

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

Clark University

May 31, 2023 and 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Clark University

Opinion

We have audited the consolidated financial statements of Clark University and subsidiary (collectively, the “University”), which comprise the consolidated statement of financial position as of May 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of May 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Grant Thornton LLP

Boston, Massachusetts
September 29, 2023

Clark University

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 56,723	\$ 47,326
Interest and dividend receivable	115	137
Grants and contracts receivable	3,356	3,346
Student accounts receivable, net	421	307
Other accounts receivable	1,319	243
Loan receivable (Note 11)	-	6,651
Prepaid expenses and other assets	5,829	4,311
Contributions receivable, net (Note 4)	5,122	3,123
Student loans receivable, net (Note 5)	1,366	2,105
Beneficial interests in outside trusts	2,068	2,104
Investments, at fair value (Note 6)	463,149	568,288
Land, buildings, and equipment, net (Note 8)	<u>189,043</u>	<u>140,362</u>
 Total assets	 <u>\$ 728,511</u>	 <u>\$ 778,303</u>
Liabilities		
Accounts payable and accrued expenses	\$ 23,860	\$ 25,196
Advance payments under grants (Note 2)	2,308	2,678
Other liabilities	5,703	5,811
Deposits and deferred revenue (Note 2)	8,185	8,934
Notes payable (Note 9)	-	9,682
Bonds payable (Note 10)	154,487	154,458
Liability for split-interest agreements	5,102	6,001
Federal loan program advances	<u>1,607</u>	<u>2,419</u>
 Total liabilities	 <u>201,252</u>	 <u>215,179</u>
Net assets (Note 13)		
Without donor restrictions	132,425	139,297
With donor restrictions		
Time or purpose	225,511	255,604
Perpetual	<u>169,323</u>	<u>168,223</u>
 Total net assets	 <u>527,259</u>	 <u>563,124</u>
 Total liabilities and net assets	 <u>\$ 728,511</u>	 <u>\$ 778,303</u>

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

Clark University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended May 31, 2023 and 2022

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
	(In thousands)			
Operating revenue and other support				
Student tuition and fees, net	\$ 80,310	\$ -	\$ 80,310	\$ 70,666
Auxiliary services	19,056	-	19,056	16,596
Contribution revenue	6,099	4,788	10,887	5,944
Income appropriated under spending policy	23,105	4,283	27,388	23,299
Grants and contracts	17,271	-	17,271	16,616
Federal student financial aid	1,122	-	1,122	969
Other investment income	1,766	-	1,766	246
Other income	3,296	-	3,296	1,791
Net assets released from restrictions	6,380	(6,380)	-	-
	<u>158,405</u>	<u>2,691</u>	<u>161,096</u>	<u>136,127</u>
Operating expense				
Instruction	58,426	-	58,426	52,300
Student services	19,769	-	19,769	18,009
Academic support	21,417	-	21,417	19,519
General institutional	18,201	-	18,201	18,601
Alumni and development	5,256	-	5,256	5,309
Research and sponsored programs	20,457	-	20,457	17,006
Auxiliary services	16,956	-	16,956	14,955
	<u>160,482</u>	<u>-</u>	<u>160,482</u>	<u>145,699</u>
Total operating expense	<u>160,482</u>	<u>-</u>	<u>160,482</u>	<u>145,699</u>
Change in net assets from operations	<u>(2,077)</u>	<u>2,691</u>	<u>614</u>	<u>(9,572)</u>
Non-operating activity				
Investment income (loss) net of amounts appropriated under spending policy	(9,848)	(32,630)	(42,478)	(55,621)
Contributions	106	1,467	1,573	3,968
Income appropriated under spending policy	73	319	392	319
Change in value of interest rate swap	-	-	-	590
Change in value of beneficial interest in outside trust	-	(36)	(36)	138
Annuity and unitrust obligation recovery (expense)	(41)	(1,805)	(1,846)	(556)
Other non-operating changes, net	3,915	2,001	5,916	(705)
Net assets released from restrictions	1,000	(1,000)	-	-
	<u>(4,795)</u>	<u>(31,684)</u>	<u>(36,479)</u>	<u>(51,867)</u>
Total nonoperating revenue (expense)	<u>(4,795)</u>	<u>(31,684)</u>	<u>(36,479)</u>	<u>(51,867)</u>
CHANGE IN NET ASSETS	<u>(6,872)</u>	<u>(28,993)</u>	<u>(35,865)</u>	<u>(61,439)</u>
Net assets - beginning of year	<u>139,297</u>	<u>423,827</u>	<u>563,124</u>	<u>624,563</u>
Net assets - end of year	<u>\$ 132,425</u>	<u>\$ 394,834</u>	<u>\$ 527,259</u>	<u>\$ 563,124</u>

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

Clark University

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended May 31, 2023 and 2022

	Instruction	Student Services	Academic Support	General Institutional	Alumni and Development	Research and Sponsored Programs	Auxiliary Services	Operating and Maintenance	2023 Total	2022 Total
	(In thousands)									
Expenses										
Salary and wages	\$ 34,697	\$ 7,914	\$ 10,209	\$ 8,184	\$ 2,709	\$ 4,471	\$ 476	\$ 6,319	\$ 74,979	\$ 69,203
Employee benefits	8,549	1,978	2,779	2,158	723	673	139	1,540	18,539	17,591
Purchased services	4,983	2,951	2,038	2,783	527	10,917	6,765	1,172	32,136	26,503
Travel, conferences and meals	1,597	2,307	390	269	412	699	53	15	5,742	4,061
Utilities, maintenance and occupancy	239	58	186	399	244	14	1,072	5,300	7,512	4,945
Other operating expense	1,558	1,278	2,478	398	447	560	421	314	7,454	10,361
Subtotal prior to allocations	51,623	16,486	18,080	14,191	5,062	17,334	8,926	14,660	146,362	132,664
Allocations										
Interest and fees	2,177	240	804	406	1	225	565	-	4,418	3,161
Depreciation and amortization	2,055	1,656	1,146	1,350	60	1,229	2,206	-	9,702	9,874
Operations and maintenance	2,571	1,387	1,387	2,254	133	1,669	5,259	(14,660)	-	-
Total	<u>\$ 58,426</u>	<u>\$ 19,769</u>	<u>\$ 21,417</u>	<u>\$ 18,201</u>	<u>\$ 5,256</u>	<u>\$ 20,457</u>	<u>\$ 16,956</u>	<u>\$ -</u>	<u>\$ 160,482</u>	<u>\$ 145,699</u>

