Consolidated Financial Statements and Report of Independent Auditors

Abilene Christian University

May 31, 2017 and 2016

Davis Kinard & Co, PC
CERTIFIED PUBLIC ACCOUNTANTS
Quality. Integrity. Knowledge.

First Financial Bank Building
400 Pine Street, Ste. 600, Abilene, TX 79601
325.672.4000 / 800.588.2525 / f: 325.672.7049
www.dkcpa.com

Report of Independent Auditors

Board of Trustees
Abilene Christian University

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Abilene Christian University (the University), which comprise the consolidated statements of financial position as of May 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 financial position of Abilene Christian University as of May 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Davis Kinard & Co, PC

Certified Public Accountants

Abilene, Texas
August 7, 2017

Abilene Christian University

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

May 31, 2017 and 2016

ASSETS	2017	2016
Cash and cash equivalents	$ 7,640,226	$ 5,275,946
Accounts and notes receivable, net	8,741,141	9,262,771
Contributions receivable, net	35,270,462	39,759,245
Inventories	2,212,482	2,089,747
Prepaid expenses and other assets	3,644,020	3,812,646
Investments	385,887,206	354,598,842
Charitable trusts and annuities	35,915,480	33,523,995
Property and equipment, net	227,539,296	180,612,419
Total assets	$706,850,313	$628,935,611
LIABILITIES AND NET ASSETS		
Accounts payable	$ 4,927,038	$ 4,597,756
Accrued interest payable	837,068	326,771
Accrued salaries and benefits	15,292,947	14,949,924
Deposits and other liabilities	8,711,826	9,393,962
Reserve for charitable trusts and annuities	19,549,795	18,294,264
Advance on lines of credit	-	4,280,000
Long-term obligations		
Principal amount	129,479,647	84,606,413
Debt issuance cost and premium, net of accumulated amortization	1,341,954	(392,119)
Total liabilities	180,140,275	136,056,971
Net assets		
Unrestricted	247,421,584	228,410,678
Temporarily restricted	161,023,915	150,827,401
Permanently restricted	118,264,539	113,640,561
Total net assets	526,710,038	492,878,640
Total liabilities and net assets	$706,850,313	$628,935,611

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:				
Revenues, gains, and other support				
Tuition and fees	$129,266,280	$ -	$ -	$ 129,266,280
Less scholarship allowances	(61,609,308)	-	-	(61,609,308)
Net tuition and fees	67,656,972	-	-	67,656,972
Auxiliary enterprises sales and services	24,593,247	-	-	24,593,247
Private gifts and grants	1,265,607	7,590,987	-	8,856,594
Endowment support	9,055,107	10,879,525	-	19,934,632
Government grants and contracts	5,668,559	-	-	5,668,559
Other revenue	4,864,751	-	-	4,864,751
Net assets released from restrictions	14,366,279	(14,366,279)	-	-
Total revenues, gains, and other support	127,470,522	4,104,233	-	131,574,755
Expenses				
Operating expenses:				
Instruction and research	42,880,635	-	-	42,880,635
Public services	2,884,224	-	-	2,884,224
Academic support	11,888,571	-	-	11,888,571
Student services	25,386,531	-	-	25,386,531
Expenses of auxiliary enterprises	24,058,361	-	-	24,058,361
Fundraising	3,499,875	-	-	3,499,875
Management and general	28,309,888	-	-	28,309,888
Total operating expenses	138,908,085	-	-	138,908,085
Change in net assets from operating activities	(11,437,563)	4,104,233	-	(7,333,330)
Non-operating:				
Contributions for endowment, plant, and other	212,492	9,559,939	2,526,623	12,299,054
Investment return, net of amount designated for operations	6,698,845	19,710,395	501,113	26,910,353
Other revenue	502,368			502,368
Net assets released from endowment, plant, and other	23,265,112	(23,265,112)	-	-
Expenses for endowment, plant, and other	(297,335)	-	-	(297,335)
Changes in value of split-interest agreements	66,987	87,059	1,596,242	1,750,288
Net non-operating revenues, expenses, and other changes	30,448,469	6,092,281	4,623,978	41,164,728
Total change in net assets	19,010,906	10,196,514	4,623,978	33,831,398
Net assets at beginning of year	228,410,678	150,827,401	113,640,561	492,878,640
Net assets at end of year	$247,421,584	$161,023,915	$118,264,539	$526,710,038

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:				
Revenues, gains, and other support				
Tuition and fees	$119,985,479	$ -	$ -	$119,985,479
Less scholarship allowances	(57,276,291)	-	-	(57,276,291)
Net tuition and fees	62,709,188			62,709,188
Auxiliary enterprises sales and services	24,561,339	-	-	24,561,339
Private gifts and grants	1,600,442	2,857,983	-	4,458,425
Endowment support	8,598,932	9,802,378	-	18,401,310
Government grants and contracts	6,026,112	-	-	6,026,112
Other revenue	5,268,452	-	-	5,268,452
Net assets released from restrictions	12,958,387	(12,958,387)	-	-
Total revenues, gains, and other support	121,722,852	(298,026)	-	121,424,826
Expenses				
Operating expenses:				
Instruction and research	40,220,867	-	-	40,220,867
Public services	2,742,590	-	-	2,742,590
Academic support	11,160,933	-	-	11,160,933
Student services	23,268,409	-	-	23,268,409
Expenses of auxiliary enterprises	23,713,132	-	-	23,713,132
Fundraising	3,904,364	-	-	3,904,364
Management and general	24,711,517	-	-	24,711,517
Total operating expenses	129,721,812	-	-	129,721,812
Change in net assets from operating activities	(7,998,960)	(298,026)	-	(8,296,986)
Non-operating:				
Contributions for endowment, plant, and other	16,799	16,761,180	1,250,965	18,028,944
Investment return, net of amount designated for operations	(13,734,902)	(20,890,247)	(413,557)	(35,038,706)
Other revenue	146,092	-	-	146,092
Net assets released from endowment, plant, and other	12,436,618	(12,436,618)	-	-
Expenses for endowment, plant, and other	(550,629)	-	-	(550,629)
Changes in value of split-interest agreements	181,064	45,091	(599,209)	(373,054)
Net non-operating revenues, expenses, and other changes	(1,504,958)	(16,520,594)	238,199	(17,787,353)
Total change in net assets	(9,503,918)	(16,818,620)	238,199	(26,084,339)
Net assets at beginning of year	237,914,596	167,646,021	113,402,362	518,962,979
Net assets at end of year	$228,410,678	$150,827,401	$113,640,561	$492,878,640

