

Consolidated Financial Statements and Report of Independent Auditors

Abilene Christian University

May 31, 2023 and 2022

Independent Auditor's Report

Board of Trustees
Abilene Christian University
Abilene, Texas

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

FORVIS, LLP

**Fort Worth, Texas
August 11, 2023**

Abilene Christian University

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

May 31, 2023 and 2022

ASSETS	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 13,422,767	\$ 20,855,023
Cash restricted for long-term purposes	29,163,537	88,668,939
Accounts and notes receivable, net	22,160,000	26,212,607
Contributions receivable, net	18,526,411	22,769,874
Inventories	755,765	728,038
Prepaid expenses and other assets	4,959,530	4,262,526
Investments	752,794,425	698,535,873
Charitable trusts and annuities	37,152,165	41,530,781
Operating lease right of use asset	2,356,996	3,921,090
Finance lease right of use asset	72,685	9,304
Property and equipment, net	<u>406,727,110</u>	<u>347,871,259</u>
Total assets	<u>\$1,288,091,391</u>	<u>\$1,255,365,314</u>
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 8,539,208	\$ 11,881,477
Accrued interest payable	1,718,869	1,870,431
Accrued salaries and benefits	8,982,881	10,297,346
Operating lease liabilities	2,712,571	4,457,393
Financing lease liabilities	68,772	7,815
Deposits and other liabilities	16,776,734	16,352,494
Reserve for charitable trusts and annuities	21,828,024	24,496,452
Long-term obligations	<u>257,141,562</u>	<u>259,514,359</u>
Total liabilities	<u>317,768,621</u>	<u>328,877,767</u>
Net assets		
Without donor restrictions	506,830,012	468,078,861
With donor restrictions	<u>463,492,758</u>	<u>458,408,686</u>
Total net assets	<u>970,322,770</u>	<u>926,487,547</u>
Total liabilities and net assets	<u>\$1,288,091,391</u>	<u>\$1,255,365,314</u>

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating:			
Revenues, gains, and other support			
Tuition and fees (net of scholarship)	\$ 84,560,686	\$ -	\$ 84,560,686
Auxiliary enterprises sales and services (net of scholarship)	22,709,332	-	22,709,332
Contributions of cash and other financial assets	1,538,765	5,660,722	7,199,487
Contributions of nonfinancial assets	5,091	-	5,091
Investment return designated for operations	20,836,970	15,589,635	36,426,605
Government grants and contracts	8,289,262	-	8,289,262
Other revenues	14,833,427	-	14,833,427
Net assets released from restrictions			
Release of investment return	15,589,635	(15,589,635)	-
Satisfaction of program restrictions	<u>6,117,441</u>	<u>(6,117,441)</u>	<u>-</u>
Total revenues, gains, and other support	174,480,609	(456,719)	174,023,890
Expenses			
Operating expenses:			
Program expenses			
Instruction and research	58,704,386	-	58,704,386
Public services	3,184,689	-	3,184,689
Academic support	14,171,820	-	14,171,820
Student services	38,937,703	-	38,937,703
Auxiliary enterprises expenses	22,880,727	-	22,880,727
Supporting expenses			
Fundraising	4,201,287	-	4,201,287
Management and general	<u>32,449,841</u>	<u>-</u>	<u>32,449,841</u>
Total operating expenses	<u>174,530,453</u>	<u>-</u>	<u>174,530,453</u>
Change in net assets from operating activities	(49,844)	(456,719)	(506,563)
Non-operating:			
Contributions for endowment, plant, and other	157,315	38,995,219	39,152,534
Investment return, net of amount designated for operations	12,858,869	(8,201,289)	4,657,580
Other revenue	975,845	-	975,845
Net assets released for non-operating activities	24,777,209	(24,777,209)	-
Changes in value of split-interest agreements	<u>31,757</u>	<u>(475,930)</u>	<u>(444,173)</u>
Net non-operating revenues, expenses, and other changes	<u>38,800,995</u>	<u>5,540,791</u>	<u>44,341,786</u>
Total change in net assets	38,751,151	5,084,072	43,835,223
Net assets at beginning of year	<u>468,078,861</u>	<u>458,408,686</u>	<u>926,487,547</u>
Net assets at end of year	<u>\$506,830,012</u>	<u>\$463,492,758</u>	<u>\$970,322,770</u>

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating:			
Revenues, gains, and other support			
Tuition and fees (net of scholarship)	\$ 76,471,770	\$ -	\$ 76,471,770
Auxiliary enterprises sales and services (net of scholarship)	20,234,666	-	20,234,666
Contributions of cash and other financial assets	1,321,287	7,669,278	8,990,565
Contributions of nonfinancial assets	88,259	-	88,259
Investment return designated for operations	16,518,340	13,755,451	30,273,791
Government grants and contracts	16,580,325	-	16,580,325
Other revenues	11,155,391	-	11,155,391
Net assets released from restrictions			
Release of investment return	13,755,451	(13,755,451)	-
Satisfaction of program restrictions	<u>4,796,273</u>	<u>(4,796,273)</u>	<u>-</u>
Total revenues, gains, and other support	160,921,762	2,873,005	163,794,767
Expenses			
Operating expenses:			
Program expenses			
Instruction and research	57,355,687	-	57,355,687
Public services	2,616,968	-	2,616,968
Academic support	12,500,369	-	12,500,369
Student services	33,639,711	-	33,639,711
Auxiliary enterprises expenses	20,944,704	-	20,944,704
Supporting expenses			
Fundraising	4,137,617	-	4,137,617
Management and general	<u>28,921,760</u>	<u>-</u>	<u>28,921,760</u>
Total operating expenses	160,116,816	-	160,116,816
Change in net assets from operating activities	804,946	2,873,005	3,677,951
Non-operating:			
Contributions for endowment, plant, and other	1,737,758	32,975,227	34,712,985
Contributions of nonfinancial assets	-	75,000	75,000
Investment return, net of amount designated for operations	32,594,260	5,230,243	37,824,503
Other revenue	329,187	-	329,187
Loss on disposal of assets	(1,693,023)	-	(1,693,023)
Net assets released for non-operating activities	13,689,790	(13,689,790)	-
Net assets released for change in donor intention	31,138,689	(31,138,689)	-
Changes in value of split-interest agreements	<u>277,304</u>	<u>(1,732,889)</u>	<u>(1,455,585)</u>
Net non-operating revenues, expenses, and other changes	<u>78,073,965</u>	<u>(8,280,898)</u>	<u>69,793,067</u>
Total change in net assets	78,878,911	(5,407,893)	73,471,018
Net assets at beginning of year	<u>389,199,950</u>	<u>463,816,579</u>	<u>853,016,529</u>
Net assets at end of year	<u>\$468,078,861</u>	<u>\$458,408,686</u>	<u>\$926,487,547</u>

