

University of Dubuque

Financial Report
May 31, 2023

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Independent Auditor's Report

RSM US LLP

Board of Trustees
University of Dubuque

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of May 31, 2023 and 2022, 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 the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free 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 financial statements.

In performing an audit in accordance with GAAS, we:

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

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

RSM US LLP

Davenport, Iowa
October 20, 2023

University of Dubuque

Statements of Financial Position
May 31, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,721,417	\$ 2,601,915
Accounts receivable, less allowance for doubtful accounts 2023—\$8,668,145; 2022—\$6,435,513	5,869,396	6,147,672
Student loans receivable:		
Perkins Loan Program, less allowance for doubtful accounts 2023—\$149,062; 2022—\$277,140	730,287	1,218,148
University loan funds, less allowance for doubtful accounts 2023—\$48,669; 2022—\$42,782	364,167	385,463
Contributions receivable, net	219,237	177,340
Prepaid expenses	1,694,223	1,700,788
Short-term investments	5,642,824	8,987,148
Other assets	853,213	757,397
Total current assets	21,094,764	21,975,871
Noncurrent assets:		
Cash, restricted for investment in land, buildings and equipment	139,866	8,779,156
Contributions receivable, net	2,318,726	2,316,555
Student loans receivable:		
Perkins Loan Program, less allowance for doubtful accounts 2023—\$363,996; 2022—\$561,274	1,270,228	1,628,615
University loan funds, less allowance for doubtful accounts 2023—\$14,531,731; 2022—\$12,958,247	3,377,006	3,599,798
Long-term investments	217,761,643	226,700,677
Land, buildings and equipment, net	133,410,968	128,245,856
Operating lease right-of-use assets, net	12,631,000	10,424,045
Total assets	\$ 392,004,201	\$ 403,670,573

See notes to financial statements.

	2023	2022
Liabilities and Net Assets		
Current liabilities:		
Notes payable	\$ 6,000,000	\$ 6,000,000
Current maturities of long-term debt, net of unamortized issuance costs	1,485,297	1,116,462
Current portion of annuity obligation	30,762	31,733
Current portion of operating lease liabilities	3,082,939	2,895,382
Accounts payable	3,843,144	5,885,960
Accrued payroll	3,022,015	4,173,027
Accrued liabilities	465,061	144,320
Students' deposits	2,586,748	3,106,866
Deferred revenue	2,780,343	3,561,177
Due to U.S. government—Perkins Loan Program	316,904	263,146
Total current liabilities	23,613,213	27,178,073
Noncurrent liabilities:		
Loss on interest rate swaps	3,472,459	5,219,870
Long-term debt, less current maturities, net of unamortized issuance costs	43,568,096	45,554,584
Annuity obligation, less current portion	210,047	250,191
Operating lease liabilities, less current portion	9,806,254	7,753,536
Deferred revenue, long-term	1,257,630	1,167,221
Total noncurrent liabilities	58,314,486	59,945,402
Total liabilities	81,927,699	87,123,475
Commitments and contingencies (Notes 1, 11 and 12)		
Net assets:		
Without donor restrictions	139,353,078	148,472,266
With donor restrictions	170,723,424	168,074,832
Total net assets	310,076,502	316,547,098
Total liabilities and net assets	\$ 392,004,201	\$ 403,670,573

University of Dubuque

Statements of Activities
Years Ended May 31, 2023 and 2022

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities:			
Revenue, gains and other support:			
Student revenues	\$ 40,755,177	\$ -	\$ 40,755,177
Auxiliary enterprises	1,737,996	-	1,737,996
Private gifts, grants and contracts	1,500,943	2,613,294	4,114,237
Government grants and contracts	526,920	-	526,920
Investment income, net	1,580,343	2,825,011	4,405,354
Other sources	2,850,804	648,702	3,499,506
Net assets released from restrictions	4,228,706	(4,228,706)	-
Total operating revenue, gains and other support	53,180,889	1,858,301	55,039,190
Operating expenses:			
Instruction	20,520,667	-	20,520,667
Academic support	6,860,548	-	6,860,548
Student services	11,637,141	-	11,637,141
Institutional support	20,189,779	-	20,189,779
Auxiliary enterprises	8,813,328	-	8,813,328
Total operating expenses	68,021,463	-	68,021,463
Change in net assets from operating activities	(14,840,574)	1,858,301	(12,982,273)
Nonoperating activities:			
Contributions	3,383,113	938,327	4,321,440
Investment (loss), net	-	(145,564)	(145,564)
Change in value of split-interest agreements	10,352	(2,472)	7,880
Gain on interest rate swap	1,747,411	-	1,747,411
Gain (loss) on disposal of assets	580,510	-	580,510
Change in net assets from nonoperating activities	5,721,386	790,291	6,511,677
Change in net assets	(9,119,188)	2,648,592	(6,470,596)
Net assets:			
Beginning of year	148,472,266	168,074,832	316,547,098
End of year	\$ 139,353,078	\$ 170,723,424	\$ 310,076,502

See notes to financial statements.

2022		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 39,990,658	\$ -	\$ 39,990,658
1,741,965	-	1,741,965
1,418,418	4,069,991	5,488,409
7,854,812	-	7,854,812
37,278	4,546,334	4,583,612
2,496,127	479,130	2,975,257
12,604,470	(12,604,470)	-
<u>66,143,728</u>	<u>(3,509,015)</u>	<u>62,634,713</u>
22,937,582	-	22,937,582
5,977,409	-	5,977,409
16,903,992	-	16,903,992
18,274,912	-	18,274,912
8,644,822	-	8,644,822
<u>72,738,717</u>	<u>-</u>	<u>72,738,717</u>
<u>(6,594,989)</u>	<u>(3,509,015)</u>	<u>(10,104,004)</u>
473,815	620,304	1,094,119
-	(766,323)	(766,323)
(30,759)	(2,372)	(33,131)
3,547,243	-	3,547,243
(16,384)	-	(16,384)
<u>3,973,915</u>	<u>(148,391)</u>	<u>3,825,524</u>
(2,621,074)	(3,657,406)	(6,278,480)
<u>151,093,340</u>	<u>171,732,238</u>	<u>322,825,578</u>
<u>\$ 148,472,266</u>	<u>\$ 168,074,832</u>	<u>\$ 316,547,098</u>