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 33,831,398	$(26,084,339)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation of property and equipment	8,754,152	8,515,003
Amortization of debt issuance cost and premium	(342,899)	54,116
Loss on disposal of assets	41,070	211,991
Provision for credit losses	529,627	427,699
(Increase) decrease in:		
Accounts and notes receivable	(361,458)	(2,540,307)
Contributions receivable	4,488,783	(1,894,729)
Inventories	(122,735)	(185,980)
Prepaid expenses and other assets	168,626	(864,668)
Increase (decrease) in:		
Accounts payable	(3,189,565)	(1,631,157)
Accrued interest payable	510,297	(17,204)
Accrued salaries and benefits	343,023	436,368
Deposits and other liabilities	(682,136)	85,089
Noncash contributions	(5,217,770)	(2,286,400)
Contributions restricted for long-term investment	(13,994,242)	(11,119,455)
Interest and dividends restricted for reinvestment	(75,986)	(136,631)
Changes in value of split-interest agreements	(1,750,288)	373,054
Net unrealized and realized loss (gains) on investments	(38,899,086)	23,470,951
Net cash used in operating activities	(15,969,189)	(13,186,597)
Cash flows from investing activities		
Additions to property and equipment	(52,059,327)	(32,347,404)
Repayment of loans from students, faculty, and others	353,462	484,973
Proceeds from sales and maturities of investments	100,910,346	51,815,271
Purchases of investments	(86,059,813)	(38,889,131)
Net cash used in investing activities	(36,855,332)	(18,936,291)

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended May 31, 2017 and 2016

	2017	2016
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment in endowment and other	$ 3,568,821	$ 212,590
Investment in plant	10,425,421	10,906,865
	13,994,242	11,119,455
Other financing activities:		
Interest and dividends restricted for reinvestment	75,986	136,631
Payments of split-interest obligations	(1,514,808)	(2,595,573)
Proceeds from lines of credit	49,110,000	28,585,103
Payments on lines of credit	(53,390,000)	(24,305,103)
Proceeds from long-term obligations	134,672,833	16,469,839
Payments of long-term obligations	(89,836,425)	(8,199,826)
Proceeds from premium	6,781,979	-
Payments of debt issuance cost	(4,705,006)	(39,999)
	41,194,559	10,051,072
Net cash provided by financing activities	55,188,801	21,170,527
Net increase (decrease) in cash and cash equivalents	2,364,280	(10,980,597)
Cash and cash equivalents at beginning of year	5,275,946	16,256,543
Cash and cash equivalents at end of year	$ 7,640,226	$ 5,275,946
Non-cash investing and financing activities:		
Improvements capitalized by increases to accounts payable	$ 3,518,846	$ 3,128,579
Equipment capitalized by an increase to long-term obligations	36,826	13,166
Equipment capitalized by a non-cash contribution	107,100	-
Investments acquired by non-cash contributions	5,110,670	2,286,400
Other required disclosures:		
Cash paid for interest	$ 3,718,860	$ 2,679,870

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

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, ACU Management LLC, 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.

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 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 three classes of net assets - unrestricted, temporarily restricted, or permanently restricted.

- Unrestricted net assets—Net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.
- Permanently restricted net assets—Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Statement of Activities

The University defines operating activities, as included in the accompanying 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 statement of activities.

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 received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions - continued

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 unrestricted net asset class. The University does not imply a time restriction on the use of contributed long-lived assets unless specified by donors. 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 temporarily restricted net asset class; the restrictions are considered to be released upon the acquisition of such assets.

Endowment

The University's endowment is subject to the version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by the state of Texas, which is described in Note I. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958 *Not-for-Profit Entities*, a not-for-profit organization that is subject to an enacted version of UPMIFA shall classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. The amount classified as permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, the organization's governing board determines must be retained (preserved) permanently consistent with the relevant law.

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

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments - 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. 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 permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund; as changes in temporarily restricted net assets 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 unrestricted net assets in all other cases.

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 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.

For the years ended May 31, 2017 and 2016, 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, 2017, the University's tax years 2011 to 2017 remain subject to examination.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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 $3,476,958 and $4,729,613 at May 31, 2017 and 2016, respectively. Cash balances of $454,557 and $380,000 at May 31, 2017 and 2016, respectively, were restricted for the Federal Perkins Loan Program and are required to be reported in a separate account.

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 exempted from the enhanced disclosures. 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 receivables 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 classes 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. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts and Notes Receivable - continued

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 statements of financial position.

Inventories

Inventories are valued at amounts, which, in the aggregate, approximate the lower of cost or market on the first-in, first-out basis. Losses of $22,463 and $0 were recorded for obsolete inventory for the years ended May 31, 2017 and 2016, 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 $918,279 and $909,924 for the years ended May 31, 2017 and 2016, 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.

Advertising Costs

Advertising costs are expensed as incurred and totaled $1,428,374 and $1,958,611 for the years ended May 31, 2017 and 2016, respectively.

Functional Allocation of Expenses

The expenses of providing various programs and support services have been categorized on a functional basis in the 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Change of Accounting principle

In April 2015, the FASB issued Accounting Standard Update 2015-03, *"Simplifying the Presentation of Debt Issuance Costs"* ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs associated with outstanding term debt to be presented in the balance sheet as a direct reduction in the carrying value of the associated debt liability, consistent with the current presentation of a debt discount. For fees paid to lenders to secure revolving lines of credit, such fees will continue to be presented as a deferred charge (asset) on the balance sheet. Under current guidance prior to ASU 2015-03, all debt issuance costs, for both term debt and revolving lines of credit, are presented in the balance sheet as a deferred charge (asset). ASU 2015-03 is limited to the presentation of debt issuance costs and will not affect the recognition and measurement of debt issuance costs. Since ASU 2015-03 involves balance sheet presentation only, its adoption will not have any impact on the University's results of operations, financial condition, or cash flows for fiscal year ended May 31, 2017 or 2016.

The following is a summary of the effect of implementation of ASU 2015-03 on the Statement of Financial Position for the year ended May 31, 2016.