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

Clark University

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year ended May 31, 2022

	<u>Instruction</u>	<u>Student Services</u>	<u>Academic Support</u>	<u>General Institutional</u>	<u>Alumni and Development</u>	<u>Research and Sponsored Programs</u>	<u>Auxiliary Services</u>	<u>Operating and Maintenance</u>	<u>2022 Total</u>
	(In thousands)								
Expenses									
Salary and wages	\$ 31,885	\$ 7,215	\$ 9,141	\$ 7,506	\$ 2,723	\$ 4,085	\$ 392	\$ 6,256	\$ 69,203
Employee benefits	8,290	2,003	2,641	1,365	784	934	109	1,465	17,591
Purchased services	3,697	2,881	1,689	4,736	484	5,395	6,330	1,291	26,503
Travel, conferences and meals	1,276	1,213	240	284	370	583	50	45	4,061
Utilities, maintenance and occupancy	176	53	190	292	85	44	427	3,678	4,945
Other operating expense	1,205	1,513	2,853	699	664	2,931	198	298	10,361
Subtotal prior to allocations	46,529	14,878	16,754	14,882	5,110	13,972	7,506	13,033	132,664
Allocations									
Interest and fees	1,341	245	250	207	8	201	909	-	3,161
Depreciation and amortization	2,110	1,635	1,258	1,478	71	1,332	1,990	-	9,874
Operations and maintenance	2,320	1,251	1,257	2,034	120	1,501	4,550	(13,033)	-
Total	<u>\$ 52,300</u>	<u>\$ 18,009</u>	<u>\$ 19,519</u>	<u>\$ 18,601</u>	<u>\$ 5,309</u>	<u>\$ 17,006</u>	<u>\$ 14,955</u>	<u>\$ -</u>	<u>\$ 145,699</u>

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

Clark University

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31, 2023 and 2022

	2023	2022
	(In thousands)	
Cash flows from operating activities:		
Change in net assets	\$ (35,865)	\$ (61,439)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation - fixed assets	9,180	9,449
Amortization of debt issuance costs and premium/discount	48	66
Amortization of right-of-use assets	522	425
Bad debt expense	461	288
Change in value of interest rate agreement	-	(590)
Loss on extinguishment of debt	-	358
Contributions restricted for long-term investments	(1,572)	(3,968)
Interest and dividends restricted for long-term purposes, net	(230)	(214)
Donated assets, (non-cash) contributions, and payments	(104)	(1,661)
Realized and unrealized investment (gains) losses	14,073	30,863
Loss on disposal of land, buildings, and equipment	50	265
Changes in assets and liabilities:		
Accounts receivable and interest and dividends receivable	(1,372)	1,058
Prepaid expenses and other assets	(2,040)	(1,979)
Contributions receivable	(2,300)	1,244
Grants and contracts receivable	(10)	(1,649)
Beneficial interests in outside trusts	36	(137)
Accounts payable and accrued expenses	(1,336)	7,029
Other liabilities	(108)	1,294
Annuities and unitrust obligations	(899)	(862)
Deposits and deferred revenue	(749)	562
Advance payments under grants	(370)	650
	<u>(22,585)</u>	<u>(18,948)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Student loans receivable, net	782	650
Purchase of land, buildings, and equipment	(57,911)	(25,201)
Proceeds from sales of investments	151,228	197,706
Purchases of investments	(59,791)	(271,721)
Interest and dividends restricted for long-term purposes, net	230	214
Net change in funds held by trustee	-	1,116
	<u>34,538</u>	<u>(97,236)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Contributions restricted for long-term purposes	1,572	3,968
Decrease in federal loan program advances	(812)	(869)
Payments of financing and issuance costs	-	(363)
Original issue discount	-	(394)
Extinguishment of debt	-	(53,060)
Proceeds from bonds payable	-	155,200
Principal payments on bonds payable	-	(3,530)
Donated assets, (non-cash) contributions, and payments	(267)	(665)
Proceeds from notes payable	(9,700)	-
Proceeds from loans receivable	6,651	134
	<u>(2,556)</u>	<u>100,421</u>
Net cash provided by (used in) financing activities		
Net change in cash and cash equivalents	9,397	(15,763)
Cash and cash equivalents - beginning of year	<u>47,326</u>	<u>63,089</u>
Cash and cash equivalents - end of year	<u>\$ 56,723</u>	<u>\$ 47,326</u>
Supplemental disclosures:		
Cash paid for interest	\$ 5,569	\$ 692
Additions to land, buildings, and equipment remaining in accounts payable and accrued expenses at year-end	\$ 5,104	\$ 5,794

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

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2023 and 2022

NOTE 1 - ORGANIZATION

The Trustees of Clark University, an organization doing business as Clark University (the “University”), was established in 1887 and serves as a teaching and research institution offering undergraduate and graduate degrees to approximately 3,800 full and part-time students. The University’s main campus is located in Worcester, Massachusetts. The University is accredited by the New England Commission of Higher Education and offers liberal arts-based education as well as professional master’s degree and doctoral programs.

The University participates in student financial assistance programs sponsored by the United States Department of Education and the Commonwealth of Massachusetts, which facilitate the payment of tuition and other expenses for certain students.

