Consolidated Financial Statements and Report of Independent Auditors

Abilene Christian University

May 31, 2019 and 2018

Independent Auditor's Report

To the Board of Trustees
Abilene Christian University
Abilene, Texas

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Abilene Christian University, which comprise the consolidated statement of financial position as of May 31, 2019 and 2018, and the related consolidated statements of activities, and cash flows for the years 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 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 audit. We conducted our audit 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 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 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, 2019 and 2018, 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.

Change in Accounting Principle
As discussed in Note U to the consolidated financial statements, Abilene Christian University has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities.* Net assets at May 31, 2018 have been restated to combine temporarily restricted and permanently restricted net assets into a single category of net assets with donor restrictions. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued a report dated August 14, 2019 on our consideration of Abilene Christian University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 the effectiveness of Abilene Christian University's 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 Abilene Christian University's internal control over financial reporting and compliance.

Eide Bailly LLP

Abilene, Texas
August 14, 2019

Abilene Christian University

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

May 31, 2019 and 2018

ASSETS	2019	2018 (As Adjusted)
Cash and cash equivalents	$ 17,651,881	$ 22,548,789
Accounts and notes receivable, net	14,414,334	13,636,146
Contributions receivable, net	16,299,635	17,797,139
Inventories	617,272	784,000
Prepaid expenses and other assets	3,741,965	3,404,324
Investments	445,798,665	433,313,572
Charitable trusts and annuities	47,707,743	36,861,699
Property and equipment, net	240,329,363	242,046,742
Total assets	$786,560,858	$770,392,411
LIABILITIES AND NET ASSETS		
Accounts payable	$ 1,818,353	$ 5,815,035
Accrued interest payable	980,240	929,158
Accrued salaries and benefits	13,181,561	16,335,420
Deposits and other liabilities	12,587,526	9,211,780
Reserve for charitable trusts and annuities	26,575,536	18,609,695
Long-term obligations		
Principal amount	142,197,913	145,710,188
Debt issuance cost and premium, net of accumulated amortization	2,240,549	2,497,553
Total liabilities	199,581,678	199,108,829
Net assets		
Without Donor Restrictions	288,312,396	273,202,770
With Donor Restrictions	298,666,784	298,080,812
Total net assets	586,979,180	571,283,582
Total liabilities and net assets	$786,560,858	$770,392,411

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
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 operations	11,436,451	11,268,886	22,705,337
Government grants and contracts	5,223,563	-	5,223,563
Other revenues	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	7,055,213	(7,055,213)	-
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
Auxiliary enterprises expenses	19,105,934	-	19,105,934
Supporting expenses			
Fundraising	4,642,726	-	4,642,726
Management and general	24,137,697	-	24,137,697
Total operating expenses	140,618,972	-	140,618,972
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	161,087	2,493,632	2,654,719
Net non-operating revenues, expenses, and other changes	15,835,510	(1,771,042)	14,064,468
Total change in net assets	15,109,626	585,972	15,695,598
Net assets at beginning of year	273,202,770	298,080,812	571,283,582
Net assets at end of year	$288,312,396	$298,666,784	$586,979,180

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2018 (As adjusted)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating:			
Revenues, gains, and other support			
Tuition and fees (net of scholarship)	$ 75,082,223	$ -	$ 75,082,223
Auxiliary enterprises sales and services (net of scholarship)	20,829,788	-	20,829,788
Private gifts and grants	1,236,792	6,138,063	7,374,855
Investment return designated for operating	10,091,255	10,636,818	20,728,073
Government grants and contracts	5,294,081	-	5,294,081
Other revenue	6,327,661	-	6,327,661
Net assets released from restrictions			
Release of investment return	10,636,818	(10,636,818)	-
Satisfaction of program restrictions	5,345,904	(5,345,904)	-
Total revenues, gains, and other support	134,844,522	792,159	135,636,681
Expenses			
Operating expenses:			
Program expenses			
Instruction and research	46,484,926	-	46,484,927
Public services	2,949,489	-	2,949,489
Academic support	12,950,532	-	12,950,532
Student services	29,831,393	-	29,831,393
Expenses of auxiliary enterprises	21,279,025	-	21,279,025
Supporting expenses			
Fundraising	4,182,072	-	4,182,072
Management and general	25,760,969	-	25,760,969
Total operating expenses	143,438,406	-	143,438,406
Change in net assets from operating activities	(8,593,884)	792,159	(7,801,725)
Non-operating:			
Contributions for endowment, plant, and other	-	8,195,347	8,195,347
Net Investment return, net of amount designated for operations	13,645,235	28,365,221	42,010,456
Other revenue	178,328		178,328
Net assets released for non-operating activities	20,490,452	(20,490,452)	-
Changes in value of split-interest agreements	61,055	1,930,083	1,991,138
Net non-operating revenues, expenses, and other changes	34,375,070	18,000,199	52,375,269
Total change in net assets	25,781,186	18,792,358	44,573,544
Net assets at beginning of year	247,421,584	279,288,454	526,710,038
Net assets at end of year	$ 273,202,770	$ 298,080,812	$571,283,582