	As Previously Reported	As Restated
Prepaid expenses and other assets	$ 4,204,765	$ 3,812,646
Total Assets	629,327,730	628,935,611
Debt Issuance Cost	-	(392,119)
Total Liabilities	136,449,090	136,056,971

ASU 2015-07 "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)" removes the requirement to categorize within the fair value hierarchy all investments for which the fair value is measured using the net asset value per share practical expedient. ASU 2015-07 is effective for non-public entities for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years, with early adoption permitted. Management has elected to early adopt the disclosure requirements prescribed by ASU 2015-07.

Upcoming Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958). The main provision of the update are (1) Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, the entity will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as currently required amount for total net assets; (2) Present on the face of the financial statement of activities the amount of change in each of the two classes of net assets rather than that of the currently required three classes;. and (3) Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method. The new standard will be effective for annual financial statements for fiscal years beginning after December 15, 2018 and is not expected to have a significant impact to the University's financial statements.

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, 2017:

	Student & Commercial Accounts	Student Loans	Grants, Minerals, Other	Total
Gross receivables	$4,813,258	$2,031,042	$2,537,347	$9,381,647
Less allowance for credit losses	(428,616)	(211,890)	-	(640,506)
Receivables, net of allowance for credit losses	$4,384,642	$1,819,152	$2,537,347	$8,741,141

Financing receivables consisted of the following at May 31, 2016:

	Student & Commercial Accounts	Student Loans	Grants, Minerals, Other	Total
Gross receivables	$5,565,363	$2,114,656	$2,223,258	$9,903,277
Less allowance for credit losses	(428,616)	(211,890)	-	(640,506)
Receivables, net of allowance for credit losses	$5,136,747	$1,902,766	$2,223,258	$9,262,771

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, 2017 and 2016:

	2017	2016
Allowance for credit losses:		
Beginning balance	$211,890	$ 245,783
Charge-offs		(33,893)
Recoveries	-	-
Provision	-	-
Ending balance	$211,890	$211,890
Allowance for credit losses:		
Allocated to student loans individually evaluated for impairment	$ 153,052	$ 153,643
Allocated to student loans collectively evaluated for impairment	58,838	58,247
Ending balance	$ 211,890	$ 211,890
Financing receivables:		
Balance individually evaluated for impairment	$ 362,621	$ 346,653
Balance collectively evaluated for impairment	1,668,421	1,768,003
Ending balance	$2,031,042	$2,114,656

NOTE B - FINANCING RECEIVABLES - Continued

Student loans consisted of the following aging categories at May 31, 2017:

	Past Due			Current		> 90 Days
	30-59 Days	60-89 Days	> 90 Days	and Deferred	Total	and Accruing
Institutional Notes	$ 7,954	$ 4,298	$335,950	$ 120,284	$ 468,486	$ 335,950
Federal Perkins	39,083	79,708	218,571	1,225,194	1,562,556	218,571
	$47,037	$84,006	$554,521	$1,345,478	$2,031,042	$554,521

Student loans consisted of the following aging categories at May 31, 2016:

	Past Due			Current		> 90 Days
	30-59 Days	60-89 Days	> 90 Days	and Deferred	Total	and Accruing
Institutional Notes	$32,384	$17,572	$351,561	$ 122,610	$ 524,127	$351,561
Federal Perkins	34,166	65,598	197,525	1,293,240	1,590,529	197,525
	$66,550	$83,170	$549,086	$1,415,850	$2,114,656	$549,086

Student loan credit quality indicators are summarized below as of May 31, 2017:

	Institutional Notes	Federal Perkins	Total
Deferred	$ -	$ 784,113	$ 784,113
Current	120,284	441,081	561,365
Performing	195,151	127,792	322,943
Nonperforming	153,051	209,570	362,621
	$468,486	$1,562,556	$2,031,042

Student loan credit quality indicators are summarized below as of May 31, 2016:

	Institutional Notes	Federal Perkins	Total
Deferred	$ -	$ 805,035	$ 805,035
Current	122,610	488,205	610,815
Performing	247,874	104,279	352,153
Nonperforming	153,643	193,010	346,653
	$524,127	$1,590,529	$2,114,656

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, 2017:

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income
With no related allowance					
Institutional Notes	$ -	$ -	$ -	$ -	$ -
Federal Perkins	209,569	205,569	-	201,290	43,561
With a related allowance					
Institutional Notes	153,052	153,052	153,052	153,347	22,469
Federal Perkins	-	-	-	-	-
Total					
Institutional Notes	153,052	153,052	153,052	153,347	43,561
Federal Perkins	209,569	205,569	-	201,290	22,469
	$362,621	$362,621	$153,052	$354,637	$66,030

No allowance is recorded on Federal Perkins loans because the University does not bear the risk of loss on these loans.

The following table summarizes the University's investment in impaired student loans as of and for the year ended May 31, 2016:

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income
With no related allowance					
Institutional Notes	$ -	$ -	$ -	$ -	$ -
Federal Perkins	193,010	193,010	-	192,567	39,478
With a related allowance					
Institutional Notes	153,643	153,643	153,643	138,362	20,504
Federal Perkins	-	-	-	-	-
Total					
Institutional Notes	153,643	153,643	153,643	138,362	20,504
Federal Perkins	193,010	193,010	-	192,567	39,478
	$346,653	$346,653	$153,643	$330,929	$59,982

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at May 31, 2017 and 2016:

	2017	2016
Unconditional promises expected to be collected in:		
Less than one year	$19,044,884	$27,207,160
One year to five years	14,341,121	12,145,487
Over five years	4,885,000	3,000,000
	38,271,005	42,352,647
Less discount for net present value	(1,680,961)	(1,147,569)
Less allowance for uncollectible contributions receivable	(1,319,582)	(1,445,833)
	$35,270,462	$39,759,245

The contributions are to be utilized for the following purposes:

	2017	2016
Operations and scholarships	$ 3,081,972	$ 764,888
Endowment	1,932,883	1,434,128
Acquisition of land, building, and equipment	30,255,607	37,560,229
	$35,270,462	$39,759,245

Contributions receivable have been discounted using rates ranging from .47% to 2.69% as of May 31, 2017 and 2016.