In 2015, the University established Jonas Realty Corporation (“JRC”), a Massachusetts not-for-profit organization, to support and operate for the benefit of the University. JRC is classified as a 501 (c)(3) functionally integrated supporting organization of the University to hold and manage the land and building of the Shaich Family Alumni and Student Engagement Center. The University is the controlling member of JRC and, as such, the financial statements of JRC have been consolidated with the financial statements of the University. All intercompany transactions have been eliminated in the consolidation. During fiscal year 2023, the assets, debt and related operating activities of JRC were transferred to the University and/or settled. Refer to note 11 for additional details.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements of the University have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). Reclassifications of amounts in prior year’s consolidated financial statements are made whenever necessary to conform to the current year’s presentation.

Classification of Net Assets

Net assets, revenues, expenses, gains, and losses are classified into two categories based on the existence or absence of donor-imposed restrictions. The categories are without donor restrictions and with donor restrictions.

Net assets with donor restrictions are further classified into two categories: those that are restricted in perpetuity generally represent the historical cost (fair value at date of gift) of contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the University. These include certain life income funds (in cases where the remainder interest for such gifts is perpetually restricted) and certain perpetual revolving loan funds that have been established by donors for the benefit of students at the University. The life income and revolving loan funds are recorded at fair value.

Net assets with donor restrictions that are restricted with regard to time or purpose generally result from contributions and other inflows of assets whose use by the University is limited by law or donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations.

Net assets without donor restriction generally result from contributions or other inflows of assets whose use by the University is not limited by donor-imposed stipulations. These net assets may be designated for

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

specific purposes by actions of the University, invested as quasi endowment, or may otherwise be limited by contractual agreement with outside parties.

Revenues are reported as increases in net assets without restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law.

Expirations of restrictions on net assets are reported as net assets released from restrictions in the consolidated statements of activities. In certain situations, donor-restricted gifts which are received and spent within the same year are reported as revenues without donor restrictions.

Operating and Non-operating Activities

Operating activities presented in the consolidated statements of activities consist of revenues earned, net investment return of the endowment appropriated by Clark's Board of Trustees for spending, and expenses incurred in conducting Clark's programs and services. Functional classifications of expenses include instruction, student services, academic support, auxiliary services (primarily operation of residence halls and dining services), alumni and development, research and sponsored programs, and general institutional (communications, community and government relations, centralized services, and administrative services).

Non-operating activities presented in the consolidated statements of activities include endowment investment activity, including unrealized gains and losses, net of amounts appropriated for spending, contributions and gifts that are restricted by donors to invest in perpetuity or to support the construction and purchase of capital assets, net change in life income and similar split-interest agreements, and the net change in the estimated value of the interest rate swap agreement. Non-operating activities also include changes in net asset classification when donor restrictions for non-operating activities have been met.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant estimates made by the University involve allowances for uncollectible accounts, functional expense allocation, net realizable values of contributions receivable, economic useful lives of buildings and equipment, conditional asset retirement obligations, fair values of investments, impairment of land, buildings and equipment, beneficial interests in outside trusts, and present values of annuity payment liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid instruments purchased with an initial maturity of three months or less, excluding balances whose use is restricted or that are included in the investment accounts.

The University's banking activity, including cash and cash equivalents not classified as investments, is maintained at banks in excess of federally insured limits. It is the University's policy to monitor the financial strength of banks and other counterparties on an ongoing basis.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

Prepaid Expenses and Other Assets

Prepaid expenses and other assets include amounts paid for services to be provided in future years, insurance related account balances, inventories, and right of use assets for certain operating leases, net of accumulated amortization. Inventories consist principally of supplies and are carried at cost.

Unconditional Promises to Give

Gifts which are recorded at fair value when received, including unconditional promises to give, are recorded as revenue when the donor's written commitment is received. Unconditional pledges are recorded after discounting to the fair value of expected future cash flows, net of an allowance for unfulfilled pledges.

Beneficial Interests in Outside Trusts

The University records its beneficial interests in trusts at the fair value of the assets contributed to the trust at the time the University is notified of the trust's existence. Annual changes in the market value of the assets are recognized as restricted gains or losses within non-operating activity in the consolidated statements of activities.

Split-Interest Agreements with Donors

The University's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds, and charitable remainder trusts. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Contribution revenue is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments due to the respective donors and/or other beneficiaries or at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.

Investments

Investments other than real estate, life insurance policies and notes receivable are stated at fair value. Real estate is stated at the fair value at the time of donation and notes receivable are stated at the outstanding principal amount of the notes (the recorded amounts for these assets approximate fair value). The fair value of publicly traded securities is based upon quoted market prices or net asset values. Other securities for which no such quotations or valuations are readily available are carried at estimated fair values. The estimated fair value of these investments is based on valuations provided by external investment managers and reviewed by management. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material. Securities contributed to the University are recorded at fair value on the date of the gift.

Changes in fair value are recorded as unrealized gains or losses on investments. Realized gains or losses from the sale of investment securities are computed on the specific-identification-cost basis or, for pooled funds, on the average-cost basis.

Collections of Art, Historical Treasures, and Other Similar Assets

The University houses certain collections of works of art, literary works, and artifacts. These collections are protected and preserved for public exhibition, education, research, and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, these collections are not recorded or capitalized for financial statement purposes.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

Land, Buildings, and Equipment

Land, buildings, equipment, and information technology (“IT”) equipment are recorded at cost on the date of acquisition or construction or, if received as a gift, at the fair value at the time of receipt, net of accumulated depreciation or amortization.

Depreciation is computed on a straight-line basis using a half-year convention for new additions over the following estimated useful lives:

Buildings	30-40 years
Building improvements	20 years
Assets under finance lease	Life of lease
Furniture, fixtures, and equipment	4-8 years
Internal use software, minor and major	5 years and 10 years
Software as service-implementation costs	Term of contract
Land improvements and infrastructure	15 years
Leasehold improvements	Shorter of useful life or lease period

Expenditures for maintenance, repairs, and books for the library are charged to operations as incurred; betterments that materially extend the life of assets are capitalized. Capital assets are removed from the records at the time of disposal, and any resulting gain or loss is included in the consolidated statements of activities.