University of Dubuque

Statements of Cash Flows
Years Ended May 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (6,470,596)	\$ (6,278,480)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,614,035	4,994,481
Debt issuance costs, amortization and loss on debt issuance costs from refinanced debt	(213,731)	100,555
Actuarial adjustment on annuity obligations	(41,115)	24,386
Provision for bad debts	3,580,563	2,246,670
(Gains) on sale of investments	(13,371,896)	(9,970,208)
(Gains) on sale of property and equipment	(580,510)	(16,394)
Unrealized losses on investments	16,119,780	15,393,912
(Gain) on interest rate swap	(1,747,411)	(3,547,243)
Principal canceled on student loans receivable	417,000	14,811
Amortization of operating lease right-of-use assets	3,106,735	3,606,920
Cash paid for operating leases	(3,073,416)	(3,726,544)
Changes in assets and liabilities:		
(Increase) in receivables	(2,048,271)	(989,190)
Decrease in prepaid expenses	6,565	15,467
(Increase) in other assets	(95,816)	(55,964)
(Increase) in contributions receivable	(10,671)	(10,708)
Decrease in accounts payable and accrued expenses	(3,159,638)	(1,608,238)
(Increase) decrease in students' deposits and deferred revenue	(1,210,543)	383,864
Contributions restricted for long-term investment	(2,235,234)	(2,178,215)
Interest and dividends restricted for long-term investment	(1,314,467)	(2,870,885)
Net cash used in operating activities	(6,728,637)	(4,471,003)
Cash flows from investing activities:		
Disbursements of loans to students	(2,182,100)	(2,322,293)
Principal payments received on loans to students	1,601,421	1,315,550
Purchase of investments	(179,268,115)	(117,067,824)
Proceeds from sale of investments	188,803,589	116,144,212
Proceeds from sale of property and equipment	705,000	16,394
Purchase of land, buildings and equipment	(10,617,086)	(5,317,013)
Net cash used in investing activities	(957,291)	(7,230,974)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	1,258,492	1,710,664
Investment in land, buildings and equipment	938,327	370,184
Loan funds/annuity funds	5,018	5,000
Subtotal	2,201,837	2,085,848

(Continued)

University of Dubuque

Statements of Cash Flows (Continued)
Years Ended May 31, 2023 and 2022

	2023	2022
Cash flows from financing activities (continued):		
Other financing activities:		
Interest and dividends restricted for reinvestment	\$ 1,314,467	\$ 2,870,885
Proceeds on notes payable	6,000,000	6,000,000
Payments of notes payable	(6,000,000)	(6,000,000)
Borrowings on long-term debt	-	16,000,000
Principal payments on long-term debt	(1,285,059)	(7,312,458)
Change in due to U.S. government—Perkins Loan Program	53,758	(159,493)
Bond premium	(129,507)	2,633,298
Debt issuance costs	10,644	(107,801)
Subtotal	(35,697)	13,924,431
Net cash provided by financing activities	2,166,140	16,010,279
Net (decrease) increase in cash and cash equivalents	(5,519,788)	4,308,302
Cash and cash equivalents:		
Beginning, including cash restricted for investment in land, buildings and equipment 2022—\$8,779,156; 2021—\$0	<u>11,381,071</u>	<u>7,072,769</u>
Ending, including cash restricted for investment in land, buildings and equipment 2023—\$139,866; 2022—\$8,779,156	<u>\$ 5,861,283</u>	<u>\$ 11,381,071</u>
Supplemental disclosure of cash flow information:		
Cash payments for interest	<u>\$ 1,277,135</u>	<u>\$ 1,739,538</u>
Supplemental schedule of noncash investing and financing activities:		
Construction in progress in accounts payable	<u>\$ 286,551</u>	<u>\$ 1,799,898</u>
Record operating right-of-use asset and operating lease liabilities	<u>\$ 4,527,645</u>	<u>\$ 2,793,400</u>

See notes to financial statements.

University of Dubuque

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The University of Dubuque (the University) is a private coeducational university that provides programs of study in selected professional and liberal arts areas and is affiliated with the Presbyterian Church (USA). The University offers bachelor's degrees in 49 majors, master's degrees in business, physician assistant studies, and divinity and a doctor of ministry degree.

Significant accounting policies:

Accounting estimates: The preparation of 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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation: Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

With donor restrictions: Net assets subject to donor-imposed stipulations that require they be maintained permanently or that may or will be met by actions of the University and/or the passage of time. Generally, the donors of these assets permit use of all or part of the income earned on related investments for general or specific purposes.

Without donor restrictions: Net assets not subject to donor-imposed stipulations.

Revenue is reported as an increase in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Unrealized gains and losses on donor-restricted endowment investments and other assets are reported as increases or decreases in net assets with donor restrictions until appropriated by the Board of Trustees. 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 by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported in the statements of activities as net assets released from restrictions.

Measure of operations: Operating activities include all activities of the University that are an integral part of its programs and supporting activities. Those items classified as nonoperating activities include contributions for acquisition of long-lived assets or with donor restrictions related to long-lived assets; investment income, net on the endowments; change in value of split interest agreements over which the University does not exercise control; unrealized gain or loss on interest rate swaps; and any gain or loss on disposal of long-lived assets.

Revenue recognition: Student revenues primarily relate to undergraduate, graduate and theological seminary degrees offered at the University and are recognized ratably over each period in which the class is delivered. Institutional scholarships and grants are offered by the University to attract and retain students. The University offers institutional grants to students in the form of merit-based scholarships and need-based grants at the University's discretion. Institutional grants of \$25,900,773 and \$24,761,858 for the years ended May 31, 2023 and 2022, respectively, were recognized as a reduction of student revenues in the statements of activities.

University of Dubuque

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Tuition revenue is recognized over time in the period classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Contributions, including unconditional promises to give, are recognized as revenue at fair value in the period received. Tuition is considered to be past due, if any portion of the balance is outstanding without any payment arrangements made for the balance, 10 days after the first day of classes.

The University utilizes the portfolio approach to apply Accounting Standards Codification (ASC) Topic 606 to tuition and student fee revenue and auxiliary enterprises revenue. The University has elected the practical expedient with respect to performance obligations under its contracts with students as all such contracts have original terms of less than one year.

Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues without donor restrictions.

The University reports gifts of cash and other assets as revenues with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The University recognizes gifts of land, buildings and equipment as revenue without donor restrictions unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire or construct long-lived assets are reported as revenue with donor restrictions. The restrictions are considered to be released at the time the long-lived asset is placed in service. Contributions of assets other than cash are recorded at their estimated fair value as of the date received.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

Grants revenue is recognized when allowable expenses are incurred. Grants received prior to satisfying the conditions are recorded as deferred revenue, and grants spent but not yet received are recorded as grants receivable.

Gains and losses on investments and other assets or liabilities are reported as increases or decreases in without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Gains and losses on investments related to donor-restricted endowment funds are reported as increases or decreases in with donor restrictions until appropriated by the Board of Trustees. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled, the stipulated time period has elapsed and/or the Board has appropriated) are reported in the statements of activities as net assets released from restrictions.

