Years, but 5 Years or Less Past Due	Greater Than 5 Years Past Due	
Federal Perkins Loans	\$ 43,689	\$ 309,212	\$ 28,677	\$ 16,328	\$ 36,315	\$ 3,232	\$ 437,453
Institutional loans	1,021,873	1,646,244	275,122	212,098	381,354	80,876	3,617,567
	<u>\$ 1,065,562</u>	<u>\$ 1,955,456</u>	<u>\$ 303,799</u>	<u>\$ 228,426</u>	<u>\$ 417,669</u>	<u>\$ 84,108</u>	<u>\$ 4,055,020</u>
As a percentage of total loan portfolio	26.29%	48.22%	7.49%	5.63%	10.30%	2.07%	100.00%

  

Classes of Loans	2023						Total
	Not in Repayment	Current	240 Days or Less Past Due	Greater Than 240 Days, but 2 Years or Less Past Due	Greater Than 2 Years, but 5 Years or Less Past Due	Greater Than 5 Years Past Due	
Federal Perkins Loans	\$ 63,957	\$ 222,225	\$ 24,601	\$ 38,336	\$ 32,232	\$ 44,836	\$ 426,187
Institutional loans	787,464	1,748,756	254,296	294,542	323,248	8,667	3,416,973
	<u>\$ 851,421</u>	<u>\$ 1,970,981</u>	<u>\$ 278,897</u>	<u>\$ 332,878</u>	<u>\$ 355,480</u>	<u>\$ 53,503</u>	<u>\$ 3,843,160</u>
As a percentage of total loan portfolio	22.15%	51.29%	7.26%	8.66%	9.25%	1.39%	100.00%

# University of Redlands

## Notes to Consolidated Financial Statements

### Note 4 – Student Loans Receivable (continued)

The allowance for estimated losses on loans by portfolio segment as of June 30, 2024 and 2023, is presented as follows:

	Federal Perkins Loans	Institutional Loans	Totals
	2024		
Allowance for loans collectively evaluated for impairment	\$ 108,000	\$ 457,991	\$ 565,991
Loans collectively evaluated for impairment	437,453	3,617,567	4,055,020
Allowance as a percentage of loans collectively evaluated for impairment	24.69%	12.66%	13.96%
	2023		
Allowance for loans collectively evaluated for impairment	\$ 172,000	\$ 445,000	\$ 617,000
Loans collectively evaluated for impairment	426,187	3,416,973	3,843,160
Allowance as a percentage of loans collectively evaluated for impairment	40.36%	13.02%	16.05%

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of June 30, 2024 and 2023:

	Federal Perkins Loans, Gross	Institutional Loans, Gross	Totals
2024			
Performing	\$ 352,901	\$ 2,668,117	\$ 3,021,018
Nonperforming	84,552	949,450	1,034,002
	<u>\$ 437,453</u>	<u>\$ 3,617,567</u>	<u>\$ 4,055,020</u>
2023			
Performing	\$ 286,182	\$ 2,536,220	\$ 2,822,402
Nonperforming	140,005	880,753	1,020,758
	<u>\$ 426,187</u>	<u>\$ 3,416,973</u>	<u>\$ 3,843,160</u>

For student loans, the credit quality indicator is performance determined by delinquency status, and for Federal Perkins Loans, origination and servicing of the loan. Delinquency status is updated monthly by the University's loan servicer. Federal Perkins Loans that are originated and serviced properly under Department of Education regulations can be assigned to the Department of Education when deemed no longer collectible; however, the University's policy has been to retain these loans as they are often collected years after they become delinquent.

## **University of Redlands**

### **Notes to Consolidated Financial Statements**

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#### **Note 5 – Investments**

Where permitted by gift agreement or applicable government regulations, investments of the endowment, annuity, and trust funds are pooled. Pools are formed to achieve stated investment objectives. The University has established a pool for total return within the endowment fund with the objective of producing a reasonable current return coupled with capital appreciation. Endowment unit ownership transactions of the pool are accounted for on a fair value basis. Appraised values for real property gifted are obtained at the time of gift receipt; property is reappraised on a four-year cycle or more frequently as deemed appropriate by the University.

Investment policies, strategies, goals, and asset allocation for the University are established by the Investment Committee of the Board. The University engages an outsourced chief investment officer firm, SEI Investment Group, to invest the University's endowment funds and assist in the development of investment policies, strategies, and asset allocation, as well as monitoring of the investment performance. The performance and valuation of the funds are reviewed by the University's management and the Finance Committee of the Board on a quarterly basis. BNY Mellon and Whittier Trust serve as the custodians of the University's endowment assets. State Street Global Advisors is engaged to assist the University with the administration and investment of trust, annuity, and life income funds.

**University of Redlands**  
**Notes to Consolidated Financial Statements**

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**Note 5 – Investments (continued)**

Summary schedules of investments as of June 30 are as follows:

Described by Asset Class	2024	2023
Investments		
U.S. marketable equities	\$ 6,736,969	\$ 327,027
U.S. marketable bonds	7,363,117	6,433,372
U.S. Treasury and agency bonds	10,902,020	11,221,954
Global marketable bonds	1,521,358	1,286,511
Limited partnerships in:		
Private equities	11,084,079	11,955,224
Inflation hedging	18,922,087	16,143,082
Mutual funds in:		
Global marketable equities	57,936,307	56,083,288
U.S. marketable equities	78,920,778	69,677,946
Inflation hedging	11,529,548	10,635,061
Fixed income	57,587,992	49,063,532
Cash equivalent mutual funds	735,278	995,334
Real property	24,890,000	24,140,000
Real estate partnership interests	1,690,000	1,690,000
Closely held entities	1,192,087	1,176,531
Split-interest agreements:		
Assets held in trust by the University:		
U.S. Treasury and agency bonds	1,390,657	1,339,320
U.S. bond mutual funds	1,117,121	1,060,501
U.S. equity funds	19,738,295	17,593,816
Global marketable equities funds	5,013,189	4,443,226
Collective investment trusts	117,229	124,844
Real estate interests held by others	2,350,000	2,350,000
Beneficial interest in trusts held by others	3,482,452	3,482,452
Investments at fair value	324,220,563	291,223,021
Other investments	41,773	36,649
Investments at cost	41,773	36,649
Total investments	\$ 324,262,336	\$ 291,259,670
Restricted investments		
U.S. Treasury and agency bonds	\$ 7,363,623	\$ 18,216,602
Cash equivalent mutual funds	8,110,727	18,492,692
Total restricted investments	\$ 15,474,350	\$ 36,709,294



# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 5 – Investments (continued)

Split-interest agreements represent trust funds established by donors of the University. Certain investments structured as limited partnerships, limited liability companies, trusts, or corporations are not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications.