Conditional Asset Retirement Obligations

In the normal course of its operations, the University incurs legal obligations to perform certain retirement activity with regard to the ultimate disposition of some of its tangible long-lived assets due to the nature of material used in their construction or operation. The timing of the performance of these retirement activities is within the control of the University and, due to the long useful lives of these assets, will be performed at some future date. The University has recorded a liability of \$2.2 million for these activities as of May 31, 2023 and 2022. Updates are made when data based on experience or environment are known. The estimated liability relates principally to buildings and equipment that are partially depreciated.

Bond Issuance Costs and Bond Discount/Premium

Costs incurred in connection with bond issuance are deferred and amortized on a straight-line basis over the life of the respective debt issues; original issue discount or premium is amortized over the life of the respective debt issues using the effective-interest method. Unamortized cost of issuance and unamortized original issue premium are reported net in bonds payable.

Income Taxes

The University and JRC are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the “Code”), and are generally exempt from income taxes pursuant to Section 501(a) of the Code. The University is required to assess uncertain tax positions and has determined that there were no such positions that are material to the consolidated financial statements.

Federal Student Loan Advances

These amounts include funds advanced to the University under the Federal Perkins Loan Program. The Federal government terminated this program in 2018. The University has elected to continue to collect on these loans and return the federal portion collected.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

Grants and Contracts

Federal government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct and indirect costs as the related costs are incurred or expended. Recovery of related indirect costs generally is recorded at predetermined fixed rates negotiated with the federal government.

Revenue Recognition

Substantially all of the University's revenue is derived from student tuition and fees, private contributions, federal and state student assistance, and auxiliary enterprises related to the University. Auxiliary enterprises include dining halls, residence halls, and other undertakings which provide services primarily to students, faculty, and staff for fees directly related to, but not necessarily equivalent to, the costs of the services.

Prices for undergraduate and graduate tuition are set based upon the strategic initiatives of the University, the costs of providing the instructional and support services needed for a quality program, and an assessment of the pricing of similar institutions in our market segment. As we set an appropriate tuition price for each program, we also consider to what extent we wish to offer financial assistance in the form of need-based and merit-based discounts designed to expand the population of students that are able to enroll in these various programs. The cost of room and board are determined separately from tuition based on competitive costs with alternative housing and dining options in the University's immediate neighborhood and to cover the costs of providing these services.

Tuition, fees, and auxiliary revenue and associated discounts are recognized as revenue in the period to which they relate. Student deposits and deferred revenue represent tuition and student deposits paid in advance, which are recognized as income when the related educational services are provided. The components of net tuition for the years ended May 31 are as follows (in thousands):

	2023	2022
Tuition and fees	\$ 167,536	\$ 151,142
Financial aid discount	(87,226)	(80,476)
Student tuition and fees, net	<u>\$ 80,310</u>	<u>\$ 70,666</u>

Financial Aid Discount

The University's financial aid is reported in the consolidated statements of activities as an adjustment to revenues. The financial aid program is funded through endowment income, gifts and grants, and institutional resources.

Deposits, Advance Payments, and Deferred Revenue

Under its Accelerated Degree Program, the University offers qualifying undergraduate students the opportunity to receive a graduate tuition scholarship. Under the scholarship, students may receive up to 100% remission of their graduate tuition. In connection with this scholarship program, at May 31, 2023 and 2022, the University had deferred revenue of \$6.5 million and \$6.7 million, respectively.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

The activity and balance for deposits, advance payments under grants and contracts, and deferred revenue from contracts are shown in the following table (in thousands):

	Advance Payments Under Grants and Contracts	Enrollment and Housing Deposits	Accelerated Degree Program and Other Deferred Tuition	Other Deferred Revenue	Total
Balance at May 31, 2021	\$ 2,028	\$ 1,142	\$ 7,054	\$ 176	\$ 10,400
Revenue recognized, deposits applied/forfeited	(6,357)	(972)	(323)	(209)	(7,861)
Payments received for future performance obligations	7,007	1,051	891	124	9,073
Balance at May 31, 2022	2,678	1,221	7,622	91	11,612
Revenue recognized, deposits applied/forfeited	(4,188)	(1,627)	(1,083)	(74)	(6,972)
Payments received for future performance obligations	3,818	1,112	816	107	5,853
Balance at May 31, 2023	<u>\$ 2,308</u>	<u>\$ 706</u>	<u>\$ 7,355</u>	<u>\$ 124</u>	<u>\$ 10,493</u>

Federal Student Assistance

Substantial financial aid for students is provided by grants (including work study) and loans through federal and state programs. Federal aid totaled \$16.8 million and \$18.7 million for the years ended May 31, 2023 and 2022, respectively.

Functional Expense Allocation

Expenses have been allocated to programmatic and non-programmatic functions based on the estimated percentage of effort, usage, square footage and other criteria.

Expenses are presented by functional classification in accordance with the overall service mission of the University. Each functional classification displays all expenses related to underlying operations by natural classification. Depreciation expense is allocated based on estimated square footage occupancy. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the external debt. Operating and maintenance expense represents space related costs which are allocated to the functional categories directly and/or based on the estimated square footage occupancy.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

NOTE 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The University's financial assets available within one year for general expenditures as of May 31 are as follows (in thousands):

	2023	2022
Total assets at year end	\$ 728,511	\$ 778,303
Less:		
Loans receivable due in more than one year	-	(6,651)
Restricted contributions receivable due in less than one year	(4,093)	(2,342)
Contributions receivable due in more than one year, net	(1,029)	(997)
Donor-restricted endowment funds	(363,759)	(392,906)
Board-designated endowment funds	(87,426)	(94,263)
Prepaid expenses and other assets	(5,829)	(4,311)
Land, buildings and equipment	(189,043)	(140,362)
Add:		
Endowment spending rule	28,038	27,600
Total financial assets available within one year	\$ 105,370	\$ 164,071

As part of the University's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the University may invest cash in excess of established liquidity targets in short-term investments. To help manage unanticipated liquidity needs, the University has a line of credit in the amount \$10 million which it could draw upon. Additionally, the University has a board-designated endowment of \$87.4 million and \$94.3 million as of May 31, 2023 and 2022, respectively, which could be used for general operating expenditures if the Board of Trustees voted to approve the use of these funds for such a purpose. Although the University does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary. However, both the board-designated endowment funds and donor-restricted endowments contain investments with lock-up provisions that reduce the total investments that could be made available. See Note 7 for disclosures about investment liquidity.