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$43,835,223	\$ 73,471,018
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	11,656,020	10,716,566
Amortization of debt issuance costs and premium	(359,640)	(344,936)
Loss on disposal of assets	-	1,792,287
Provision for credit losses	2,054,793	599,842
(Increase) decrease in:		
Accounts and notes receivable	1,687,159	(4,305,240)
Contributions receivable	33,286	(2,792,799)
Inventories	(27,727)	(35,312)
Prepaid expenses and other assets	(697,004)	1,440,191
Increase (decrease) in:		
Accounts payable	(1,648,393)	28,344
Accrued interest payable	(151,562)	861,642
Accrued salaries and benefits	(1,314,465)	(1,545,129)
Deposits and other liabilities	357,946	1,107,031
Contributions restricted for long-term investment	(39,054,808)	(33,811,506)
Interest and dividends restricted for reinvestment	(192,830)	(109,261)
Changes in value of split-interest agreements	444,173	1,455,585
Net unrealized and realized gains on investments	<u>(8,124,576)</u>	<u>(39,225,525)</u>
Net cash provided by operating activities	8,497,595	9,302,798
Cash flows from investing activities		
Additions to property and equipment	(72,312,373)	(77,960,475)
Repayment of loans from students, faculty, and others	310,655	320,043
Proceeds from sales and maturities of investments	214,108,093	155,888,309
Purchases of investments	<u>(256,065,191)</u>	<u>(150,379,174)</u>
Net cash used in investing activities	(113,958,816)	(72,131,297)

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment in endowment and other	\$ 34,889,160	\$ 9,129,387
Investment in plant	<u>7,338,551</u>	<u>18,632,734</u>
	42,227,711	27,762,121
Other financing activities:		
Interest and dividends restricted for reinvestment	192,830	109,261
Payments of split-interest obligations	(1,873,589)	(1,992,306)
Proceeds from long-term obligations	-	134,491,980
Payments of long-term obligations	(2,013,157)	(37,991,784)
Proceeds from premium	-	4,854,965
Payments of debt issuance costs	-	(1,191,696)
Payments of finance lease liabilities	<u>(10,232)</u>	<u>(3,552)</u>
	<u>(3,704,148)</u>	<u>98,276,868</u>
Net cash provided by financing activities	<u>38,523,563</u>	<u>126,038,989</u>
Net change in cash and cash equivalents	(66,937,658)	63,210,490
Cash and cash equivalents at beginning of year	<u>109,523,962</u>	<u>46,313,472</u>
Cash and cash equivalents at end of year	<u>\$ 42,586,304</u>	<u>\$ 109,523,962</u>
Cash and cash equivalents	\$ 13,422,767	\$ 20,855,023
Cash restricted for long term purposes	<u>29,163,537</u>	<u>88,668,939</u>
Cash and cash equivalents at the end of the year	<u>\$ 42,586,304</u>	<u>\$ 109,523,962</u>
Non-cash investing and financing activities:		
Improvements capitalized by increases to accounts payable	\$ 6,389,739	\$ 8,176,882
Improvements capitalized through agreement with vendor	\$ 66,294	\$ 423,430
Right of use assets obtained in exchange for new lease liabilities	\$ 69,753	\$ -
Noncash contributions	\$ 1,037,274	\$ 6,720,154
Other required disclosures:		
Cash paid for interest, net of amount capitalized	\$ 9,713,712	\$ 6,282,318

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

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended May 31, 2023 and 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

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

Statement of Activities

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

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements

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

Fair Value Option

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

Investments and Net Investment Return

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

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

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

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

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

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments and Net Investment Return - continued

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

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the valuation of investments and other financial instruments, provisions for credit losses and uncollectible pledges, asset retirement obligations, and the accumulated post-retirement benefit obligation. Actual results could differ from those estimates.

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

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

For the years ended May 31, 2023 and 2022, 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, 2023, the University’s tax years 2017 to 2023 remain subject to examination.

Cash and Cash Equivalents

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

Deposits subject to credit risk were \$42,603,121 and \$107,156,459 at May 31, 2023 and 2022, respectively. Cash balances of \$98,887 and \$88,037 at May 31, 2023 and 2022, respectively, were restricted for the Federal Perkins Loan Program and are required to be reported in a separate account. Included in cash is restricted cash of \$29,163,537 and \$88,668,939 at May 31, 2023 and 2022 that are for donations for a new scholarship program and new construction, proceeds from bonds that are restricted and collateral for a building remodel.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts and Notes Receivable

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

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

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

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

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

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

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

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

Inventories

Inventories are valued at amounts, which, in the aggregate, approximate the lower of cost or net realizable value on the first-in, first-out basis. Losses of \$0.00 and \$15,000 were recorded for obsolete inventory for the years ended May 31, 2023 and 2022, respectively.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 \$668,470 and \$599,505 for the years ended May 31, 2023 and 2022, respectively.

Property and Equipment

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

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

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

The University reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate 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, 2023 and 2022.

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred were \$2,024,708 and \$102,182 for May 31, 2023 and 2022, respectively.

Leases

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

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

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Leases - continued

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

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

Self-Insurance

The University has elected to self-insure certain costs related to employees. Costs resulting from noninsured losses are charged to income when incurred. The University has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$200,000 per claim. See additional information in Note M.

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 issuance 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 statements of activities.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition

Tuition, Fees and Scholarships – The University recognizes revenue and the performance obligation is satisfied from student tuition and fees within the fiscal year in which educational services are provided ratably over the term over the course of the academic term. Tuition discounts in the form of scholarships and financial aid grants, including those funded by the endowment, research funds, and gifts, are reported as a reduction of tuition revenues. A tuition discount represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student. Scholarship allowances for tuition and fees were \$76,192,155 and \$75,663,355 for years ended May 31, 2023 and 2022, respectively.

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

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

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity. Contributions of land, building, and equipment without donor stipulations concerning the use of such assets are reported as revenues of the Without Donor Restriction net asset class. Contributions of cash or other assets to be used to acquire land, building, and equipment with such donor stipulations are reported as revenues of the With Donor Restrictions net asset class; the restrictions are considered to be released upon the acquisition of such assets.

Conditional Grants

A portion of the University's revenue is derived from cost-reimbursement federal, state and private contracts and grants, which are conditional upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the University has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position. The University received cost-reimbursable grants of \$2,422,353 that have not been recognized as of May 31, 2023 because qualifying expenditures have not yet been incurred, with an advance payment of \$341,743 recognized in the consolidated statements of financial position as a refundable advance. For fiscal year 2022 the University received cost-reimbursement grants of \$5,321,113 that were not recognized as of May 31, 2022 because qualifying expenditures had not yet been incurred, with an advance payment of \$273,091 recognized in the statements of financial position within deposits and other liabilities.

Auxiliary Enterprises – Auxiliary enterprises revenue is primarily composed of housing and food services revenue. Revenue from housing and food services are recognized over the period it is earned as the services are provided. Discounts in the form of financial aid associated with these services are recorded as reduction of auxiliary revenues. For years ended May 31, 2023 and 2022, the discounts for housing and food services that were netted against revenue were \$2,481,631 and \$2,085,928, respectively.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition - continued

Sponsored Awards – The University receives sponsored program funding from various governmental and corporate sources. The funding may represent a reciprocal transaction in exchange for an equivalent benefit of return, or it may be a nonreciprocal transaction in which the resources provided are for the benefit of the university, the funding organization's mission, or the public at large. Revenues from exchange transactions are recognized as performance obligations are satisfied, which in some cases are as related costs are incurred.

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 net assets released from restriction.

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

Advertising Costs

Advertising costs are expensed as incurred and totaled \$6,391,117 and \$6,954,617 for the years ended May 31, 2023 and 2022, respectively.