Summary schedules of investments by funding group as of June 30 are as follows:

Described by Funding Group	2024	2023
Endowment fund (Note 7)	\$ 256,907,053	\$ 232,754,677
Trust, annuity, and life income funds (Note 8)	30,858,943	28,044,159
Other funds	36,496,340	30,460,834
	<u>324,262,336</u>	<u>291,259,670</u>
Total	<u>\$ 324,262,336</u>	<u>\$ 291,259,670</u>

Summary schedules of restricted investments by funding group as of June 30 are as follows:

Described by Funding Group	2024	2023
Bond proceeds	\$ 15,460,744	\$ 34,772,017
Capitalized interest	13,606	1,937,277
	<u>15,474,350</u>	<u>36,709,294</u>
Total	<u>\$ 15,474,350</u>	<u>\$ 36,709,294</u>

Trust, annuity, and life income funds include, in addition to investments held by the University, certain interests in trusts held by others. The beneficial interest in trusts held by others, as discussed in Note 8, is shown separately in the consolidated financial statements as \$2,465,499 and \$1,047,363 as of June 30, 2024 and 2023, respectively.

Investment return, net of expenses, for the years ended June 30 is as follows:

	2024	2023
Investment income	\$ 9,171,231	\$ 7,732,672
Net gain on investments reported at fair value	23,921,775	8,734,287
	<u>33,093,006</u>	<u>16,466,959</u>
Total investment return	<u>33,093,006</u>	<u>16,466,959</u>
Less: investment return designated for current operations and restricted funds	15,492,591	14,574,045
	<u>17,600,415</u>	<u>1,892,914</u>
Investment return net of amounts designated for current operations	<u>\$ 17,600,415</u>	<u>\$ 1,892,914</u>

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 6 – Fair Value Measurements

The Fair Value Measurements and Disclosures topic of the FASB ASC defines fair value, establishes a framework for measuring fair value, and requires disclosure of fair value measurements. The fair value hierarchy set forth in the topic is as follows:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

**Investments** – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include equities, equity funds, highly liquid bond funds, and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, comparative sales for certain residential real estate, or discounted cash flow and are classified within Level 2 of the valuation hierarchy. Level 3 investments may be valued using independent appraisals, market data, or mortality rates for split interest gifts. Specific valuation inputs for Level 3 investments are described later in this note. In certain cases, securities are measured using the NAV per share practical expedient, an estimate of fair value, and are excluded from the fair value hierarchy. The University obtains fair value for its investment securities from the fund managers. The fund managers use various models, comparisons, and assumptions to estimate fair value. Consideration is given to the type of investment, risks, marketability, restrictions, dispositions, and quotations from other market participants. Adjustments may be determined by management to account for the time period since the date of the fund's last statement.

The University seeks to achieve capital appreciation and to maximize the total return on its investments over the short- and long-term. Strategies to achieve these objectives are to invest through a combination of long- and short-term investments in various industries. Such investments include:

Equity and debt-related securities of publicly traded and private U.S. companies.

Equity and debt-related securities of publicly traded and private foreign companies.

Financially troubled companies' debt-related securities and obligations.

Partnership interests in international companies.

## University of Redlands

### Notes to Consolidated Financial Statements

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#### **Note 6 – Fair Value Measurements (continued)**

**Trust receivables** – The value of certain trust receivables held by the University is derived from the discounted present value of the University's remainder interest in the trusts. The University owns an interest in the trusts and not the underlying investments. The estimated future value of that interest in the trusts is based on management's estimate of the trusts' expected performance which is present valued back to the date of the financial statements based on the estimated net present value of the payments. The annual payments to the beneficiaries are payable from the trust assets' investment earnings or in some cases, to the extent that amount is deficient, from principal. If the trust assets' investment earnings exceed the payments to the benefactor, such excess is added to the trust principal.

# University of Redlands

## Notes to Consolidated Financial Statements

### Note 6 – Fair Value Measurements (continued)

**Assets recorded at fair value on a recurring basis** – The following tables summarize assets measured at fair value on a recurring basis as of June 30, 2024 and 2023, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Fair Value Measurements as of June 30, 2024					
	Fair Value	Level 1	Level 2	Level 3	Assets Measured at Net Asset Value (or equivalent)
<b>Assets</b>					
Investments					
U.S. marketable equities	\$ 6,736,969	\$ 6,736,969	\$ -	\$ -	\$ -
U.S. marketable bonds	7,363,117	-	7,363,117	-	-
U.S. Treasury and agency bonds	10,902,020	56,569	10,845,451	-	-
Global marketable bonds	1,521,358	-	1,521,358	-	-
Limited partnerships in:					
Private equities	11,084,079	-	-	-	11,084,079
Inflation hedging	18,922,087	-	-	-	18,922,087
Mutual funds in:					
Global marketable equities	57,936,307	57,936,307	-	-	-
U.S. marketable equities	78,920,778	78,920,778	-	-	-
Inflation hedging	11,529,548	11,529,548	-	-	-
Fixed income	57,587,992	57,587,992	-	-	-
Cash equivalent mutual funds	735,278	735,278	-	-	-
Real property	24,890,000	-	24,890,000	-	-
Real estate partnership interests	1,690,000	-	-	1,690,000	-
Closely-held entities	1,192,087	-	-	1,192,087	-
Split-interest agreements:					
Assets held in trust by the University:					
U.S. Treasury and agency bonds	1,390,657	-	1,390,657	-	-
U.S. bond mutual funds	1,117,121	1,117,121	-	-	-
U.S. equity funds	19,738,295	19,738,295	-	-	-
Global marketable equities funds	5,013,189	5,013,189	-	-	-
Collective investment trusts	117,229	-	-	-	117,229
Real estate interests held by others	2,350,000	-	2,350,000	-	-
Beneficial interest in trusts held by others	3,482,452	-	-	3,482,452	-
	<u>\$ 324,220,563</u>	<u>\$ 239,372,046</u>	<u>\$ 48,360,583</u>	<u>\$ 6,364,539</u>	<u>\$ 30,123,395</u>
Restricted investments:					
U.S. Treasury and agency bonds	\$ 7,363,623	\$ -	\$ 7,363,623	\$ -	\$ -
Cash equivalent mutual funds	8,110,727	8,110,727	-	-	-
	<u>\$ 15,474,350</u>	<u>\$ 8,110,727</u>	<u>\$ 7,363,623</u>	<u>\$ -</u>	<u>\$ -</u>
Trust receivables	<u>\$ 2,465,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,465,499</u>	<u>\$ -</u>

Investments above do not include \$41,773 of other investments carried at cost (Note 5).

