

Consolidated Financial Statements and Report of Independent Auditors

Abilene Christian University

May 31, 2020 and 2019

Independent Auditor's Report

Board of Trustees
Abilene Christian University
Abilene, Texas

We have audited the accompanying consolidated financial statements of Abilene Christian University, which comprise the consolidated statement of financial position as of May 31, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit

also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Abilene Christian University as of May 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, in 2020, Abilene Christian University adopted new accounting guidance for accounting for leases. Our opinion is not modified with respect to this matter.

Prior Year Audited by Other Auditors

The 2019 financial statements were audited by other auditors, and their report thereon, dated August 14, 2019, expressed an unmodified opinion.

BKD, LLP

Fort Worth, Texas
August 10, 2020

Abilene Christian University

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

May 31, 2020 and 2019

ASSETS	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 26,744,139	\$ 17,651,881
Accounts and notes receivable, net	18,790,417	14,414,334
Contributions receivable, net	13,987,785	16,299,635
Inventories	660,000	617,272
Prepaid expenses and other assets	3,860,557	3,741,965
Investments	450,514,106	445,798,665
Charitable trusts and annuities	40,824,831	47,707,743
Operating lease right of use asset	6,907,630	-
Finance lease right of use asset	18,188	-
Property and equipment, net	<u>245,014,687</u>	<u>240,329,363</u>
Total assets	<u>\$807,322,340</u>	<u>\$786,560,858</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 1,770,122	\$ 1,818,353
Accrued interest payable	799,157	980,240
Accrued salaries and benefits	10,941,145	13,181,561
Operating lease liabilities	7,622,230	-
Deposits and other liabilities	15,865,696	12,587,526
Reserve for charitable trusts and annuities	23,037,123	26,575,536
Long-term obligations	<u>149,154,120</u>	<u>144,438,462</u>
Total liabilities	<u>209,189,593</u>	<u>199,581,678</u>
Net assets		
Without donor restrictions	305,808,991	288,312,396
With donor restrictions	<u>292,323,756</u>	<u>298,666,784</u>
Total net assets	<u>598,132,747</u>	<u>586,979,180</u>
Total liabilities and net assets	<u>\$807,322,340</u>	<u>\$786,560,858</u>

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating:			
Revenues, gains, and other support			
Tuition and fees (net of scholarship)	\$ 79,296,483	\$ -	\$ 79,296,483
Auxiliary enterprises sales and services (net of scholarship)	16,867,617	-	16,867,617
Contributions	1,326,907	4,263,377	5,590,284
Investment return designated for operations	11,869,137	11,615,796	23,484,933
Government grants and contracts	8,039,478	-	8,039,478
Other revenues	6,004,681	-	6,004,681
Net assets released from restrictions			
Release of investment return	11,615,796	(11,615,796)	-
Satisfaction of program restrictions	<u>6,851,184</u>	<u>(6,851,184)</u>	<u>-</u>
Total revenues, gains, and other support	141,871,283	(2,587,807)	139,283,476
Expenses			
Operating expenses:			
Program expenses			
Instruction and research	48,853,282	-	48,853,282
Public services	2,777,079	-	2,777,079
Academic support	12,169,518	-	12,169,518
Student services	32,160,370	-	32,160,370
Auxiliary enterprises expenses	19,095,212	-	19,095,212
Supporting expenses			
Fundraising	4,664,974	-	4,664,974
Management and general	<u>23,219,428</u>	<u>-</u>	<u>23,219,428</u>
Total operating expenses	<u>142,939,863</u>	<u>-</u>	<u>142,939,863</u>
Change in net assets from operating activities	(1,068,580)	(2,587,807)	(3,656,387)
Non-operating:			
Contributions for endowment, plant, and other	5,250	14,873,721	14,878,971
Net investment return, net of amount designated for operations	12,687,927	(12,770,816)	(82,889)
Other revenue	(329,140)		(329,140)
Net assets released for non-operating activities	6,216,084	(6,216,084)	-
Changes in value of split-interest agreements	<u>(14,946)</u>	<u>357,958</u>	<u>343,012</u>
Net non-operating revenues, expenses, and other changes	<u>18,565,175</u>	<u>(3,755,221)</u>	<u>14,809,954</u>
Total change in net assets	17,496,595	(6,343,028)	11,153,567
Net assets at beginning of year	<u>288,312,396</u>	<u>298,666,784</u>	<u>586,979,180</u>
Net assets at end of year	<u>\$305,808,991</u>	<u>\$292,323,756</u>	<u>\$598,132,747</u>

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating:			
Revenues, gains, and other support			
Tuition and fees (net of scholarship)	\$ 78,005,461	\$ -	\$ 78,005,461
Auxiliary enterprises sales and services (net of scholarship)	19,935,087	-	19,935,087
Contributions	1,608,587	9,412,227	11,020,814
Investment return designated for operating	11,436,451	11,268,886	22,705,337
Government grants and contracts	5,223,563	-	5,223,563
Other revenue	5,359,840	-	5,359,840
Net assets released from restrictions			
Release of investment return	11,268,886	(11,268,886)	-
Satisfaction of program restrictions	<u>7,055,213</u>	<u>(7,055,213)</u>	-
Total revenues, gains, and other support	139,893,088	2,357,014	142,250,102
Expenses			
Operating expenses:			
Program expenses			
Instruction and research	46,888,342	-	46,888,342
Public services	2,646,468	-	2,646,468
Academic support	12,127,888	-	12,127,888
Student services	31,069,917	-	31,069,917
Expenses of auxiliary enterprises	19,105,934	-	19,105,934
Supporting expenses			
Fundraising	4,642,726	-	4,642,726
Management and general	<u>24,137,697</u>	-	<u>24,137,697</u>
Total operating expenses	<u>140,618,972</u>	-	<u>140,618,972</u>
Change in net assets from operating activities	(725,845)	2,357,014	1,631,130
Non-operating:			
Contributions for endowment, plant, and other	-	12,155,977	12,155,977
Net investment return, net of amount designated for operations	9,433,041	(10,309,671)	(876,630)
Other revenue	130,402		130,402
Net assets released for non-operating activities	6,110,980	(6,110,980)	-
Changes in value of split-interest agreements	<u>161,087</u>	<u>2,493,632</u>	<u>2,654,719</u>
Net non-operating revenues, expenses, and other changes	<u>15,835,510</u>	<u>(1,771,042)</u>	<u>14,064,468</u>
Total change in net assets	15,109,626	585,972	15,695,598
Net assets at beginning of year	<u>273,202,770</u>	<u>298,080,812</u>	<u>571,283,582</u>
Net assets at end of year	<u>\$ 288,312,396</u>	<u>\$ 298,666,784</u>	<u>\$586,979,180</u>

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 11,153,567	\$ 15,695,597
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation of property and equipment	10,502,959	10,326,818
Amortization of debt issuance cost and premium	(271,429)	(257,004)
Loss on disposal of assets	385,838	2,123
Provision for credit losses	654,550	1,016,978
(Increase) decrease in:		
Accounts and notes receivable	(5,459,559)	(2,372,284)
Contributions receivable	1,688,851	(2,773,435)
Inventories	(42,728)	166,728
Prepaid expenses and other assets	(118,592)	(337,641)
Increase (decrease) in:		
Accounts payable	(525,796)	(4,147,580)
Accrued interest payable	(181,083)	51,083
Accrued salaries and benefits	(1,514,204)	(3,153,859)
Deposits and other liabilities	2,100,674	3,375,746
Contributions restricted for long-term investment	(14,878,971)	(12,155,977)
Interest and dividends restricted for reinvestment	(124,687)	(101,359)
Changes in value of split-interest agreements	(343,012)	(2,654,719)
Net unrealized and realized gains on investments	<u>(6,664,892)</u>	<u>(9,923,352)</u>
Net cash used in operating activities	(3,638,514)	(7,242,137)
Cash flows from investing activities		
Additions to property and equipment	(13,934,882)	(10,161,525)
Repayment of loans from students, faculty, and others	428,926	577,118
Proceeds from sales and maturities of investments	114,769,098	56,429,570
Purchases of investments	<u>(103,430,893)</u>	<u>(52,956,229)</u>
Net cash used in investing activities	(2,167,751)	(6,111,066)

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment in endowment and other	\$ 6,745,722	\$ 7,437,292
Investment in plant	<u>6,659,524</u>	<u>6,321,358</u>
	13,405,246	13,758,650
Other financing activities:		
Interest and dividends restricted for reinvestment	124,687	101,358
Payments of split-interest obligations	(3,604,519)	(1,878,527)
Proceeds from long-term obligations	8,000,000	-
Payments of long-term obligations	(3,012,913)	(3,525,186)
Payment of finance lease liabilities	<u>(13,978)</u>	<u>-</u>
	<u>1,493,277</u>	<u>(5,302,355)</u>
Net cash provided by financing activities	<u>14,898,523</u>	<u>8,456,295</u>
Net change in cash and cash equivalents	(9,092,258)	(4,896,908)
Cash and cash equivalents at beginning of year	<u>17,651,881</u>	<u>22,548,789</u>
Cash and cash equivalents at end of year	\$ <u>26,744,139</u>	\$ <u>17,651,881</u>
Non-cash investing and financing activities:		
Improvements capitalized by increases to accounts payable	\$ 615,531	\$ 150,898
Equipment capitalized by an increase to long-term obligations	-	12,912
Improvements capitalized through agreement with vendor	\$ 1,177,496	-
Right of use assets obtained in exchange for new lease liabilities	\$ 7,636,208	-
Noncash contributions	\$ 2,096,724	\$ 2,668,267
Other required disclosures:		
Cash paid for interest	\$ 6,073,704	\$ 6,153,682

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

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements include the financial position, activities, and cash flows of Abilene Christian University (the University or ACU), a not for profit institution of higher education in Abilene, Texas; its subsidiaries, ACIMCO, ARL Multi-Family and ARL Retail; and additionally the Grace L. Woodward Memorial Endowment Trust. All significant interrelated accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Accounting Pronouncements Adopted

As of June 1, 2019, the University adopted ASU 2016-02, *Leases (Topic 842)*, which required lessees to recognize substantially all leases on-balance sheet and disclose key information about leasing arrangements. ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the consolidated statement of financial position for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the consolidated statement of activities and changes in net assets. The University adopted ASU 2016-02 effective June 1, 2019 utilizing a modified retrospective approach which requires prospective application of the new guidance with disclosure of results under the old guidance in the first year of adoption. The University adopted the package of practical expedients available at transition that retained the lease classifications and initial direct costs for any leases that existed prior to adoptions of the standard. Contracts entered into prior to the adoptions were not reassessed for leases or embedded leases. For lease and non-lease components, the University has elected to account for both as a single lease component.