NOTE D - INVESTMENTS

Investments consisted of the following at May 31, 2017 and 2016:

	2017	2016
Mutual funds and investment partnerships managed by third parties	$288,381,563	$266,070,763
Notes receivable	62,500	62,500
Stocks and bonds	39,851,022	30,372,817
Real estate and mineral interests	53,247,163	53,980,138
Outside managed	2,270,988	2,159,732
Other investments	2,073,970	1,952,892
	$385,887,206	$354,598,842

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.

NOTE D - INVESTMENTS - Continued

Investment income consisted of the following for the years ended May 31, 2017 and 2016:

	2017	2016
Interest income	$ 224,692	$ 191,299
Dividend income	1,388,908	1,333,843
Mineral income	5,963,207	5,078,684
Ranch income	369,092	229,729
Net realized and unrealized gains (losses)	38,899,086	(23,470,951)
Total investment income (loss)	$46,844,985	$(16,537,396)

Total investment income includes gains (losses) from fair value changes of real estate and mineral interests, which are reported at fair value under the fair value option provided by ASC 825. These losses for the years ended May 31, 2017 and 2016, were $4,671,628 and $5,316,902, respectively.

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.

External investment expenses of $589,843 and $413,947 were recorded as reductions to investment return for the years ended May 31, 2017 and 2016, respectively.

The investment pool consisted of the following at May 31, 2017 and 2016:

	2017	2016
Mutual funds and investment partnerships managed by third parties	$323,206,544	$293,337,119
Cash and cash equivalents	2,468,169	756,514
	$325,674,713	$294,093,633

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at May 31, 2017 and 2016:

	2017	2016
Land	$ 3,438,702	$ 3,438,702
Buildings	201,969,408	170,153,060
Improvements to land and buildings	74,623,616	68,378,229
Equipment	25,668,277	24,303,837
	305,700,003	266,273,828
Less accumulated depreciation and amortization	(118,411,817)	(109,761,595)
	187,288,186	156,512,233
Construction in progress	40,251,110	24,100,186
	$227,539,296	$180,612,419

NOTE E - PROPERTY AND EQUIPMENT - Continued

Depreciation expense on property and equipment for the years ending May 31, 2017 and 2016, was $8,754,152 and $8,515,003, respectively. Interest cost capitalized during fiscal years ended May 31, 2017 and 2016 was $598,715 and $45,443, respectively.

Construction in progress as of May 31, 2017 consisted of Science Complex, Wildcat Stadium and other various projects across campus. Construction in progress as of May 31, 2016 consisted of construction on the Science Complex, Wildcat Stadium and Dillard Hall renovations.

NOTE F - LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following as of May 31, 2017 and 2016:

	2017	2016
Series 2015 non-taxable debt due in amounts such that outstanding debt will not exceed $20,000,000 by December 31, 2019, $10,000,000 by December 31, 2020, $7,000,000 by December 31, 2021, $5,000,000 by December 31, 2022 and $3,000,000 by December 31, 2023 plus interest at 79% of 30-day LIBOR rate plus .91% (1.28% at May 31, 2016), refinanced on September 22, 2016.	$ -	$ 13,034,002
Series 2014 non-taxable debt due in quarterly payments of $54,054 plus interest at 67.8% of 90-day LIBOR rate plus 1.3% (1.76% at May 31, 2016), refinanced on September 22, 2016.	-	2,076,712
Series 2013 taxable debt due in annual payments ranging from $825,000 to $1,480,000 plus interest at a fixed rate of 3.65% maturing on October 31, 2032, refinanced on September 22, 2016.	-	19,110,000
Series 2013A tax-exempt debt due in annual payments ranging from $235,000 to $355,000 plus interest at a fixed rate of 2.53% maturing on October 1, 2032, refinanced on September 22, 2016.	-	4,955,000
Series 2013B tax-exempt debt due in annual payments ranging from $1,130,000 to $1,160,000 plus interest at a fixed rate of 1.22% maturing on October 1, 2018, refinanced on September 22, 2016.	-	3,435,000
Series 2011 Higher Education Revenue Bonds due in quarterly payments ranging from $126,000 to $191,000 plus interest at 65% of the 90-day LIBOR rate plus 2.06% (2.51% at May 31, 2016) but not less than 3.25%, maturing on June 8, 2025, refinanced on September 22, 2016.	-	11,913,385
Series 2010 Higher Education Revenue Bonds due in semiannual payments ranging from $195,000 to $321,000 including interest at a fixed rate of 5.596%, maturing on October 1, 2024, refinanced on September 22, 2016.	-	4,418,955

NOTE F - LONG-TERM OBLIGATIONS - Coninued

	2017	2016
Series 2009 Higher Education Revenue Bonds due in semiannual payments of $250,000 plus interest accruing at 62.075% of the 30-day LIBOR rate plus 0.90% (1.19% as of May 31, 2016), maturing on October 1, 2028, refinanced on September 22, 2016.	$ -	$ 6,250,000
Series 2006B Higher Education Revenue Bonds due in semiannual payments of $65,485 plus interest at 65% of the 30-day LIBOR rate plus 0.90% (1.20% at May 31, 2016), maturing on October 1, 2026, refinanced on September 22, 2016.	-	1,374,165
Series 2006 Taxable Higher Education Revenue Bonds due in semiannual payments of $150,000 plus interest at the 30-day LIBOR rate plus 0.65% (1.12% at May 31, 2016), maturing on April 1, 2026, , refinanced on September 22, 2016.	-	3,000,000
Series 2006 Higher Education Revenue Bonds due in semiannual payments of $25,390 plus interest at 65% of the 30-day LIBOR rate plus 0.55% (.85% at May 31, 2016) but not less than 3.25%, maturing on June 8, 2025, refinanced on September 22, 2016.	-	507,795
Series 2005B Higher Education Revenue Bonds due in semiannual payments of $50,750 plus interest at 65% of the 30-day LIBOR rate plus 1.00% (1.3% at May 31, 2016), maturing on October 1, 2026, refinanced on September 22, 2016.	-	964,250
Series 2005 Higher Education Revenue Bonds due in semiannual payments of $167,500 plus interest at 65% of the 30-day LIBOR rate plus 1.00% (1.3% at May 31, 2016), maturing on April 1, 2026, refinanced on September 22, 2016.	-	3,350,000
Series 2003 Higher Education Revenue Bonds due in semiannual payments ranging from $247,293 to $346,200 plus interest at 65% of the 30-day LIBOR rate plus 1.00% (1.3% at May 31, 2016), maturing on October 1, 2023, refinanced on September 22, 2016.	-	4,500,730
Series 2001 Higher Education Revenue Improvement Bonds due in semiannual payments ranging from $273,402 to $376,888 plus interest at 5.00%, maturing on April 1, 2021, refinanced on September 22, 2016.	-	3,381,005
Cafeteria loan due in semi-annual payments ranging from $60,726 to $93,044 including interest at a fixed rate of 4.5% maturing on August 10, 2025, refinanced on September 22, 2016.	-	1,455,582