Cash and cash equivalents: Cash and cash equivalents include cash on deposit with financial institutions and other highly liquid investments with maturities of three months or less from when purchased, except for cash that is restricted for investment in land, buildings and equipment.

University of Dubuque

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Accounts receivable and student loans receivable: Accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Both receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts using specific accounts identified in the review, economic factors and historical experience. Student accounts and loans receivable are written off when deemed uncollectible and Perkins student loans receivable may be assigned to the U.S. Department of Education. Recoveries of student accounts and loans receivable previously written off are recorded when received. The accounts receivable balance as of May 31, 2023, 2022, and 2021 was \$5,869,396, \$6,147,672 and \$5,158,482, respectively.

Interest is charged on accounts receivable that are past due and is recognized as it is charged. An account receivable is considered to be past due if any portion of the receivable balance is outstanding at the beginning of the term following the term to which the charges relate. Once a receivable is sent to a collection agency, accrual of interest is suspended.

Interest is charged on student loans receivable after a student is no longer enrolled in an institution of higher education and after a grace period. For institutional loans, interest is charged on student loans receivable from the inception of the loan. Payments are not required until six months after the student is no longer enrolled at the University. Interest is recognized as it is charged. Late charges are applied if payments are not paid by the payment date and are recognized as they are received. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education or, in the case of loans from the University, based on the respective loan program. For the Perkins Loan Program, the interest and late fees are added to the revolving loan fund, a portion of which is reported as a liability on the statements of financial position as Due to U.S. government—Perkins Loan Program.

Short-term investments: These interest-bearing deposits and temporary cash investment accounts with financial institutions and money managers are stated at cost, which approximates fair value. These cash investments are reported as investments on the statements of financial position and for cash flow presentation.

Bond issuance costs: Bond issuance costs are amortized using the effective interest method over the term of the related debt. The bond issuance costs are reported on the statements of financial position as an offset to current and long-term debt.

Investments: Marketable debt and equity securities are reported at their fair value based on quoted market prices. Interest-bearing deposits with financial institutions are stated at cost which approximates fair value. Real estate is carried at the lower of cost or market with cost being determined by appraisals or present value of expected cash flows at the date of acquisition. Alternative investment fair values are based on information provided by the bank or fund manager, which includes quoted fair values when available and estimates of fair value of investments that are not readily ascertainable. All other investments are stated at fair value based on discounted cash flows.

The University accounts for its investment in a limited liability company under the equity method of accounting, whereby the investment is stated at cost, adjusted for the University's share of the net income or loss of the investee, which is recognized as income or loss in the statements of activities. Distributions are treated as a reduction of the investment account. The fiscal year-end of the investee is December 31 and the University consistently follows the practice of recognizing its equity in the net income on that basis.

University of Dubuque

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Derivative and hedging activities: The University's derivatives, which consist of interest rate swaps, are recognized in the statements of financial position at fair value. The change in fair value is reported in the statements of activities. (See Note 10.)

Split-interest agreements: Included in the financial statements are a variety of irrevocable split-interest agreements including charitable gift annuities, charitable remainder trusts and perpetual trusts held by others. For all agreements received, a contribution is recognized in the year the University becomes aware of the existence of the agreement for the difference between the asset and payable established, if applicable.

The assets received under charitable gift annuities and charitable remainder trusts are recognized at the present value of expected future cash flows over the life expectancy of the parties involved or calculated based upon the current market value of the trust's assets and other factors stipulated in the agreements. The payable is based upon the present value of the expected payments to the named recipients under the agreements using mortality tables for life expectancies and the discount rate equal to the fixed payment amount percentage of the original gift. The change in estimated present value and the annual adjustment to the payables are reflected as a change in the value of split-interest agreements in the statements of activities. Investments related to charitable remainder trusts that are not administered by the University are stated at fair value and included with investments in trusts held by others.

The underlying assets related to perpetual trust agreements are neither in the possession of nor under control of the University, but are held and administered by outside fiscal agents, with the University deriving income from such funds in perpetuity. The assets are recognized at the fair value at the time the University becomes aware of the existence of the agreement and are included with investments in trusts held by others. The fair value is adjusted annually based upon the underlying assets held in the trust. The change in fair value is reflected in investment income, net in the statements of activities.

Land, buildings and equipment: Land, buildings and equipment are stated at cost or, if received as a donation, at fair value as of the date received. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the costs of those assets. Property and equipment is being depreciated by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	10-50
Campus improvements	15
Equipment	3-10

Conditional 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. 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 statements of activities. The University recognized a liability, which is included in accrued liabilities on the statements of financial position as of May 31, 2023 and 2022, of approximately \$85,000.

University of Dubuque

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Due to U.S. government: Amounts due to the U.S. government include advances under the Perkins Loan Program and the program's cumulative net income.

Fundraising costs: The University incurred fundraising costs of approximately \$1,513,000 and \$1,371,000 during the years ended May 31, 2023 and 2022, respectively.

Advertising: The University incurred advertising costs of approximately \$755,000 and \$789,000 during the years ended May 31, 2023 and 2022, respectively.

Self-insurance: The University is self-insured with respect to their employee health insurance coverage. The University maintains reinsurance that carries an aggregate stop/loss of \$125,000 and \$105,000 per covered participant during the years ended May 31, 2023 and 2022, respectively. The amount of health insurance expense, net of stop/loss recoveries or receivables, was \$2,569,989 and \$1,955,957 for the years ended May 31, 2023 and 2022, respectively. The University recognized a liability for the estimated claims incurred, but not reported or paid, prior to May 31, 2023 and 2022, of \$198,000 and \$119,000, respectively. This liability is included in accrued liabilities on the statements of financial position.

Income taxes: The University is recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The University may be subject to federal and state income taxes on any net income from unrelated business activities. The University files a Form 990 (Return of Organization Exempt from Income Tax) annually and unrelated business income (UBI) is reported on Form 990-T, as appropriate. Management has evaluated their material tax positions, which include such matters as the tax exempt status of each entity and various positions relative to potential sources of UBI. As of May 31, 2023 and 2022, there were no uncertain tax benefits identified and recorded as a liability.

Students' deposits: The University maintains deposits for various student activities; however, the University's function is limited to bookkeeping only.

Deferred revenue: Payments received for sponsored summer activities before year-end are reflected as deferred revenue in the financial statements.

Pending accounting pronouncements: In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct writedown. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. The University is currently evaluating the impact of adopting this new guidance on its financial statements.

University of Dubuque

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Subsequent events: The University has considered subsequent events through October 20, 2023, the date of issuance, in preparing the financial statements and notes thereto.

Note 2. 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. Institutional loans bear interest at 8.9% interest and repayment is not required during the in-school period and up to six months after graduation or upon leaving the University. Repayment terms vary from 10 to 30 years.