Adoption of ASU 2016-02 resulted in the recording of lease assets and lease liabilities of approximately \$7,000,000 as of June 1, 2019. The standard did not materially impact the University's consolidated change in net assets and had no impact on cash flows.

Basis of Accounting

The consolidated financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The focus of these consolidated financial statements is to present the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of transactions into two classes of net assets – Without Donor Restriction and With Donor Restrictions.

- Without Donor Restrictions— Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated as board designated from net assets without donor restrictions a board designated endowment. Conditional contributions such as grants whose purpose/requirements are met in the same period the condition was received are recorded as without donor restriction.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- With Donor Restrictions— Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The University reports contributions restricted by donors as increases in net assets 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 net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Gifts and investments income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are record as revenue with donor restriction and then released from restriction.

Statement of Activities

The University defines operating activities, as included in the accompanying consolidated statement of activities, as the revenue and expenses resulting from its educational programs and other core mission activities. Donor restricted contributions to endowments and capital contributions, as well as investment returns in excess of the University's defined spending limit, are excluded from operating activities and separately reported as non-operating activities in the accompanying consolidated statements of activities.

Fair Value Measurements

ASC Topic 820 *Fair Value Measurements and Disclosures* (ASC 820) provides a framework for measuring the fair value of assets and liabilities and illustrates key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The standard establishes a hierarchy that prioritizes the inputs to fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The University has implemented this standard with respect to the valuation of its financial assets and liabilities and their corresponding designations within the fair value hierarchy described in Note O.

Fair Value Option

For certain assets and liabilities, the University has elected the fair value option provided by ASC Topic 825 *Financial Instruments* (ASC 825), which allows entities to measure eligible financial instruments at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported within the change in net assets. The decision to elect the fair value option is determined on an instrument-by-instrument basis, must be applied to an entire instrument, and is irrevocable once elected. The University has elected to apply the fair value option to its investments in real estate and mineral interests in order to present the most relevant values on these investments.

Investments and Net Investment Return

Readily marketable equity and fixed income securities (investments readily marketable on national exchanges) are carried at fair value, as determined by the last reported sales price on the date of valuation, or if there has been no sale on that date, the average of the bid and asked prices. Real estate and mineral interests are carried at fair value based on appraised values or reserve analyses.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments and Net Investment Return - continued

In addition, the University maintains non-marketable alternative investments (primarily limited partnerships) carried at fair value based on information provided by external investment managers at the most recent valuation date prior to fiscal year-end.

Other investments include cash and cash equivalents carried at cost, which approximates fair value, and notes receivable carried at net realizable value, which approximates fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The net realized and unrealized gains (losses) in fair value of investments are reflected in the consolidated statements of activities within investment return, net of amount designated for operations. The value of endowment support is determined by the amounts provided from the endowment to support the operations of the University. Total investment income reported in Note D is determined by combining endowment support and investment return, net of amount designated for operations.

Income and realized and unrealized gains and losses on investments of endowments and similar funds are reported as changes in With Donor Restriction net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund, if the terms of the gift impose restrictions on the use of the income or if the funds have not been appropriated for use in operations; and as changes in Without Donor Restriction net assets in all other cases.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

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 at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the valuation of investments and other financial instruments, provisions for credit losses and uncollectible pledges, asset retirement obligations, and the accumulated post-retirement benefit obligation. Actual results could differ from those estimates.

U.S. Income Tax Status and Accounting for Uncertainty in Income Taxes

The University is a tax-exempt institution as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (IRC) and is not a “private foundation” under Section 501(a) of the IRC; accordingly, no provision for income taxes has been made in the consolidated financial statements. ACIMCO has also been accorded recognition as exempt from income tax under Section 501(a) of the IRC, as an organization described in Section 501(c)(3) and 509(a)(3) of the IRC.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

U.S. Income Tax Status and Accounting for Uncertainty in Income Taxes - continued

For the years ended May 31, 2020 and 2019, the University incurred unrelated business activity related to certain retail sales, advertising, rental income, oil and gas working interest, and certain alternative investments, resulting in an immaterial amount of unrelated business income. Tax positions taken related to the University's tax-exempt status, unrelated business income activities, deductibility of expenses for unrelated business activities, and other miscellaneous tax positions have been reviewed, and management believes that material positions taken by the University will more likely than not be sustained by examination. Accordingly, the University has not recorded a liability for uncertain tax positions. As of May 31, 2020, the University's tax years 2014 to 2020 remain subject to examination.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the University considers all cash and other highly liquid investments with original maturities of three months or less to be cash equivalents. The University does not consider uninvested cash held in investment accounts as cash or cash equivalents. Cash restricted by donors or held in endowment are reflected in investments. The University places its cash and cash equivalents with high quality financial institutions, which at times may exceed federally insured limits. The University has not experienced any losses on such accounts.

Deposits subject to credit risk were \$1,094,281 and \$141,603 at May 31, 2020 and 2019, respectively. Cash balances of \$590,768 and \$234,918 at May 31, 2020 and 2019, respectively, were restricted for the Federal Perkins Loan Program and are required to be reported in a separate account. Included in cash is restricted cash of \$3,200,000 that is collateral for a building remodel.

Accounts and Notes Receivable

Accounts and notes receivable are recorded at the contractual amounts owed by students and others. The values are adjusted, when necessary, through an allowance for credit losses. Interest income is recorded on the accrual basis in accordance with the terms of receivables.

ASC Topic 310 Receivables (ASC 310) addresses disclosures of student loans and other financing receivables and requires enhanced disclosures for certain financing receivables, such as student loans. Other trade receivables, such as student accounts, are reviewed monthly for any late payments and assessed a 1.242% late fee per month beginning October of the fall semester. Late fees continue if there is a balance due at the end of the spring semester. Student receivables are released to collection agencies within 120 days of non-payment. ASC 310 defines a loan portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses and a class of financing receivable as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics, and methods for assessing risk. The University's student loan portfolio consists of a single segment (Student Loans). The class of financing receivables within the Student Loan segment are Institutional Notes and Federal Perkins Notes. The allowance for credit losses is presented by portfolio segment in Note B.

Estimated allowances for credit losses are maintained at levels that, in the judgment of management, are adequate to meet the present and potential future risks of uncollectible receivable balances. Management's judgment is based on a variety of factors, which include experience related to charge-offs and recoveries and scrutiny of individual accounts and notes receivable. Receivables are unsecured and considered past due based on contractual terms.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts and Notes Receivable - continued

Amounts deemed by management to be uncollectible are charged to expense. Recoveries on receivables previously charged-off are credited to expense. Provisions for credit losses are charged to expense and credited to the allowance for credit losses. Past due receivables are not placed on nonaccrual status, and payments received on past due receivables are applied to principal and interest according to contractual terms.

Student loans are evaluated for possible impairment based on four credit quality status indicators: deferred, current, performing, and nonperforming.

Deferred loans do not require repayment during the time in which a student is enrolled in college-level courses based on the terms of the loan. Current loans are those in repayment status and in which the borrower remains current with all contractual terms of the loan.

Performing loans are those in which the borrower is not current with all contractual terms of the loan but has established a recent payment history. Nonperforming loans are those in which the borrower has defaulted on the terms of the loan and no recent payment history exists; nonperforming loans are considered impaired.

The assets and liabilities of student loans financed primarily by the federal government and administered by the University for the Federal Perkins Loan Program are included with those of the University. The total of the federal government portion of these net assets is included in deposits and other liabilities in the accompanying consolidated statements of financial position.

Inventories

Inventories are valued at amounts, which, in the aggregate, approximate the lower of cost or net realizable value on the first-in, first-out basis. Losses of \$0 and \$45,000 were recorded for obsolete inventory for the years ended May 31, 2020 and 2019, respectively.

Taxes Collected from Customers and Remitted to Governmental Authorities

Sales and use taxes are reported on a gross basis within revenues and costs. These taxes amounted to \$593,325 and \$582,928 for the years ended May 31, 2020 and 2019, respectively.

Property and Equipment

Investments in the physical plant are recorded at cost. Significant renovations to existing buildings are capitalized, while maintenance and repairs are expensed when incurred. Purchases and improvements under \$5,000 are not capitalized. Provision for depreciation is made on a straight-line basis over the estimated useful life of the asset. Currently, these estimated useful lives are as follows:

Buildings and building improvements	10-55 years
Improvements other than buildings	5-15 years
Equipment	5-20 years

When disposition is made of plant assets, the cost and accumulated depreciation are removed from the accounting records, and the resulting gain or loss is recognized in the consolidated statements of activities. Depreciation expense is not recognized on assets that are held for sale.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment - continued

The University reviews the carrying values of property and equipment for impairment whenever events or circumstances indicates that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent the carrying value exceeds the fair value of the asset. There were no indicators of asset impairment as of May 31, 2020 and 2019.

Leases

The University determines whether an arrangement is or contains a lease at lease inception. On the commencement date, operating leases are recorded as operating lease ROU assets in the consolidated statements of financial position while finance leases are recorded as finance lease ROU assets over the term of the lease. Lease liabilities represent the University's contractual obligation to make lease payments over the lease term.

For operating leases, the lease liability is measured as the present value of the lease payments over the lease term using either the rate implicit in the lease, if it is determinable, or the University's incremental borrowing rate if the implicit rate is not determinable. Operating ROU assets are calculated as the present value of the remaining lease payments plus unamortized initial direct costs and prepayments of rent, less any unamortized lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. Lease expense is recognized on a straight-line basis over the lease term. The University has elected to not recognize a ROU asset and lease liability for leases with an initial term of 12 months or less but includes the expense associated with short-term leases in the lease expense in the consolidated statements of activities.