NOTE F - LONG-TERM OBLIGATIONS - Continued

	2017	2016
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.	$ 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.	41,885,000	-
Series 2016C Newark Higher Education Finance Corporation Revenue Improvement and Refunding Bonds due in quarterly payments ranging from $515,000 to $7,515,000 beginning October 1, 2017 maturing on October 1, 2026. Interest at the LIBOR rate in effect on the date of advance is paid annually.	24,605,598	-
Miscellaneous notes payable	759,049	879,832
	$129,479,647	$84,606,413

The Omnibus Agreement to the Bond Agreements, amended in July 2013, requires the University to comply with three financial covenants including a debt service coverage ratio, liquidity ratio, and a primary reserve ratio. As of 2016, the University was in compliance with all bond covenants. Due to the refinancing of debt, the financial covenants do not apply to the fiscal year ended May 31, 2017.

At May 31, 2016, the University had outstanding interest rate swap agreements on the 2003, 2005, 2006B, 2006 taxable, and 2009 bond issues. The swap agreements were refinanced on September 22, 2016. Refer to Note P for further discussion of derivative instruments.

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

2018	$ 13,294,972
2019	450,608
2020	1,326,246
2021	2,343,333
2022	2,143,333
Thereafter	109,921,155
	$129,479,647

Total interest expense for the years ended May 31, 2017 and 2016 was $3,630,530 and $2,617,223 respectively. On September 22, 2016 all bond issues were refunded and the corresponding debt issuance cost of $579,527 and accumulated amortization of $200,937 were reversed resulting in bond extinguishment expense of $378,590 included in the total interest expense for 2017.

NOTE F - LONG-TERM OBLIGATIONS - Continued

Long term debt as of May 31, 2016 and 2017 included debt issuance cost, premium and accumulated amortization as follows:

	2017	2016
Debt issuance cost	$ 5,284,533	$ 579,526
Accumulated Amortization	(135,604)	(187,407)
Premium	(6,781,979)	-
Accumulated Amortization	291,096	-
Unamortized debt issuance cost and premium	$(1,341,954)	$ 392,119

NOTE G - NET ADVANCES ON LINES OF CREDIT

An agreement with Bank of America, N.A. (the BOA Operating Line) matures on the earlier of 1) October 31, 2016 or 2) when a refinancing mechanism becomes available, and provides for maximum borrowings of $8,000,000. For each new request, the University had the option to pay interest at prime (3.5% at May 31, 2016) or the 30-day LIBOR rate plus 1.25% (1.72% at May 31, 2016). No amount was outstanding on the BOA Operating Line at May 31, 2016. Another agreement with Bank of America, N.A. (the BOA Endowment Line) matured on April 5, 2016, and provided for maximum borrowings of $5,000,000 with interest rate terms that are identical to the BOA Operating Line. No amount was outstanding on the BOA Endowment Line at May 31, 2016. Both lines were cancelled as of September 22, 2016.

An agreement with First Financial Bank, Abilene (the FFIN Line), matures on October 30, 2017, and provide for maximum borrowings of up to $9,500,000 with interest payable at prime (4.0% and 3.5% at May 31, 2017 and 2016). $0 and $4,280,000 was outstanding on the FFIN Line at May 31, 2017 and 2016.

Another agreement with First Financial Bank (the FFIN Endowment Line) matures on May 1, 2018 and provides for maximum borrowing of up to $5,000,000 with interest payable at prime (4.0% and 3.5% at May 31, 2017 and 2016, respectively). No amount was outstanding on the FFIN Endowment Line at May 31, 2017.

NOTE H - RESTRICTIONS ON NET ASSET BALANCES

Permanently restricted net assets are listed below according to the purpose for which the income for these items is to be used at May 31, 2017 and 2016:

	2017	2016
Student loans	$ 596,567	$ 526,274
Scholarships	71,912,518	70,724,011
Instruction, research, and divisional support	23,209,645	22,414,235
General operations	4,599,952	4,239,744
	100,318,682	97,904,264
Life income, student loan funds, and other accounts	17,945,857	15,736,297
	$118,264,539	$113,640,561

NOTE H - RESTRICTIONS ON NET ASSET BALANCES - Continued

Temporarily restricted net assets are listed below according to the purpose for which the income for these items is to be used at May 31, 2017 and 2016:

	2017	2016
Gifts and other unexpended revenues and gains available for:		
Student loans	$ 770,180	$ 755,722
Scholarships	71,976,036	57,545,135
Instruction, research, and divisional support	38,106,876	32,953,198
General operations and unappropriated earnings	16,386,987	11,169,212
Acquisition of property and equipment	33,026,387	46,310,166
Life income, student loan funds, and other accounts	757,449	2,093,968
	$161,023,915	$150,827,401

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. Unrestricted endowment represents board-designated funds.

Interpretation of Relevant Law

The University interprets the State of Texas UPMIFA 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. In the absence of explicit donor stipulations, the University designates 50% of endowment gifts to permanently restricted net assets and 50% to temporarily restricted net assets. The assets in the endowment fund remain restricted until appropriated for expenditure by the University.

Interpretation of Relevant Law - continued

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.