The aging of the student loan portfolio by classes of loans as of May 31, 2023 and 2022, is presented as follows:

Classes of Loans	2023							Total
	Not in	Current	60-89	90-119	120-179	180-729	730+	
	Repayment		Days	Days	Days	Days	Days	
			Past Due	Past Due	Past Due	Past Due	Past Due	
Federal Perkins Loans	\$ 862,468	\$ 589,781	\$ 55,170	\$ 70,681	\$ 4,951	\$ 416,837	\$ 513,685	\$ 2,513,573
Institutional Loans	5,352,936	9,883	9,519	9,806	18,533	71,849	12,849,047	18,321,573
	<u>\$ 6,215,404</u>	<u>\$ 599,664</u>	<u>\$ 64,689</u>	<u>\$ 80,487</u>	<u>\$ 23,484</u>	<u>\$ 488,686</u>	<u>\$ 13,362,732</u>	<u>\$ 20,835,146</u>
As a percentage of total loan portfolio	29.83%	2.88%	0.31%	0.39%	0.11%	2.35%	64.14%	100.00%

Classes of Loans	2022							Total
	Not in	Current	60-89	90-119	120-179	180-729	730+	
	Repayment		Days	Days	Days	Days	Days	
			Past Due	Past Due	Past Due	Past Due	Past Due	
Federal Perkins Loans	\$ 1,478,486	\$ 462,021	\$ 85,428	\$ 75,803	\$ 228,106	\$ 551,085	\$ 804,248	\$ 3,685,177
Institutional Loans	5,692,847	9,426	9,074	9,391	17,734	62,436	11,185,382	16,986,290
	<u>\$ 7,171,333</u>	<u>\$ 471,447</u>	<u>\$ 94,502</u>	<u>\$ 85,194</u>	<u>\$ 245,840</u>	<u>\$ 613,521</u>	<u>\$ 11,989,630</u>	<u>\$ 20,671,467</u>
As a percentage of total loan portfolio	34.69%	2.28%	0.46%	0.41%	1.19%	2.97%	58.00%	100.00%

Changes in allowance for estimated losses on student loans in aggregate for the years ended May 31, 2023 and 2022, is presented as follows:

	2023	2022
Balance, beginning	\$ 13,839,443	\$ 11,592,773
Provisions charged to expense	1,259,956	2,253,025
Loans charged (off)	(5,941)	(6,355)
Balance, ending	<u>\$ 15,093,458</u>	<u>\$ 13,839,443</u>

The University's process for determining the allowance for estimated loan losses is to evaluate the loans by class collectively for impairment.

University of Dubuque

Notes to Financial Statements

Note 2. Student Loans Receivable (Continued)

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of May 31, 2023 and 2022:

	2023		
	Federal Perkins Loans	Institutional Loans	Total
Performing	\$ 1,427,762	\$ 5,352,936	\$ 6,780,698
Nonperforming *	1,085,811	12,968,637	14,054,448
	<u>\$ 2,513,573</u>	<u>\$ 18,321,573</u>	<u>\$ 20,835,146</u>

	2022		
	Federal Perkins Loans	Institutional Loans	Total
Performing	\$ 1,899,600	\$ 5,692,849	\$ 7,592,449
Nonperforming *	1,785,577	11,293,441	13,079,018
	<u>\$ 3,685,177</u>	<u>\$ 16,986,290</u>	<u>\$ 20,671,467</u>

* Nonperforming loans are those that have been assigned to a collection agency or which the University's collection department is attempting to collect.

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. The University is not aware of any material amount of loans not properly originated or serviced under the Department of Education regulations.

Note 3. Contributions Receivable

The maturity of contributions receivable as of May 31, 2023 and 2022, is as follows:

	2023	2022
Contributions:		
Due in one year or less	\$ 219,237	\$ 177,340
Due in one to five years	47,400	45,950
Due in more than five years	4,800,000	4,800,000
	<u>5,066,637</u>	<u>5,023,290</u>
Present value discount (rates ranging from 0.05%-47.4%)	(2,528,674)	(2,529,395)
Contributions receivable	<u>\$ 2,537,963</u>	<u>\$ 2,493,895</u>

The University believes all of the contributions receivable are collectible; therefore, there is no allowance for uncollectible contributions as of May 31, 2023 and 2022. Of the contributions receivable outstanding, none are due from Trustees of the University and related parties as of May 31, 2023 and 2022. Also, of the contributions receivable outstanding, approximately \$4,800,000 is outstanding from one donor as of May 31, 2023 and 2022.

University of Dubuque

Notes to Financial Statements

Note 4. Investments

Short-term investments consist of temporary cash investments and have a carrying value of \$5,642,824 and \$8,987,148 as of May 31, 2023 and 2022, respectively.

The carrying value of long-term investments as of May 31, 2023 and 2022, is as follows:

	2023	2022
Corporate bonds	\$ 19,288,472	\$ 20,525,627
Common stock	170,545,275	140,568,219
Mutual funds	23,496,370	61,509,348
Investments in trusts held by others	1,093,433	1,209,206
Cash surrender value, life insurance policies	52,926	52,722
Real estate	667,188	662,634
Cash and cash equivalents	2,617,979	2,172,921
Total long-term investments	<u>\$ 217,761,643</u>	<u>\$ 226,700,677</u>

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

Endowment assets, including quasi-endowment and endowment without donor restrictions as of May 31, 2023 and 2022, are as follows:

	2023	2022
Short-term investments	\$ 5,528,620	\$ 8,868,328
Long-term investments	217,190,693	220,504,374
Accrued interest and dividends	420,706	249,914
Due from unrestricted fund	5,076,028	1,894,266
Endowment fund total*	<u>\$ 228,216,047</u>	<u>\$ 231,516,882</u>

* This total represents the fair value of the Endowment Fund as defined by the University. This total does not include endowed pledge receivables of \$134,978 and \$13,441 as of May 31, 2023 and 2022, respectively.

Note 5. 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 (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2:** Significant other 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.
- Level 3:** Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

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 corporate bonds, highly liquid government bonds, exchange traded equities and mutual funds in active markets. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics, or quoted prices on securities in active markets measured on a monthly basis. In certain cases where there is limited activity or less transparency around inputs to the valuation including alternative investments, securities are classified within Level 3 of the valuation hierarchy. Split-interest agreements are recognized at the present value of future cash flows or the value of the trust assets which is determined similar to investments described above. Cash surrender value of life insurance is obtained from the insurance company providing the policy with no adjustments by management.

Interest rate swaps: The fair value is estimated by the issuing bank using inputs that are observable or that can be corroborated by observable market data, and therefore, are classified within Level 2 of the valuation hierarchy.