Functional Allocation of Expenses

The expenses of providing various programs and support services have been categorized on a functional basis in the consolidated statements of activities. Accordingly, expenses such as depreciation, interest expense, and operation and maintenance of plant have been allocated directly or based on square footage among the functional categories.

Employee benefits are allocated by salaries in each functional category. Fundraising is allocated based on time for certain key administrative employees.

Reclassifications

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 financial statement presentations. These reclassifications had no effect on the change in net assets.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

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, 2023:

	<u>Student & Commercial Accounts</u>	<u>Student Loans</u>	<u>Grants, Minerals, Other</u>	<u>Total</u>
Gross receivables	\$5,708,539	\$687,481	\$16,589,313	\$22,985,333
Less allowance for credit losses	<u>(702,846)</u>	<u>(122,487)</u>	<u>-</u>	<u>(825,333)</u>
Receivables, net of allowance for credit losses	<u>\$5,005,693</u>	<u>\$564,994</u>	<u>\$16,589,313</u>	<u>\$22,160,000</u>

Financing receivables consisted of the following at May 31, 2022:

	<u>Student & Commercial Accounts</u>	<u>Student Loans</u>	<u>Grants, Minerals, Other</u>	<u>Total</u>
Gross receivables	\$6,276,118	\$1,172,607	\$19,764,652	\$27,213,377
Less allowance for credit losses	<u>(805,143)</u>	<u>(195,627)</u>	<u>-</u>	<u>(1,000,770)</u>
Receivables, net of allowance for credit losses	<u>\$5,470,975</u>	<u>\$976,980</u>	<u>\$19,764,652</u>	<u>\$26,212,607</u>

Activity in the allowance for credit losses and the recorded investment in the Student Loan segment of financing receivables were as follows as of and for the years ended May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Allowance for credit losses:		
Beginning balance	\$ 195,627	\$ 195,627
Charge-offs	(73,140)	-
Recoveries	-	-
Provision	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 122,487</u>	<u>\$ 195,627</u>
	<u>2023</u>	<u>2022</u>
Allowance for credit losses:		
Allocated to student loans individually evaluated for impairment	\$ 122,487	\$ 179,464
Allocated to student loans collectively evaluated for impairment	<u>-</u>	<u>16,163</u>
Ending balance	<u>\$ 122,487</u>	<u>\$ 195,627</u>
Financing receivables:		
Balance individually evaluated for impairment	\$ 357,227	\$ 509,878
Balance collectively evaluated for impairment	<u>330,254</u>	<u>662,729</u>
Ending balance	<u>\$687,481</u>	<u>\$1,172,607</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE B - FINANCING RECEIVABLES - Continued

Student loans consisted of the following aging categories at May 31, 2023:

	<u>Past Due</u>			<u>Current and Deferred</u>	<u>Total</u>	<u>> 90 Days and Accruing</u>
	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>> 90 Days</u>			
Institutional Notes	\$19,336	\$11,593	\$194,000	\$71,941	\$ 296,870	\$194,000
Federal Perkins	<u>4,375</u>	<u>-</u>	<u>183,478</u>	<u>202,758</u>	<u>390,611</u>	<u>183,478</u>
	<u>\$23,711</u>	<u>\$11,593</u>	<u>\$377,478</u>	<u>\$274,699</u>	<u>\$687,481</u>	<u>\$377,478</u>

Student loans consisted of the following aging categories at May 31, 2022:

	<u>Past Due</u>			<u>Current and Deferred</u>	<u>Total</u>	<u>> 90 Days and Accruing</u>
	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>> 90 Days</u>			
Institutional Notes	\$30,623	\$4,501	\$179,464	\$113,174	\$ 327,762	\$179,464
Federal Perkins	<u>24,488</u>	<u>945</u>	<u>354,063</u>	<u>465,349</u>	<u>844,845</u>	<u>354,063</u>
	<u>\$55,111</u>	<u>\$5,446</u>	<u>\$533,527</u>	<u>\$578,523</u>	<u>\$1,172,607</u>	<u>\$533,527</u>

Student loan credit quality indicators are summarized below as of May 31, 2023:

	<u>Institutional Notes</u>	<u>Federal Perkins</u>	<u>Total</u>
Deferred	\$ 7,719	\$ 103,823	\$ 111,542
Current	64,222	98,935	163,157
Performing	51,181	4,374	55,555
Nonperforming	<u>173,748</u>	<u>183,479</u>	<u>357,227</u>
	<u>\$296,870</u>	<u>\$390,611</u>	<u>\$687,481</u>

Student loan credit quality indicators are summarized below as of May 31, 2022:

	<u>Institutional Notes</u>	<u>Federal Perkins</u>	<u>Total</u>
Deferred	\$ 7,719	\$ 278,631	\$ 286,350
Current	105,455	186,718	292,173
Performing	57,535	49,082	106,617
Nonperforming	<u>157,053</u>	<u>330,414</u>	<u>487,467</u>
	<u>\$327,762</u>	<u>\$844,845</u>	<u>\$1,172,607</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

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, 2023:

	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income</u>
With no related allowance					
Institutional Notes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Perkins	183,479	183,479	-	256,946	1,394
With a related allowance					
Institutional Notes	173,748	173,748	122,487	176,606	11,552
Federal Perkins	-	-	-	-	-
Total					
Institutional Notes	173,748	173,748	122,487	176,606	11,552
Federal Perkins	<u>183,479</u>	<u>183,479</u>	<u>-</u>	<u>256,946</u>	<u>1,394</u>
	<u>\$357,227</u>	<u>\$357,227</u>	<u>\$122,487</u>	<u>\$433,552</u>	<u>\$12,946</u>

The following table summarizes the University's investment in impaired student loans as of and for the year ended May 31, 2022:

	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income</u>
With no related allowance					
Institutional Notes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Perkins	330,414	330,414	-	337,755	87,460
With a related allowance					
Institutional Notes	157,053	157,053	157,053	167,143	11,886
Federal Perkins	-	-	-	-	-
Total					
Institutional Notes	157,053	157,053	157,053	167,143	11,886
Federal Perkins	<u>330,414</u>	<u>330,414</u>	<u>-</u>	<u>337,755</u>	<u>87,460</u>
	<u>\$487,467</u>	<u>\$487,467</u>	<u>\$157,053</u>	<u>\$504,898</u>	<u>\$99,346</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 11,250,300	\$ 9,161,223
One year to five years	8,229,003	15,097,350
Over five years	<u>2,000</u>	<u>4,000</u>
	19,481,303	24,262,573
Less discount for net present value	(208,677)	(299,982)
Less allowance for uncollectible contributions receivable	<u>(746,215)</u>	<u>(1,192,717)</u>
	<u><u>\$18,526,411</u></u>	<u><u>\$22,769,874</u></u>

The contributions are to be utilized for the following purposes:

	<u>2023</u>	<u>2022</u>
Operations and scholarships	\$ 3,271,150	\$ 8,314,012
Endowment	641,847	898,401
Acquisition of land, building, and equipment	10,609,118	13,557,461
Other non-operating	<u>4,004,296</u>	<u>-</u>
	<u><u>\$18,526,411</u></u>	<u><u>\$22,769,874</u></u>

Contributions receivable have been discounted using rates ranging from .15% to 4.21% and from .11% to 2.69% as of May 31, 2023 and 2022 respectively.