# University of Redlands

## Notes to Consolidated Financial Statements

### Note 6 – Fair Value Measurements (continued)

Fair Value Measurements as of June 30, 2023					
	Fair Value	Level 1	Level 2	Level 3	Assets Measured at Net Asset Value (or equivalent)
<b>Assets</b>					
Investments					
U.S. marketable equities	\$ 327,027	\$ 327,027	\$ -	\$ -	\$ -
U.S. marketable bonds	6,433,372	-	6,433,372	-	-
U.S. Treasury and agency bonds	11,221,954	-	11,221,954	-	-
Global marketable bonds	1,286,511	-	1,286,511	-	-
Limited partnerships in:					
Private equities	11,955,224	-	-	-	11,955,224
Inflation hedging	16,143,082	-	-	-	16,143,082
Mutual funds in:					
Global marketable equities	56,083,288	56,083,288	-	-	-
U.S. marketable equities	69,677,946	69,677,946	-	-	-
Inflation hedging	10,635,061	10,635,061	-	-	-
Fixed income	49,063,532	49,063,532	-	-	-
Cash equivalent mutual funds	995,334	995,334	-	-	-
Real property	24,140,000	-	24,140,000	-	-
Real estate partnership interests	1,690,000	-	-	1,690,000	-
Closely held entities	1,176,531	-	-	1,176,531	-
Split-interest agreements:					
Assets held in trust by the University:					
U.S. Treasury and agency bonds	1,339,320	-	1,339,320	-	-
U.S. bond mutual funds	1,060,501	1,060,501	-	-	-
U.S. equity funds	17,593,816	17,593,816	-	-	-
Global marketable equities funds	4,443,226	4,443,226	-	-	-
Collective investment trusts	124,844	-	-	-	124,844
Real estate interests held by others	2,350,000	-	2,350,000	-	-
Beneficial interest in trusts held by others	3,482,452	-	-	3,482,452	-
	<u>\$ 291,223,021</u>	<u>\$ 209,879,731</u>	<u>\$ 46,771,157</u>	<u>\$ 6,348,983</u>	<u>\$ 28,223,150</u>
Restricted investments:					
U.S. Treasury and agency bonds	\$ 18,216,602	\$ -	\$ 18,216,602	\$ -	\$ -
Cash equivalent mutual funds	18,492,692	18,492,692	-	-	-
	<u>\$ 36,709,294</u>	<u>\$ 18,492,692</u>	<u>\$ 18,216,602</u>	<u>\$ -</u>	<u>\$ -</u>
Trust receivables	<u>\$ 1,047,363</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,047,363</u>	<u>\$ -</u>

Investments above do not include \$36,649 of other investments carried at cost (Note 5).

There were no transfers between levels of the fair value hierarchy during the years ended June 30, 2024 and 2023. The University's policy is to recognize transfers in and transfers out at the end of the reporting period.

# University of Redlands

## Notes to Consolidated Financial Statements

### Note 6 – Fair Value Measurements (continued)

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis for which the University has utilized Level 3 inputs to determine fair value:

	Real Property Partnerships	Closely Held Entities	Beneficial Interest in Trusts Held by Others	Trust Receivables
Balance, June 30, 2022	\$ 1,690,000	\$ 1,176,531	\$ 3,482,452	\$ 1,242,271
Change in value	-	-	-	(194,908)
Balance, June 30, 2023	1,690,000	1,176,531	3,482,452	1,047,363
Change in value	-	15,556	-	1,418,136
Balance, June 30, 2024	<u>\$ 1,690,000</u>	<u>\$ 1,192,087</u>	<u>\$ 3,482,452</u>	<u>\$ 2,465,499</u>

The significant unobservable inputs related to material categories of Level 3 assets at June 30, 2024 and 2023, are as follows:

	Fair Value at June 30,		Valuation Techniques	Unobservable Inputs	Range
	2024	2023			
Real property partnerships (A)	\$ 1,690,000	\$ 1,690,000	Independent appraisal every 4 years	Long-term occupancy rate Market comparable rate Capitalization rate	n/a*
Closely held entities (B)	1,192,087	1,176,531	Market approach using information provided by comparable companies	Market comparable rate	n/a*
Beneficial interest in trusts held by others (C)	3,482,452	3,482,452	Market approach using information provided by the trustee	Underlying funds Market comparable rate	n/a*
Trust receivables (D)	2,465,499	1,047,363	Net present value of each trust's assets	Mortality rates	2% – 6%

\*Not included due to the wide range of possible values given the diverse nature of the underlying investments.

These investments are not considered readily marketable; therefore, their estimated value is subject to judgment and may differ from the value that would have been used had a ready market for such investments existed.

(A) This represents an interest in a partnership that owns an apartment complex located in Chula Vista, California. There is no timetable for liquidation of this investment.

(B) This represents the shares held in closely held entities and the fair value is based on the current sales price valuation as reported by the entities. There is no timetable for liquidation of this investment.

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 6 – Fair Value Measurements (continued)

(C) This represents the beneficial interest of the assets held in trust by others and is valued at fair value using the quoted market prices of the underlying securities. If a quoted market price is not available, fair value is determined using the net present value of future cash flows. There is no timetable for liquidation of this investment.

(D) This represents the assets held in trust by various third parties. The University has no control over these assets, and for some, statements are not readily available.

The following table represents the liquidity, redemption restrictions, and future capital commitments on the financial instruments above that were valued at NAV as of June 30, 2024:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments:				
Private equities funds (A)	\$ 11,084,079	\$ 2,586,790	Not permitted	N/A
Inflation hedging funds (B)	18,922,087	1,597,101	Not permitted	N/A
Collective investment trusts (C)	117,229	-	Daily-Monthly	1–10 Days
	<u>\$ 30,123,395</u>	<u>\$ 4,183,891</u>		

(A) These funds invest in the following types of investments in the U.S. and outside of the U.S.: venture capital partnerships, buyout partnerships, mezzanine/subordinated debt partnerships, restructuring/distressed debt partnerships, and special situation partnerships. These investments cannot be redeemed during the life of the partnership, which can be up to 12 years; however, they can be transferred to another eligible investor. Distributions are received as the underlying investments of the fund are liquidated over time.

(B) The partnerships in this category consist of funds that invest in the following types of investments in the U.S. and outside of the U.S.: inflation hedging including natural resource funds of funds, non-energy commodities, energy funds, and real estate investment trust (“REIT”) funds. These investments cannot be redeemed during the life of the partnership which can be up to 12 years; however, they can be transferred to another eligible investor. Distributions are received as the underlying investments of the fund are liquidated over time.

(C) The funds in this category consist of funds that invest in marketable equities that are exchange traded in the U.S., which can be redeemed daily, and mortgage-backed, U.S. Treasury, agency, corporate, and other bonds, which can be redeemed monthly. These funds can be redeemed at NAV per share based on the fair value of the underlying assets.

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 7 – Endowment Funds and Net Asset Classification

The University's endowment funds consist of various donor-restricted endowment funds and life income funds and funds designated as quasi-endowment by the Board.