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 15,695,597	$ 44,573,544
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation of property and equipment	10,326,818	10,152,485
Amortization of debt issuance cost and premium	(257,004)	(234,868)
Loss on disposal of assets	2,123	6,489
Provision for credit losses	1,016,978	1,269,785
(Increase) decrease in:		
Accounts and notes receivable	(2,372,284)	(6,375,311)
Contributions receivable	(2,773,435)	333,180
Inventories	166,728	1,428,482
Prepaid expenses and other assets	(337,641)	239,696
Increase (decrease) in:		
Accounts payable	(4,147,580)	(162,121)
Accrued interest payable	51,083	92,089
Accrued salaries and benefits	(3,153,859)	1,042,473
Deposits and other liabilities	3,375,746	499,954
Contributions restricted for long-term investment	(12,155,977)	(8,195,348)
Interest and dividends restricted for reinvestment	(101,359)	(62,792)
Changes in value of split-interest agreements	(2,654,719)	(1,991,138)
Net unrealized and realized gains on investments	(9,923,352)	(53,994,457)
Net cash used in operating activities	(7,242,137)	(11,377,858)
Cash flows from investing activities		
Additions to property and equipment	(10,161,525)	(23,591,114)
Repayment of loans from students, faculty, and others	577,118	210,522
Proceeds from sales and maturities of investments	56,429,570	78,034,315
Purchases of investments	(52,956,229)	(62,238,273)
Net cash used in investing activities	(6,111,066)	(7,584,550)

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended May 31, 2019 and 2018

	2019	2018
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment in endowment and other	$ 7,437,292	$ 2,268,264
Investment in plant	6,321,358	15,617,824
	13,758,650	17,886,088
Other financing activities:		
Interest and dividends restricted for reinvestment	101,359	62,791
Payments of split-interest obligations	(1,878,527)	(1,673,729)
Proceeds from lines of credit	-	15,570,000
Payments on lines of credit	-	(15,570,000)
Proceeds from long-term obligations	(12,911)	18,994,132
Payments of long-term obligations	(3,512,275)	(2,788,778)
Proceeds from premium	-	1,700,212
Payments of debt issuance cost	-	309,745)
	(5,302,355	15,984,883
Net cash provided by financing activities	8,456,295	33,870,971
Net change in cash and cash equivalents	(4,896,908)	14,908,563
Cash and cash equivalents at beginning of year	22,548,789	7,640,226
Cash and cash equivalents at end of year	$ 17,651,881	$ 22,548,789
Non-cash investing and financing activities:		
Improvements capitalized by increases to accounts payable	$ 150,898	$ 1,050,119
Equipment capitalized by an increase to long-term obligations	12,912	25,188
Other required disclosures:		
Cash paid for interest	$ 6,153,682	$ 6,164,827

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.

Accounting Pronouncements Adopted

As of June 1, 2018, the University adopted the provision of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets Without Donor Restrictions and net assets With Donor Restrictions) and enhance the disclosure requirements for the University's donor restricted endowment and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the University's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the University's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments are applied on a retrospective basis; however, the ASU allows for those presenting comparative financial statements to omit, for any periods presented before the period of adoption, the analysis of expense by both natural classification and functional classification (the separate presentation of expense by functional classification and expenses by natural classification is still required (see Note S), and the disclosure about liquidity and availability of resources (see Note V). The University has elected not to present comparative information for these amendments.

The University has adopted this standard as management believes the standard improves the usefulness and understandability of the University's financial reporting.

As of June 1, 2018, the University adopted the provisions of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, as amended, which supersedes or replaces nearly all Generally Accepted Accounting Principles (GAAP) revenue recognition guidance. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

The University has implemented ASU 2014-09 and its related amendments and have accordingly adjusted the presentation of tuition revenue in the consolidate financial statements. Following the adoptions of the ASU, we continue to recognize revenue from students as services are provided which corresponds to the year in which the related academic services are rendered. There was no material impact to the consolidated financial statements as a result of the adoption. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued consolidated financial statements.