For finance leases, the lease liability is measured on an amortized cost basis and increased to reflect interest on the liability and decreased to reflect the lease payment. Interest on the lease liability is determined each period during the lease term as the amount that results in a constant period discount rate on the remaining balance of the liability. The ROU asset is subsequently measured at cost, less any accumulated amortization and any accumulated impairment losses. Amortization on the ROU asset is recognized over the period from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term except for leases with a purchase option for which the University believes purchase of the asset is expected to be exercised. For assets to be acquired under such purchase options, the ROU asset is amortized over the expected life consistent with the University's policy for similar property and equipment.

ROU assets are assessed for impairment in accordance with the University's long-lived asset policy. Management reassesses lease classification and remeasures ROU assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

Self-Insurance

The University has elected to self-insure certain costs related to employees. Costs resulting from noninsured losses are charged to income when incurred. The University has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$75,000 per claim. See additional information in Note M.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets Held and Liabilities Under Annuity Split-Interest Agreements

Under charitable gift annuity contracts, the University receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the period stipulated. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is initially recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as a without donor or with donor restricted contribution based on the donor's wishes. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and the gain is recognized. The estimated present value of future payments to be made under these agreements is calculated using the AFR rate in effect at the time of the agreement and the beneficiary's current life expectancy.

Debt Issuance Costs

Debt costs are amortized over the period the related obligation is outstanding using the straight-line method, which is a reasonable approximation of the effective interest method. Debt issuance costs are included within debt in the consolidated statements of financial position. Amortization of debt issuance costs is included in interest expense in the accompanying consolidated financial statements.

Revenue Recognition

Tuition, Fees and Scholarships – The University recognizes revenue and the performance obligation is satisfied from student tuition and fees within the fiscal year in which educational services are provided ratably over the term over the course of the academic term. Tuition discounts in the form of scholarships and financial aid grants, including those funded by the endowment, research funds, and gifts, are reported as a reduction of tuition revenues. A tuition discount represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student. Scholarship allowances for tuition and fees were \$66,326,240 and \$64,146,448 for years ended May 31, 2020 and 2019, respectively.

Deferred Revenue: Tuition and other deposits - Tuition, attendance, and auxiliary related revenue and all other revenue, support and gains received in advance are deferred to the applicable academic term or period in which the related services are performed or expenditures are incurred.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions to be received 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. 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 fund-raising activity. Contributions of land, building, and equipment without donor stipulations concerning the use of such assets are reported as revenues of the Without Donor Restriction net asset class. Contributions of cash or other assets to be used to acquire land, building, and equipment with such donor stipulations are reported as revenues of the With Donor Restrictions net asset class; the restrictions are considered to be released upon the acquisition of such assets.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition - continued

Conditional Grants

A portion of the University's revenue is derived from cost-reimbursement federal, state and private contracts and grants, which are conditional upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the University has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The University received cost-reimbursable grants of \$9,471,193 that have not been recognized as of May 31, 2020 because qualifying expenditures have not yet been incurred, with an advance payment of \$171,042 recognized in the statement of financial position as a refundable advance. For fiscal year 2019 the University received cost-reimbursement grants of \$8,963,648 that were not recognized as of May 31, 2019 because qualifying expenditures had not yet been incurred, with an advance payment of \$361,793 recognized in the statement of financial position as a refundable advance.

Auxiliary Enterprises – Auxiliary enterprises revenue is primarily composed of housing and food services revenue. Revenue from housing and food services are recognized over the period it is earned as the services are provided. Discounts in the form of financial aid associated with these services are recorded as reduction of auxiliary revenues. For years ended May 31, 2020 and 2019, the discounts for housing and food services that were netted against revenue were \$1,253,065 and \$515,725, respectively.

Revenue is reported as an increase in Without Donor Restriction net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in Without Donor Restriction net assets. Appreciation and depreciation of investments is reported as increases or decreases in Without Donor Restriction net assets unless their use is restricted by explicit donor-imposed stipulations, by the passage of time, or by law. Expirations of donor restrictions on net assets are reclassified as Without Donor Restriction net assets and reported in the consolidated statements of activities as a net asset released from restriction.

Income and net gains and losses on investments of endowments and similar funds are reported as increases in With Donor Restriction net assets if the terms of the gift require that they be added to the principal of the permanent endowment fund or in all other cases until the funds are appropriated and spent.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$4,028,682 and \$2,910,803 for the years ended May 31, 2020 and 2019, respectively.

Functional Allocation of Expenses

The expenses of providing various programs and support services have been categorized on a functional basis in the consolidated statements of activities. Accordingly, expenses such as depreciation, interest expense, and operation and maintenance of plant have been allocated directly or based on square footage among the functional categories. Employee benefits are allocated by salaries in each functional category. Fundraising is allocated based on time for certain key administrative employees.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 financial statement presentation. These reclassifications had no effect on the change in net assets.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE B - FINANCING RECEIVABLES

In accordance with ASC Topic 310 *Receivables*, the University's accounts and notes receivable are considered financing receivables, which represent a contractual right to receive money either on demand or on a fixed or determinable date.

Financing receivables consisted of the following at May 31, 2020:

	<u>Student & Commercial Accounts</u>	<u>Student Loans</u>	<u>Grants, Minerals, Other</u>	<u>Total</u>
Gross receivables	\$4,345,699	\$1,505,796	\$13,738,292	\$19,589,787
Less allowance for credit losses	<u>(502,440)</u>	<u>(296,930)</u>	<u>-</u>	<u>(799,370)</u>
Receivables, net of allowance for credit losses	<u>\$3,843,259</u>	<u>\$1,208,866</u>	<u>\$13,738,292</u>	<u>\$18,790,417</u>

Financing receivables consisted of the following at May 31, 2019:

	<u>Student & Commercial Accounts</u>	<u>Student Loans</u>	<u>Grants, Minerals, Other</u>	<u>Total</u>
Gross receivables	\$6,038,908	\$1,865,040	\$7,340,246	\$15,244,194
Less allowance for credit losses	<u>(532,930)</u>	<u>(296,930)</u>	<u>-</u>	<u>(829,860)</u>
Receivables, net of allowance for credit losses	<u>\$5,505,978</u>	<u>\$1,568,110</u>	<u>\$7,340,246</u>	<u>\$14,414,334</u>

Activity in the allowance for credit losses and the recorded investment in the Student Loan segment of financing receivables were as follows as of and for the years ended May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Allowance for credit losses:		
Beginning balance	\$296,930	\$ 211,890
Charge-offs	-	-
Recoveries	-	-
Provision	<u>-</u>	<u>85,040</u>
Ending balance	<u>\$296,930</u>	<u>\$296,930</u>
	<u>2020</u>	<u>2019</u>
Allowance for credit losses:		
Allocated to student loans individually evaluated for impairment	\$ 227,776	\$ 227,776
Allocated to student loans collectively evaluated for impairment	<u>69,154</u>	<u>69,154</u>
Ending balance	<u>\$ 296,930</u>	<u>\$ 296,930</u>
Financing receivables:		
Balance individually evaluated for impairment	\$ 528,020	\$ 501,328
Balance collectively evaluated for impairment	<u>977,776</u>	<u>1,363,712</u>
Ending balance	<u>\$1,505,796</u>	<u>\$1,865,040</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE B - FINANCING RECEIVABLES - Continued

Student loans consisted of the following aging categories at May 31, 2020:

	<u>Past Due</u>			<u>Current and Deferred</u>	<u>Total</u>	<u>> 90 Days and Accruing</u>
	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>> 90 Days</u>			
Institutional Notes	\$43,557	\$ 15,743	\$235,279	\$145,759	\$ 440,338	\$235,279
Federal Perkins	<u>27,866</u>	<u>43,443</u>	<u>325,702</u>	<u>668,447</u>	<u>1,065,458</u>	<u>325,702</u>
	<u>\$71,423</u>	<u>\$59,186</u>	<u>\$560,981</u>	<u>\$814,206</u>	<u>\$1,505,796</u>	<u>\$560,981</u>

Student loans consisted of the following aging categories at May 31, 2019:

	<u>Past Due</u>			<u>Current and Deferred</u>	<u>Total</u>	<u>> 90 Days and Accruing</u>
	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>> 90 Days</u>			
Institutional Notes	\$74,030	\$10,198	\$253,071	\$ 133,600	\$ 470,899	\$253,071
Federal Perkins	<u>84,764</u>	<u>109,231</u>	<u>287,368</u>	<u>912,778</u>	<u>1,394,141</u>	<u>287,368</u>
	<u>\$158,794</u>	<u>\$119,429</u>	<u>\$540,439</u>	<u>\$1,046,378</u>	<u>\$1,865,040</u>	<u>\$540,439</u>

Student loan credit quality indicators are summarized below as of May 31, 2020:

	<u>Institutional Notes</u>	<u>Federal Perkins</u>	<u>Total</u>
Deferred	\$ -	\$ 346,094	\$ 346,094
Current	145,759	322,353	468,112
Performing	86,589	76,981	163,570
Nonperforming	<u>207,990</u>	<u>320,030</u>	<u>528,020</u>
	<u>\$440,338</u>	<u>\$1,065,458</u>	<u>\$1,505,796</u>

Student loan credit quality indicators are summarized below as of May 31, 2019:

	<u>Institutional Notes</u>	<u>Federal Perkins</u>	<u>Total</u>
Deferred	\$ -	\$ 488,085	\$ 488,085
Current	133,600	424,693	558,293
Performing	109,523	207,810	317,333
Nonperforming	<u>227,776</u>	<u>273,553</u>	<u>501,329</u>
	<u>\$470,899</u>	<u>\$1,394,141</u>	<u>\$1,865,040</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE B - FINANCING RECEIVABLES – Continued

The following table summarizes the University's investment in impaired student loans as of and for the year ended May 31, 2020:

	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income</u>
With no related allowance					
Institutional Notes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Perkins	320,030	320,030	-	296,792	64,095
With a related allowance					
Institutional Notes	207,990	207,990	207,990	217,883	18,201
Federal Perkins	-	-	-	-	-
Total					
Institutional Notes	207,990	207,990	207,990	217,883	18,201
Federal Perkins	<u>320,030</u>	<u>320,030</u>	<u>-</u>	<u>296,792</u>	<u>64,095</u>
	<u>\$528,020</u>	<u>\$528,020</u>	<u>\$207,990</u>	<u>\$514,675</u>	<u>\$82,296</u>