At May 31, 2023, 50% of the contribution receivable was comprised of two donors. At May 31, 2022, 68% of contributions receivable was comprised of three donors. All other donor balances do not exceed 10% of the total balance. At May 31, 2023, 60% of contribution revenue was received from one donor.

NOTE D - INVESTMENTS

Investments consisted of the following at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 32,146,459	\$ 24,789,633
Mutual funds and investment partnerships managed by third parties	507,216,689	\$467,195,295
Notes receivable	346,330	470,921
Stocks and bonds	54,586,851	53,960,030
Real estate and mineral interests	148,025,866	141,891,758
Puts sold	(328,700)	-
Outside managed	3,374,865	2,765,281
Other investments	<u>7,426,065</u>	<u>7,462,954</u>
	<u><u>\$752,794,425</u></u>	<u><u>\$698,535,872</u></u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE D - INVESTMENTS - Continued

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Interest income	\$ 3,167,536	\$ 1,075,075
Dividend income	5,808,489	2,853,152
Mineral income	26,636,836	26,200,222
Ranch income	752,543	700,742
Net realized and unrealized gains	8,124,576	39,225,524
Direct and indirect endowment expense	<u>(3,405,795)</u>	<u>(1,956,421)</u>
Total investment income	<u>\$ 41,084,185</u>	<u>\$ 68,098,294</u>
	<u>2023</u>	<u>2022</u>
Operating: Investment return designated for operations	\$ 36,426,605	\$ 30,273,791
Non-operating: Net Investment return	<u>4,657,580</u>	<u>37,824,503</u>
Total investment income	<u>\$ 41,084,185</u>	<u>\$ 68,098,294</u>

Total investment income includes gains (losses) from fair value changes of real estate, mineral interests and wind royalties, which are reported at fair value under the fair value option provided by ASC 825. The gain for the years ended May 31, 2023 and 2022 were \$3,662,705 and \$11,950,662, 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, exchange traded funds, marketable alternative investments, options, real estate, mineral interests, and other investments determined appropriate by management. Investments in mutual funds and investment partnerships are administered by professional third-party managers with different investment styles to diversify risk and maximize returns.

The investment pool consisted of the following at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Stocks, mutual funds, ETFs, options, and investment partnerships managed by third parties and by ACU	\$557,148,202	\$512,342,313
Cash and cash equivalents	<u>31,169,122</u>	<u>24,300,570</u>
	<u>\$588,317,324</u>	<u>\$536,642,883</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE D - INVESTMENTS - Continued

In the endowment investment pool mentioned above, the University holds 1,800 over-the-counter put options of TLT (iShares 20+ Year Treasury Bond ETF). The University records these options at fair value. At May 31, 2023, the total market value is (\$328,700) and the total notional value is \$16,950,000. Below is a schedule of the TLT put options:

	<u>Contracts</u>	<u>Exercise Price</u>	<u>Expiration</u>	<u>Premium Received</u>	<u>Market Price</u>	<u>Market Value</u>
TLT Put Sold	300	\$95	8/18/2023	29,901.08	91.00	(27,300.00)
TLT Put Sold	300	\$95	9/15/2023	37,801.00	97.00	(29,100.00)
TLT Put Sold	100	\$90	1/19/2024	16,933.63	122.00	(12,200.00)
TLT Put Sold	100	\$95	1/19/2024	29,433.54	220.00	(22,000.00)
TLT Put Sold	200	\$90	3/15/2024	40,367.20	138.50	(27,700.00)
TLT Put Sold	800	\$95	3/15/2024	226,168.35	263.00	(210,400.00)
	<u>1800</u>			<u>380,604.81</u>		<u>(328,700.00)</u>

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,720,684	\$ 1,720,684
Buildings	370,082,549	302,333,795
Improvements to land and buildings	109,344,394	96,949,932
Equipment	<u>31,075,404</u>	<u>29,739,246</u>
	512,223,031	430,743,657
Less accumulated depreciation and amortization	<u>(178,519,772)</u>	<u>(166,863,752)</u>
	333,703,259	263,879,905
Construction in progress	<u>73,023,851</u>	<u>83,991,354</u>
	<u>\$406,727,110</u>	<u>\$347,871,259</u>

Depreciation expense on property and equipment for the years ended May 31, 2023 and 2022, was \$11,656,020 and \$10,716,566, respectively. Interest cost capitalized during fiscal years ended May 31, 2023 and 2022 was \$2,024,708 and \$102,182, respectively.

Construction in progress as of May 31, 2023 and 2022 consisted of new resident halls, remodel of Moody Coliseum, remodel of Cullen Auditorium, construction of the Science and Engineering Research Center and other various projects across campus.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE F - LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following as of May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Series 2016A Newark Higher Education Finance Corporation Revenue Improvement and Refunding Bonds due in annual payments ranging from \$2,960,000 to \$5,440,000 beginning April 2026 maturing on April 1, 2040. Interest with an average coupon rate of 4.05% is paid semiannually. The effective interest rate is 3.29%.	\$ 62,230,000	\$ 62,230,000
Series 2016B Morgan Stanley & Co. LLC due in annual payments ranging from \$2,660,000 to \$7,285,000 beginning April 2040 maturing on April 1, 2046. Interest with an average coupon rate of 4.554% is paid semiannually. The effective interest rate is 4.6%.	41,885,000	41,885,000
Series 2016C Newark Higher Education Finance Corporation Revenue Improvement and Refunding Bonds due in annual payments of \$1,566,667 with a final payment of \$966,664 beginning October 1, 2017 maturing on May 29, 2029. Interest at the 3-month SOFR rate plus 1.95 percentage points is paid quarterly. A portion of the bond is subject to a variable to fixed rate SWAP (see Note P).	8,799,999	10,366,666
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
Series 2022A Newark Higher Education Finance Corporation Revenue Improvement Bonds for \$88,240,000 due in annual payments ranging from \$4,110,000 to \$13,470,000 beginning April 1, 2050 maturing on April 1, 2057. Interest with an average coupon rate of 4% is paid semiannually. Series 2022B Newark Higher Education Finance Corporation Revenue Improvement Bonds for \$33,075,000 due in annual payments ranging from \$760,000 to \$9,760,000 beginning April 1, 2036 maturing on April 1, 2050. Interest with an average coupon rate of 4.623% is paid semiannually. The effective interest rate is 4.6%.	121,315,000	121,315,000
Private placement loan for purchase and remodel of apartment complex; payable in quarterly installments; maturing in fiscal year 2035; variable rate based on the SOFR rate plus 2.127 percentage points. Note is secured by apartment complex and is subject to a variable to fixed rate SWAP (see Note P).	<u>6,699,471</u>	<u>7,145,961</u>
	252,499,470	254,512,627
Debt issuance costs and premium, net	<u>4,642,092</u>	<u>5,001,732</u>
	<u>\$257,141,562</u>	<u>\$259,514,359</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE F - LONG-TERM OBLIGATIONS – Continued

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

2024	\$ 2,026,141
2025	2,040,559
2026	5,164,893
2027	5,339,660
2028	5,519,515
Thereafter	<u>232,408,702</u>
	<u>\$252,499,470</u>

Total interest expense, net of amount capitalized, for the years ended May 31, 2023 and 2022 was \$8,316,151 and \$6,880,193 respectively.