There have been no changes in valuation techniques used for any assets or liabilities measured at fair value during the years ended May 31, 2023 and 2022.

University of Dubuque

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

Assets and liabilities recorded at fair value on a recurring basis: The following tables summarize assets and liabilities measured at fair value on a recurring basis as of May 31, 2023 and 2022, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements as of May 31, 2023			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets, investments:				
Common stock:				
Consumer goods/services	\$ 30,073,105	\$ 30,073,105	\$ -	\$ -
Energy	7,654,946	7,654,946	-	-
Financials	23,323,157	23,323,157	-	-
Health care	24,123,541	24,123,541	-	-
Industrials	25,338,740	25,338,740	-	-
Technology	50,686,836	50,686,836	-	-
Other	9,344,950	9,344,950	-	-
Fixed income, corporate bonds	19,288,472	19,288,472	-	-
Mutual funds:				
Growth	1,827,006	1,827,006	-	-
International	8,430,045	8,430,045	-	-
Large cap	13,090,916	13,090,916	-	-
Mid cap	56,950	56,950	-	-
Small cap	25,181	25,181	-	-
Alternative strategies	66,272	66,272	-	-
Cash surrender value	52,926	-	-	52,926
Trust receivables	42,379	-	-	42,379
Trusts held by others	1,051,054	-	-	1,051,054
Total	<u>\$ 214,476,476</u>	<u>\$ 213,330,117</u>	<u>\$ -</u>	<u>\$ 1,146,359</u>
Liabilities, interest rate swaps	\$ 3,472,459	\$ -	\$ 3,472,459	\$ -

University of Dubuque

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

	Fair Value Measurements as of May 31, 2022			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets, investments:				
Common stock:				
Consumer goods/services	\$ 24,924,308	\$ 24,924,308	\$ -	\$ -
Energy	4,032,790	4,032,790	-	-
Financials	20,751,452	20,751,452	-	-
Health care	22,521,998	22,521,998	-	-
Industrials	21,913,895	21,913,895	-	-
Technology	39,764,199	39,764,199	-	-
Other	6,659,577	6,659,577	-	-
Fixed income, corporate bonds	20,525,627	20,525,627	-	-
Mutual funds:				
Growth	1,767,620	1,767,620	-	-
International	31,838,591	31,838,591	-	-
Large cap	13,794,444	13,794,444	-	-
Mid cap	14,036,953	14,036,953	-	-
Alternative strategies	71,740	71,740	-	-
Cash surrender value	52,722	-	-	52,722
Trust receivables	47,224	-	-	47,224
Trusts held by others	1,161,982	-	-	1,161,982
Total	<u>\$ 223,865,122</u>	<u>\$ 222,603,194</u>	<u>\$ -</u>	<u>\$ 1,261,928</u>
Liabilities, interest rate swaps	<u>\$ 5,219,870</u>	<u>\$ -</u>	<u>\$ 5,219,870</u>	<u>\$ -</u>

Included in investments on the statements of financial position are real estate, miscellaneous investments and short-term investments that are cash and cash equivalents which have a cost basis of \$8,927,991 and \$11,822,703 for the years ended May 31, 2023 and 2022, respectively, and are excluded from the above tables as they are not subject to the Fair Value Measurements and Disclosures Topic of the FASB ASC.

There were no transfers into or out of Level 3 investments during the years ended May 31, 2023 or 2022.

University of Dubuque

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

The following tables present 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:

	2023		
	Cash Surrender in Life Insurance Policy	Trust Receivables	Trust Held by Others
Balance, beginning	\$ 52,722	\$ 47,224	\$ 1,161,982
Total losses (realized/unrealized) included in change in net assets	204	-	(55,713)
Purchases	-	-	2,142
Sales	-	-	(57,357)
Change in value of split-interest agreements	-	(4,845)	-
Balance, ending	<u>\$ 52,926</u>	<u>\$ 42,379</u>	<u>\$ 1,051,054</u>

	2022		
	Cash Surrender in Life Insurance Policy	Trust Receivables	Trust Held by Others
Balance, beginning	\$ 52,514	\$ 47,224	\$ 1,200,023
Total losses (realized/unrealized) included in change in net assets	-	-	(84,901)
Purchases	208	-	76,981
Sales	-	-	(30,121)
Change in value of split-interest agreements	-	-	-
Balance, ending	<u>\$ 52,722</u>	<u>\$ 47,224</u>	<u>\$ 1,161,982</u>

University of Dubuque

Notes to Financial Statements

Note 6. Land, Buildings and Equipment

Land, buildings and equipment as of May 31, 2023 and 2022, are comprised of the following:

	2023	2022
Land	\$ 3,587,673	\$ 3,374,603
Buildings and improvements	184,766,772	176,545,295
Equipment	27,253,272	25,556,353
Campus improvements	9,162,763	6,499,792
Construction in progress	718,143	3,961,106
	<u>225,488,623</u>	<u>215,937,149</u>
Less accumulated depreciation	92,077,655	87,691,293
Land, buildings and equipment, net	<u>\$ 133,410,968</u>	<u>\$ 128,245,856</u>

Land, buildings and equipment includes the net book value of assets that were acquired after June 1, 2019 of \$32,615,386.

Note 7. Notes Payable

Notes payable as of May 31, 2023 and 2022, are as follows:

	2023	2022
Series 2022A Revenue Anticipation Note, Iowa Higher Education Loan Authority, due May 2024 at which time all outstanding principal and interest at a rate of 5.50% is due.	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>

Note 8. Long-Term Debt and Related Pledged Assets

The University had a revolving line of credit during the year with maximum borrowings of \$5,000,000, paid in May 2023, including interest at 5.50%. This revolving line of credit expired during the fiscal year ended May 31, 2023, and was not renewed.