As of June 1, 2018, the University adopted the provisions of Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard assists the University in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued consolidated financial statements

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 a board designated from net assets without donor restrictions. Conditional contributions such as grants whose purpose/requirements are met in the same period the condition was received are recorded as without donor restriction.

- 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.

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 statement of activities. In the prior year consolidated financial statement private gifts and grants was reported as without donor restriction ($5,580,450), with donor restrictions ($1,794,405) and satisfaction from program restrictions ($1,002,246).

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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 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.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2019 and 2018, 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, 2019, the University's tax years 2013 to 2019 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. 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 $141,603 and $0.00 at May 31, 2019 and 2018, respectively. Cash balances of $234,918 and $28,538 at May 31, 2019 and 2018, 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 reviewed monthly for any late payments and assessed a 1.242% late fee per month beginning October after 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 consist 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.

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 $45,000 and $15,000 were recorded for obsolete inventory for the years ended May 31, 2019 and 2018, respectively. In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-11, *Simplifying the Measurement of Inventory*. ASU 2015-11 requires inventory to be recorded at the lower of cost or net realizable value. Management implemented ASU 2015-11 prospectively for fiscal year 2018.

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 $582,928 and $614,303 for the years ended May 31, 2019 and 2018, 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment - continued

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.

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, 2019 and 2018.

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. There were no adjustments to the transaction price. 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 $64,146,448 and $63,334,552 for years ended May 31, 2019 and 2018, 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition - continued

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. 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 With Donor Restrictions net asset class; the restrictions are considered to be released upon the acquisition of such assets.

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 year ended May 31, 2019 and 2018, the discounts for housing and food services that were netted against revenue were $515,725 and $148,108, 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 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. Net losses on investments of endowments and similar funds are reported as reductions in With Donor Restriction net assets to the extent of accumulated endowment earnings reported as such, if any, with the remaining net losses reported as reductions in Without Donor Restriction net assets.

Advertising Costs

Advertising costs are expensed as incurred and totaled $2,910,803 and $2,253,200 for the years ended May 31, 2019 and 2018, respectively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, 2019:

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

Financing receivables consisted of the following at May 31, 2018:

	Student & Commercial Accounts	Student Loans	Grants, Minerals, Other	Total
Gross receivables	$6,637,908	$2,169,040	$5,726,929	$14,533,877
Less allowance for credit losses	(685,841)	(211,890)	-	(897,731)
Receivables, net of allowance for credit losses	$5,952,067	$1,957,150	$5,726,929	$13,636,146

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, 2019 and 2018:

NOTE B - FINANCING RECEIVABLES - Continued

	2019	2018
Allowance for credit losses:		
Beginning balance	$211,890	$ 211,890
Charge-offs		
Recoveries	-	-
Provision	85,040	-
Ending balance	$296,930	$211,890

	2019	2018
Allowance for credit losses:		
Allocated to student loans individually evaluated for impairment	$ 227,776	$ 121,691
Allocated to student loans collectively evaluated for impairment	69,154	90,199
Ending balance	$ 296,930	$ 211,890
Financing receivables:		
Balance individually evaluated for impairment	$ 501,328	$ 349,768
Balance collectively evaluated for impairment	1,363,712	1,819,272
Ending balance	$1,865,040	$2,169,040

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

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

Student loans consisted of the following aging categories at May 31, 2018:

	Past Due			Current		> 90 Days
	30-59 Days	60-89 Days	> 90 Days	and Deferred	Total	and Accruing
Institutional Notes	$17,383	$19,868	$296,766	$ 183,854	$ 517,871	$296,766
Federal Perkins	51,309	41,000	233,731	1,325,129	1,651,169	235,531
	$68,692	$60,868	$530,497	$1,508,983	$2,169,040	$532,297

NOTE B - FINANCING RECEIVABLES – Continued

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

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

Student loan credit quality indicators are summarized below as of May 31, 2018:

	Institutional Notes	Federal Perkins	Total
Deferred	$ -	$ 914,443	$ 914,443
Current	183,854	410,686	594,540
Performing	212,326	97,963	310,289
Nonperforming	121,691	228,077	349,768
	$517,871	$1,651,169	$2,169,040

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

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income
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	273,552	273,552	-	250,815	58,341
	$501,328	$501,328	$227,776	$425,548	$74,721

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, 2018:

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income
With no related allowance					
Institutional Notes	$ -	$ -	$ -	$ -	$ -
Federal Perkins	228,077	228,077	-	218,823	49,839
With a related allowance					
Institutional Notes	121,691	121,691	121,691	137,371	14,056
Federal Perkins	-	-	-	-	-
Total					
Institutional Notes	121,691	121,691	121,691	137,371	14,056
Federal Perkins	228,077	228,077	-	218,823	49,839
	$349,768	$349,768	$121,691	$356,194	$63,895