Long-term debt as of May 31, 2023 and 2022 included debt issuance costs, premium and accumulated amortization as follows:

	<u>2023</u>	<u>2022</u>
Debt issuance costs	\$ (6,785,984)	\$ (6,785,974)
Accumulated amortization	1,428,145	1,172,072
Premium	13,337,155	13,337,155
Accumulated amortization	<u>(3,337,224)</u>	<u>(2,721,521)</u>
Unamortized debt issuance costs and premium	<u>\$ 4,642,092</u>	<u>\$ 5,001,732</u>

NOTE G - NET ADVANCES ON LINES OF CREDIT

Agreement with First Financial Bank, Abilene (the FFIN Line), matures on November 1, 2024, and provides for maximum borrowings of up to \$17,500,000 with interest payable at prime (8.25%) at May 31, 2023. Prior agreements with First Financial Bank, Abilene (the FFIN Line and the FFIN 2nd Line) provided for maximum borrowing of up to \$9,500,000 and \$8,000,000 with interest payable at prime (4%) at May 31, 2022. No amount was outstanding on the FFIN Line(s) at May 31, 2023 and 2022.

Agreement with First Financial Bank (the FFIN Endowment Line) matures on November 1, 2024 and provides for maximum borrowing of up to \$5,000,000 with interest payable at prime (8.25% and 4.0% at May 31, 2023 and 2022, respectively). No amount was outstanding on the FFIN Endowment Line at May 31, 2023 and 2022.

All lines of credit are non-collateralized.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

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, 2023 and 2022.

	2023	2022
Without Donor Restriction		
Board designated endowment	\$357,831,019	\$330,625,353
Undesignated	148,998,993	137,453,508
Total net assets Without Donor Restriction	<u>\$506,830,012</u>	<u>\$468,078,861</u>

Net assets With Donor Restrictions are restricted for the following purposes and periods for the years ended May 31, 2023 and 2022.

	2023	2022
With Donor Restriction		
Subject to expenditure when a specified event occurs		
Student loans	\$ (19,117)	\$ (19,117)
Capital construction	26,650,059	42,849,566
Restricted for use in various departments	4,646,641	5,070,072
Promises to give:		
Restricted for use in various departments	3,271,149	8,314,012
Capital construction	10,609,118	13,557,460
Other non-operating	4,004,296	-
Subject to expenditure at a specified time		
Life income and annuities	1,969,608	2,272,638
Endowment return subject to future appropriations		
Instruction and research	83,292,421	70,646,885
Financial aid	147,804,137	151,090,309
Student loans	829,549	834,836
Restricted for use in various departments	15,405,044	15,743,723
Promises to give:		
Restricted for use in various departments	320,924	449,201
Total net asset restricted by time or purpose	<u>298,783,829</u>	<u>310,809,585</u>
Amounts with perpetual restrictions		
Endowment		
Instruction and research	44,828,763	28,857,071
Financial aid	98,741,106	96,049,484
Student loans	628,586	357,534
Restricted for use in various departments	3,721,068	4,120,997
Promises to give:		
Restricted for use in various departments	320,924	449,201
Other		
Student loans	3,589,195	3,437,005
Life income and annuities	12,879,287	14,327,809
Total net assets with perpetual restrictions	<u>164,708,929</u>	<u>147,599,101</u>
Total net assets With Donor Restrictions	<u>\$ 463,492,758</u>	<u>\$ 458,408,686</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE H – NET ASSETS WITHOUT AND WITH DONOR RESTRICTIONS - continued

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, 2023 and 2022.

	2023	2022
Satisfaction of purpose restrictions		
Financial aid	\$ 368,777	\$ 384,285
Instruction and research	4,089,276	3,131,576
Restricted for use in various departments	1,659,388	1,280,412
Capital construction	23,708,004	13,689,790
Other non-operating	1,069,205	-
	<u>30,894,650</u>	<u>18,486,063</u>
Restricted purpose spending rate distributions and appropriations		
Student loans	63,690	80,474
Financial aid	10,250,431	9,285,118
Instruction and research	4,517,362	3,681,248
Restricted for use in various departments	758,152	708,611
	<u>15,589,635</u>	<u>13,755,451</u>
Release for change in donor intent		
Change in donor intent	-	31,138,689
Net assets released from restriction	<u>\$ 46,484,285</u>	<u>\$ 63,380,203</u>

During fiscal year ended May 31, 2022, several donors changed their gifts and pledges from restricted for capital purposes to unrestricted. For related party information see Note S.

NOTE I - ENDOWMENT

The University's endowment consists of approximately 1,075 individual endowment funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Without Donor Restriction endowment represents board-designated funds.

Interpretation of Relevant Law

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

The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds: 1) The duration and preservation of the fund; 2) The purposes of the University and the donor-restricted endowment fund; 3) General economic conditions; 4) The possible effect of inflation and deflation; 5)

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE I – ENDOWMENT – Continued

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, 2023, is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$395,892,522	\$395,892,522
Board-designated endowment funds	<u>357,831,019</u>	<u>-</u>	<u>357,831,019</u>
Endowment net assets, end of year	<u>\$ 357,831,019</u>	<u>\$395,892,522</u>	<u>\$753,723,541</u>

Composition of endowment by type of fund for May 31, 2022, is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$368,599,241	\$368,599,241
Board-designated endowment funds	<u>330,625,353</u>	<u>-</u>	<u>330,625,353</u>
Endowment net assets, end of year	<u>\$ 330,625,353</u>	<u>\$368,599,241</u>	<u>\$699,224,594</u>

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

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$330,625,353	\$368,599,241	\$699,224,594
Contributions	157,315	33,847,877	34,005,192
Real estate, mineral, and other income	26,542,779	484,672	27,027,451
Dividends and interest	2,801,834	6,166,298	8,968,132
Net realized and unrealized gains	7,469,434	1,033,017	8,502,451
Endowment support	(20,836,970)	(15,589,635)	(36,426,605)
Transfers and other	<u>11,071,274</u>	<u>1,351,052</u>	<u>12,422,326</u>
Endowment net assets, end of year	<u>\$357,831,019</u>	<u>\$395,892,522</u>	<u>\$753,723,541</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE I – ENDOWMENT – Continued

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

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$286,809,819	\$351,694,234	\$638,504,053
Contributions	1,737,758	10,028,138	11,765,896
Real estate, mineral, and other income	26,797,526	685,301	27,482,827
Dividends and interest	1,159,752	2,785,578	3,945,330
Net realized and unrealized gains	23,916,177	16,719,656	40,635,833
Endowment support	(16,518,340)	(13,755,451)	(30,273,791)
Transfers and other	<u>6,722,661</u>	<u>441,785</u>	<u>7,164,446</u>
Endowment net assets, end of year	<u>\$330,625,353</u>	<u>\$368,599,241</u>	<u>\$699,224,594</u>

Funds with Deficiencies (Underwater Endowments)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value that the donor or UMPIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are required to be reported as reductions to assets With Donor Restrictions. The University considers an individual endowment with a fair value below 50% of its original gift value to be deficient at which time spending would be limited to interest, dividends, rents and royalties. The University had no deficiencies of this nature reported in assets With Donor Restriction as of May 31, 2023 and 2022.