University of Dubuque

Notes to Financial Statements

Note 8. Long-Term Debt and Related Pledged Assets (Continued)

Bonds payable and other long-term debt as of May 31, 2023 and 2022, are as follows:

	2023	2022
Series 2016, Private College Facility Revenue and Refunding Bonds (University of Dubuque Project), Iowa Higher Education Loan Authority. The bonds are privately placed with a financial institution as floating rate bonds based on a spread of 1.25% over 68% of one-month LIBOR, currently 4.77%. The bonds are governed by a continuing covenants agreement that requires the University maintain certain financial ratios, including a minimum debt service coverage ratio and liquidity coverage ratio. The agreement also places restrictions on additional indebtedness. The bonds are further hedged as described in Note 10. (A)	\$ 27,235,000	\$ 27,690,000
Series 2021, Private College Facility Revenue Refunding Bonds, Iowa Higher Education Loan Authority. The interest rate is at 4%. Principal payments are due annually in October through 2041, and interest is due semiannually in October and April. (B)	15,395,000	16,000,000
Line of credit, bank, with maximum borrowings of \$1,500,000, monthly interest only payments at 3.85% with principal due June 2024. The notes are collateralized by land and buildings with a book value of \$602,067 as of May 31, 2023.	480,249	638,659
Notes payable, bank, due in monthly installments ranging from \$648 to \$1,142 including interest at 3.25% maturing at various dates through May 2024. The notes are collateralized by land and buildings with a book value of \$502,243 as of May 31, 2023.	189,894	256,543
	<u>43,300,143</u>	<u>44,585,202</u>
Less unamortized bond issuance costs	(750,541)	(547,454)
Unamortized bond premium	2,503,791	2,633,298
Less current maturities, net of current portion of unamortized bond issuance costs 2023—\$126,406; 2022—\$100,554	(1,485,297)	(1,116,462)
Long-term debt	<u><u>\$ 43,568,096</u></u>	<u><u>\$ 45,554,584</u></u>

(A) The owner of these bonds agrees to hold the bonds through the initial bank purchase date of July 1, 2026. The bonds are then subject to (a) repurchase by the current owner of the bonds, (b) purchase by a new owner of the bonds or (c) refunding. The final maturity of the bonds is April 1, 2035.

(B) During the year ended May 31, 2022, the University closed on the Series 2021 bonds which were used to refinance the Series 2011 bonds and fund construction.

University of Dubuque

Notes to Financial Statements

Note 8. Long-Term Debt and Related Pledged Assets (Continued)

The maturities of long-term debt are as follows:

Years ending May 31:	
2024	\$ 1,485,297
2025	1,491,468
2026	1,205,000
2027	1,250,000
2028	1,305,000
Thereafter	36,563,378
	<u>\$ 43,300,143</u>

Total interest expense for the fiscal years ended May 31, 2023 and 2022, was \$1,218,427 and \$1,657,138, respectively.

Note 9. Liquidity and Availability

The University receives substantial donor-restricted gifts to establish endowments that will exist in perpetuity and contributions with donor time and purpose restrictions. The income generated from donor-restricted endowments may be donor-restricted or unrestricted as to use. In addition, the University receives support without donor restrictions.

Investment income without donor restrictions, earnings appropriated from endowments with donor restrictions and board-designated endowments (quasi-endowments), contributions without donor restrictions and contributions with donor restrictions for use in current activities and programs are considered to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses to be paid in the subsequent year.

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining a sufficient level of asset liquidity, and
- Monitoring and maintaining reserves to provide reasonable assurance that obligations related to endowments with donor restrictions and quasi-endowments will continue to be met.

University of Dubuque

Notes to Financial Statements

Note 9. Liquidity and Availability (Continued)

The table below represents financial assets available for general expenditures within one year of May 31, 2023 and 2022:

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	\$ 5,721,417	\$ 2,601,915
Contributions receivable	2,537,963	2,493,895
Student and accounts receivable	11,611,084	12,979,696
Investments	223,404,467	235,687,825
Total financial assets	<u>243,274,931</u>	<u>253,763,331</u>
Less amounts not available to be used for general expenditures within one year:		
Investments held in custodial and noncustodial trusts	1,093,433	1,209,206
Contributions receivable for restricted gifts, net	53,956	141,378
Contributions receivable due after one year, net	2,264,770	2,013,484
Contractual or donor restrictions, net of payout for general expenditure in next 12 months 2023—\$4,742,652; 2022—\$4,020,875	143,526,213	145,196,541
Board designated quasi-endowment net of payout for general expenditure in the next 12 months 2023—\$1,132,000; 2022—\$1,135,000	<u>78,950,160</u>	<u>81,177,907</u>
Financial assets not available to be used within one year	<u>225,888,532</u>	<u>229,738,516</u>
Financial assets available to meet general expenditures within one year	<u>\$ 17,386,399</u>	<u>\$ 24,024,815</u>

Note 10. Interest Rate Swaps

The University has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate long-term debt without exchanging the underlying principal amounts.

As of May 31, 2023 and 2022, the University had interest rate swap agreements on its Variable Rate Demand Private College Facility Revenue and Refunding Bonds, Iowa Higher Education Loan Authority, having a total notional principal amount of \$27,045,000 and \$27,495,000, respectively. These interest rate swap agreements were updated during fiscal year ended May 31, 2017, as a result of the issuance of the Private College Facility Revenue and Refunding Bonds, Series 2016.

As of May 31, 2023 and 2022, these agreements effectively changed the University's interest rate exposure on its floating rate bonds to a fixed rate for a specified period of time as described below:

Notional Amount	Termination Date	To Fixed Rate	From Floating Rate	Fair Value of Swap	
				2023	2022
\$ 23,870,000	April 1, 2035	3.79%	68% 1 month LIBOR	\$ (3,338,611)	\$ (4,933,520)
3,175,000	May 1, 2029	3.93%	70% 1 month LIBOR	(133,848)	(286,350)
<u>\$ 27,045,000</u>				<u>\$ (3,472,459)</u>	<u>\$ (5,219,870)</u>

University of Dubuque

Notes to Financial Statements

Note 10. Interest Rate Swaps (Continued)

As discussed above, the University has entered into interest rate swap agreements to hedge the University's exposure to interest rate risk related to their variable rate bonds. The University's specific goal is to lower (where possible) the cost of its borrowed funds over the borrowing term. Although the University believes its interest rate swap agreements are economic hedges, none have been designated as a hedge for accounting purposes. They are recorded on the statement of financial position as loss on interest rate swaps at their fair market value, with changes in fair value recognized in the current period change in net assets without donor restrictions.

The following amounts have been included in the statements of activities for the years ended May 31, 2023 and 2022:

	2023	2022
Swap settlements, included in operating expense	\$ (360,146)	\$ (1,019,821)
Gain on interest rate swaps	1,747,411	3,547,243
Net gain	<u>\$ 1,387,265</u>	<u>\$ 2,527,422</u>

Note 11. Retirement Program

The University sponsors a defined contribution 403(b) plan with several investment companies which cover substantially all employees, except for student employees and those employees normally scheduled to work less than 20 hours per week. After 1 year of service, the University will match employee's contributions at 100% up to 4% of pay and at 140% at 5% of pay. The University makes annual contributions to the plan which are immediately vested for the benefit of the participants. The University's matching contribution was approximately \$1,485,000 and \$1,693,000 for the years ended May 31, 2023 and 2022, respectively.