The following table summarizes the University's investment in impaired student loans as of and for the year ended May 31, 2019:

	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income</u>
With no related allowance					
Institutional Notes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Perkins	273,552	273,552	-	250,815	58,341
With a related allowance					
Institutional Notes	227,776	227,776	227,776	174,733	16,380
Federal Perkins	-	-	-	-	-
Total					
Institutional Notes	227,776	227,776	227,776	174,733	16,380
Federal Perkins	<u>273,552</u>	<u>273,552</u>	<u>-</u>	<u>250,815</u>	<u>58,341</u>
	<u>\$501,328</u>	<u>\$501,328</u>	<u>\$227,776</u>	<u>\$425,548</u>	<u>\$74,721</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Unconditional promises expected to be collected in:		
Less than one year	\$7,831,014	\$6,538,775
One year to five years	7,482,504	10,731,296
Over five years	<u>-</u>	<u>300,000</u>
	15,313,518	17,570,071
Less discount for net present value	(345,594)	(339,051)
Less allowance for uncollectible contributions receivable	<u>(980,139)</u>	<u>(931,385)</u>
	<u>\$13,987,785</u>	<u>\$16,299,635</u>

The contributions are to be utilized for the following purposes:

	<u>2020</u>	<u>2019</u>
Operations and scholarships	\$ 3,833,377	\$ 5,522,228
Endowment	936,346	774,313
Acquisition of land, building, and equipment	<u>9,218,062</u>	<u>10,003,094</u>
	<u>\$13,987,785</u>	<u>\$16,299,635</u>

Contributions receivable have been discounted using rates ranging from .78% to 2.69% as of May 31, 2020 and 2019.

At May 31, 2020, 64% of the contribution receivable was comprised of two donors. At May 31, 2019, 71% of contributions receivable was comprised of three donors. All other donor balances do not exceed 10% of the total balance.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE D - INVESTMENTS

Investments consisted of the following at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Mutual funds and investment partnerships managed by third parties	\$301,636,281	\$304,036,303
Notes receivable	52,060	57,928
Stocks and bonds	46,000,754	65,552,241
Real estate and mineral interests	93,202,890	66,613,414
Outside managed	2,339,140	2,358,470
Other investments	<u>7,282,981</u>	<u>7,180,309</u>
	<u>\$450,514,106</u>	<u>\$445,798,665</u>

The University invests in non-marketable alternative investments (primarily limited partnerships) that are carried at estimated fair value provided by the management of the investment partnerships. The University believes that the carrying value of its alternative investments is a reasonable estimate of fair value.

Outside managed investments primarily include several outside managed trusts comprised of stocks, bonds, real estate, mineral interests, and other assets.

Investment income consisted of the following for the years ended May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest income	\$ 270,845	\$ 227,089
Dividend income	1,815,554	1,795,112
Mineral income	16,085,783	10,465,481
Ranch income	695,269	1,617,412
Net realized and unrealized gains	6,664,892	9,923,352
Direct and indirect endowment expense	<u>(2,130,299)</u>	<u>(2,199,739)</u>
Total investment income	<u>\$23,402,044</u>	<u>\$21,828,707</u>
	<u>2020</u>	<u>2019</u>
Operating: Investment return designated for operations	\$23,484,933	\$22,705,337
Non-operating: Net Investment return	<u>(82,889)</u>	<u>(876,630)</u>
Total investment income	<u>\$23,402,044</u>	<u>\$21,828,707</u>

Total investment income includes gains (losses) from fair value changes of real estate, mineral interests and wind royalties, which are reported at fair value under the fair value option provided by ASC 825. The gain for the years ended May 31, 2020 and 2019 were \$10,562,701 and \$11,876,757, respectively.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE D - INVESTMENTS – Continued

The University maintains an investment pool for use by its endowment (excluding assets held in trust). The University's policy allows the pool to invest in domestic equities, international equities, fixed income securities, marketable alternative investments, real estate, mineral interests, and other investments determined appropriate by management. Investments in mutual funds and investment partnerships are administered by professional third-party managers with different investment styles to diversify risk and maximize returns.

The investment pool consisted of the following at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Stocks, Mutual funds and investment partnerships managed by third parties and by ACU	\$325,896,327	\$355,921,627
Cash and cash equivalents	<u>14,595,058</u>	<u>11,079,544</u>
	<u>\$340,491,385</u>	<u>\$367,001,171</u>

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,720,684	\$ 1,720,684
Buildings	269,025,291	261,854,688
Improvements to land and buildings	89,855,422	86,158,331
Equipment	<u>28,045,469</u>	<u>27,542,169</u>
	388,646,866	377,275,872
Less accumulated depreciation and amortization	<u>(148,293,253)</u>	<u>(138,820,305)</u>
	240,353,613	238,455,567
Construction in progress	<u>4,661,074</u>	<u>1,873,796</u>
	<u>\$ 245,014,687</u>	<u>\$240,329,363</u>

Depreciation expense on property and equipment for the years ending May 31, 2020 and 2019, was \$10,502,959 and \$10,326,818, respectively. Interest cost capitalized during fiscal years ended May 31, 2020 and 2019 was \$0 and \$56,405, respectively.

Construction in progress as of May 31, 2020 consisted of a new resident hall and other various projects across campus. Construction in progress as of May 31, 2019 consisted of construction on the Golf Facility, Softball Batting facility and other various projects across campus.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE F - LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following as of May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Series 2016A Newark Higher Education Finance Corporation Revenue Improvement and Refunding Bonds due in annual payments ranging from \$2,960,000 to \$5,440,000 beginning April 2026 maturing on April 1, 2040. Interest with an average coupon rate of 4.05% is paid semiannually. The effective interest rate is 3.29%.	\$ 62,230,000	\$ 62,230,000
Series 2016B Morgan Stanley & Co. LLC due in annual payments ranging from \$2,660,000 to \$7,285,000 beginning April 2040 maturing on April 1, 2046. Interest with an average coupon rate of 4.554% is paid semiannually. The effective interest rate is 4.6%.	41,885,000	41,885,000
Series 2016C Newark Higher Education Finance Corporation Revenue Improvement and Refunding Bonds due in annual payments of \$1,566,667 with a final payment of \$9,399,997 beginning October 1, 2017 maturing on May 29, 2030. Interest at the LIBOR rate in effect on the date of advance is paid quarterly.	23,500,000	26,500,000
Series 2017 Newark Higher Education Finance Corporation Revenue Improvement Bonds due in annual payments ranging from \$5,645,000 to \$5,925,000 beginning April 1, 2047 maturing on April 1, 2048. Interest with an average coupon rate of 4.201% is paid semi-annually. The effective interest rate is 4.2%.	11,570,000	11,570,000
Miscellaneous notes payable – as of May 31, 2020, private placement loan for purchase and remodel of apartment complex; payable in quarterly installments; maturing in fiscal year 2035; variable rate at 3-month LIBOR plus 1.95 percentage points.	<u>8,000,000</u>	<u>12,913</u>
	147,185,000	142,197,913
Debt issuance costs and premium, net	<u>1,969,120</u>	<u>2,240,549</u>
	<u>\$149,154,120</u>	<u>\$144,438,462</u>

A schedule of future fiscal year principal payments of long-term obligations is as follows:

2021	\$ 1,882,160
2022	1,996,867
2023	2,009,880
2024	2,022,895
2025	2,036,955
Thereafter	<u>137,236,243</u>
	<u>\$147,185,000</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE F - LONG-TERM OBLIGATIONS - continued

Total interest expense for the years ended May 31, 2020 and 2019 was \$5,620,456 and \$6,164,827, respectively. The miscellaneous note payable is the only collateralized debt.

Long term debt as of May 31, 2020 and 2019 included debt issuance cost, premium and accumulated amortization as follows:

	2020	2019
Debt issuance cost	\$ (5,594,277)	\$ (5,594,277)
Accumulated Amortization	773,127	558,422
Premium	8,482,190	8,482,190
Accumulated Amortization	<u>(1,691,920)</u>	<u>(1,205,786)</u>
Unamortized debt issuance cost and premium	<u>\$ 1,969,120</u>	<u>\$ 2,240,549</u>

NOTE G - NET ADVANCES ON LINES OF CREDIT

An agreement with First Financial Bank, Abilene (the FFIN Line), matures on October 30, 2020, and provides for maximum borrowings of up to \$9,500,000 with interest payable at prime (3.25% and 5.5% at May 31, 2020 and 2019, respectively). No amount was outstanding on the FFIN Line at May 31, 2020 and 2019.

Agreement with First Financial Bank (the FFIN Endowment Line) matures on October 30, 2020 and provides for maximum borrowing of up to \$5,000,000 with interest payable at prime (3.25% and 5.5% at May 31, 2020 and 2019, respectively). No amount was outstanding on the FFIN Endowment Line at May 31, 2020 and 2019.

Another agreement with First Financial Bank, Abilene (the FFIN Line), matures on October 30, 2020, and provides for maximum borrowings of up to \$8,000,000 with interest payable at prime (3.25% and 5.5% at May 31, 2020 and 2019, respectively). No amount was outstanding on the FFIN Line at May 31, 2020 and 2019.

All lines of credit are non-collateralized.

NOTE H – NET ASSETS WITHOUT AND WITH DONOR RESTRICTIONS

Net assets Without Donor Restriction consist of the following categories for the years ended May 31, 2020 and 2019.