The University's endowment funds consist of donor-restricted and board-designated endowment funds. Income from donor-restricted endowments is primarily restricted for specific purposes, and is therefore not available for general expenditure. As described in Note 14, the University utilizes the total return method for determining the distribution to pooled funds. The Board of Trustees approved a distribution rate of between 5.00% and 6.00% of the average market value for the past 20 quarters for fiscal year 2023, and approved a distribution rate between 5.00% and 5.50% for fiscal year 2022. Under the provision of the spending rules, the amount appropriated was \$27.8 million and \$23.6 million for fiscal years 2023 and 2022, respectively.

As described in Note 7, the University has unfunded commitments on alternative investments totaling \$57.9 million as of May 31, 2023. These commitments are generally funded by liquidating other investments.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are expected to be received in the following years ended May 31 (in thousands):

	2023	2022
In less than one year	\$ 4,093	\$ 2,342
Between one year and five years	1,462	1,242
Total contributions receivable	5,555	3,584
Less: fair value discount (discount rates range from 6.99% to 14.00%) and allowance for unfulfilled pledges	(433)	(461)
Contributions receivable, net	\$ 5,122	\$ 3,123

The University also has been notified of revocable bequest intentions which have not been recorded in the consolidated financial statements of \$26.5 million and \$26.6 million as of May 31, 2023 and 2022, respectively.

NOTE 5 - STUDENT LOANS RECEIVABLE

The University makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. As of May 31, student loans consisted of the following (in thousands):

	2023	2022
Federal Perkins Loan Program	\$ 1,342	\$ 2,122
University Loan Program	58	61
Total student loans receivable	1,400	2,183
Less: allowance for doubtful loans	(34)	(78)
Student loans receivable, net	\$ 1,366	\$ 2,105

The University participates in the Federal Perkins Loan Program. Funds advanced by the federal government of \$1.6 million and \$2.4 million at May 31, 2023 and 2022, respectively, are ultimately refundable to the federal government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a decrease in the liability to the federal government.

Allowances for doubtful loans are established based on prior collection experience for the previous three years and the current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. University loan balances are written off when they are deemed to be permanently uncollectible.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

Amounts due under the Federal Perkins Loan Program are assignable to the government; therefore, the allowance calculation is based on the probable credit loss for the institutional portion of the fund and a percentage of the portfolio that may not be assignable to the federal government.

NOTE 6 - INVESTMENTS

As of May 31, investments consisted of the following (in thousands):

	2023	2022
Marketable securities:		
Cash and cash equivalents	\$ 7,540	\$ 11,160
Corporate bonds	18,343	64,071
Government bonds	61	31,366
Real estate investment trusts	4,764	5,564
Equity securities	36,078	53,940
Partnerships:		
Private equity/venture capital	99,475	92,326
Private equity international	4,105	5,210
Real assets	17,784	19,740
Absolute return/hedge funds	102,023	115,551
International equity mutual funds	60,023	51,796
Domestic equities	99,999	102,857
Other partnerships	721	844
Life insurance	975	1,026
Other investments	2,494	2,745
Beneficial interest in trusts	8,764	10,092
	<u>\$ 463,149</u>	<u>\$ 568,288</u>
Total investments		

Beneficial interest in trusts as of May 31, 2023 is comprised of marketable investments of \$0.1 million in money market mutual funds, \$6.9 million in equity mutual funds, \$1.5 million in bonds, and \$0.3 million in publicly traded real estate investment trusts ("REITs"). Beneficial interest in trusts as of May 31, 2022 is comprised of marketable investments of \$0.3 million in money market mutual funds, \$7.9 million in equity mutual funds, \$1.6 million in bonds, and \$0.3 million in publicly traded real estate investment trusts ("REITs").

Investment return on all investments, net of investment expenses and management fees, are summarized in the table below (in thousands):

	2023	2022
Net realized and unrealized gain (loss)	\$ (15,299)	\$ (32,295)
Interest and dividends, net	2,209	325
Split-interest agreement annuity payments, change in annuities and unitrusts payable, and related expenses, net	(1,724)	(205)
	<u>\$ (14,814)</u>	<u>\$ (32,175)</u>
Total investment return		

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

For the year ended May 31, investment return is reported in the consolidated statements of activities as follows (in thousands):

	2023	2022
Income appropriated under spending policy	\$ 27,780	\$ 23,618
Investment income net of amounts appropriated under spending policy	(42,478)	(55,621)
Other investment return	1,766	246
Change in value of beneficial interests in outside trusts	(36)	138
Annuity and unitrust obligation expense	(1,846)	(556)
Total investment return	\$ (14,814)	\$ (32,175)

Endowment and annuity funds are generally pooled for investment purposes. Units of the pool are assigned on the basis of market value per unit at the beginning of the quarter in which funds are received. Income is distributed quarterly thereafter on a per-unit basis.

In conjunction with the annuity funds, the University has recorded a liability for split interest agreements, equal to the present value of future cash flows expected to be paid to the beneficiaries based upon their actuarial expected lives.

The University has indirect investments in derivative financial instruments through partnership investments. Derivatives, such as forward foreign currency contracts and futures contracts are used by the partnerships to hedge against risk.

NOTE 7 - FAIR VALUE MEASUREMENTS

The University measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A fair value hierarchy is used to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - inputs are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - inputs include quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 - inputs are unobservable for the asset or liability and reflect management's own estimates.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Contributions Receivable

Contributions receivable are reported based on non-recurring fair value measurements and classified as Level 3. Any multi-year pledges received are initially recorded at the fair value (pledge net of discount) and subsequently amortized over the expected payment period, net of an allowance for uncollectible pledges.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

The discounts on these pledges are computed using rates commensurate with the risks involved and applicable to the years in which the promised funds are expected to be received.