The University has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") adopted by the 2008 California legislature 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 as net assets with donor restrictions (a) the original value of gifts donated to the endowment held in perpetuity; (b) the original value of subsequent gifts to the endowment held in perpetuity; (c) accumulations to the endowment held in perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund; (d) the present value of estimated future receipts for life income funds; and (e) subsequent changes in the value of the University's share of assets in life income funds. The remaining portion of the donor-restricted endowment funds is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the State of California in its enacted version of UPMIFA.

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

The University has adopted investment and distribution (spending) policies for its endowment funds. The objective of these policies is to provide the University a predictable funding stream for its programs while protecting the purchasing power of the endowment funds. To satisfy its long-term return objectives, the University expects to maintain appropriate diversification among equity, fixed income, and alternative investment allocations. The purpose is to moderate the overall investment risk of the endowment fund. The University's established distribution policy for endowed investment income is equal to the Board-approved percentage of the twenty-quarter moving average of the average fair value of the endowment investment.

The board of trustees of the University may appropriate for expenditure or accumulate so much of the endowment funds as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment funds are established.

For the years ended June 30, 2024 and 2023, the actual expenditures from endowment funds and earnings for support of operations were \$13,974,621 and \$13,372,313, respectively. The following schedule summarizes the actual distribution rate for operations for the year ended June 30, 2024, with comparative amounts for the preceding four years:

Years Ended June 30,	
2024	6.00%
2023	6.00%
2022	5.00%
2021	5.00%
2020	4.47%



# University of Redlands

## Notes to Consolidated Financial Statements

### Note 7 – Endowment Funds and Net Asset Classification (continued)

Assets of the endowment funds as of June 30 consist of the following:

	2024	2023
Contributions receivable, net (Note 3)	\$ 1,995,142	\$ 2,583,951
Investments (Note 5)	256,907,053	232,754,677
Life income funds (included in investments)	15,230,120	15,122,389
Other assets	1,202,431	1,425,884
	<u>1,202,431</u>	<u>1,425,884</u>
Fair value or cost of endowment funds	<u>\$ 275,334,746</u>	<u>\$ 251,886,901</u>

Certain assets of the endowment funds are pooled on a fair value basis. Each participating fund enters and withdraws from the investment account based on quarterly unit fair values.

The fair value and NAV of endowment funds as of June 30 have been categorized as follows:

	2024	2023
With donor restrictions:		
Perpetuity	\$ 213,445,410	\$ 203,219,795
Accumulated income and unrealized gains	47,527,682	35,365,063
Without donor restrictions:		
Quasi-endowment (Board-designated)	14,361,654	13,302,043
	<u>14,361,654</u>	<u>13,302,043</u>
Fair value of endowment funds	<u>\$ 275,334,746</u>	<u>\$ 251,886,901</u>

Endowment net assets as of June 30, 2024 and 2023, were as follows:

	2024			
		With Donor Restrictions		
	Without Donor Restrictions	Accumulated Gains (Losses)	Original Gift Held in Perpetuity	Total
Donor-restricted endowment funds:				
Scholarship support	\$ -	\$ 17,337,155	\$ 104,501,587	\$ 121,838,742
Educational activities support	-	12,839,289	69,137,009	81,976,298
General institutional support	-	17,351,238	24,576,694	41,927,932
Donor-restricted life income funds:				
Scholarship support	-	-	4,724,860	4,724,860
Educational activities support	-	-	8,248,442	8,248,442
General institutional support	-	-	2,256,818	2,256,818
Board-designated quasi-endowment funds:				
Scholarship support	635,783	-	-	635,783
General institutional support	13,725,871	-	-	13,725,871
	<u>13,725,871</u>	<u>-</u>	<u>-</u>	<u>13,725,871</u>
Total endowment funds	<u>\$ 14,361,654</u>	<u>\$ 47,527,682</u>	<u>\$ 213,445,410</u>	<u>\$ 275,334,746</u>

# University of Redlands

## Notes to Consolidated Financial Statements

### Note 7 – Endowment Funds and Net Asset Classification (continued)

	2023			
	With Donor Restrictions			Total
	Without Donor Restrictions	Accumulated Gains (Losses)	Original Gift Held in Perpetuity	
Donor-restricted endowment funds:				
Scholarship support	\$ -	\$ 14,063,690	\$ 99,110,614	\$ 113,174,304
Educational activities support	-	8,855,820	66,606,740	75,462,560
General institutional support	-	12,445,553	22,380,050	34,825,603
Donor-restricted life income funds:				
Scholarship support	-	-	4,870,186	4,870,186
Educational activities support	-	-	8,045,376	8,045,376
General institutional support	-	-	2,206,829	2,206,829
Board-designated quasi-endowment funds:				
Scholarship support	604,903	-	-	604,903
General institutional support	12,697,140	-	-	12,697,140
Total endowment funds	<u>\$ 13,302,043</u>	<u>\$ 35,365,063</u>	<u>\$ 203,219,795</u>	<u>\$ 251,886,901</u>

The changes in endowment net assets for the years ended June 30, 2024 and 2023, were as follows:

	2024			
	With Donor Restrictions			Total
	Without Donor Restrictions	Accumulated Gains (Losses)	Original Gift Held in Perpetuity	
Endowment net assets, beginning of year	\$ 13,302,043	\$ 35,365,063	\$ 188,097,406	\$ 236,764,512
Life income funds net assets, beginning of year	-	-	15,122,389	15,122,389
Subtotal	<u>13,302,043</u>	<u>35,365,063</u>	<u>203,219,795</u>	<u>251,886,901</u>
Investment return:				
Endowment fund investment income	-	5,970,000	-	5,970,000
Life income funds investment income	-	-	572,032	572,032
Endowment fund net appreciation (realized and unrealized)	1,059,611	19,593,809	-	20,653,420
Life income funds net appreciation (realized and unrealized)	-	-	1,143,518	1,143,518
Subtotal	<u>1,059,611</u>	<u>25,563,809</u>	<u>1,715,550</u>	<u>28,338,970</u>
Net change in endowment net assets:				
Endowment fund contributions	-	-	4,136,892	4,136,892
Endowment fund inherent contribution	-	573,431	5,980,992	6,554,423
Life income funds contributions and terminations, net	-	-	239,031	239,031
Appropriation of endowment funds for expenditure	-	(13,974,621)	-	(13,974,621)
Change in value of life income funds	-	-	(1,846,850)	(1,846,850)
Subtotal	<u>-</u>	<u>(13,401,190)</u>	<u>8,510,065</u>	<u>(4,891,125)</u>
Endowment net assets, end of year	<u>14,361,654</u>	<u>47,527,682</u>	<u>198,215,290</u>	<u>260,104,626</u>
Life income funds net assets, end of year	<u>-</u>	<u>-</u>	<u>15,230,120</u>	<u>15,230,120</u>
Total	<u>\$ 14,361,654</u>	<u>\$ 47,527,682</u>	<u>\$ 213,445,410</u>	<u>\$ 275,334,746</u>