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. The board of trustees must approve any special distribution requests above the spending policy. Special distributions must have a defined value and timeframe for distribution and may not be in perpetuity.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
University as trustee:		
Charitable trusts	\$31,566,810	\$35,908,767
Charitable gift annuities	<u>5,351,872</u>	<u>5,375,173</u>
	36,918,682	41,283,940
Third-party trustee	<u>233,483</u>	<u>246,841</u>
	<u>\$37,152,165</u>	<u>\$41,530,781</u>

For charitable trusts and annuities for which the University is trustee, contributions are recorded at fair value in the year of the agreement and are reflected as charitable trusts and annuities in the accompanying consolidated financial statements. For the years ended May 31, 2023 and 2022, \$1,054,340 and \$2,185,873, 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, 2023 and 2022, was \$21,828,024 and \$24,496,452, 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 \$3,233,038 and \$3,010,243 for the years ended May 31, 2023 and 2022, 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, 2023 and 2022 were \$1,609,430 and \$1,821,755 respectively, which are recorded as assets and liabilities on the consolidated statements of financial position.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE K – EMPLOYEE BENEFIT PLANS - continued

In 2017, the University implemented Collateral Assignment Life Insurance policies with two key employees. The policies are loans to the employees and a note receivable to the University. The balance of the note was \$1,484,674 and \$1,415,916 for the years ended May 31, 2023 and 2022, respectively. The note will earn interest at IRS interest rates (2.84% and 1.99% at May 31, 2023 and 2022, 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 consolidated statements of financial position and to recognize previously unrecognized gains or losses and prior service costs or credits as a component of its consolidated statements of activities.

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

	<u>2023</u>	<u>2022</u>
Accumulated postretirement benefit obligation	\$ (1,265,977)	\$ (1,878,330)
Plan assets at fair value	<u>-</u>	<u>-</u>
Unfunded status	<u>\$ (1,265,977)</u>	<u>\$ (1,878,330)</u>
Accrued postretirement benefit cost	<u>\$ (1,265,977)</u>	<u>\$ (1,878,330)</u>

Approximate annual benefit costs for the year ended May 31:

	<u>2023</u>	<u>2022</u>
Net periodic postretirement benefit cost	<u>\$ (9,608)</u>	<u>\$ 12,167</u>
Employer contributions	\$ 175,420	\$ 136,569
Plan participant contributions	<u>24,000</u>	<u>25,920</u>
Benefits paid	<u>\$ 199,420</u>	<u>\$ 162,489</u>

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

The weighted average assumptions related to the postretirement benefit plan are as follows at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Discount rate	4.58%	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 \$184,358 to the postretirement benefit plan in fiscal year 2024. Benefits expected to be paid over the next five years and the five fiscal years thereafter are as follows:

2024	\$ 184,358
2025	177,990
2026	169,164
2027	158,315
2028	145,548
2029-2032	507,599

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

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 \$874,000 and \$887,000 at May 31, 2023 and 2022, respectively and is recorded in accrued salaries and benefit expenses in the accompanying consolidated statements of financial position. Management believes the liability is adequate to fund any health claims incurred but not paid or reported as of the end of the fiscal year.

NOTE N - COMMITMENTS AND CONTINGENCIES

At May 31, 2023, the University had open construction contracts for the construction of a new residence hall and construction of the Science and Engineering Research Center of approximately \$12,553,000. At May 31, 2022, the University had open construction contracts for the construction of a new residence hall, remodel of Moody Coliseum, remodel of Cullen Auditorium and construction of the Science and Engineering Research Center of approximately \$52,300,000.

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

NOTE O - FAIR VALUE MEASUREMENTS

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

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

Level 2 Inputs - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies as described below. Assets in this category generally include real estate, certain hedge funds-of-funds, managed long/short funds, over the counter stock options 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 pricing service and 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.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE O - FAIR VALUE MEASUREMENTS – Continued

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

Description	May 31, 2023	Fair Value Measurements at May 31, 2023 Using			
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Cash and Cash equivalents and Investments Measured at NAV (1)
Investments:					
Cash and cash equivalents	\$ 32,146,459	\$ -	\$ -	\$ -	\$ 32,146,459
Mutual funds	146,011,781	146,011,781	-	-	-
Notes receivable	346,330	-	346,330	-	-
Stocks and bonds	54,586,851	54,511,770	75,081	-	-
Real estate and mineral interests	148,025,866	-	58,132,760	89,893,106	-
Hedge funds	135,163,841	-	-	-	135,163,841
Puts Sold	(328,700)	-	(328,700)	-	-
Private equity/ venture capital	223,791,067	-	-	3,021,819	220,769,248
Outside managed	3,374,865	-	3,374,865	-	-
Other investments	<u>7,426,065</u>	<u>-</u>	<u>2,176,073</u>	<u>5,249,992</u>	<u>-</u>
Total investments at Fair Value	750,544,425	200,523,551	63,776,409	98,164,917	388,079,548
Investment without readily determinable fair value(2)	<u>2,250,000</u>				
Total Investments	752,794,425				
Charitable trusts and annuities:					
Cash and cash equivalents	312,357	-	-	-	312,357
Mutual funds	36,606,325	36,606,325	-	-	-
Outside managed	<u>233,483</u>	<u>-</u>	<u>233,483</u>	<u>-</u>	<u>-</u>
Total charitable trusts and annuities	<u>37,152,165</u>	<u>36,606,325</u>	<u>233,483</u>	<u>-</u>	<u>312,357</u>
Total assets	<u>\$789,946,590</u>	<u>\$237,129,876</u>	<u>\$64,009,892</u>	<u>\$98,164,917</u>	<u>\$388,391,905</u>

- (1) Amounts are comprised of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. Additionally, cash and cash equivalents are also excluded from the fair value hierarchy as they are not subject to fair value measurement guidance. These investments have not been classified in the fair value hierarchy but are presented in this table to permit reconciliation of the fair value hierarchy amounts presented in the statement of financial position.
- (2) Investments without readily determinable fair values are carried at cost minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or a similar investment. There were no impairments or upward or downward adjustments as of May 31, 2023.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE O - FAIR VALUE MEASUREMENTS - Continued

Description	May 31, 2022	Fair Value Measurements at May 31, 2022 Using			Cash and Cash equivalents and Investments Measured at NAV (1)
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:					
Cash and cash equivalents	\$ 24,789,633	\$ -	\$ -	\$ -	\$ 24,789,633
Mutual funds	116,003,021	116,003,021	-	-	-
Notes receivable	470,921	-	470,921	-	-
Stocks and bonds	53,960,030	53,884,949	75,081	-	-
Real estate and mineral interests	141,891,758	-	55,352,226	86,539,532	-
Hedge funds	132,223,302	-	-	-	132,223,302
Private equity/ venture capital	218,968,972	-	-	6,711,072	212,257,900
Outside managed	2,765,281	-	2,765,281	-	-
Other investments	<u>7,462,954</u>	<u>-</u>	<u>2,260,211</u>	<u>5,202,743</u>	<u>-</u>
Total investments	698,535,872	169,887,970	60,923,720	98,453,347	369,270,835
Charitable trusts and annuities:					
Cash and cash equivalents	1,083,136	-	-	-	1,083,136
Mutual funds	40,200,804	40,200,804	-	-	-
Outside managed	<u>246,841</u>	<u>-</u>	<u>246,841</u>	<u>-</u>	<u>-</u>
Total charitable trusts and annuities	<u>41,530,781</u>	<u>40,200,804</u>	<u>246,841</u>	<u>-</u>	<u>1,083,136</u>
Total assets	<u>\$740,066,653</u>	<u>\$210,088,774</u>	<u>\$61,170,561</u>	<u>\$98,453,347</u>	<u>\$370,353,971</u>