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at May 31, 2019 and 2018:

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	$6,538,775	$6,318,558
One year to five years	10,731,296	12,914,823
Over five years	300,000	600,000
	17,570,071	19,833,381
Less discount for net present value	(339,051)	(1,152,555)
Less allowance for uncollectible contributions receivable	(931,385)	(883,687)
	$16,299,635	$17,797,139

The contributions are to be utilized for the following purposes:

	2019	2018
Operations and scholarships	$ 5,522,228	$ 2,748,793
Endowment	774,313	1,418,602
Acquisition of land, building, and equipment	10,003,094	13,629,744
	$16,299,635	$17,797,139

Contributions receivable have been discounted using rates ranging from .78% to 2.69% as of May 31, 2019 and 2018.

NOTE C - CONTRIBUTIONS RECEIVABLE – Continued

At May 31, 2019, 71% of the contribution receivable was comprised of three donors. At May 31, 2018, 60% of contributions receivable was comprised of one donor. All other donor balances do not exceed 10% of the total balance.

NOTE D - INVESTMENTS

Investments consisted of the following at May 31, 2019 and 2018:

	2019	2018
Mutual funds and investment partnerships managed by third parties	$304,036,303	$311,076,906
Notes receivable	57,928	62,500
Stocks and bonds	65,552,241	63,244,251
Real estate and mineral interests	66,613,414	54,605,353
Outside managed	2,358,470	2,363,344
Other investments	7,180,309	1,961,218
	$445,798,665	$433,313,572

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, 2019 and 2018:

	2019	2018
Interest income	$ 227,089	$ 204,713
Dividend income	1,795,112	1,564,753
Mineral income	10,465,481	8,720,249
Ranch income	1,617,412	301,735
Net realized and unrealized gains	9,923,352	53,994,457
Total investment income	$24,028,446	$64,785,907

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 (loss) for the years ended May 31, 2019 and 2018 were $11,876,757 and $272,663, 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.

NOTE D - INVESTMENTS – Continued

The investment pool consisted of the following at May 31, 2019 and 2018:

	2019	2018
Stocks, Mutual funds and investment partnerships managed by third parties and by ACU	$355,921,627	$367,518,917
Cash and cash equivalents	11,079,544	4,252,048
	$367,001,171	$371,770,965

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at May 31, 2019 and 2018:

	2019	2018
Land	$ 1,720,684	$ 1,587,667
Buildings	261,854,688	250,154,986
Improvements to land and buildings	86,158,331	81,767,360
Equipment	27,542,169	26,759,657
	377,275,872	360,269,670
Less accumulated depreciation and amortization	(138,820,305)	(128,531,239)
	238,455,567	231,738,431
Assets held for Sale	-	1,848,912
Construction in progress	1,873,796	8,459,399
	$ 240,329,363	$242,046,742

Depreciation expense on property and equipment for the years ending May 31, 2019 and 2018, was $10,326,818 and $10,152,485, respectively. Interest cost capitalized during fiscal years ended May 31, 2019 and 2018 was $56,405 and $107,037, respectively.

Construction in progress as of May 31, 2019 consisted of construction on the Golf Facility, Softball Batting facility and other various projects across campus. Construction in progress as of May 31, 2018 consisted of the Onstead Science facility and other various projects across campus.

On May 19, 2018, the board passed a resolution to re-designate 437 acres (titled Zoe property) as "available for sale. In Fiscal Year Ended May 31, 2019, the Zoe Property was removed from available for sale and transferred to the endowment as an investment

NOTE F - LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following as of May 31, 2019 and 2018:

	2019	2018
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 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 quarterly.	26,500,000	30,000,000
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 semiannually. The effective interest rate is 4.2%.	11,570,000	11,570,000
Miscellaneous notes payable	12,913	25,188
	$142,197,913	$145,710,188

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

2020	$ 3,012,913
2021	3,500,000
2022	3,500,000
2023	3,000,000
2024	1,500,000
Thereafter	127,685,000
	$142,197,913

Total interest expense for the years ended May 31, 2019 and 2018 was $6,164,827 and $5,915,010 respectively. All debt is non-collateralized.