# University of Redlands

## Notes to Consolidated Financial Statements

### Note 7 – Endowment Funds and Net Asset Classification (continued)

	2023			
	With Donor Restrictions			Total
	Without Donor Restrictions	Accumulated Gains (Losses)	Original Gift Held in Perpetuity	
Endowment net assets, beginning of year	\$ 13,060,925	\$ 36,454,561	\$ 182,488,856	\$ 232,004,342
Life income funds net assets, beginning of year	-	-	15,636,160	15,636,160
Subtotal	13,060,925	36,454,561	198,125,016	247,640,502
Investment return:				
Endowment fund investment income	-	5,150,800	-	5,150,800
Life income funds investment income	-	-	456,132	456,132
Endowment fund net depreciation (realized and unrealized)	241,118	7,132,015	-	7,373,133
Life income funds net appreciation (realized and unrealized)	-	-	644,558	644,558
Subtotal	241,118	12,282,815	1,100,690	13,624,623
Net change in endowment net assets:				
Endowment fund contributions	-	-	5,608,550	5,608,550
Life income funds contributions and terminations, net	-	-	(596,353)	(596,353)
Appropriation of endowment funds for expenditure	-	(13,372,313)	-	(13,372,313)
Change in value of life income funds	-	-	(1,018,108)	(1,018,108)
Subtotal	-	(13,372,313)	3,994,089	(9,378,224)
Endowment net assets, end of year	13,302,043	35,365,063	188,097,406	236,764,512
Life income funds net assets, end of year	-	-	15,122,389	15,122,389
Total	<u>\$ 13,302,043</u>	<u>\$ 35,365,063</u>	<u>\$ 203,219,795</u>	<u>\$ 251,886,901</u>

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration, referred to as underwater endowments. These amounts are reported as a reduction of net assets with donor restrictions. These deficiencies, which the University believes are temporary, resulted from unfavorable market fluctuations. The board of trustees determined that continued appropriation during fiscal years ended June 30, 2024 and 2023, for certain programs was prudent. As of June 30, 2024 and 2023, the amount by which the University's donor-restricted endowment funds were underwater was calculated as follows:

	2024	2023
Aggregate original gift amount	\$ 13,628,270	\$ 59,395,430
Aggregate fair value	<u>12,795,446</u>	<u>57,621,342</u>
Aggregate deficiency	<u>\$ (832,824)</u>	<u>\$ (1,774,088)</u>

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 8 – Split-Interest Agreements

Amounts recorded by the University under the terms of split-interest agreements consisted of the following as of June 30:

	2024	2023
Assets held by the University under split-interest agreements, included in investments (Note 5)	\$ 30,858,943	\$ 28,044,159
Assets held by others, included in real estate interests held by others (Note 5)	2,350,000	2,350,000
Other assets	70,000	70,000
Assets held by others, included in trust receivables	2,465,499	1,047,363
 Total assets under split-interest agreements	 <u>\$ 35,744,442</u>	 <u>\$ 31,511,522</u>
 Actuarial liability for trusts payable	 \$ 12,473,436	 \$ 10,828,167
Legal reserve for annuities payable	1,450,697	1,330,198
Unearned revenue under pooled income fund agreements	112,659	117,234
 Total liabilities under split-interest agreements	 <u>\$ 14,036,792</u>	 <u>\$ 12,275,599</u>

### Note 9 – Property, Plant, and Equipment

Property, plant, and equipment consisted of the following as of June 30:

	2024	2023
Land improvements	\$ 35,048,924	\$ 26,712,926
Buildings and building improvements	331,187,795	268,300,739
Equipment	34,028,010	16,418,700
 Gross depreciable property, plant, and equipment	 400,264,729	 311,432,365
 Accumulated depreciation	 <u>(223,399,709)</u>	 <u>(196,112,150)</u>
 Depreciable property, plant, and equipment, net	 176,865,020	 115,320,215
 Land	 65,092,258	 25,692,258
Construction in progress	13,084,945	17,638,754
 Total property, plant, and equipment, net	 <u>\$ 255,042,223</u>	 <u>\$ 158,651,227</u>

Depreciation expense for the years ended June 30, 2024 and 2023, was \$11,406,367 and \$10,129,538, respectively.

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 10 – Deferred Revenue

Deferred revenue represents payments received prior to the start of the academic term or payments made in advance of services performed. The following table depicts activities for deferred revenue as of June 30:

	2024	2023
Beginning balance	\$ 4,661,558	\$ 5,650,969
Deferred revenue from inherent contribution (Note 1)	830,097	-
Revenue recognized included in		
June 30 balance	(2,971,070)	(3,550,969)
Cash received in advance of performance:		
Student revenues	2,135,639	1,964,813
Trips, conferences, workshops, and events	355,323	596,745
Balance at June 30	<u>\$ 5,011,547</u>	<u>\$ 4,661,558</u>

The balance of deferred revenue as of June 30, 2024, will be recognized as revenue over the academic term beginning in July 2024, as services are rendered. As of June 30, 2024 and 2023, \$161,998 and \$106,629, respectively, of student account credit balances were included in accounts payable and accrued expenses on the consolidated statements of financial position.

As permitted by accounting standards, the University applies, as a practical expedient, the omission of information about remaining performance obligations that have original expected durations of one year or less.

### Note 11 – Leases

**Operating leases** – The University has operating lease commitments for facilities for its regional campuses, Salzburg campus, and off-site storage. One of the facilities leases (Salzburg, Austria) calls for future rentals to be increased or decreased based on a cost-of-living index, VP/1996, published by the Austrian Bureau of Statistics. The University also leases certain computer equipment, vehicles, and other equipment.

**Finance leases** – The University has several finance lease agreements, two of which are for three co-gen micro-turbine engines in the campus' energy center and the remaining relate to equipment including a phone system and copiers. The leases call for annual payments ranging from \$20,144 to \$406,793.

Finance lease ROU assets cost of equipment at June 30, 2024, totaled \$4,005,822. Related accumulated amortization as of June 30, 2024, totaled \$1,614,070.