	2020	2019
Without Donor Restriction		
Board designated endowment	\$203,671,473	\$192,683,020
Undesignated	<u>102,137,518</u>	<u>95,629,376</u>
Total net assets Without Donor Restriction	<u><u>\$305,808,991</u></u>	<u><u>\$288,312,396</u></u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE H – NET ASSETS WITHOUT AND WITH DONOR RESTRICTIONS

Net assets With Donor Restrictions are restricted for the following purposes and periods for the years ended May 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
With Donor Restriction		
Subject to expenditure when a specified event occurs		
Student loans	\$(19,117)	\$(19,117)
Capital construction	15,546,106	4,391,313
Available for general use	3,450,508	3,873,578
Promises to give:		
Available for general use	3,833,377	5,522,228
Capital construction	9,218,062	9,869,745
Subject to expenditure at a specified time		
Life income and annuities	1,909,618	2,185,794
Endowment return subject to future appropriations		
Instruction and research	40,149,165	46,183,052
Financial aid	75,021,304	86,461,134
Student loans	765,339	781,385
Available for general use	9,535,246	10,834,912
Promises to give:		
Available for general use	468,173	387,158
Total net asset restricted by time or purpose	<u>159,877,781</u>	<u>170,471,182</u>
Amounts with perpetual restrictions		
Endowment		
Instruction and research	25,412,898	25,076,783
Financial aid	83,809,623	77,034,517
General use	3,670,380	3,660,598
Promises to give:		
General use	468,173	387,156
Other		
Student loans	3,919,791	3,858,737
Life Income/ Annuities	15,165,110	18,177,811
Total net assets with perpetual restrictions	<u>132,445,975</u>	<u>*128,195,602</u>
Total net assets With Donor Restrictions	<u>\$ 292,323,756</u>	<u>\$ 298,666,784</u>

* Adjusted in 2020 for endowment net assets of \$55,396,052 that had perpetual restrictions that were improperly classified as spendable in 2019.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended May 31, 2020 and 2019.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE H – NET ASSETS WITHOUT AND WITH DONOR RESTRICTIONS – Continued

	2020	2019
Satisfaction of purpose restrictions		
Financial aid	\$ 834,191	\$ 597,808
Instruction and research	4,374,549	4,586,807
Available for general use	1,642,444	1,870,598
Capital construction	6,216,084	6,110,980
	<u>13,067,268</u>	<u>13,166,193</u>
Restricted purpose spending rate distributions and appropriations		
Student loans	69,693	235,145
Financial aid	7,670,187	6,589,031
Instruction and research	3,221,872	3,421,145
Available for general use	654,044	655,368
Life income and annuities	-	368,197
	<u>11,615,796</u>	<u>11,268,886</u>
Net assets released from restriction	<u>\$ 24,683,064</u>	<u>\$ 24,435,079</u>

NOTE I - ENDOWMENT

The University's endowment consists of individual endowment funds established for a variety of purposes including both donor restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, 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. Without Donor Restriction endowment represents board-designated funds.

Interpretation of Relevant Law

The University interprets the State of Texas UPMIFA (Uniform Prudent Management of Institutional Funds Act) as allowing the University, absent donor stipulations to the contrary as stated in the gift instrument, to appropriate so much of a donor restricted endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. The assets in the endowment fund remain restricted until appropriated for expenditure by the University.

The following factors are considered in making a determination to appropriate or accumulate donor restricted endowment funds: 1) The duration and preservation of the 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.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE I – ENDOWMENT – Continued

Composition of endowment by type of fund for May 31, 2020, are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$239,901,102	\$239,901,102
Board-designated endowment funds	<u>203,671,473</u>	<u>-</u>	<u>203,671,473</u>
Endowment net assets, end of year	<u>\$203,671,473</u>	<u>\$239,901,102</u>	<u>\$443,572,575</u>

Composition of endowment by type of fund for May 31, 2019, are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$251,393,545	\$251,393,545
Board-designated endowment funds	<u>192,683,020</u>	<u>-</u>	<u>192,683,020</u>
Endowment net assets, end of year	<u>\$192,683,020</u>	<u>\$251,393,545</u>	<u>\$444,076,565</u>

Changes in endowment net assets for the year ended May 31, 2020, are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$192,683,020	\$251,393,545	\$444,076,565
Contributions	-	8,113,446	8,113,446
Real estate, mineral, and other income	15,926,673	1,069,868	16,996,541
Dividends and interest	487,124	1,436,729	1,923,853
Net realized and unrealized gains (losses)	6,140,159	(12,831,016)	(6,690,857)
Endowment support	(11,599,601)	(11,885,332)	(23,484,933)
Transfers and other	<u>34,097</u>	<u>2,603,863</u>	<u>2,637,960</u>
Endowment net assets, end of year	<u>\$203,671,472</u>	<u>\$239,901,103</u>	<u>\$443,572,575</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE I – ENDOWMENT – Continued

Changes in endowment net assets for the year ended May 31, 2019, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$178,484,893	\$253,460,709	\$431,945,602
Contributions	-	8,176,161	8,176,161
Real estate, mineral, and other income	11,990,764	420,402	12,411,166
Dividends and interest	1,171,772	834,304	2,006,076
Net realized and unrealized gains (losses)	10,981,226	(836,570)	10,144,656
Endowment support	(11,436,349)	(11,268,988)	(22,705,337)
Transfers and other	<u>1,490,714</u>	<u>607,527</u>	<u>2,098,241</u>
Endowment net assets, end of year	<u>\$192,683,020</u>	<u>\$251,393,545</u>	<u>\$444,076,565</u>

Funds with Deficiencies (Underwater Endowments)

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the value that the donor or UMPIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are required to be reported as reductions to assets With Donor Restrictions. The University considers an individual endowment with a fair value below 50% of its original gift value to be deficient at which time spending would be limited to interest, dividends, rents and royalties. The University had no deficiencies of this nature reported in assets With Donor Restriction as of May 31, 2020 and 2019.

Return Objective and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowments include those assets of donor restricted funds that the University must hold in perpetuity or for a donor specified period as well as board designated funds. The University invests with the goal of generating an average annual rate of return in excess of 5.5% plus inflation. Actual returns in any given year may vary from this amount.

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 capital appreciation (realized and unrealized) and current yield (interest, dividends, rents, and royalties). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy of appropriating for distribution each year an amount equal to 70% of an endowment's prior year distribution for spending, adjusted for inflation plus 1%, plus 30% of its beginning of year market value, times the target rate of 4.5%. Distributions are then limited to no less than 2% nor greater than 6% of beginning endowment market value and annual increases for an individual endowment to 7%. Accordingly, over time, the University expects the current spending policy to allow its endowment to grow at an average of at least 1% plus inflation annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE J - CHARITABLE TRUSTS AND ANNUITIES

The University is party to a number of charitable trusts and annuities, the majority of which the University is the trustee. Assets under charitable trusts and annuities consist of the following at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
University as trustee:		
Charitable trusts	\$35,146,939	\$41,798,274
Charitable gift annuities	<u>5,402,156</u>	<u>5,631,898</u>
	40,549,095	47,430,172
Third-party trustee	<u>275,736</u>	<u>277,571</u>
	<u>\$40,824,831</u>	<u>\$47,707,743</u>

For charitable trusts and annuities for which the University is trustee, contributions are recorded at fair value in the year of the agreement and are reflected as charitable trusts and annuities in the accompanying consolidated financial statements. For the years ended May 31, 2020 and 2019, \$0 and \$10,724,156, respectively, were recorded as contribution revenue related to these types of agreements. In addition to the recording of the asset, a liability is recorded representing the discounted future cash flows expected to be paid to the specified beneficiary designated by the donor. The estimated liability of future cash flows is based upon the life expectancy of the beneficiary, the current market value of the trust, and the applicable federal rate (AFR) related to each trust based on the AFR in effect at the date the trust was created resulting in AFR rates ranging from 1.2% to 10%. Investment income, payments to beneficiaries, and adjustments to the liability are reflected as changes in value of split-interest agreements in the consolidated statements of activities. The estimated liability for the future cash flows, as of May 31, 2020 and 2019, was \$23,037,123 and \$26,575,536, respectively.

For charitable trusts of which the University is not the trustee, contributions are recognized in the year the University becomes aware of the existence of the agreement and are valued at the discounted present value of expected future cash flows. The expected future cash flows have been discounted at a rate of 6% over the life expectancy of the parties involved and calculated based upon the current market value of the trust's assets and other factors stipulated in the agreements. The present value of the expected future cash flows has been reflected as a component of charitable trusts and annuities in the consolidated statements of financial position. The change in estimated present value is reflected as a change in value of split-interest agreements in the consolidated statements of activities.

NOTE K – EMPLOYEE BENEFIT PLANS

The University has a 403(b) defined contribution retirement plan covering substantially all full and part-time personnel. Employees are eligible to contribute 8% of salary to participate in the 403(b) plan, for which the University matches up to 8% of the employee's salary. University contributions under the plan, net of forfeitures, totaled \$2,958,491 and \$3,367,099 for the years ended May 31, 2020 and 2019, respectively.

The University has a 457(b) deferred compensation plan covering a select group of key employees. Qualified employees may defer a portion of their compensation as contributions to the plan. The University does not contribute to the plan. The values of the plan assets at May 31, 2020 and 2019 were \$1,512,628 and \$1,339,485, respectively, which are recorded as assets and liabilities on the consolidated statements of financial position.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE K – EMPLOYEE BENEFIT PLANS - continued

In 2017, the University implemented Collateral Assignment Life Insurance policies with two key employees. The policies are loans to the employees and a note receivable to the University. The balance of the note was \$1,290,905 and \$1,226,213 for the years ended May 31, 2020 and 2019, respectively. The note will earn interest at IRS interest rates (0.87% and 2.08% at May 31, 2020 and 2019, respectively).

NOTE L - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

In addition to the University's defined contribution pension plans, the University sponsors a defined benefit health care plan that provides postretirement medical benefits to certain retired employees who had worked 10 years and attained age 55 while in service with the University as of May 31, 1995. The University is required to recognize the funded status of this benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, as an asset or liability in its statement of financial position and to recognize previously unrecognized gains or losses and prior service costs or credits as a component of its consolidated statement of activities.

The following presents the plan's funded status as of May 31:

	<u>2020</u>	<u>2019</u>
Accumulated postretirement benefit obligation	\$(3,469,099)	\$(3,281,376)
Plan assets at fair value	<u>-</u>	<u>-</u>
Unfunded status	<u>\$(3,469,099)</u>	<u>\$(3,281,376)</u>
Accrued postretirement benefit cost	<u>\$(3,469,099)</u>	<u>\$(3,281,376)</u>

Approximate annual benefit costs for the year ended May 31:

	<u>2020</u>	<u>2019</u>
Net periodic postretirement benefit cost	<u>\$124,379</u>	<u>\$105,573</u>
Employer contributions	\$178,819	\$232,144
Plan participant contributions	<u>30,676</u>	<u>32,080</u>
Benefits paid	<u>\$209,495</u>	<u>\$264,224</u>

The accrued postretirement benefit cost is recorded in accrued salaries and benefit expenses on the accompanying consolidated statements of financial position.