NOTE F - LONG-TERM OBLIGATIONS – Continued

Long term debt as of May 31, 2019 and 2018 included debt issuance cost, premium and accumulated amortization as follows:

	2019	2018
Debt issuance cost	$ (5,594,277)	$ (5,594,277)
Accumulated Amortization	558,422	343,718
Premium	8,482,190	8,482,190
Accumulated Amortization	(1,205,786)	(734,078)
Unamortized debt issuance cost and premium	$ 2,240,549	$ 2,497,553

NOTE G - NET ADVANCES ON LINES OF CREDIT

An agreement with First Financial Bank, Abilene (the FFIN Line), matures on October 30, 2019, and provides for maximum borrowings of up to $9,500,000 with interest payable at prime (5.5% and 4.75% at May 31, 2019 and 2018). No amount was outstanding on the FFIN Line at May 31, 2019 and 2018.

Agreement with First Financial Bank (the FFIN Endowment Line) matures on May 1, 2020 and provides for maximum borrowing of up to $5,000,000 with interest payable at prime (5.5% and 4.75% at May 31, 2019 and 2018, respectively). No amount was outstanding on the FFIN Endowment Line at May 31, 2019 and 2018.

Another agreement with First Financial Bank, Abilene (the FFIN Line), matures on October 30, 2019, and provides for maximum borrowings of up to $8,000,000 with interest payable at prime (5.5% and 4.75% at May 31, 2019 and 2018). No amount was outstanding on the FFIN Line at May 31, 2019 and 2018.

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, 2019 and 2018.

	2019	2018
Without donor restriction		
Board designated endowment	$ 192,683,020	$ 178,484,893
Undesignated	95,629,376	94,717,877
Total net assets without donor restriction	288,312,396	273,202,770

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

Net assets With Donor Restrictions are restricted for the following purposes and periods for the years ended May 31, 2019 and 2018.

	2019	2018
With Donor Restriction		
Subject to expenditure when a specified event occurs		
Instruction and research	46,183,052	48,246,716
Financial aid	86,461,134	89,764,073
Student loans	762,268	770,717
Capital construction	4,391,313	3,929,862
Available for general use	15,095,648	16,010,242
Promises to give		
Available for general use	5,522,228	2,748,793
Capital construction	9,869,745	13,629,744
Subject to expenditure at a specified time		
Life income and annuities	2,185,793	887,617
Endowment return subject to future appropriations		
Instruction and research	12,538,390	11,714,902
Financial aid	38,517,259	36,991,037
Student loans	1,929,369	2,022,877
Available for general use	2,023,877	2,180,275
Promises to give		
Available for general use	387,157	709,301
Total net asset restricted by time or purpose	225,867,233	229,606,156
Amounts with perpetual restrictions		
Instruction and research	12,538,391	11,714,902
Financial aid	38,517,259	36,991,037
Student loans	1,929,369	2,022,877
Available for general use	1,249,564	761,673
Life income and annuities	18,177,811	16,274,866
Promises to give		
Available for general use	387,157	709,301
Total net assts with perpetual restrictions	72,799,551	68,474,656
Total net assets With Donor Restrictions	$ 298,666,784	$ 298,080,812

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, 2019 and 2018.

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

	2019	2018
Satisfaction of purpose restrictions		
Financial aid	$ 597,808	$ 527,564
Instruction and research	4,586,807	3,411,633
Available for general use	1,870,598	1,406,706
Capital construction	6,110,980	20,490,452
	13,166,193	25,836,355
Restricted purpose spending rate distributions and appropriations		
Student loans	235,145	131,898
Financial aid	6,589,031	6,620,520
Instruction and research	3,421,145	2,828,011
Available for general use	655,368	608,523
Life income and annuities	368,197	447,867
	11,268,886	10,836,819
Net assets released from restriction	$ 24,435,079	$ 36,473,174

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 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.

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

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

NOTE I – ENDOWMENT – Continued

Composition of endowment by type of fund for May 31, 2018, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor restricted endowment funds	$ -	$253,460,709	$253,460,709
Board-designated endowment funds	178,484,893	-	178,484,893
Endowment net assets, end of year	$178,484,893	$253,460,709	$431,945,602

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	1,490,714	607,527	2,098,241
Endowment net assets, end of year	$192,683,020	$251,393,545	$444,076,565

Changes in endowment net assets for the year ended May 31, 2018, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$162,817,432	$221,766,193	$384,583,625
Contributions	-	3,014,458	3,014,458
Real estate, mineral, and other income	8,139,458	620,919	8,760,377
Dividends and interest	569,219	1,179,230	1,748,449
Net realized and unrealized gains (losses)	18,215,281	35,402,156	53,617,437
Endowment support	(10,091,255)	(10,636,818)	(20,728,073)
Transfers and other	(1,165,242)	2,114,571	949,329
Endowment net assets, end of year	$178,484,893	$253,460,709	$431,945,602

NOTE I – ENDOWMENT – Continued

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 the University retain as a fund of perpetual duration. Deficiencies of this nature are required to be reported as reductions to Without Donor Restriction net assets. The University had no deficiencies of this nature reported in Without Donor Restriction net assets as of May 31, 2019 and 2018.