# University of Redlands

## Notes to Consolidated Financial Statements

### Note 11 – Leases (continued)

The University's lease cost for the years ended June 30 is as follows:

	2024	2023
Operating lease cost:		
Facilities	\$ 1,231,091	\$ 1,526,286
Equipment and vehicles	888,165	893,887
Total operating lease cost	2,119,256	2,420,173
Finance lease cost:		
Amortization of ROU assets	133,214	176,436
Interest on lease liabilities	904	2,839
Total finance lease cost	134,118	179,275
Variable lease cost	48,574	80,892
Total lease cost	\$ 2,301,948	\$ 2,680,340

Future minimum lease payments required under lease obligations are as follows:

	Operating	Finance
Years Ending June 30,		
2025	\$ 1,365,909	\$ 54,520
2026	764,856	11,710
2027	460,893	-
2028	18,486	-
Thereafter	-	-
Total lease payments	2,610,144	66,230
Less: imputed interest	(60,230)	(980)
Lease liabilities as of June 30, 2024	\$ 2,549,914	\$ 65,250

Additional information for the University's leases at June 30, is summarized below:

	2024	
	Operating	Finance
Weighted-average remaining lease term	2.25 years	0.59 years
Weighted-average discount rate	2.06%	0.41%

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 11 – Leases (continued)

	2023	
	Operating	Finance
Weighted-average remaining lease term	2.49 years	1.59 years
Weighted-average discount rate	1.17%	0.41%

### Note 12 – Asset Retirement Obligations

The University has recorded asset retirement obligations in accordance with U.S. GAAP related to certain property, plant, and equipment, primarily for disposal of regulated materials upon eventual retirement of the assets. The liability was estimated for the years ended June 30, 2024 and 2023, using an inflation rate of 3.0% and discount rates ranging from 0.16% to 4.74%.

Changes in the accrual for asset retirement obligations during the years ended June 30, 2024 and 2023, are as follows:

	2024	2023
Beginning accrual	\$ 1,877,989	\$ 1,809,130
Accretion of asset retirement liability	30,169	68,859
Ending accrual	<u>\$ 1,908,158</u>	<u>\$ 1,877,989</u>

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 13 – Bonds and Note Payable

Interest expense relating to long-term debt amounted to \$5,080,805 and \$3,243,349 for the years ended June 30, 2024 and 2023, respectively.

Bonds and note payable consist of the following as of June 30:

	2024	2023
\$11,865,000, 2014 CEFA Revenue Bond Series A, unsecured, payable in annual installments ranging from \$1,000,000 to \$1,440,000, plus interest of 5.0%, until maturity in October 2035. The bonds were issued to fund certain capital projects. The unamortized bond premium at June 30, 2024 and 2023, was \$659,564 and \$754,006, respectively, and the unamortized debt issuance costs at June 30, 2024 and 2023, were \$74,269 and \$84,904, respectively. The premium and debt issuance costs are being amortized over the bond term using the interest method.	\$ 12,450,294	\$ 12,534,102
\$26,755,000, 2016 CEFA Revenue Bond Series A, unsecured, payable in annual installments ranging from \$155,000 to \$4,125,000, plus interest ranging from 3.0% to 5.0%, until maturity in October 2038. The bonds were issued to fund certain capital projects. The unamortized bond premium at June 30, 2024 and 2023, was \$1,263,695 and \$1,384,664, respectively, and the unamortized debt issuance costs at June 30, 2024 and 2023, were \$168,227 and \$184,331, respectively. The premium and debt issuance costs are being amortized over the bond term using the interest method.	27,850,468	27,955,333
\$51,345,000, 2022 CEFA Revenue Bond Series A, unsecured, payable in annual installments ranging from \$3,590,000 to \$5,920,000, plus interest of 5.0%, until maturity in October 2052. The bonds were issued to fund certain capital projects. The unamortized bond premium at June 30, 2024 and 2023, was \$1,216,096 and \$1,266,773, respectively, and the unamortized debt issuance costs at June 30, 2024 and 2023, were \$550,491 and \$573,431, respectively. The premium and debt issuance costs are being amortized over the bond term using the interest method.	52,010,606	52,038,342
\$10,650,000, 2022 CEFA Revenue Bond Series B, unsecured, payable in annual installments ranging from \$3,330,000 to \$3,775,000, plus interest of 6.3%, until maturity in October 2041. The bonds were issued to fund certain capital projects. The unamortized debt issuance costs at June 30, 2024 and 2023, were \$111,924 and \$118,690, respectively. The debt issuance costs are being amortized over the bond term using the interest method.	10,538,076	10,531,310
On June 3, 2024, the University acquired Woodbury University and became the guarantor to its existing note payable in the amount of \$21,470,996. The loan bears interest at an annual fixed rate of 2.98% and matures on December 29, 2031. The loan is secured by a deed of trust on Woodbury's real estate. There are certain financial and nonfinancial covenants by which the University must remain in compliance. The debt issuance costs are being amortized over the bond term using the interest method.	21,470,996	-
	<u>\$ 124,320,440</u>	<u>\$ 103,059,087</u>



# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 13 – Bonds and Note Payable (continued)

Future principal maturities of bonds and note payable at June 30, 2024, are as follows:

Years Ending June 30,	
2025	\$ 524,836
2026	695,206
2027	2,716,026
2028	2,842,310
2029	2,969,070
Thereafter	<u>112,646,015</u>
	122,393,463
Unamortized bond premium	3,139,355
Unamortized debt issuance costs	<u>(1,212,378)</u>
	<u><u>\$ 124,320,440</u></u>

### Note 14 – Net Assets

Net assets without donor restrictions as of June 30 consisted of the following:

	<u>2024</u>	<u>2023</u>
Funds functioning as endowment (quasi-endowment)	\$ 14,361,654	\$ 13,302,043
Property, plant, and equipment and right-of-use assets	139,017,762	83,657,803
Reserves designated by Board	<u>3,746,096</u>	<u>7,214,459</u>
	<u><u>\$ 157,125,512</u></u>	<u><u>\$ 104,174,305</u></u>

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 14 – Net Assets (continued)

Net assets with donor restrictions consist of the following as of June 30:

	2024	2023
Restricted for time and purpose:		
Endowment accumulated earnings	\$ 47,527,682	\$ 35,365,063
Instruction, academic, and institutional support	26,006,907	14,786,475
Life income funds	5,930,146	3,347,440
Property, plant, and equipment	3,640,697	3,947,266
	<hr/>	<hr/>
Total restricted for time and purpose	83,105,432	57,446,244
	<hr/>	<hr/>
Restricted in perpetuity, income available to support:		
Student loans	8,002,068	7,751,064
Endowment:		
Original gift	198,788,721	188,097,406
Life income funds	15,230,120	15,122,389
	<hr/>	<hr/>
Total restricted in perpetuity	222,020,909	210,970,859
	<hr/>	<hr/>
	<u>\$ 305,126,341</u>	<u>\$ 268,417,103</u>

The sources of net assets released from restrictions by incurring expenses satisfying the restricted purposes, by occurrence of events specified by the donors or by Board appropriation for the years ended June 30, were as follows:

	2024	2023
Instruction, academic, and institutional support	\$ 6,916,797	\$ 7,723,913
Expenditures for property, plant, and equipment	2,599,170	3,371,897
	<hr/>	<hr/>
	<u>\$ 9,515,967</u>	<u>\$ 11,095,810</u>

### Note 15 – Employee Benefit and Pension Plans

**403(b) retirement plan** - Retirement benefits are provided for full-time employees through a defined contribution plan. Effective July 1, 2023, employer contributions were temporarily suspended. The University's cost was \$0 and \$2,949,477 for the years ended June 30, 2024 and 2023, respectively.