The weighted average assumptions related to the postretirement benefit plan are as follows at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Discount rate	2.0%	3.20%
Health care cost trend rate	8.5%	8.5%
Ultimate health care cost trend rate	5.0%	5.0%
Years to reach ultimate cost trend	7	7

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE L - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

The University expects to contribute \$253,901 to the postretirement benefit plan in fiscal year 2021. Benefits expected to be paid over the next five years and the five fiscal years thereafter are as follows:

2021	\$ 253,901
2022	253,899
2023	250,806
2024	244,516
2025	235,499
2026-2029	957,455

NOTE M - HEALTH INSURANCE

The University maintains a partially self-funded health insurance plan with insured specific and aggregate stop-loss coverage, administered by a third-party administrator. The administrator acts as the University's agent in making benefit payments on the University's behalf. The total liability for outstanding health claims was \$726,000 and \$761,000 at May 31, 2020 and 2019, respectively, and is recorded in accrued salaries and benefit expenses in the accompanying consolidated statements of financial position. Management believes the liability is adequate to fund any health claims incurred but not paid or reported as of the end of the fiscal year.

NOTE N - COMMITMENTS AND CONTINGENCIES

At May 31, 2020, the University had an open construction contract for the architectural work on the demolition of a dormitory of approximately \$1,400,000. At May 31, 2019, the University had open construction contracts for Nelson Golf Clubhouse with remaining commitments of approximately \$1,400,000.

In the normal course of operations, the University is named as a defendant in lawsuits and is subject to periodic examinations by regulatory agencies. An estimate of the possible loss or range of loss on these events cannot be made. However, after consultation with legal counsel, management believes that liabilities, if any, arising from such litigation and examinations would not have a material effect on the University's financial position, results of operations, or cash flows.

NOTE O - FAIR VALUE MEASUREMENTS

ASC 820 requires certain disclosures about assets and liabilities measured and reported at fair value and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier hierarchy described below to distinguish between various types of inputs used in determining the value of the University's investments and liabilities.

Level 1 Inputs - Quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 assets include publicly traded securities and mutual funds. Valuations of these instruments do not require a high degree of judgment, as valuations are based on quoted prices in readily available, active markets.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE O - FAIR VALUE MEASUREMENTS – Continued

Level 2 Inputs - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies as described below. Assets in this category generally include real estate, certain hedge funds-of-funds, managed long/short funds, and other equity instruments. Valuations for Level 2 real estate assets are based on third party appraisals. Other Level 2 assets are based on valuations provided by third party asset managers using pricing models based on credit quality, time to maturity, stated interest rates, and other market-rate assumptions.

Level 3 Inputs - Unobservable inputs for the valuation of the asset or liability. Level 3 assets include instruments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. Assets in this category generally include certain hedge funds-of-funds, private equity funds, privately held stock, other similar assets, and mineral interests. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management.

ASC 820 provides additional guidance with respect to fair value measurement in certain entities that calculate net assets value per share (or equivalent). Amounts are comprised of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy but are presented in the table below to permit reconciliation of the fair value hierarchy amounts presented in the consolidated statements of financial position.

Description	May 31, 2020	Fair Value Measurements at May 31, 2020 Using			
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (1)
Investments:					
Mutual funds	\$ 73,827,281	\$ 73,827,281	\$ -	\$ -	\$ -
Notes receivable	52,060	-	52,060	-	-
Stocks and bonds	46,000,754	45,858,743	142,011	-	-
Real estate and mineral interests	93,202,890	-	39,603,928	53,598,962	-
Hedge funds	111,599,530	-	-	-	111,599,530
Private equity/ venture capital	116,209,470	-	-	4,500,000	111,709,470
Outside managed	2,339,140	-	2,339,140	-	-
Other investments	<u>7,282,981</u>	<u>-</u>	<u>2,164,497</u>	<u>5,118,484</u>	<u>-</u>
Total investments	450,514,106	119,686,024	44,301,636	63,217,446	223,309,000
Charitable trusts and annuities:					
Mutual funds	39,674,095	39,674,095	-	-	-
Real estate	875,000	-	875,000	-	-
Outside managed	<u>275,736</u>	<u>-</u>	<u>275,736</u>	<u>-</u>	<u>-</u>
Total charitable trusts and annuities	<u>40,824,831</u>	<u>39,674,095</u>	<u>1,150,736</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$491,338,937</u>	<u>\$159,360,119</u>	<u>\$45,452,372</u>	<u>\$63,217,446</u>	<u>\$223,309,000</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE O - FAIR VALUE MEASUREMENTS - Continued

- (1) Amounts are comprised of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy but are presented in this table to permit reconciliation of the fair value hierarchy amounts presented in the statement of financial position.

Description	May 31, 2019	Fair Value Measurements at May 31, 2019 Using			
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (1)
Investments:					
Mutual funds	\$ 72,589,391	\$ 72,589,391	\$ -	\$ -	\$ -
Notes receivable	57,928	-	57,928	-	-
Stocks and bonds	65,552,240	65,414,642	137,598	-	-
Real estate and mineral interests	66,613,414	-	24,398,932	42,214,482	-
Hedge funds	128,626,970	-	-	-	128,626,970
Private equity/ venture capital	102,819,943	-	-	-	102,819,943
Outside managed	2,358,470	-	2,358,470	-	-
Other investments	<u>7,180,309</u>	<u>-</u>	<u>2,099,333</u>	<u>5,080,976</u>	<u>-</u>
Total investments	445,798,665	138,004,033	29,052,261	47,295,458	231,446,913
Charitable trusts and annuities:					
Mutual funds	46,555,172	46,555,172	-	-	-
Real estate	875,000	-	875,000	-	-
Outside managed	<u>277,571</u>	<u>-</u>	<u>277,571</u>	<u>-</u>	<u>-</u>
Total charitable trusts and annuities	<u>47,707,743</u>	<u>46,555,172</u>	<u>1,152,571</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$493,506,408</u>	<u>\$184,559,205</u>	<u>\$30,204,832</u>	<u>\$47,295,458</u>	<u>\$231,446,913</u>

The schedule below summarizes the activity for items classified as Level 3 assets for the year ended May 31, 2020 and 2019:

	2020 Mineral and Other <u>Interests</u>	2019 Mineral and Other <u>Interests</u>
Beginning balance	\$47,295,458	\$32,347,227
Total gains (losses):		
Included in net realized and unrealized losses	11,421,988	12,183,175
Purchases	<u>4,500,000</u>	<u>2,765,056</u>
Ending balance	<u>\$63,217,446</u>	<u>\$47,295,458</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE O - FAIR VALUE MEASUREMENTS - Continued

Quantitative Information About Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

ASC 820 requires disclosures about significant quantitative information used in valuations for instruments classified as Level 3 measurements, as well as the sensitivity of significant unobservable inputs used.

The estimated fair values of Level 3 assets managed and held in a private equity investment is based on current purchase price. The investment was purchased in May of 2020 and is held at cost as of May 31, 2020. No significant quantitative information was developed by management with respect to the valuation for this investment.

The fair values of Level 3 mineral interests are estimated based on the expected net revenues generated by those assets. This method produces a range of values, and the fair value reported by the University falls within this range. The table below indicates the range of inputs associated with highest and lowest values considered by management in developing the University's reported fair value for mineral interests. Since the significant unobservable inputs used in valuation are based on multiple of recent months revenue, the valuation is very sensitive to the current market price per barrel and the volume of production in recent months.

The fair value of wind farm assets is based on cash flows contractually due from the wind farm tenant over the 50-year life of the windfarm, discounted for time. Due to the nature of the long-term contract, the wind farm valuation is minimally sensitive to price changes due to a contract guarantee

The following table describes valuation techniques, significant unobservable inputs, and ranges of significant input values for the University's Level 3 measurements at May 31, 2020 and May 31, 2019:

Instrument	Fair Value	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Mineral interests	<u>2020</u> \$35,878,633	Market approach	Multiple of recent months revenue	36-month average income times 7 years
	<u>2019</u> \$4,882,933	Market approach	Multiple of recent months revenue	

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE O - FAIR VALUE MEASUREMENTS - Continued

Sherrod Unit Deep Rights Reagan / Upton County, TX	<u>2020</u> \$17,720,329	Market approach	Decline curve typical of similar wells in the immediate area	\$25 to \$40 price per barrel for 25 year expected life, discounted at 15%
	<u>2019</u> \$4,882,933	Market approach	Multiple of recent months revenue	36-month average income x 7 years
Wind Farm Royalties	<u>2020</u> \$5,118,484	Discounted cash flows	Anticipated contractual cash flow	8% discount rate
	<u>2019</u> \$5,080,976			

Investments That Calculate Net Asset Per Share

ASC 820 requires additional disclosure for certain types of investments that calculate net asset value per share but are not publicly traded to assist in understanding the nature and risk of these investments by major category. The table below summarizes the fair value and other pertinent liquidity information of investments in major categories at May 31, 2020:

	<u>Fair Value</u>	<u>Unfunded Commit- ments</u>	<u>Redemption Frequency*</u>	<u>Redemption Notice Period</u>
Fixed income/absolute return funds (a)	\$ 8,856,879	\$ -	Daily	None
Emerging market long only funds (b)	21,768,119	-	Monthly	7 days to 30 days
Equity long/short and other equity hedge funds (c)	46,794,091	-	Monthly to 3 years	30 days to 95 days
Global opportunities hedge funds (d)	5,236,302	-	Monthly to 3 years	90 days
Multi-strategy hedge funds (e)	28,944,138	-	Monthly to annually	30 days to 90 days
Private equity funds (f)	94,748,448	65,358,821	(f)	(f)
Venture capital funds (g)	<u>16,961,023</u>	<u>2,063,646</u>	(g)	(g)
	<u>\$223,309,000</u>	<u>\$67,422,467</u>		

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE O - FAIR VALUE MEASUREMENTS - Continued

ASC 820 requires additional disclosure for certain types of investments that calculate net asset value per share but are not publicly traded to assist in understanding the nature and risk of these investments by major category. The table below summarizes the fair value and other pertinent liquidity information of investments in major categories at May 31, 2019:

	<u>Fair Value</u>	<u>Unfunded Commit- ments</u>	<u>Redemption Frequency*</u>	<u>Redemption Notice Period</u>
Fixed income/absolute return funds (a)	\$ 10,566,957	\$ -	Daily	None
Emerging market long only funds (b)	29,603,310	-	Monthly	7 days to 30 days
Equity long/short and other equity hedge funds (c)	55,857,178	-	Monthly to 3 years	30 days to 90 days
Global opportunities hedge funds (d)	16,178,605	-	Monthly to 3 years	90 days
Multi-strategy hedge funds (e)	16,420,919	-	Monthly to annually	30 days to 90 days
Private equity funds (f)	87,322,975	59,062,416	(f)	(f)
Venture capital funds (g)	<u>15,496,969</u>	<u>3,655,196</u>	(g)	(g)
	<u>\$231,446,913</u>	<u>\$62,717,612</u>		

* Redemption frequency and redemption notice periods reflect general redemption terms and exclude liquidity restrictions noted below:

(a) This category includes investment funds that invest in a diversified portfolio of primarily U.S. based fixed income securities including: corporate bonds, treasury, agency, MBS, futures, options, and swaps. The management of the fund has discretion to allocate among the various asset groups within a risk management structure that imposes percentage allocation maximums to individual classes of securities based on rating, risk, and other criteria. Allocation to various asset types and selection of securities are influenced by economic growth, monetary policy, fiscal policy, dollar policy, commodity prices, and relative valuations. The fair value of the investments in this category has been established using the net asset value per share of the investments as provided by the fund managers.

(b) This category includes investment funds that invest long only in emerging market publicly traded common stock focusing primarily on larger, more established companies. Investment strategies may include the shifting of concentrations among various regions depending on perceived opportunities as well as index strategies using proprietary metrics. The fair value of the investments in this category has been established using the net asset value per share of the investments as provided by the fund managers.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE O - FAIR VALUE MEASUREMENTS - Continued

(c) This category includes investments in hedge funds and hedge funds-of-funds that invest primarily in U.S. and international common stocks (both long and short). Managers of the funds typically have the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of investments in this category have been estimated using the net asset value per share of the investments as provided by the fund managers.

(d) This category includes investments in hedge funds that invest in a variety of opportunistic strategies. Investments are global in scope and include: equities (long and long-short), bonds, commodities, crops, livestock and agricultural land, precious and base metals, credit, interest rate and FX trading, insurance, energy, and private investments in public companies, as well as investments in financial services startups and other co-investments. The fair values of the investments in this category have been estimated using the net asset value per share of the investments as provided by the fund managers. Investments representing \$870,962 (or 16.6%) and \$1,707,179 (or 10.6%) of this category at May 31, 2020 and 2019, respectively, are "sidepocket" investments, meaning that redemptions will not take place until the underlying investments in the sidepocket are sold. The timing of the sale of the sidepocket investments cannot be estimated.

(e) This category includes investments in hedge funds-of-funds that pursue multiple strategies to diversify risks and reduce volatility. Investments are global in scope and include strategies such as: equity long-short, arbitrage, credit, event driven, market neutral, relative value, systematic, and trade finance. The fair values of the investments in this category have been estimated using the net asset value per share of the investments as provided by the fund managers.

(f) This category includes investments in private equity funds, funds-of-funds and co-investments that invest primarily in: distressed debt, BRIC (Brazil, Russia, India, China) country investments, energy holdings, buyouts and medical services. The fair values of the investments in this category have been estimated using the net asset value of the University's ownership interest in the partners' capital of each underlying fund. These investments cannot be redeemed at the request of the investor. Instead, the nature of the investments in this category is that distributions are made through the liquidation of the underlying holdings. It is estimated that the underlying holdings of the funds will be liquidated over 1 to 10 years depending on the vintage year of the fund and the exit opportunities over time.

(g) This category includes investments in venture capital funds-of-funds that invest primarily in venture capital funds that provide start-up funding primarily for U.S. companies and primarily in the technology and bio-sciences areas. The fair values of the investments in this category have been estimated using the net asset value of the University's ownership interest in the partners' capital of each underlying fund. These investments cannot be redeemed at the request of the investor. Instead, distributions are made through the liquidation of the underlying holdings. It is estimated that the underlying holdings of the funds will be liquidated over 1 to 10 years depending on the vintage year of the fund and the exit opportunities over time.

NOTE P - DERIVATIVE FINANCIAL INSTRUMENT

Variable-to-Fixed Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to the interest rate fluctuation, in May 2020, the University entered into an interest rate swap agreement for a portion of its floating rate debt through May 15, 2035. The agreement provides for the University to receive interest from the counterparty at LIBOR plus 1.95% and to pay interest to the counterparty at a fixed rate of 2.92% on notional amounts of \$8,000,000 as of May 31, 2020.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE P – DERIVATIVE FINANCIAL INSTRUMENT – continued

Under the agreement, the University pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Since the swap was initiated at May 29, 2020, there is no fair value adjustment for fiscal year ended May 31, 2020

NOTE Q - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The University grants credit in the form of accounts and notes receivable to students and others, a substantial portion of which are enrolled at the University. The University does not require collateral for the extension of credit with the exception of notes made to facilitate real estate sales, in which case, the collateral is typically the real estate being sold. Management periodically monitors credit risk through the evaluation of the account's status and ability to repay.

Credit risk associated with accounts receivable and contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and others supportive of the University's mission. Investments are made by diversified investment managers whose performance is monitored by the University and the investment committee of the Board of Trustees. Although fair values of investments are subject to fluctuation on a year-to-year basis, the University and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the University.

NOTE R - ASSET RETIREMENT OBLIGATION

The University records a liability included within deposits and other liabilities in the accompanying consolidated statements of financial position for the estimated costs associated to remediate its asset retirement obligation. Additional obligations may be present but these additional obligations have not met the criteria for recognition in the financial statements as the amounts and time period for removal cannot be reasonably estimated.

The following presents a summary of the asset retirement obligation activity as of and for the years ended May 31, 2020 and 2019:

Asset retirement obligation at May 31, 2019 and 2018	\$897,589
Payments of asset retirement obligation	<u>-</u>
Asset retirement obligation at May 31, 2020	<u>\$897,589</u>

NOTE S - RELATED PARTY TRANSACTIONS

The University had unsecured receivables from related parties of \$216,682 and \$69,838 at May 31, 2020 and 2019, respectively. Contributions received from board members were \$1,272,923 and \$3,063,275 for the years ended May 31, 2020 and 2019, respectively.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE T - EXPENSES BY NATURAL CLASSIFICATION

For the year ending May 31, 2020

	Program Expenses						Supporting Expenses		
	Instruction & Research	Public Services	Academic Support	Student Services	Auxiliary Enterprises	Total Program Expenses	Management and General	Fundraising	Total Operating Expenses
Faculty / Staff salaries & wages	\$ 25,428,674	\$ 1,053,901	\$ 5,015,415	\$ 11,334,840	\$ 807,305	\$ 43,640,135	\$ 8,147,205	\$ 2,436,565	\$ 54,223,905
Student wages	787,056	170,743	349,830	732,775	271,757	2,312,161	412,355	42,478	2,766,994
Personnel benefits	9,086,687	386,006	1,796,650	4,210,064	306,813	15,786,220	683,231	880,507	17,349,958
Salaries, wages & benefits	35,302,417	1,610,650	7,161,895	16,277,679	1,385,875	61,738,516	9,242,791	3,359,550	74,340,857
Technology services	79,591	7,155	760,175	332,610	20,554	1,200,085	2,391,127	22,011	3,613,223
Travel	942,690	375,165	455,491	2,269,266	672,538	4,715,150	307,940	120,665	5,143,755
Occupancy	7,304	5,028	2,666	91,950	405,668	512,616	24,273	10,080	546,969
Advertising & promotion	249,556	14,896	186,402	245,606	13,126	709,586	3,564,729	550	4,274,865
Bad debt expense	-	-	-	-	-	-	900,469	-	900,469
Professional services	210,106	61,237	54,339	1,314,412	109,448	1,749,542	2,125,372	317,039	4,191,953
Operating expenses	2,343,723	672,791	1,500,743	6,498,970	7,466,074	18,482,301	1,828,088	627,524	20,937,913
Plant operation & maintenance	4,313,052	13,384	908,869	2,276,771	4,004,164	11,516,240	1,258,086	92,118	12,866,443
Depreciation	3,520,770	10,926	741,916	1,858,543	3,268,624	9,400,779	1,026,983	75,197	10,502,959
Interest	1,884,073	5,847	397,022	994,563	1,749,141	5,030,646	549,570	40,240	5,620,456
Administrative expense	13,550,865	1,166,429	5,007,623	15,882,691	17,709,337	53,316,945	13,976,637	1,305,424	68,599,006
Total operating expense	\$ 48,853,282	\$ 2,777,079	\$ 12,169,518	\$ 32,160,370	\$ 19,095,212	\$115,055,461	\$ 23,219,428	\$ 4,664,974	\$142,939,863

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE T - EXPENSES BY NATURAL CLASSIFICATION – Continued