NOTE I – ENDOWMENT - Continued

Changes in endowment net assets for the year ended May 31, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$153,591,615	$100,492,273	$ 97,904,264	$351,988,152
Contributions	160,027	2,215,601	2,215,601	4,591,229
Real estate, mineral, and other income	5,612,124	491,345	-	6,103,469
Dividends and interest	518,558	1,073,976	-	1,592,534
Net realized and unrealized gains (losses)	9,573,275	28,577,283	111,755	38,262,313
Endowment support	(9,055,107)	(10,879,525)		(19,934,632)
Transfers and other	2,416,940	(523,442)	87,062	1,980,560
Endowment net assets, end of year	$162,817,432	$121,447,511	$100,318,682	$384,583,625

Changes in endowment net assets for the year ended May 31, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$166,789,475	$120,212,978	$95,837,315	$382,839,768
Contributions	16,799	1,022,334	1,022,334	2,061,467
Real estate, mineral, and other income	5,165,604	5,603	-	5,171,207
Dividends and interest	1,394,787	106,470	-	1,501,257
Net realized and unrealized gains (losses)	(17,811,009)	(5,100,755)	(185,394)	(23,097,158)
Endowment support	(8,598,932)	(9,802,378)	-	(18,401,310)
Transfers and other	6,634,891	(5,951,979)	1,230,009	1,912,921
Endowment net assets, end of year	$153,591,615	$100,492,273	$97,904,264	$351,988,152

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 expects its endowment funds, over time, to provide an average rate of return in excess of 5.5% annually plus inflation. Actual returns in any given year may vary from this amount.

NOTE I – ENDOWMENT - Continued

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.

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, 2017 and 2016:

	2017	2016
University as trustee:		
Charitable trusts	$30,172,789	$27,126,098
Charitable gift annuities	5,450,817	4,940,924
	35,623,606	32,067,022
Third-party trustee	291,874	1,456,973
	$35,915,480	$33,523,995

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, 2017 and 2016, $7,252,567 and $1,082,153, 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 donor, 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. 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, 2017 and 2016, was $19,549,795 and $18,294,264, respectively.

NOTE J - CHARITABLE TRUSTS AND ANNUITIES - Continued

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 required to contribute 2% of salary to participate in the 403(b) plan, for which the University contributes up to 4% of the employee's salary. Effective January 1, 2015, employees are required to contribute 2% of salary to participate in the 403(b) plan, for which the University contributes a corresponding 100% match of the employee's salary. Employees have the option of contributing an additional 1% or 2% of base pay into the 403(b) plan, for which the University contributes a corresponding 2% or 4% of the employee's salary. Effective January 1, 2015, employees have the option of contributing an additional 6% of base pay into the 403(b) plan, for which the University contributes a corresponding 100% match of the employee's salary. University contributions under the plan, net of forfeitures, totaled $2,961,163 and $2,691,337 for the years ended May 31, 2017 and 2016, 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, 2017 and 2016 were $1,029,766 and $777,328, respectively, which are recorded as assets and liabilities on the consolidated statements of financial position.

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 $1,107,986 at May 31, 2017. The note will earn interest at IRS interest rates (2.04% at May 31, 2017).

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:

	2017	2016
Accumulated postretirement benefit obligation	$(3,890,980)	$(3,895,441)
Plan assets at fair value	-	-
Unfunded status	$(3,890,980)	$(3,895,441)
Accrued postretirement benefit cost	$(3,890,980)	$(3,895,441)

NOTE L - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

Approximate annual benefit costs for the year ended May 31:

	2017	2016
Net periodic postretirement benefit cost	$162,583	$162,583
Employer contributions	$223,438	$250,281
Plan participant contributions	18,611	18,611
Benefits paid	$242,049	$268,892

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, 2017 and 2016:

	2017	2016
Discount rate	2.98%	2.67%
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

The University expects to contribute $303,220 to the postretirement benefit plan in fiscal year 2018. Benefits expected to be paid over the next five years and the five fiscal years thereafter are as follows:

2018	$ 303,220
2019	306,173
2020	305,631
2021	301,416
2022	293,489
2023-2027	1,241,502

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 $717,000 at May 31, 2017 and 2016, 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

The University leases facilities and equipment to support its study abroad programs, City Square, and other operating activities under non-cancelable operating agreements that extend through 2024. Rent expense related to these agreements for the years ended May 31, 2017 and 2016, was $1,570,886 and $1,059,650, respectively. Future minimum rentals under the non-cancelable leases as of May 31, 2017 are as follows:

NOTE N - COMMITMENTS AND CONTINGENCIES - Continued

Year ending May 31,	
2018	1,747,741
2019	1,468,214
2020	1,499,084
2021	1,542,728
2022	1,593,873
Thereafter	4,282,328

The University makes certain payments in currencies other than the United States dollar for its study abroad programs, which are subject to foreign currency exchange risk due to fluctuations in currency exchange rates. Gains and losses resulting from the settlement and revaluation of foreign currency transactions are recognized in the consolidated statements of activities.

At May 31, 2017, the University had open construction contracts for Wildcat Stadium and the Science Complex with remaining commitments of approximately $17,000,000. At May 31, 2016, the University had open construction contracts for improvements to Dillard Hall, Wildcat Stadium, a science complex, repairs related to hail damage and central plant controls with remaining commitments of approximately $46,000,000.

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.

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.

NOTE O - FAIR VALUE MEASUREMENTS - Continued

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)

ASU 2015-07 "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)" removes the requirement to categorize within the fair value hierarchy all investments for which the fair value is measured using the net asset value per share practical expedient. ASU 2015-07 is effective for non-public entities for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years, with early adoption permitted. Management has elected to early adopt the disclosure requirements prescribed by ASU 2015-07.

		Fair Value Measurements at May 31, 2017 Using			
Description	May 31, 2017	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	$ 72,025,188	$ 72,025,188	$ -	$ -	$ -
Notes receivable	62,500	-	62,500	-	-
Stocks and bonds	39,851,022	39,719,531	131,491	-	-
Real estate and mineral interests	53,247,163	-	20,405,379	32,841,784	-
Hedge funds	131,674,818	-	-	-	131,674,818
Private equity/ venture capital	84,681,557	-	-	-	84,681,557
Outside managed	2,270,988	-	2,270,988	-	-
Other investments	2,073,970		2,073,970		-
Total investments	385,887,206	111,744,718	24,944,328	32,841,784	216,356,375
Charitable trusts and annuities:					
Mutual funds	35,493,606	35,493,606	-	-	-
Real estate	130,000	-	130,000	- -	
Outside managed	291,874	-	291,874	-	-
Total charitable trusts and annuities	35,915,480	35,493,606	421,874	-	-
Total assets	$421,802,686	$147,238,325	$25,366,202	$32,841,784	$216,356,375

(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 heirarchy but are presented in this table to permit reconciliation of the fair value hierarchy amounts presented in the statement of financial position.