Investments

Investments whose values are based on quoted market prices in active markets are classified as Level 1. These investments primarily consist of publicly traded mutual funds, government bonds, corporate bonds and equity securities. Investments whose values are based on prices in markets that are not active are classified as Level 2. Interests in private partnerships that can be redeemed at the measurement date and interests in private partnerships that are not redeemable at the measurement date are measured at net asset value (“NAV”).

Beneficial Interests in Trusts

Assets held in outside trusts are classified as Level 3, as the University is not the trustee for these trusts and the unit of ownership is an individual interest in the trust. The University determines the fair value of the outside trusts based on the underlying investments as reported by the relevant Trustees. Assets held in other trusts are classified according to the nature of the underlying assets in the trust as the University is the trustee for these trusts.

Annuities and Unitrusts Payable

Annuities and Unitrusts Payable are based on non-recurring Level 3 fair value measurements. These instruments are initially recorded at the present value of future cash flows with a fair value discount rate adjusted for market conditions to determine fair value.

The following tables set forth the University’s financial assets that were accounted for at fair value on a recurring basis as of May 31 by level within the fair value hierarchy (in thousands):

	May 31, 2023				Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at NAV	
Financial assets					
Marketable securities					
Cash and cash equivalents	\$ 7,540	\$ -	\$ -	\$ -	\$ 7,540
Corporate bonds	18,343	-	-	-	18,343
Government bonds	61	-	-	-	61
Real estate investment trusts	4,764	-	-	-	4,764
Equity securities	36,078	-	-	-	36,078
Partnerships	-	-	-	384,130	384,130
Other	-	-	-	2,494	2,494
Beneficial interests in trusts	8,764	-	-	-	8,764
Beneficial interests in outside trusts	-	-	2,068	-	2,068
Total	\$ 75,550	\$ -	\$ 2,068	\$ 386,624	\$ 464,242

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

	May 31, 2022				Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at NAV	
Financial assets					
Marketable securities					
Cash and cash equivalents	\$ 11,160	\$ -	\$ -	\$ -	\$ 11,160
Corporate bonds	64,071	-	-	-	64,071
Government bonds	31,366	-	-	-	31,366
Real estate investment trusts	5,564	-	-	-	5,564
Equity securities	53,941	-	-	-	53,941
Partnerships	-	-	-	388,324	388,324
Other	-	-	-	2,745	2,745
Beneficial interests in trusts	10,092	-	-	-	10,092
Beneficial interests in outside trusts	-	-	2,104	-	2,104
Total	<u>\$ 176,194</u>	<u>\$ -</u>	<u>\$ 2,104</u>	<u>\$ 391,069</u>	<u>\$ 569,367</u>

There were no transfers between levels during the years ended May 31, 2023 and 2022.

The following table sets forth the liquidity, redemption policies, and unfunded commitments of the University's investments that have been accounted for using NAV per share or its equivalent as a practical expedient for calculating fair value as of May 31 (in thousands):

	2023 Fair Value	Unfunded Commitments	Frequency	Notice Period	2022 Fair Value
Other partnerships	\$ 721	\$ -	Quarterly	N/A	\$ 844
Private equity/venture capital	98,922	19,035	Illiquid	N/A	91,914
Private equity/venture capital	553	18,417	Quarterly	45-91 days	412
Private equity/international	4,105	-	Illiquid	N/A	5,210
Real assets	3,435	-	Illiquid	N/A	19,740
Hybrid investments	15,755	7,252	Illiquid	N/A	21,124
Absolute return/hedge	8,652	-	Temporarily Illiquid	(1)	10,097
Absolute return/hedge	4,847	-	Illiquid	N/A	6,458
Absolute return/hedge	72,769	-	Quarterly/Annually	30-90 days	77,872
International equity mutual funds	6,915	-	Quarterly/Annually	30-90 days	9,977
Domestic equities	22,255	-	Temporarily Illiquid	(1)	12,876
Domestic equities	77,744	-	Quarterly/Annually	60-105 days	89,981
Global equities	53,108	-	Temporarily Illiquid	(1)	41,819
Other investments	2,494	-	Illiquid	N/A	2,745
Real estate	14,349	13,231	Illiquid	N/A	-
Total	<u>\$ 386,624</u>	<u>\$ 57,935</u>			<u>\$ 391,069</u>

(1) Temporarily illiquid includes lockups with definite expiration dates or funds in liquidation which have suspended normal liquidity terms or trusts that become liquid upon death of final beneficiary.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

NOTE 8 - LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consisted of the following as of May 31 (in thousands):

	2023	2022
Land	\$ 17,101	\$ 17,101
Land improvements and infrastructure	22,882	22,410
Buildings	124,909	125,459
Building improvements	115,290	104,697
Furniture, fixtures, and equipment	15,232	13,621
Assets under finance lease	257	257
Internal use software	889	915
Leasehold improvements	-	69
	296,560	284,529
Total	296,560	284,529
Less: accumulated depreciation	(165,916)	(159,436)
Plus: construction in progress	58,399	15,269
	189,043	140,362
Land, buildings, and equipment, net	\$ 189,043	\$ 140,362

The University has entered into contracts for various construction projects on campus. The total obligation for these contracts is \$81.3 million of which \$51.8 million had been expended at May 31, 2023, with \$29.5 million remaining to be spent.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Notes Payable

JRC had loans outstanding which were payable to two Community Development Entities, the Community Builders and Massachusetts Housing and Investment Corporation, issued in November 2015 in connection with the acquisition of land and construction of the Shaich Family Alumni and Student Engagement Center in the amount of \$9.7 million. See Note 11 for details regarding the forgiveness of these loans in November 2022.