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.

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, 2019 and 2018:

	2019	2018
University as trustee:		
Charitable trusts	$41,798,274	$31,061,901
Charitable gift annuities	5,631,898	5,449,775
	47,430,172	36,511,676
Third-party trustee	277,571	350,023
	$47,707,743	$36,861,699

NOTE J - CHARITABLE TRUSTS AND ANNUITIES – Continued

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, 2019 and 2018, $10,724,156 and $539,098, 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, 2019 and 2018, was $26,575,536 and $18,609,695, 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 $3,367,099 and $3,038,145 for the years ended May 31, 2019 and 2018, 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, 2019 and 2018 were $1,339,485 and $1,235,354 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 $1,226,213 and $1,161,026 for the years ended May 31, 2019 and 2018, respectively. The note will earn interest at IRS interest rates (2.08% and 2.23% at May 31, 2019 and 2018, 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.

NOTE L - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

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

	2019	2018
Accumulated postretirement benefit obligation	$(3,281,376)	$(3,250,295)
Plan assets at fair value	-	-
Unfunded status	$(3,281,376)	$(3,250,295)
Accrued postretirement benefit cost	$(3,281,376)	$(3,250,295)

Approximate annual benefit costs for the year ended May 31:

	2019	2018
Net periodic postretirement benefit cost	$105,573	$182,006
Employer contributions	$232,144	$211,944
Plan participant contributions	32,080	35,840
Benefits paid	$264,224	$247,784

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, 2019 and 2018:

	2019	2018
Discount rate	3.20%	3.61%
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 $266,922 to the postretirement benefit plan in fiscal year 2020. Benefits expected to be paid over the next five years and the five fiscal years thereafter are as follows:

2020	$ 266,922
2021	268,955
2022	267,683
2023	263,110
2024	255,190
2025-2028	1,063,635

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 $761,000 and $818,000 at May 31, 2019 and 2018, 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

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, 2019 and 2018, was $1,959,209 and $2,040,641, respectively. Future minimum rentals under the non-cancelable leases as of May 31, 2018 are as follows:

Year ending May 31,	
2019	$ 1,468,214
2020	1,499,084
2021	1,542,728
2022	1,593,873
2023	1,619,592
Thereafter	2,662,737

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, 2019, the University had open construction contracts for Nelson Golf Clubhouse with remaining commitments of approximately $1,400,000. At May 31, 2018, the University had open construction contracts for Onstead Science interior with remaining commitments of approximately $1,900,000.

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.

A lease impairment loss of $726,212 was recorded as of May 31, 2019 due to a sublease of one of the leased properties.

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.

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 statement of financial position.

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.

		Fair Value Measurements at May 31, 2019 Using			
Description	May 31, 2019	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	7,180,309		2,099,333	5,080,976	-
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	277,571	-	277,571	-	-
Total charitable trusts and annuities	47,707,743	46,555,172	1,152,571	-	-
Total assets	$493,506,408	$184,559,205	$30,204,832	$47,295,458	$231,446,913

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

		Fair Value Measurements at May 31, 2018 Using			
Description	May 31, 2018	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	$ 82,704,210	$ 82,704,210	$ -	$ -	$ -
Notes receivable	62,500	-	62,500	-	-
Stocks and bonds	63,244,251	63,078,641	165,610	-	-
Real estate and mineral interests	54,605,353	-	22,258,126	32,347,227	-
Hedge funds	158,593,141	-	-	-	158,593,141
Private equity/ venture capital	69,779,555	-	-	-	69,779,555
Outside managed	2,363,344	-	2,363,344	-	-
Other investments	1,961,218		1,961,218		-
Total investments	433,313,572	145,782,851	26,810,798	32,347,227	228,372,696
Charitable trusts and annuities:					
Mutual funds	36,381,676	36,381,676	-	-	-
Real estate	130,000	-	130,000	-	-
Outside managed	350,023	-	350,023	-	-
Total charitable trusts and annuities	36,861,699	36,381,676	480,023	-	-
Total assets	$470,175,271	$182,164,527	$27,290,821	$32,347,227	$228,372,696

The schedule below summarizes the activity for items classified as Level 3 assets for the year ended May 31, 2019 and 2018:

	2019 Mineral and other Interests	2018 Mineral and Other Interests
Beginning balance	$32,347,227	$32,841,784
Total gains (losses):		
Included in net realized and unrealized losses	12,183,175	(2,182,788)
Purchases	2,765,056	1,688,231
Ending balance	$47,295,458	$32,347,227

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. 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.