The schedule below summarizes the activity for items classified as Level 3 assets for the years ended May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
	Mineral and Other Interests	Mineral and Other Interests
Beginning balance	\$98,453,347	\$86,449,767
Total gains (losses):		
Included in net realized and unrealized gains	5,624,747	12,003,580
Gifts	2,520	-
Redemptions/distributions	<u>(5,915,697)</u>	<u>-</u>
Ending balance	<u>\$98,164,917</u>	<u>\$98,453,347</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE O - FAIR VALUE MEASUREMENTS - Continued

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

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

The May 31, 2023 estimated fair value of Level 3 assets managed and held in private equity investments in the amount of \$3,021,819 is based on the value per share as provided in the Nautic CarepathRX Co-Invest, L.P. financial statement audit as of December 31, 2022. ACU received a distribution from this investment in the amount of \$5,915,697 in February 2023. The prior year value was \$6,711,072. No significant quantitative information was developed by management with respect to the valuation 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 the highest and lowest values considered by management in developing the University's reported fair value for mineral interests. Since the significant unobservable inputs used in valuation are based on multiple of recent months revenue, the valuation is very sensitive to the current market price per barrel and the volume of production in recent months.

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

The following table and the paragraph above describe valuation techniques, significant unobservable inputs, and ranges of significant input values for the University's Level 3 measurements at May 31, 2023 and May 31, 2022:

Instrument	Fair Value	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Mineral interests	<u>2023</u> \$49,900,743	Market approach	Multiple of recent months revenue	36 Month average income x 7years
	<u>2022</u> \$38,433,058	Market approach	Multiple of recent months revenue	36 Month average income x 7years
Sherrod Unit Deep Rights Reagan / Upton County, TX	<u>2023</u> \$39,992,363	Market approach	Decline curve typical of similar wells in the immediate area	Based on forward price curve for 11 years, \$50 per barrel thereafter for the remainder of the 22-25 year expected life, discounted 15%
	<u>2022</u> \$48,106,474	Market approach	Decline curve typical of similar wells in the immediate area	Based on forward price curve for 12 years, \$50 per barrel thereafter for the remainder of the 25-year expected life, discounted 15%

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE O - FAIR VALUE MEASUREMENTS – Continued

Wind Farm Royalties	<u>2023</u> \$5,249,992	Discounted cash flows	Anticipated contractual cash flow	8% discount rate
	<u>2022</u> \$5,202,743			

Investments That Calculate Net Asset Per Share

ASC 820 requires additional disclosure for certain types of investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient to assist in understanding the nature and risk of the investment by major category. The table below summarizes the fair value and other pertinent liquidity information of investments in major categories at May 31, 2023:

	<u>Fair Value</u>	<u>Unfunded Commit- ments</u>	<u>Redemption Frequency*</u>	<u>Redemption Notice Period</u>
Fixed income/absolute return funds (a)	\$ 7,045,336	\$ -	Quarterly	60 days
Long only equity funds (b)	63,613,378	-	Monthly	4 days to 20 days
Equity long/short and other equity hedge funds (c)	18,199,106	-	Quarterly to 3 years	60 days to 95 days
Multi-strategy hedge funds (d)	46,306,020	-	Monthly to annually	30 days to 90 days
Private equity funds (e)	180,287,698	94,053,307	(e)	(e)
Venture capital funds (f)	<u>40,481,550</u>	<u>11,941,013</u>	(f)	(f)
	<u>\$355,933,088</u>	<u>\$105,994,320</u>		

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

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE O - FAIR VALUE MEASUREMENTS - Continued

ASC 820 requires additional disclosure for certain types of investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient to assist in understanding the nature and risk of the investment by major category. The table below summarizes the fair value and other pertinent liquidity information of investments in major categories at May 31, 2022:

	<u>Fair Value</u>	<u>Unfunded Commit- ments</u>	<u>Redemption Frequency*</u>	<u>Redemption Notice Period</u>
Fixed income/absolute return funds (a)	\$ 14,399,449	\$ -	Daily	None
Long only equity funds (b)	50,999,581	-	Monthly	4 days to 20 days
Equity long/short and other equity hedge funds (c)	19,255,233	-	Monthly to 3 years	30 days to 95 days
Multi-strategy hedge funds (d)	47,569,039	-	Monthly to annually	15 days to 90 days
Private equity funds (e)	169,778,766	82,714,059	(e)	(e)
Venture capital funds (f)	<u>42,479,134</u>	<u>8,137,646</u>	(f)	(f)
	<u>\$344,481,202</u>	<u>\$90,851,705</u>		

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

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

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

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE O - FAIR VALUE MEASUREMENTS - Continued

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

(d) This category includes investments in hedge funds-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, trade finance and also, digital assets and emerging blockchain enabled technologies. 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.

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

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

NOTE P – DERIVATIVE FINANCIAL INSTRUMENT

Variable-to-Fixed Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to the interest rate fluctuation, in May 2020, the University entered into an interest rate swap agreement for a portion of its floating rate debt through May 15, 2035. On February 16, 2023, the swap agreement was amended to move from LIBOR to SOFR (Secured Overnight Financing Rate). The agreement provides for the University to receive interest from the counterparty at the 3-month SOFR plus 2.127% and to pay interest to the counterparty at a fixed rate of 2.89% on the notional amount of \$6,699,471 at May 31, 2023. The previous agreement provided for the University to receive interest from the counterparty at 3-month LIBOR plus 1.95% and to pay interest to the counterparty at a fixed rate of 2.92% on the notional amount of \$7,145,961 as of May 31, 2022.

In November 2020, the University entered into an interest rate swap agreement for a portion of its floating rate debt through May 29, 2029. On November 28, 2022, the swap agreement was amended to move from LIBOR to SOFR. The agreement provides for the University to receive interest from the counterparty at 3-month SOFR plus 1.95% and to pay interest to the counterparty at a fixed rate of 2.75% on the notional amount of \$8,799,999 at May 31, 2023. The previous agreement provided for the University to receive interest from the counterparty at 3-month LIBOR plus 1.75% and to pay interest to the counterparty at a fixed rate of 2.75% on notional amounts of \$10,366,666 as of May 31, 2022.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE P – DERIVATIVE FINANCIAL INSTRUMENT - continued

Under both agreements, the University pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense

NOTE Q - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

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

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

NOTE R - ASSET RETIREMENT OBLIGATION

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

The asset retirement obligation liability as of and for both years ended May 31, 2023 and 2022 was \$897,589. There were no payments of asset retirement obligations during the years ended May 31, 2023 and 2022.