Leases

The University assesses contracts at inception to determine whether an arrangement is or includes a lease, which conveys the University's right to control the use of an identified asset for a period of time in exchange for consideration. The University has several non-cancelable operating leases for space, for which a right-of-use asset and a lease liability are recorded on the accompanying consolidated statements of financial position. The leases contain no renewal or termination options, nor any restrictions or covenants. The leases contain variable lease payments based on market indices, and do not include residual value guarantees.

The University has elected the practical expedient to forgo applying the recognition requirements in ASC 842 to short-term leases, and has elected to forgo application of ASC 842 to leases below a dollar threshold that are immaterial to the financial statements.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

The University also leases equipment under leases which are classified as finance leases. The obligation associated with these leases is included in other liabilities in the Statements of Financial Position. The amount of assets recorded under finance leases is included in land, buildings, equipment and construction in progress and had a capitalized value of \$0.3 million as of May 31, 2023 and 2022, with related accumulated depreciation of \$77,000 and \$26,000 as of May 31, 2023 and 2022, respectively.

As of May 31, the University's right-of-use asset and lease liability were as follows (in thousands):

	2023	2022
Operating lease ROU asset	\$ 1,069	\$ 1,476
Operating lease liability:		
Other current liabilities	\$ 133	\$ 470
Other long-term liabilities	942	1,011
Total operating lease liability	\$ 1,075	\$ 1,481

The amount of the ROU assets and lease liabilities were determined using risk-free discount rates based on the U.S. Treasury Rate which most closely approximated the remaining term of the leases at the date that the ROU assets and lease liabilities were recorded.

The maturity of the University's lease liability for operating leases due in future fiscal years as of May 31, 2023 is as follows (in thousands):

2024	\$ 133
2025	11
2026	11
2027	12
2028	12
Thereafter	2,671
Total lease payments	2,850
Less: imputed interest	(1,775)
Total operating lease liability	\$ 1,075

Lease expense for the years ended May 31, 2023 and 2022 was \$0.6 million and \$0.5 million, respectively.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

As of May 31, 2023, future minimum rental payments due under non-cancelable lease agreements were as follows (in thousands):

	Operating Leases	Finance Leases	Total
2024	\$ 148	\$ 56	\$ 204
2025	20	56	76
2026	20	56	76
2027	20	44	64
2028	19	-	19
Thereafter	2,671	-	2,671
Total minimum lease payments	\$ 2,898	212	\$ 3,110
Less: imputed interest		(14)	
Finance lease obligation		\$ 198	

Contingencies

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

The University is periodically involved in claims, suits, and other legal matters, all of which arise in the normal course of business. Management does not believe that the outcome of any currently pending matters, either individually or in the aggregate, will have a material impact on the University's consolidated statement of financial position or consolidated statement of activities.

NOTE 10 - BONDS PAYABLE

Bonds payable as of May 31 consisted of the following (In thousands):

	2023	2022
Series 2021 Taxable Bonds	\$ 155,200	\$ 155,200
Unamortized original issue discount/premium	(368)	(385)
Unamortized financing issue costs	(345)	(357)
Total bonds payable	\$ 154,487	\$ 154,458

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

In November 2021, the University issued \$155,200 of Series 2021 taxable bonds for the purpose of refunding existing debt as follows: MDFA 2008 and the related interest rate swap agreement, Series 2015, Series 2020, and to finance the renovation and/or equipping of certain facilities of the University as well as to pay the costs of issuing the bonds. The Series 2021 bonds carry fixed interest rates ranging from 2.613% to 3.316% and fully mature in 2053.

Principal payments related to the above indebtedness due in future fiscal years are as follows as of May 31, 2023 (in thousands):

2024	\$	-
2025		-
2026		-
2027		-
2028		-
Thereafter		155,200
		<hr/>
Total principal payments	\$	155,200

Interest expense on bonds payable was \$5.0 million and \$3.1 million for the years ended May 31, 2023 and 2022, respectively.

NOTE 11 - NEW MARKET TAX CREDIT

During fiscal year 2016, the University financed the land acquisition and building construction of the Shaich Family Alumni and Student Engagement Center (the "Project"), a building located at 939 Main Street in Worcester, primarily for classroom, meeting and office space used in support of its alumni and students. This was accomplished through JRC (see Note 1) which entered into several debt transactions in order to fund the Project, including accessing the New Market Tax Credit ("NMTC") program. The NMTC program offers credits against federal income taxes over a seven-year period for Qualified Equity Investments in designated Community Development Entities ("CDEs") pursuant to Section 45D of the Code in order to assist eligible businesses in making investments in certain low-income communities. JRC is a Qualified Active Low-Income Community Business for the purpose of the NMTC program.

An investment fund (the "Fund") was established and funded by a leveraged loan of \$6.7 million from the University and an investment of NMTC equity from an investor (Fund Investor). The Fund invested in CDEs controlled by Massachusetts Housing Investment Corporation ("MHIC") and The Community Builders ("TCB") which made loans to JRC on November 20, 2015 totaling \$9.7 million.

JRC used the borrowed funds and a capital contribution of \$13.9 million from the University to fund property purchases, construction costs and transaction financing costs for the Shaich Family Alumni and Student Engagement Center. JRC and the University entered into a lease for the University to use the building with a monthly rent payment beginning December 1, 2016.

In November 2022, at the end of the seven-year tax credit investment period, the Fund Investor exercised its option to sell to the University the Fund Investor's interest in the Fund for a put exercise price of \$1.00, and all of the agreements related to the New Market Tax Credit program were terminated as planned. Both the \$6.7 million loan receivable from the University to the Fund and the \$9.7 million note payable to MHIC and TCB by JRC were forgiven, and the University recognized a gain of \$2.9 million, net of related transaction expenses, in fiscal year 2023 within other non-operating changes, net.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

NOTE 12 - LINES OF CREDIT

The University has a demand note working capital line of credit of \$10 million with a bank. The line bears interest at the one-month Term Secured Overnight Financing Rate (Term SOFR) plus 161 basis points with a floor of 4%, and expires January 2024. There were no borrowings outstanding on the line at May 31, 2023 or 2022.