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.

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, 2019 and May 31, 2018:

Instrument	Fair Value	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Mineral interests	2019 $42,214,482	Market approach	Multiple of recent months revenue	From 4 to 10.5 times the most recent annual production
	2018 $32,347,227	Market approach	Multiple of recent months revenue	48 times the average monthly production for the last year to 10 times the most recent annual production

NOTE O - FAIR VALUE MEASUREMENTS - Continued

Wind Farm Royalties	2019 $5,080,976 2018 $0	Discounted cash flows	Anticipated contractual cash flow	6-10% discount rate

Valuation of Mineral interest

The University values gifted mineral royalties in the endowment at a multiple of current cash flow (prior 36-month average times 84 months). This methodology is used for mineral interest received as gifts in determining annual payouts from the endowment to other University operating funds. Recent development of deep rights in the Sherrod Unit of the Permian Basin is accompanied by significant uncertainties in long term value of the mineral interest. Uncertainties include; new fracking technologies in use, fractured leasehold interests by operators, the uncertainty of ultimate hydrocarbon recovery, the unknown development pace, the volatility of oil prices and the uncertainty of political decisions. Due to these uncertainties, the University has chosen to limit distributions from the endowment on this particular asset. New cash flow from this investment will be placed into the endowment as a new fund. The created endowment will, in subsequent years, make distributions in accordance with then existing board policy. For purposes of valuing the endowment in the annual audit, the Sherrod Unit market value adjustment will reflect our estimate of current value using our historic valuation method (36-month average time 84 months). Annual distributions will be based on the endowment value before the Sherrod Unit deep rights market value adjustments. Endowment return performance is shown before and after the market value adjustment.

	2019		2018	
Endowment Value and return before Sherrod Unit Adjustment	$439,193,632	4.2%	$431,945,602	16.7%
Sherrod Unit Deep Rights Market Value Adjustment and Return	4,882,933	1.2%	-	0%
Total Endowment Value and Total Return	$444,076,565	5.4%	$431,945,602	16.7%

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, 2019:

	Fair Value	Unfunded Commit-ments	Redemption Frequency*	Redemption Notice Period
Fixed income/absolute return funds (a)	$ 10,566,957	$ -	Daily	None
Emerging market long only funds (b)	29,603,311	-	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	2 days to 90 days
Multi-strategy hedge funds (e)	16,420,919	-	Monthly to annually	33 days to 95 days
Private equity funds (f)	87,322,975	59,062,416	(f)	(f)
Venture capital funds (g)	15,496,969	3,655,196	(g)	(g)
	$231,446,913	$62,717,612		

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, 2018:

NOTE O - FAIR VALUE MEASUREMENTS - Continued

	Fair Value	Unfunded Commit-ments	Redemption Frequency*	Redemption Notice Period
Fixed income/absolute return funds (a)	$ 10,166,071	$ -	Daily	None
Emerging market long only funds (b)	34,104,659	-	Monthly	7 days to 30 days
Equity long/short and other equity hedge funds (c)	60,326,016	-	Monthly to 3 years	30 days to 90 days
Global opportunities hedge funds (d)	17,675,885	-	Monthly to 3 years	2 days to 90 days
Multi-strategy hedge funds (e)	15,768,305	-	Monthly to annually	33 days to 95 days
Private equity funds (f)	75,719,221	53,934,950	(f)	(f)
Venture capital funds (g)	14,612,538	2,011,071	(g)	(g)
	$228,372,696	$55,946,021		

* 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.

(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.

NOTE O - FAIR VALUE MEASUREMENTS - Continued

(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 $1,707,179 (or 10.6%) and $2,196,192 (or 12.4%) of this category at May 31, 2019 and 2018, 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.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments not required to be recorded at fair value:

<u>Cash and Cash Equivalents, Accounts Receivable, Net Advances on Lines of Credit, Accounts Payable, Accrued Interest Payable, Accrued Salaries and Benefits, Deposits and Other Liabilities</u>

The carrying amounts approximate fair value due to the relative short period of time between the origination of these instruments and their expected realization.

<u>Contributions Receivable</u>

The carrying amount is determined by discounting pledges at an appropriate discount rate commensurate with the risks involved.

NOTE O - FAIR VALUE MEASUREMENTS - Continued

Reserve for Charitable Trusts and Annuities

A reserve for charitable trusts and annuities is recorded representing the discounted future cash flows expected to be paid to the specified beneficiaries designated by donors. The estimated liability of future cash flows is based upon the life expectancy of the beneficiaries, 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.