Note 12. Lease Commitments and Total Rental Expense

The University determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to and the agreement creates enforceable rights and obligations. The University leases certain equipment, buildings and land. Under ASC 842, a contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The University also considers whether its service arrangements include the right to control the use of an asset. In connection with the package of practical expedients, the University has not reassessed whether any existing contracts at June 1, 2020, are or contain leases, and has carried forward its initial determination under legacy lease guidance upon the adoption of ASC 842.

For operating leases, the University has recognized a lease liability equal to the present value of the remaining lease payments, and a right-of-use (ROU) asset equal to the lease liability, subject to certain adjustments. The University elected the practical expedient to utilize the risk free borrowing rate to determine the present value of the lease payments.

University of Dubuque

Notes to Financial Statements

Note 12. Lease Commitments and Total Rental Expense (Continued)

Certain leases include renewal, termination or purchase options. Under ASC Topic 842, the lease term at the lease commencement date is determined based on the noncancellable period for which the University has the ROU of the underlying asset, together with any periods covered by an option to extend the lease if the University is reasonably certain to exercise that option, and periods covered by an option to extend (or not to terminate) the lease in which the exercise of the option is controlled by the lessor. The University considered a number of factors when evaluating whether the options in its lease contracts were reasonably certain of exercise, such as length of time before option exercise, expected value of the leased asset at the end of the initial term, importance of the lease to overall operations, lessor relationship, costs to negotiate a new lease and any contractual or economic penalties.

Operating leases result in a straight-line lease expense, while finance leases result in a front-loaded expense pattern. The University does not have any significant finance leases. The University's lease agreements do not contain any residual value guarantees or restrictive covenants.

The University elected not to apply the recognition requirements of ASC 842 to short-term leases. The University did not elect the hindsight practical expedient, and so did not re-evaluate lease terms for existing leases.

ASC 842 includes a number of reassessment and remeasurement requirements for leases based on certain triggering events or conditions. The University reviewed the reassessment and remeasurement requirements and did not identify any events or conditions during the years ended May 31, 2023 and 2022 that required reassessment or remeasurement. In addition, there were no impairment indicators identified during the years ended May 31, 2023 and 2022 that required an impairment test for the University's ROU assets.

Certain leases include variable lease costs, which typically represent additional services transferred to the University, and are expensed in the period incurred.

The components of lease expense related to leases for the years ended May 31, 2023 and 2022, are as follows:

	2023	2022
Operating lease cost, included in supplies and other	\$ 2,881,721	\$ 3,726,544
Short-term lease cost, included in supplies and other	431,435	399,624
Total lease cost	<u>\$ 3,313,156</u>	<u>\$ 4,126,168</u>

As of May 31, 2023, the weighted average remaining lease term for all operating leases is 7.9 years and weighted average discount rate is 1.72%. Total payments during the year ended May 31, 2023 for operating leases were approximately \$2,881,721 which are included in operating cash flows.

The University leases certain real estate and equipment under various noncancellable operating lease agreements which expire at various times through 2031. The leases require the payment of insurance, maintenance and certain other expenses related to the leased property. When a contract includes both lease and non-lease components, the University has elected to treat each separate lease component as a unit of account apart from the nonlease components.

University of Dubuque

Notes to Financial Statements

Note 12. Lease Commitments and Total Rental Expense (Continued)

The total minimum rental commitment as of May 31, 2023, is due as follows:

Years ending May 31:	
2024	\$ 3,152,000
2025	2,006,295
2026	1,653,667
2027	1,474,636
2028	936,979
Thereafter	4,660,512
Total lease payments	<u>13,884,089</u>
Less the amount representing interest	994,896
Net operating lease liabilities	<u>\$ 12,889,193</u>

Note 13. Concentrations of Credit Risk

As of May 31, 2023 and 2022, the University has checking accounts and money market accounts totaling approximately \$6,000,000 and \$3,000,000, respectively, in two financial institutions which exceed federal depository insurance limits. Management believes that credit risk related to these deposits is minimal.

The University routinely invests their excess funds in various types of investments and cash equivalents. These investments are primarily in money market accounts, mutual funds and marketable equity securities which are not insured or guaranteed by the U.S. government.

Note 14. Endowment Fund and Net Asset Classifications

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

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2008 Iowa 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 restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, (c) accumulations to the donor-restricted endowment 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 beneficial interest in perpetual trust and (e) subsequent changes in the value of the University's share of trust assets in perpetual trusts. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as restricted by time and purpose until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the State of Iowa 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 of investments; (6) other resources of the University and (7) the investment policies of the University.

University of Dubuque

Notes to Financial Statements

Note 14. Endowment Fund and Net Asset Classifications (Continued)

The University has adopted investment and spending policies for its Endowment Fund. 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 Fund. The University, through its investment policy, has established a target (inflation-adjusted) annualized rate of return over the long-term of at least 8%; the total return during any single measurement period may deviate from the long-term return objective. To satisfy its long-term rate-of-return objective, 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 Board of Trustees of the University of Dubuque may appropriate for expenditure or accumulate so much of the Endowment Fund as the University determines is prudent for the uses, benefits, purposes and duration for which the Endowment Fund is established. The amount appropriated, the spending policy, is a Board approved percentage applied to the average fair value of the endowment fund assets during the prior 12 quarters. In cases where the fair value of endowment fund assets fall below the original value of the gifts donated to the donor-restricted endowment, the Board has limited, by policy, that no amounts are appropriated from those endowment fund assets. The Board approved spending percentage for May 31, 2023 and 2022, was actual interest and dividends for all endowment accounts.

For endowment accounts not underwater, the spending rate was 4% net of interest and dividends. This rate did not apply to those investment fund assets that are not part of the investment pool. Underwater endowment funds were \$78,286 and \$17,502 as of May 31, 2023 and 2022, respectively.

Endowment net assets as of May 31, 2023 and 2022, were as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 148,268,865	\$ 148,268,865
Board-designated quasi-endowment funds	80,082,160	-	80,082,160
Total endowment funds	<u>\$ 80,082,160</u>	<u>\$ 148,268,865</u>	<u>\$ 228,351,025</u>

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 149,217,416	\$ 149,217,416
Board-designated quasi-endowment funds	82,312,907	-	82,312,907
Total endowment funds	<u>\$ 82,312,907</u>	<u>\$ 149,217,416</u>	<u>\$ 231,530,323</u>

University of Dubuque

Notes to Financial Statements

Note 14. Endowment Fund and Net Asset Classifications (Continued)

The changes in endowment net assets for the years ended May 31, 2023 and 2022, were as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 82,312,907	\$ 149,217,416	\$ 231,530,323
Investment return, net	1,351,856	1,776,821	3,128,677
Appropriation of endowment funds for expenditure	(3,582,603)	(4,105,401)	(7,688,004)
Contributions	-	1,380,029	1,380,029
Change in donor designation	-	-	-
Endowment net assets, end of year	<u>\$ 80,082,160</u>	<u>\$ 148,268,865</u>	<u>\$ 228,351,025</u>