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 15 – Employee Benefit and Pension Plans (continued)

**Pension plan** – Prior to the acquisition, Woodbury University offered a pension plan (the “Plan”) to all legacy Woodbury employees over 21 years of age provided they complete 1,000 hours of service. The Plan is a noncontributory defined benefit plan administered by a third-party insurance company. The Plan was terminated in 2011 and investments were frozen in anticipation of the Plan’s dissolution; however, obligations related to original benefits offered by the Plan are accounted for by the University. The benefits are based on employees’ compensation during all years of service. The University’s funding policy is to make annual contributions as required by applicable regulations. Total benefits paid from plan assets were \$376,937 for the period of June 3, 2024 to June 30, 2024. Assets held by the Plan consist of mutual funds. All investment policies and procedures were designated to ensure that the Plan’s investments are in compliance with ERISA. Guidelines were established defining permitted investments within each asset class.

Retirement plan expense includes net periodic expense for the Plan calculated using the Projected Unit Credit Method as follows at June 30, 2024:

Interest cost on project benefit obligation	\$ 70,569
Return on plan assets	(72,645)
Effect of special events	-
Amortization of prior service credit	(348)
Amortization of net loss	6,950
	<hr/>
Net periodic pension expense	4,526
	<hr/>
Projected benefit obligation	19,289,689
Plan assets at fair value	(17,407,361)
	<hr/>
Unfunded projected benefit obligation	\$ 1,882,328
	<hr/>
Unrecognized net gain recorded in net assets without donor restrictions	\$ 88,948
	<hr/>

Assumptions used in the actuarial computations at June 30, 2024, were:

Retirement	Age 65
Mortality	SOA Pri-2012
	Mortality Table Scale
	(Principal 2023)
Discount rate	5.35%
Rate of increase in compensation level	N/A
Expected long-term of return on assets	7.00%

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 15 – Employee Benefit and Pension Plans (continued)

The future expected benefit payments under the defined benefit plan at June 30, 2024, are as follows:

Years Ending June 30,	
2025	\$ 2,590,000
2026	2,180,000
2027	1,710,000
2028	1,620,000
2029	1,510,000
2030–2034	<u>6,820,000</u>
Total	<u>\$ 16,430,000</u>

Voluntary employer contributions made to the Plan for the period from June 3, 2024, to June 30, 2024, were \$97,885.

Expected employer contributions to the Plan for the year ending June 30, 2025, are \$512,363. There were no settlement payments for the period from June 3, 2024, to June 30, 2024.

The University's pension plan weighted average asset allocation by asset category for June 30, 2024, is as follows:

Mutual funds – equity securities	71%
Mutual funds – debt securities	<u>29%</u>
	<u>100%</u>

**Plan assets – investment strategy** – The University's overall strategic investment objectives for the Plan are to preserve capital for future benefit payments and to balance risk and return. In order to accomplish these objectives, the University oversees the Plan's investment objectives and policy design, decides proper plan asset class strategies and structures, monitors the performance of plan investment managers and investment funds, and determines the proper investment allocation of pension plan contributions and withdrawals.

**Plan assets – fair value measurements** – The Plan had all its assets invested in mutual funds, with a total balance of \$17,407,361 as of June 30, 2024. These instruments accounted for at fair value are considered to be Level 1. Level 1 fair value inputs are determined using quoted prices in active markets for identical assets or liabilities.

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 16 – Student Revenues

Student revenues for the years ended June 30 consisted of the following:

	2024	2023
Tuition and fees	\$ 130,240,019	\$ 132,743,876
Room and board	22,713,291	22,810,636
Student revenues, gross	152,953,310	155,554,512
Less: student financial assistance	(68,952,224)	(69,900,939)
Student revenues, net	<u>\$ 84,001,086</u>	<u>\$ 85,653,573</u>

### Note 17 – Contributions of Non-Financial Assets

The University receives various forms of contributions of non-financial assets including real estate and other non-financial assets such as books, art, musical instruments, and other items. Contributions of non-financial assets are reported as contributions at their estimated fair value on the date of receipt. Real estate is valued based on a third-party appraisal and other non-financial assets are valued by a third-party appraisal if over \$5,000 or using comparable rates for professional services.

Contributions of non-financial assets for the fiscal years ended June 30 consisted of the following:

	2024	2023
Acquisition – inherent contribution Woodbury University	\$ 84,786,273	\$ -
Acquisition – inherent contribution Presidio Graduate School	-	79,879
	<u>\$ 84,786,273</u>	<u>\$ 79,879</u>

### Note 18 – Commitments and Contingencies

**Private investment capital call** – As of June 30, 2024 and 2023, the University had commitments for private investments (private equity and inflation hedge funds) of approximately \$4,183,891 and \$4,338,936, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses.

**Contingencies** – In the normal course of business, the University is subject to legal claims. After consultation with the University's legal counsel, management of the University is of the opinion that liabilities, if any, arising from such claims would not have a material effect on the University's financial position.

## University of Redlands

### Notes to Consolidated Financial Statements

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#### **Note 18 – Commitments and Contingencies (continued)**

**Line and letter of credit** – The University has established a \$15,000,000 line of credit with a bank, with interest at 1.25% plus Daily Simple Secured Overnight Financing Rate (“SOFR”). The line of credit matures May 31, 2025. On June 28, 2024, the University drew \$6 million on its line of credit to finance transition costs associated with the Woodbury acquisition. This amount is secured by the accumulated unspent earnings of the University’s endowment. The agreement requires that the University maintain certain financial covenants. The University is unaware of any covenant violations during the years ended June 30, 2024 and 2023.

**Federal financial aid funding** – The University is required to maintain a Program Participation Agreement (“PPA”) to participate in the Title IV Higher Education Act of 1965 (“HEA”) Program which allows it to grant federal financial aid to its students. The University obtained its original PPA in 1965. The United States Department of Education (“ED”) is currently reviewing the University’s change in control applications associated with the acquisitions of Presidio Graduate School and Woodbury University and has temporarily renewed the University’s PPA on a monthly basis through November 30, 2024. Future participation in the program is contingent upon ED’s approval of the acquisitions.

Woodbury University made a deposit of approximately \$1.5 million into escrow account held by ED as it evaluates the change in control application. No interest is earned on the deposit. Return of the deposit will be evaluated by ED once it has concluded on the change of control arrangement. This amount is included in prepaid expenses and other assets on the consolidated statements of financial position.