NOTE O - FAIR VALUE MEASUREMENTS - Continued

		Fair Value Measurements at May 31, 2016 Using			
Description	May 31, 2016	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	$ 64,206,979	$ 64,206,979	$ -	$ -	$ -
Notes receivable	62,500		62,500	-	-
Stocks and bonds	30,372,817	30,216,535	156,282	-	-
Real estate and mineral interests	53,980,138	-	17,982,993	35,997,145	-
Hedge funds	119,958,800	-	-	-	119,958,800
Private equity/ venture capital	81,904,984	-	-	-	81,904,984
Outside managed	2,159,732	-	2,159,732	-	-
Other investments	1,952,892		1,952,892		-
Total investments	354,598,842	94,423,514	22,314,399	35,997,145	201,863,784
Charitable trusts and annuities:					
Mutual funds	30,682,022	30,682,022	-	-	-
Privately Held Stock					
Real estate	1,385,000	-	1,385,000	-	-
Outside managed	1,456,973	-	1,456,973	-	-
Total charitable trusts and annuities	33,523,995	30,682,022	2,841,973	-	-
Total assets	$388,122,837	$125,105,536	$25,156,372	$35,997,145	$201,863,784
Liabilities:					
Interest rate swaps (Note P)	$ 1,732,117	$ -	$1,732,117	$ -	$ -
Bonds payable subject to interest rate swaps	16,742,777	-	16,742,777	-	-
Total liabilities	$ 18,474,894	$ -	$ 18,474,894	$ -	$ -

The schedule below summarizes the activity for items classified as Level 3 assets for the year ended May 31, 2017 and 2016:

	2017 Mineral Interests	2016 Mineral Interests
Beginning balance	$35,997,145	$40,546,709
Total gains (losses):		
Included in net realized and unrealized losses	(5,033,374)	(5,437,064)
Gifts	40,000	
Purchases	1,838,013	887,500
Redemptions	-	-
Ending balance	$32,841,784	$35,997,145

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. The estimated fair values of Level 3 assets managed and held in limited partnership and other private investment fund structures are based on the most recent valuations provided by the external investment fund managers, adjusted for receipts and disbursements through May 31. The University reviewed and evaluated the values provided by the managers and agreed with the valuation methods and assumptions used to determine those values. Accordingly, no significant quantitative information was developed by management to complete valuations for these investments.

The fair values of Level 3 mineral interests are estimated based on the expected net revenues generated by those assets. Geological reserve analysis provides additional information for estimating fair value and was used for the largest mineral interests to obtain a more informed estimate of fair value. These methods produce 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.

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, 2017 and May 31, 2016:

Instrument	Fair Value	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Mineral interests	2017 $32,841,784 2016 $35,997,145	Market approach Expected net revenues (producing wells)	Multiple of recent months revenue Geological reserve analysis	48 times the average monthly production for the last year (low) to 10 times the most recent annual production revenue (high) 10% discount 5% discount

NOTE O - FAIR VALUE MEASUREMENTS - Continued

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, 2017:

	Fair Value	Unfunded Commit-ments	Redemption Frequency*	Redemption Notice Period
Fixed income/absolute return funds (a)	$ 9,642,644	$ -	Daily	None
Emerging market long only funds (b)	31,559,891	-	Monthly	7 days to 30 days
Equity long/short and other equity hedge funds (c)	58,402,317	-	Monthly to 3 years	30 days to 90 days
Global opportunities hedge funds (d)	18,478,429	-	Monthly to 3 years	2 days to 90 days
Multi-strategy hedge funds (e)	13,591,537	-	Monthly to annually	33 days to 95 days
Private equity funds (f)	69,438,356	35,885,681	(f)	(f)
Venture capital funds (g)	15,243,201	2,109,696	(g)	(g)
	$216,356,375	$37,995,377		

NOTE O - FAIR VALUE MEASUREMENTS - Continued

Investments That Calculate Net Asset Per Share - 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, 2016:

	Fair Value	Unfunded Commit-ments	Redemption Frequency*	Redemption Notice Period
Fixed income/absolute return funds (a)	$ 9,072,878	$ -	Daily	None
Emerging market long only funds (b)	19,422,481	-	Monthly	7 days to 30 days
Equity long/short and other equity hedge funds (c)	53,440,964	-	Monthly to 3 years	30 days to 90 days
Global opportunities hedge funds (d)	27,125,141	-	Monthly to 3 years	2 days to 90 days
Multi-strategy hedge funds (e)	10,897,336	-	Monthly to annually	33 days to 95 days
Private equity funds (f)	63,839,910	39,275,521	(f)	(f)
Venture capital funds (g)	18,065,074	2,623,071	(g)	(g)
	$201,863,784	$41,898,592		

* 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.

NOTE O - FAIR VALUE MEASUREMENTS - Continued

Investments That Calculate Net Asset Per Share - continued

(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.

(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 approximately $1,676,002 (or 9.1%) and $1,511,029 (or 5.6%) of this category at May 31, 2017 and 2016, 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 and funds-of-funds that invest primarily in: distressed debt, BRIC (Brazil, Russia, India, China) country investments, energy holdings, and buyouts. 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 O - FAIR VALUE MEASUREMENTS - Continued

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

Cash and Cash Equivalents, Accounts Receivable, and Net Advances on Lines of Credit

The carrying amounts approximate fair value due to the short maturity of these instruments.

Contributions Receivable

The carrying amount approximates fair value as determined by discounting pledges at an appropriate discount rate commensurate with the risks involved.

Investments and Charitable Trusts and Annuities

The carrying amounts of money market funds, mutual funds, and marketable securities approximate fair value based on quoted market prices. The fair values of private equity instruments discussed above are determined in good faith by third party fund managers based on estimates of the underlying investments and appropriate market indices. The University uses these estimates as reported by the fund managers as the primary input to its estimation of fair valuation; however, other inputs are reviewed and considered in the determination of fair value including audit reports of the underlying funds. The fair values of real estate assets are based on independent appraisals. The fair values of mineral interests are based on independent reserve analyses as well as internal analysis using management's knowledge of the properties.