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 85,457,809	\$ 154,974,386	\$ 240,432,195
Investment return, net	(2,302,933)	5,052,325	2,749,392
Appropriation of endowment funds for expenditure	(841,969)	(12,517,442)	(13,359,411)
Contributions	-	1,708,147	1,708,147
Change in donor designation	-	-	-
Endowment net assets, end of year	<u>\$ 82,312,907</u>	<u>\$ 149,217,416</u>	<u>\$ 231,530,323</u>

Note 15. Net Assets

Net assets with donor restrictions restricted in perpetuity consist of the following as of May 31, 2023 and 2022:

	2023	2022
Restricted in perpetuity, income available to support:		
Support for scholarships	\$ 72,485,875	\$ 71,234,892
Support of educational activities	23,678,950	23,678,950
General support of institution	21,091,764	20,962,717
Support of University loan funds	126,487	126,487
	<u>\$ 117,383,076</u>	<u>\$ 116,003,046</u>

Net assets with donor restrictions restricted by time or purposes as of May 31, 2023 and 2022, are available for the following:

	2023	2022
Scholarships	\$ 10,376,474	\$ 12,378,299
General institutional support	31,890,041	30,825,751
University loan funds	8,376,466	7,108,365
Annuity and unitrust agreements	820,923	818,782
Trust receivables	567,933	570,405
Land, buildings and equipment	1,308,511	370,184
	<u>\$ 53,340,348</u>	<u>\$ 52,071,786</u>

University of Dubuque

Notes to Financial Statements

Note 15. Net Assets (Continued)

The sources of net assets released from time or purpose restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donor during the years ended May 31, 2023 and 2022:

	2023	2022
Donor specified educational and general activities	\$ 2,028,706	\$ 6,533,042
Endowment draw	2,200,000	6,071,428
Land, buildings and equipment	-	-
	<u>\$ 4,228,706</u>	<u>\$ 12,604,470</u>

Note 16. Functional Classification

In the below analysis, the costs of operation and maintenance of plant, depreciation and interest expense have been allocated across all functional expense categories to reflect the full cost of those activities. Costs are allocated using the following methods:

- Expenses for the administration, supervision, operation, maintenance, preservation and protection of the institution's physical plant, and depreciation are allocated based on square footage.
- Interest expense on capital debt and interest expense on other borrowings are allocated based on usage of debt-financed space.

Fundraising expenses of approximately \$1,513,000 and \$1,371,000 during the years ended May 31, 2023 and 2022, respectively, are included in institutional support.

	2023					
	Program Services				Institutional	Total
	Instruction	Academic Support	Student Services	Auxiliary	Support	Expenses
Salaries and benefits	\$ 13,675,805	\$ 3,266,772	\$ 7,049,484	\$ 4,818,245	\$ 5,410,206	\$ 34,220,512
Services, supplies and other	2,417,664	641,152	1,585,702	689,954	6,320,442	11,654,914
Facilities operations	50,458	16,584	2,577	153,790	-	223,409
Depreciation, amortization, and maintenance	2,725,413	1,585,108	1,453,755	2,528,417	5,705,893	13,998,586
Interest	30,924	-	245,681	-	877,332	1,153,937
Development	13,864	86,280	4,364	-	1,484	105,992
Travel	37,375	77,089	495,751	-	45,018	655,233
Commencement/convocation	860	115,219	-	-	-	116,079
Memberships	10,782	9,643	45,157	31,257	123,560	220,399
Advertising/copy/printing	59,791	163,492	723,265	516,499	224,792	1,687,839
Lease/rent	740,898	899,209	-	3,570	(1,581,930)	61,747
Tuition remission	-	-	-	-	1,083,999	1,083,999
Insurance	748,139	-	-	-	1,310,710	2,058,849
Fees	8,694	-	31,405	71,596	668,273	779,968
	<u>\$ 20,520,667</u>	<u>\$ 6,860,548</u>	<u>\$ 11,637,141</u>	<u>\$ 8,813,328</u>	<u>\$ 20,189,779</u>	<u>\$ 68,021,463</u>

University of Dubuque

Notes to Financial Statements

Note 16. Functional Classification (Continued)

	2022					
	Program Services				Institutional Support	Total Expenses
	Instruction	Academic Support	Student Services	Auxiliary		
Salaries and benefits	\$ 15,239,924	\$ 3,355,603	\$ 7,036,101	\$ 4,260,989	\$ 5,250,701	\$ 35,143,318
Services, supplies and other	2,272,747	657,756	1,971,556	778,625	5,590,766	11,271,450
Facilities operations	51,024	17,266	2,521	147,434	-	218,245
Depreciation, amortization, and maintenance	2,567,771	675,359	2,336,157	2,685,930	1,539,465	9,804,682
Interest	87,000	-	691,196	-	729,666	1,507,862
Development	17,030	78,867	6,378	-	6,215	108,490
Travel	33,197	54,054	468,357	-	150,353	705,961
Commencement/convocation	1,797	127,721	-	-	-	129,518
Memberships	14,575	11,963	50,205	33,148	133,581	243,472
Advertising/copy/printing	73,591	92,990	732,410	580,141	334,304	1,813,436
Lease/rent	1,522,375	905,830	-	1,670	1,696,293	4,126,168
Student aid	-	-	3,579,221	-	-	3,579,221
Tuition remission	-	-	-	-	996,718	996,718
Insurance	1,046,155	-	-	-	1,141,904	2,188,059
Fees	10,396	-	29,890	156,885	704,946	902,117
	<u>\$ 22,937,582</u>	<u>\$ 5,977,409</u>	<u>\$ 16,903,992</u>	<u>\$ 8,644,822</u>	<u>\$ 18,274,912</u>	<u>\$ 72,738,717</u>

Note 17. Higher Education Emergency Relief Funding

During the year ended May 31, 2022, the University received Higher Education Emergency Relief Fund (HEERF) federal grant funds totaling \$7,473,771 pursuant to the Coronavirus Aid, Relief, and Economic Security Act (CARES), the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and American Rescue Plan (ARP). The HEERF received included institutional aid totaling \$3,894,550 to assist with any financial impact experienced such as lost revenue, room and board refunds and expenses incurred attributed to the pandemic for the year ended May 31, 2022. The remainder of HEERF received was for student grants totaling \$3,579,221 for the year ended May 31, 2022. The University did not receive any payments for the year ended May 31, 2023. The student grants were awarded to students in accordance with CARES, CRRSAA and ARP compliance requirements and included student services operating expense in the statements of activities for the year ended May 31, 2022.