**Other federal funding** – Certain federal grants including financial aid that the University administers and for which it receives reimbursements are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustments upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be documented at this time, although the University expects such amounts, if any, would not have a significant impact on the financial position of the University.

#### **Note 19 – Concentration Risk**

Financial instruments that potentially subject the University to concentration of credit risk consist principally of cash and cash equivalents, certain marketable securities and other investments, accounts, and loans receivable. The University places substantially all of its cash and liquid investments with financial institutions; however, cash and investment balances generally exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by an investment manager. Student loans and receivables are due from a variety of sources. As of June 30, 2024 and 2023, management considers the University to have no significant concentration of credit risk.

Investments, in general, are subject to various risks, including credit, interest, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

# University of Redlands

## Notes to Consolidated Financial Statements

### Note 20 – Liquidity and Availability

The following table reflects the University's financial assets as of June 30, 2024 and 2023, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statements of financial position date:

	2024	2023
Cash and cash equivalents	\$ 15,167,052	\$ 8,914,587
Student accounts receivable, net	3,634,049	2,650,968
Other receivables	3,439,018	1,595,554
Contributions receivable, net	5,652,972	7,000,916
Student loans receivable, net	3,489,029	3,226,160
Investments	324,262,336	291,259,670
Restricted investments	15,474,350	36,709,294
Trust receivables	2,465,499	1,047,363
	<u>373,584,305</u>	<u>352,404,512</u>
Total financial assets		
Less:		
Receivables scheduled to be collected in more than one year:		
Contributions receivable, net, without donor restrictions	(614,029)	(497,230)
Contractual or donor-imposed restrictions:		
Endowment funds and charitable gift annuities	(274,038,204)	(247,332,842)
Trust receivables	(2,465,499)	(1,047,363)
Cash restricted for investment in property, plant, and equipment	(2,745,773)	(3,164,184)
Contributions receivable, net, with donor restrictions	(4,394,269)	(6,010,919)
Student loans receivable, net	(3,297,297)	(3,226,160)
Restricted investments	(15,474,350)	(36,709,294)
Other donor restrictions	(22,740,591)	(12,008,066)
	<u>(325,155,983)</u>	<u>(309,498,828)</u>
Total contractual or donor-imposed restrictions		
Board designations:		
Quasi-endowment	(14,361,654)	(13,302,043)
Reserves designated by the Board:		
General liquidity reserves	(3,476,096)	(2,906,350)
Other reserves	-	(4,308,109)
	<u>(3,476,096)</u>	<u>(7,214,459)</u>
Total reserves designated by the Board		
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 29,976,543</u>	<u>\$ 21,891,952</u>

# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 20 – Liquidity and Availability (continued)

Endowment funds consist of donor-restricted endowments and funds designated by the Board as quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditure. Income from Board-designated quasi-endowment has been internally designated for scholarships and other student programs. The University does not intend to spend from the Board-designated quasi-endowment for the internally designated purposes and has deducted the funds from financial assets available in the table above. However, these amounts could be made available if necessary. As part of the University's liquidity plan, it structures its financial assets to be available as obligations become due. Cash is held in interest-bearing bank accounts and is invested in short-term fixed income accounts. Additionally, the University has a line of credit available as mentioned in Note 18.

### Note 21 – Risk Pool

The University is a member of the College Liability Insurance Company, Ltd. ("CLIC"), an association formed by ten similar independent western colleges and universities for the purpose of providing liability insurance to higher education institutions. As a portion of its capital, CLIC has placed a \$2,000,000 reserve on its investment portfolio, of which the University will be contingently liable for a pro rata portion based upon premium contributions from covered institutions. In the event the losses of CLIC exceed its capital and secondary coverage, the maximum contingent liability exposure to the University will be approximately \$935,810, which is the extent of the member ownership, for the fiscal year ended June 30, 2024.

The University is insured for liability through CLIC for claims up to \$1,000,000. Excess coverage is provided through a policy with United Educators.

### Note 22 – Functional Expenses

Expenses by function and nature consisted of the following for the year ended June 30, 2024:

	Instruction and Research	Public Support	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Total Operating Expenses
Salaries	\$ 25,849,332	\$ 404,440	\$ 5,905,929	\$ 10,438,162	\$ 10,385,756	\$ 678,556	\$ 53,662,175
Employee benefits and taxes	4,227,711	27,019	865,421	1,822,094	2,325,010	88,190	9,355,445
Supplies and services	7,109,016	922,024	3,645,472	7,094,399	12,411,864	8,098,424	39,281,199
Operation and maintenance	4,600,732	497,471	1,170,508	1,685,497	1,248,052	4,041,454	13,243,714
Depreciation and amortization	3,492,298	502,335	1,082,538	1,618,759	812,280	4,034,278	11,542,488
Interest and fees on debt	1,065,817	145,138	313,890	478,365	244,069	1,185,329	3,432,608
Total operating expenses	<u>\$ 46,344,906</u>	<u>\$ 2,498,427</u>	<u>\$ 12,983,758</u>	<u>\$ 23,137,276</u>	<u>\$ 27,427,031</u>	<u>\$ 18,126,231</u>	<u>\$130,517,629</u>



# University of Redlands

## Notes to Consolidated Financial Statements

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### Note 22 – Functional Expenses (continued)

Expenses by function and nature consisted of the following for the year ended June 30, 2023:

	Instruction and Research	Public Support	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Total Operating Expenses
Salaries	\$ 27,112,142	\$ 489,713	\$ 6,015,983	\$ 10,790,102	\$ 10,100,405	\$ 777,372	\$ 55,285,717
Employee benefits and taxes	5,670,826	66,253	1,223,263	2,485,855	2,881,232	127,229	12,454,658
Supplies and services	7,530,899	669,146	3,620,177	8,084,501	7,669,664	8,341,491	35,915,878
Operation and maintenance	4,779,418	552,610	1,260,514	1,841,249	1,069,783	4,391,398	13,894,972
Depreciation and amortization	3,053,499	457,552	983,846	1,453,569	721,498	3,636,009	10,305,973
Interest and fees on debt	925,223	137,907	296,533	438,109	217,461	1,095,900	3,111,133
Total operating expenses	<u>\$ 49,072,007</u>	<u>\$ 2,373,181</u>	<u>\$ 13,400,316</u>	<u>\$ 25,093,385</u>	<u>\$ 22,660,043</u>	<u>\$ 18,369,399</u>	<u>\$130,968,331</u>

### Note 23 – Related Parties

As of June 30, 2024 and 2023, the University has related-party contributions receivable of \$1,451,997 and \$1,234,768, respectively, primarily from Board trustees and employees. Contribution revenue from related parties was \$4,475,549 and \$5,088,312 for the years ended June 30, 2024 and 2023, respectively.



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