For the year ending May 31, 2019

	Program Expenses						Supporting Expenses		
	Instruction & Research	Public Services	Academic Support	Student Services	Auxiliary Enterprises	Total Program Expenses	Management and General	Fundraising	Total Operating Expenses
Faculty / Staff salaries & wages	\$ 24,899,549	\$ 802,624	\$ 4,732,654	\$ 10,674,145	\$ 737,085	\$ 41,846,057	\$ 8,405,855	\$ 2,434,891	\$ 52,686,803
Student wages	705,096	146,365	376,089	659,664	315,231	2,202,445	486,743	60,566	2,749,754
Personnel benefits	8,828,882	358,034	1,773,827	4,121,581	287,916	15,370,240	746,125	932,338	17,048,703
Salaries, wages & benefits	34,433,527	1,307,023	6,882,570	15,455,390	1,340,232	59,418,742	9,638,723	3,427,795	72,485,260
Technology services	33,689	4,171	719,229	301,563	23,331	1,081,983	2,522,386	25,111	3,629,480
Travel	1,126,451	482,260	465,985	2,756,557	746,563	5,577,816	446,721	133,897	6,158,434
Occupancy	7,845	23,678	176,334	156,311	381,585	745,753	1,500,248	8,844	2,254,845
Advertising & promotion	25,319	17,729	201,730	197,487	13,662	455,927	2,633,478	1,221	3,090,626
Bad debt expense	-	-	-	-	-	-	796,221	-	796,221
Professional services	74,344	48,708	107,986	1,179,518	37,313	1,447,869	1,675,999	280,509	3,404,377
Operating expenses	1,698,588	707,111	1,566,930	6,235,648	7,530,381	17,738,658	2,548,864	557,542	20,845,064
Plant operation & maintenance	3,983,686	23,422	842,671	2,009,961	3,792,360	10,652,100	997,144	87,246	11,736,490
Depreciation	3,505,205	20,609	741,458	1,768,544	3,336,859	9,372,675	877,377	76,766	10,326,818
Interest	1,999,688	11,757	422,995	1,008,938	1,903,648	5,347,026	500,536	43,795	5,891,357
Administrative expense	12,454,815	1,339,445	5,245,318	15,614,527	17,765,702	52,419,807	14,498,974	1,214,931	68,133,712
Total operating expense	\$ 46,888,342	\$ 2,646,468	\$ 12,127,888	\$ 31,069,917	\$ 19,105,934	\$111,838,549	\$ 24,137,697	\$ 4,642,726	\$140,618,972

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE T - EXPENSES BY NATURAL CLASSIFICATION – Continued

Expenses are categorized on a functional basis.

Program expenses include all of the following functional categories: instruction, research, public service, academic support, student services and auxiliary services.

Instruction and research include expenses for all activities that are part of the University's instruction program, including expenses for credit and noncredit courses; academic, vocational and technical instruction; remedial and tutorial instruction, and community education. Research includes all expenses for activities specifically organized to produce research, whether commissioned by an external agency or budgeted within a university department.

Public service includes expenses for activities established to provide non-instructional services for the benefit of individuals and groups outside the University. This category includes community service programs, the University radio and television programs and similar non-instructional services to those outside the University.

Academic support includes expenses which provide support services for the University's primary programs of instruction, research and public service including libraries, course and curriculum development and academic administration.

Student services includes expenses which contribute to student's emotional and physical well-being and intellectual, cultural and social development outside the context of the formal instruction program. This category also includes expenses for enrollment services, student financial services and the registrar.

Auxiliary enterprises include all expenses related to the operation of the University's auxiliary activities which includes housing, food service and book publishing.

Management and general expenses are for central, executive-level activities concerned with management and long-range planning for the University. This includes legal services, financial operations, administrative information technology, facilities, employee personnel and records, procurement, and activities related to community and alumni relations.

Fundraising expenses are expenses directly related to fundraising activities including fundraising campaigns, mailings for funds from supporters and other solicitations for contributions.

NOTE U – LEASES

The University leases a portion of the real estate, personal property, vehicles and various equipment used in its operations. Most real estate leases require the University to pay real estate taxes, maintenance, insurance and other similar costs and some contain purchase options. Certain of the University's real estate leases have terms that extend for several years and provide for rental rates that increase over time. Lease terms include the noncancelable portion of the underlying leases along with any reasonably certain lease periods associated with available renewal periods, termination options and purchase options.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE U – LEASES - continued

The components of lease expense are as follows for May 31, 2020:

Lease expense	
Finance lease expense	
Amortization of ROU assets	\$10,393
Interest on lease liabilities	464
Operating lease expense	2,078,678
Sublease income	(249,107)
Total	<u>\$1,840,428</u>

Supplemental cash flow information related to leases are as follows for May 31, 2020

Cash paid for amount included in the measurement of lease liabilities	
Operating cash flows from finance leases	\$464
Financing cash flows from finance leases	13,978
Operating cash flows from operating leases	2,082,350
ROU assets obtained in exchange for new finance lease liabilities	13,978
ROU assets obtained in exchange for new operating lease liabilities	9,332,792
Weighted-average remaining lease term in years for finance leases	0
Weighted-average remaining lease term in years for operating leases	5
Weighted-average discount rate for finance leases	0.00%
Weighted-average discount rate for operating leases	4.48%

Maturity analysis	Operating
2021	\$1,924,577
2022	1,783,562
2023	1,747,340
2024	1,751,580
2025	1,020,305
Thereafter	254,308
Total undiscounted cash flows	<u>8,481,672</u>
Less: present value discount	<u>(859,442)</u>
Total lease liabilities	<u>\$7,622,230</u>

Rent expense during 2019, prior to the adoption of ASU 2016-02, under operating leases for building space rental was approximately \$1,954,000.

Sub-leasing activities

The University's sublease as lessor consists of one commercial property. The sublease agreement has been determined to be an operating lease. The ROU asset related to the lease was assessed for impairment. The impact of ASU 2016-02 on the accounting for the University's lessor and sublease was not significant.

During 2019, rental income under lessor activities amounted to approximately \$673,000.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE V – LIQUIDITY

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, equity securities and lines of credit (see Note G for information about the University's lines of credit).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Student loan receivable are not considered to be available to meet general expenditures because principal and interest on these loans are solely to make new loans.

Endowment funds consist of donor restricted endowments and funds designated by the board as endowments. Income from donor restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor restricted endowments funds are not available for general expenditure.

A board-designated endowment of \$203,671,473 and \$192,683,020 at May 31, 2020 and 2019, respectively, are subject to an annual spending rate of 4.5% as described in Note I. Although the University does not intend to spend from this board-designated endowment (other than amount appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As of May 31, 2020, the following assets could readily be made available within one year of the year of the statement of financial position date to meet general expenditures:

Total asset at May 31, 2020	
Cash and cash equivalents	\$ 26,744,139
Accounts and notes receivable, net	18,790,417
Contributions receivable, net	13,987,785
Inventories	660,000
Prepaid expenses and other assets	3,860,557
Investments	450,514,106
Charitable trusts and annuities	40,824,831
Operating lease ROU asset	6,907,630
Finance lease ROU asset	18,188
Property and equipment, net	245,014,687
Total assets at year-end	<u>\$807,322,340</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE V – LIQUIDITY – Continued

Less amount not available to meet general expenditures within one year	
Accounts and notes receivable	\$ 2,968,103
Contributions receivable	11,049,632
Inventories	660,000
Prepaid and other assets	2,347,929
Property and equipment	245,014,687
Operating lease ROU asset	6,907,630
Finance lease ROU asset	18,188
Charitable trusts and annuities	40,824,831
Board-designated endowment	180,186,540
Future expendable donor restricted endowment	120,331,761
Portion of donor restricted endowment to be retained in perpetuity	119,569,341
Trusts held by others	275,736
Total financial assets available to meet general expenditures within one year	\$ 77,167,962

Liquidity resources

Bank line of credit (no balance outstanding as of May 31, 2020)	\$ 22,500,000
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As of May 31, 2019, the following financial assets could readily be made available within one year of the year of the statement of financial position date to meet general expenditures:

Total asset at May 31, 2019	
Cash and cash equivalents	\$ 17,651,881
Accounts and notes receivable, net	14,414,334
Contributions receivable, net	16,299,635
Inventories	617,272
Prepaid expenses and other assets	3,741,965
Investments	445,798,665
Charitable trusts and annuities	47,707,743
Property and equipment, net	240,329,363
Total assets at year-end	\$786,560,858

Less amount not available to meet general expenditures within one year	
Accounts and notes receivable	\$ 3,086,095
Contributions receivable	13,179,846
Inventories	617,272
Prepaid and other assets	3,741,965
Property and equipment	240,329,363
Charitable trusts and annuities	47,707,743
Board-designated endowment	169,746,495
Future expendable donor restricted endowment	126,102,945
Portion of donor restricted endowment to be retained in perpetuity	125,290,598
Trusts held by others	277,571
Total financial assets available to meet general expenditures within one year	\$ 56,480,965

Liquidity resources

Bank line of credit (no balance outstanding as of May 31, 2019)	\$ 22,500,000
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Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE W – REVENUE FROM CONTRACTS WITH CUSTOMERS

The University's revenue from contracts with customers are included in tuition and fees and auxiliary enterprise sales and services as presented in the consolidated statements of activities. There were no impairment losses on receivables or contract assets from contracts with customers during fiscal year 2020.

Disaggregation of revenues

A summary of revenue from contracts with customers related to tuition and fees for the year ended May 31, 2020 and 2019 disaggregated by the major classification of student type is as follows:

Student Classification	2020	2019
	Tuition and Fees, Net	Tuition and Fees, Net
Undergraduate tuition	\$34,141,983	\$27,478,335
Graduate tuition	41,809,487	42,111,564
Education fee revenue	3,345,013	8,415,562
Total	\$79,296,483	\$78,005,461

A summary of revenue from contracts with customers related to auxiliary enterprises revenue for the year ended May 31, 2020 and 2019 disaggregated by type is as follows:

Revenue Classification	2020	2019
	Amount, Net	Amount, Net
Housing	\$ 6,792,390	\$ 7,939,246
Food service	7,792,916	9,042,537
Other	2,282,311	2,953,304
Total	\$16,867,617	\$19,935,087

Contract balances

A summary of receivables and contract liabilities from contracts with customer is as follows:

	May 31, 2020	June 1, 2019
Student accounts receivable, net	\$ 3,941,905	\$ 5,552,592
Student loan receivable	\$ 1,208,866	\$ 1,568,110
Student accounts and deposits collected in advance	\$ 1,444,767	\$ 72,853
Deferred revenue – tuition	\$ 5,021,255	\$ 4,738,627

Substantially all of the deferred tuition revenue at June 1, 2019 was recognized as revenue during 2020 as generally all performance obligations for tuition revenue are met within two-three months of the fiscal year end. Additionally, amounts of deferred tuition revenue at May 31, 2020 represent cash received from students during fiscal year 2020 primarily for academic services to be provided in the subsequent year.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2020 and 2019

NOTE X - SUBSEQUENT EVENT

The University has evaluated subsequent events through August 10, 2020, the date the consolidated financial statements were issued. As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the University. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time. No additional subsequent events were identified for disclosure through this date.