Long-term Obligations

Long-term obligations on the consolidated statements of financial position total $144,438,462 and $148,207,741 at May 31, 2019 and 2018, respectively. Included within these amounts are unamortized debt issuance cost and premium of $2,240,549 and $2,497,553 as of May 31, 2019 and 2018, respectively. Long-term obligations also include bonds and notes payable that are not reported at fair value, which have carrying values of $142,197,913 and $145,710,188 May 31, 2019 and 2018, respectively. The fair values of the bonds and notes payable not reported at fair value were $153,836,008 and $171,593,655 at May 31, 2019 and 2018, 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 - 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 my 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 Q - 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, 2019 and 2018:

Asset retirement obligation at June 1, 2017	$1,338,972
Payment of asset retirement obligation	441,383
Asset retirement obligation at May 31, 2018	897,589
Payments of asset retirement obligation	-
Asset retirement obligation at May 31, 2019	$ 897,589

NOTE R - RELATED PARTY TRANSACTIONS

The University had unsecured receivables from related parties of $69,838 and $51,742 at May 31, 2019 and 2018, respectively. Contributions received from board members were $3,063,275 and $15,216,486 as of May 31, 2019 and 2018, respectively.

NOTE S - 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, 2018:

	2018
Salaries and wages	$ 57,245,559
Personnel benefits	17,223,503
Student wages	2,831,651
Operating expenses	39,982,368
Plant operations and maintenance	10,087,830
Depreciation	10,152,485
Interest	5,915,010
	$143,438,406

NOTE S - EXPENSES BY NATURAL CLASSIFICATION – Continued

As disclosed in Note A, the University adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For Profit Entities* as of June 1, 2018. As a part of the adoption, the natural classification of expenses for Fiscal year Ending May 31, 2019 are presented below.

	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

NOTE S - 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 T - SUBSEQUENT EVENT

The University has evaluated subsequent events through August 14, 2019, the date the consolidated financial statements were issued. No additional subsequent events were identified for disclosure through this date.

NOTE U – ADJUSTMENT RESULTING FROM CHANGE IN ACCOUNTING POLICY

As disclosed in Note A, the University adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For Profit Entities* as of June 1, 2018. As a part of the adoption, changes were made to the presentation of the consolidated financial statements and classification of net assets. Following is a summary of the effects of the change in accounting policy in the University's May 31, 2018 net assets.

NOTE U – ADJUSTMENT RESULTING FORM CHANGE IN ACCOUNTING POLICY – Continued

The effect on the University's statement of activities as of May 31, 2018 is as follow:

	As Previously Reported	Adoptions of ASU 2016-14	As Adjusted
Net Assets, Beginning of Year			
Unrestricted	$247,421,584	$(247,421,584)	-
Temporarily restricted net assets	161,023,915	(161,023,915)	-
Permanently Restricted net assts	118,264,539	(118,264,539)	-
Net assets without donor restrictions		247,421,584	247,421,584
Net assets with donor restrictions		279,288,454	279,288,454
Net Assets, End of Year			
Unrestricted	$273,202,770	$(273,202,770)	-
Temporarily restricted net assets	175,987,764	(175,987,764	-
Permanently Restricted net assts	122,093,048	(122,093,048)	-
Net assets without donor restrictions		273,202,770	273,202,770
Net assets with donor restrictions		298,080,812	298,080,812

As part of the adoption of ASU 2016-14, the University reclassified direct internal investment expenses of approximately $1.7 million from operating to net investment return.

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 $192,683,022 is 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, 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:

NOTE V – LIQUIDITY – Continued

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

NOTE W – REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table provides information about significant changes in the assessments paid in advance and deferred revenue for the year ended May 31, 2019 and 2018, respectively.

	2019	2018
Accounts Receivable, Beginning balance	$ 6,182,763	$ 4,290,156
Tuition, fees and auxiliary revenues assessed	162,602,721	159,394,671
Scholarships applied	(64,662,173)	(63,482,660)
Collection of tuition, fees and auxiliary	(98,285,226)	(94,019,404)
Accounts Receivable, Ending balance	$ 5,838,085	$ 6,182,763
Deferred Revenue Beginning balance	$ 4,813,668	$ 2,187,344
Revenue recognized (net of scholarships)	97,940,548	95,912,011
Collection of tuition, fees and auxiliary revenues	(97,306,257)	(93,285,687)
Deferred Revenue, Ending Balance	$ 5,447,959	$ 4,813,668