NOTE 13 - COMPONENTS OF NET ASSETS

The components of net assets at May 31 are as follows (in thousands):

	2023	2022
Net assets without donor restriction		
Undesignated funds	\$ 47,668	\$ 46,665
Board designated endowment	84,757	92,632
Total net assets without donor restriction	132,425	139,297
Net assets with donor restriction		
Restricted to time and purpose		
Endowed funds - accumulated market value appreciation	205,897	237,583
Pledges and life insurance policies for non-endowment purposes	5,654	3,325
Unspent endowment distributions restricted as to purpose	8,446	8,114
Unspent gifts restricted as to purpose	5,296	6,296
Trusts for restricted purposes	218	286
Perpetual donor restriction		
Endowed funds- corpus	162,555	159,019
Pledges and life insurance policies for endowment purposes	473	855
Trusts with endowed purposes	5,431	7,521
Donor-restricted loan funds	864	828
Total net assets with donor restriction	394,834	423,827
Total net assets	\$ 527,259	\$ 563,124

The University has classified certain funds in the consolidated statements of financial position as net assets restricted as to time or purpose, which is consistent with the donors' primary intent. However, through agreements with the donors, these funds are available to the University to meet financial obligations in the event no other sources are available. At May 31, 2023, endowed funds with a fair value of \$126.9 million representing \$49.8 million of gains in net assets with restrictions as to time or purpose and \$77.1 million of principal in net assets with restrictions in perpetuity, could be utilized by the Trustees if it should become impossible and/or impractical to employ the funds as the donors intended.

Designated funds without restriction are legally considered to be funds without restriction invested with the University's pooled endowment.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

NOTE 14 - ENDOWMENTS

The University's endowment consists of approximately 600 different funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the University to function as quasi-endowments. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

In June 2009, the Commonwealth of Massachusetts enacted a version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of the endowed funds among factors for prudent investment and spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the Board of Trustees is permitted to determine a prudent payout amount, even if the market value of the fund is below the historic-dollar value. There is an expectation that, over time, the amount of net assets with restrictions in perpetuity will generally remain intact. The perspective is aligned with the accounting standards definition that funds restricted in perpetuity are those that must be held in perpetuity even though the historic-dollar value may be spent on a temporary basis. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with restrictions in perpetuity and is regarded as net appreciation is classified as net assets with restrictions as to time or purpose until those amounts are appropriated for expenditure by the organization in a manner consistent with the University's spending policy.

Endowment Investment Policy

The University has adopted an investment philosophy, which combined with the spending rate, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods, as well as designated funds. Under the University's investment policy and spending rate, both of which are approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University outsources management to a variety of managers with differing strategies. The Investment Committee of the Board is responsible for setting asset allocation policy and selecting and overseeing the managers.

Spending Policy

The University utilizes the total return method for determining the distribution to pooled funds. The total return includes investment yield (interest and dividends, less investment fees), realized gains (losses), and unrealized appreciation (depreciation). The spending distribution for funds that are "underwater" is reduced when the funds are deemed at risk of permanent loss of principal.

Clark University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

Underwater Funds

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this nature are reported in net assets with donor restrictions. As of May 31, 2023, endowment funds with an original gift amount of \$52.3 million and a fair value of \$45.4 million were underwater by \$6.9 million. As of May 31, 2022, endowment funds with an original gift amount of \$35.6 million and a fair value of \$32.2 million were underwater by \$3.4 million.

Endowment net asset composition by type of fund as of May 31, 2023 (in thousands) is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 363,759	\$ 363,759
Board-designated funds	84,757	2,669	87,426
Total funds	\$ 84,757	\$ 366,428	\$ 451,185

Board-designated funds with donor restrictions consist of temporarily restricted funds that have been invested in the endowment.

Changes in endowment net assets for the fiscal year ended May 31, 2023 (in thousands) are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 92,313	\$ 394,856	\$ 487,169
Investment returns, net	(2,336)	(9,731)	(12,067)
Contributions and other additions	11	3,851	3,862
Appropriations of endowment assets for expenditure (draw)	(5,231)	(22,548)	(27,779)
Endowment net assets, end of year	\$ 84,757	\$ 366,428	\$ 451,185

Endowment net asset composition by type of fund as of May 31, 2022 (in thousands) is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 392,906	\$ 392,906
Board-designated funds	92,313	1,950	94,263
Total funds	\$ 92,313	\$ 394,856	\$ 487,169

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

May 31, 2023 and 2022

Changes in endowment net assets for the fiscal year ended May 31, 2022 (in thousands) are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 77,135	\$ 429,050	\$ 506,185
Investment returns, net	(5,680)	(20,063)	(25,743)
Contributions and other additions	25,011	5,334	30,345
Appropriations of endowment assets for expenditure (draw)	(4,153)	(19,465)	(23,618)
Endowment net assets, end of year	<u>\$ 92,313</u>	<u>\$ 394,856</u>	<u>\$ 487,169</u>

NOTE 15 - RETIREMENT PLANS

The University participates in a defined contribution plan administered by the Teachers Insurance & Annuity Association and Fidelity Investments. The plan requires a two-year waiting period before new employees may participate, however this requirement is waived for those with two years of continuous service in a non-student position at another institution of higher education. Participants contribute at least 5% of salary and the University contributes 10% of salary. Contribution expenses recognized by the University related to the plan were \$4.9 million in 2023 and \$4.8 million in 2022.

NOTE 16 - RELATED PARTIES

Members of the Board and senior management may, from time to time, be associated either directly or indirectly with companies doing business with the University. The University has a written conflict of interest policy that requires annual reporting by each member of the Board and senior management. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arms' length, based on terms that are fair and reasonable to the University. There were no related party transactions for the year ended May 31, 2023.

NOTE 17 - SUBSEQUENT EVENTS

For purposes of determining the effects of subsequent events on these consolidated financial statements, management has evaluated events subsequent to May 31, 2023 and through September 29, 2023, the date on which the consolidated financial statements were available to be issued.