Long-term Obligations

Long-term obligations on the consolidated statements of financial position total $130,821,601 and $84,214,294 at May 31, 2017 and 2016, respectively. Included within these amounts are unamortized debt issuance cost and premium of $1,341,954 and ($392,119) as of May 31, 2017 and 2016, respectively. Included within the 2016 amounts are bonds payable subject to interest rate swaps designated as fair value hedges with fair values disclosed in the tables above, which are determined by adjusting the principal value of the debt by the fair value of the interest rate swaps designated as fair value hedges. Also included within the 2016 long-term obligations are liabilities related to interest rate swaps with fair values disclosed in the tables above, which are determined by the counterparty's present value calculations and market pricing models. Long-term obligations also include bonds and notes payable that are not reported at fair value, which have carrying values of $129,479,647 and $66,131,519 May 31, 2017 and 2016, respectively. The fair values of the bonds and notes payable not reported at fair value were $161,354,912 and $71,956,098 at May 31, 2017 and 2016, respectively as determined by discounting future cash flows at an appropriate rate commensurate with the risks involved. These fair values represent an estimate of what a market participant would be willing to pay to acquire the future cash flows on these instruments.

NOTE P - DERIVATIVE INSTRUMENTS

The University entered into two interest rate swap agreements during fiscal year 2005, two interest rate swap agreements during fiscal year 2007, and one interest rate swap agreement in fiscal year 2009. Each agreement is subject to a master netting arrangement with the lender for the debt instruments, which mitigates credit risks on the swap agreements. The University accounts for these contracts in accordance with ASC Topic 815 *Derivatives and Hedging* and has designated these swaps as fair value hedges. The primary reason for swapping from a variable to fixed rate is to stabilize the University's operating budget vis-à-vis interest expense.

NOTE P - DERIVATIVE INSTRUMENTS - Continued

Management has completed variable to fixed rate swaps on five debt issues: 1) Series 2003 has been swapped to a fixed rate of 4.59%; 2) Series 2005 has been swapped to a fixed rate of 4.59%; 3) Series 2006 Taxable has been swapped to a fixed rate of 6.06%; 4) Series 2006B has been swapped to a fixed rate of 4.43%; and 5) Series 2009 has been swapped to a fixed rate of 3.88%. On April 1, 2015, the University repriced the Series 2003 swap from 4.59% to 2.23%. On October 1, 2015, the University repriced the Series 2005 swap from 4.59% to 2.32%.

Management has identified the following benefits of using swap agreements to accomplish the above objectives: 1) a lower fixed rate is available using a swap than by refunding at a fixed rate; 2) less administrative work and due diligence is involved in executing a swap than in a refunding. A swap is an agreement separate from the debt but mirroring the debt repayment structure; and 3) a swap does not affect the University's bank qualified debt limit.

The risks of using the proposed interest rate swaps include: 1) credit risk—risk that the counterparty will not fulfill its obligation on the swap contract; 2) basis risk—mismatch between the interest rate received from the swap contract and the interest actually owed on the debt; and 3) opportunity cost—if the floating rate that the University can pay on the debt averages below the fixed rate the University pays on the swap, then the University realizes the opportunity cost associated with locking in the higher interest rate.

The effectiveness of the swaps is judged by comparing the interest rates and key terms of the swaps with the interest rates and key terms on the underlying debt. The key terms of the swaps match the key terms of the floating rate debt and are, therefore, expected to offset the hedged cash flows of the debt.

Management believes the swaps are fully effective as of May 31, 2016.

The schedule below summarizes the fair value of the swap contracts at May 31, 2016:

Derivatives designated as hedging instruments under FASB ASC 815-20	Statement of Financial Position Location	Liabilities 2016
Interest rate swaps	Long-term Obligations	$ 1,732,117

Because the swaps are fully effective, the University recognized gains on the hedged items (the debt issues noted above) that exactly offset the interest rate swap liabilities noted above within long-term obligations on the consolidated statements of financial position. Accordingly, the interest rate swaps have no net effect within liabilities on the consolidated statements of financial position at May 31, 2016.

The University includes the gain or loss on the hedged items within the same location on the consolidated statement of activities—interest expense—as the offsetting loss or gain on the related interest rate swaps as follows for the years ended May 31, 2016:

	Statement of Activities Location	2016
Unrestricted gain on swaps	Interest expense	$ 86,116
Unrestricted loss on debt issues	Interest expense	(86,116)

As of May 31, 2016, the aggregate notional amount of the outstanding swaps was $18,474,894.

NOTE P - DERIVATIVE INSTRUMENTS - Continued

As of September 22, 2016, all long-term obligations with swap arrangements were terminated in conjunction with the debt refunding. A payment of $1,910,500 was made to the counterparties out of the proceeds from the bond issuance. This was recorded as bond issuance cost and will be amortized to interest expense over the life of the new bonds.

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. Counterparty risks related to interest rate swap agreements are described in Note P. Management periodically monitors credit risk through the evaluation of the account's status and ability to repay.

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.

The following presents a summary of the asset retirement obligation activity as of and for the years ended May 31, 2017 and 2016:

Asset retirement obligation at June 1, 2015	$1,722,800
Payment of asset retirement obligation	(383,828)
Asset retirement obligation at May 31, 2016	1,338,972
Payments of asset retirement obligation	-
Asset retirement obligation at May 31, 2017	$1,338,972

NOTE S - RELATED PARTY TRANSACTIONS

The University had unsecured receivables from related parties of $45,893 and $50,512 at May 31, 2017 and 2016, respectively.

NOTE T - EXPENSES BY NATURAL CLASSIFICATION

While the consolidated statements of activities present expenses by function, the University's expenses by natural classification are as follows for the years ended May 31, 2017 and 2016:

	2017	2016
Salaries and wages	$ 53,678,865	$ 49,899,494
Personnel benefits	18,268,674	16,036,965
Student wages	3,291,853	3,376,005
Operating expenses	40,212,249	40,163,535
Plant operations and maintenance	11,071,762	9,113,587
Depreciation	8,754,152	8,515,003
Interest	3,630,530	2,617,223
	$138,908,085	$129,721,812

NOTE U - SUBSEQUENT EVENT

The University has evaluated subsequent events through August 7, 2017, the date the consolidated financial statements were available to be issued. No subsequent events were identified for disclosure through this date.