NOTE S - RELATED PARTY TRANSACTIONS

The University had unsecured receivables from related parties of \$8,772,802 and \$9,641,949 at May 31, 2023 and 2022, respectively. Contributions received from board members were \$1,600,136 and \$28,861,835 for the years ended May 31, 2023 and 2022, respectively. There were several board members included in the "Change in donor intent" mentioned in Note H at May 31, 2022.

Included in other revenue is \$6,826,132 and \$4,835,201 and included in receivables is \$565,196 and \$1,718,336 for May 31, 2023 and 2022 respectively, from Natura Resources, LLC, which is managed by a board member. The endowment has an investment in Natura Resources, LLC of \$2,250,000 at May 31, 2023.

The University's primary bank and holder of lines of credit (see Note G) is First Financial Bank of Abilene. The President of the Abilene Region, First Financial Bank is a board member.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE T - EXPENSES BY NATURAL CLASSIFICATION

For the year ended May 31, 2023

	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	\$ 31,383,104	\$ 1,222,403	\$ 6,205,559	\$ 13,232,615	\$ 889,945	\$ 52,933,626	\$ 12,132,598	\$ 2,285,107	\$ 67,351,331
Student wages	871,279	219,200	328,123	859,595	330,445	2,608,642	335,584	93,051	3,037,277
Personnel benefits	10,282,714	394,683	2,089,394	4,821,158	333,318	17,921,267	1,020,547	819,873	19,761,687
Salaries, wages & benefits	42,537,097	1,836,286	8,623,076	18,913,368	1,553,708	73,463,535	13,488,729	3,198,031	90,150,295
Technology services	181,250	10,133	950,865	370,072	23,853	1,536,173	3,310,399	28,113	4,874,685
Travel	1,392,881	574,833	542,088	3,550,274	522,229	6,582,305	494,040	135,272	7,211,617
Occupancy	5,071	4,391	6,849	30,071	79,532	125,914	20,143	4,050	150,107
Advertising & promotion	29,285	21,404	178,918	469,091	12,717	711,415	5,955,656	5,022	6,672,093
Bad debt expense	-	-	-	-	-	-	1,370,644	-	1,370,644
Professional services	1,322,798	83,225	238,550	1,323,650	96,203	3,064,426	1,986,246	103,398	5,154,070
Operating expenses	2,652,913	620,982	1,383,068	7,138,609	9,441,307	21,236,879	2,796,884	497,279	24,531,042
Plant operation & maintenance	4,441,532	14,032	943,615	2,997,606	4,679,947	13,076,732	1,270,419	96,578	14,443,729
Depreciation	3,584,294	11,324	761,493	2,419,054	3,776,695	10,552,860	1,025,222	77,938	11,656,020
Interest	2,557,265	8,079	543,298	1,725,908	2,694,536	7,529,086	731,459	55,606	8,316,151
Administrative expense	16,167,289	1,348,403	5,548,744	20,024,335	21,327,019	64,415,790	18,961,112	1,003,256	84,380,158
Total operating expense	\$ 58,704,386	\$ 3,184,689	\$ 14,171,820	\$ 38,937,703	\$ 22,880,727	\$137,879,325	\$ 32,449,841	\$ 4,201,287	\$174,530,453

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE T - EXPENSES BY NATURAL CLASSIFICATION – Continued

For the year ended May 31, 2022

	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	\$ 29,570,157	\$ 1,063,933	\$ 5,370,613	\$ 12,411,887	\$ 803,639	\$ 49,220,229	\$ 10,123,858	\$ 2,259,356	\$ 61,603,443
Student wages	1,029,099	164,371	352,986	804,138	341,209	2,691,803	329,867	45,394	3,067,064
Personnel benefits	10,746,736	318,743	1,774,617	4,383,449	288,907	17,512,452	173,788	757,159	18,443,399
Salaries, wages & benefits	41,345,992	1,547,047	7,498,216	17,599,474	1,433,755	69,424,484	10,627,513	3,061,909	83,113,906
Technology services	135,832	6,097	849,250	252,147	13,880	1,257,206	3,278,187	24,250	4,559,643
Travel	796,421	317,889	279,386	2,825,873	343,228	4,562,797	347,651	160,332	5,070,780
Occupancy	4,753	(425)	2,517	24,508	86,015	117,368	(5,178)	2,700	114,890
Advertising & promotion	153,171	14,995	184,639	284,465	20,201	657,471	6,564,601	48	7,222,120
Bad debt expense	-	-	-	-	-	-	581,143	-	581,143
Professional services	270,802	97,149	25,943	1,506,301	74,952	1,975,147	2,857,981	53,785	4,886,913
Operating expenses	3,485,557	602,477	1,528,555	5,675,661	8,386,950	19,679,200	1,791,181	616,140	22,086,521
Plant operation & maintenance	5,115,438	14,544	976,911	2,507,176	4,850,832	13,464,901	1,319,135	100,105	14,884,141
Depreciation	3,683,110	10,472	703,375	1,805,164	3,492,594	9,694,715	949,776	72,075	10,716,566
Interest	2,364,611	6,723	451,577	1,158,942	2,242,297	6,224,150	609,770	46,273	6,880,193
Administrative expense	16,009,695	1,069,921	5,002,153	16,040,237	19,510,949	57,632,955	18,294,247	1,075,708	77,002,910
Total operating expense	\$ 57,355,687	\$ 2,616,968	\$ 12,500,369	\$ 33,639,711	\$ 20,944,704	\$127,057,439	\$ 28,921,760	\$ 4,137,617	\$160,116,816

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE T - EXPENSES BY NATURAL CLASSIFICATION – Continued

Expenses are categorized on a functional basis.

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

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

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

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

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

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

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

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

NOTE U – LEASES

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

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE U – LEASES - continued

The components of lease expense are as follows for May 31, 2023:

Lease expense	
Finance lease expense	
Amortization of ROU assets	\$ 16,272
Interest on lease liabilities	3,351
Operating lease expense	1,573,426
Variable lease expense	(379)
Sublease income	(253,610)
Total	<u>\$1,339,060</u>

Supplemental cash flow information related to leases is as follows for May 31, 2023:

Cash paid for amount included in the measurement of lease liabilities	
Operating cash flows from finance leases	\$ 1,915
Financing cash flows from finance leases	10,232
Operating cash flows from operating leases	1,752,417
ROU assets obtained in exchange for new finance lease liabilities	69,753
ROU assets obtained in exchange for new operating lease liabilities	-
Weighted-average remaining lease term in years for finance leases	4
Weighted-average remaining lease term in years for operating leases	2
Weighted-average discount rate for finance leases	5.78%
Weighted-average discount rate for operating leases	4.44%

Maturity analysis	Finance	Operating
2024	\$22,046	\$1,756,247
2025	18,049	1,018,730
2026	18,049	19,200
2027	18,049	11,200
2028	-	-
Thereafter	-	-
Total undiscounted cash flows	76,193	2,805,377
Less: present value discount	(7,421)	(92,806)
Total lease liabilities	<u>\$68,772</u>	<u>\$2,712,571</u>

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE U – LEASES - continued

The components of lease expense are as follows for May 31, 2022:

Lease expense	
Finance lease expense	
Amortization of ROU assets	\$ 3,017
Interest on lease liabilities	315
Operating lease expense	1,683,541
Variable lease expense	(16,186)
Sublease income	(765,032)
Total	<u>\$905,655</u>

Supplemental cash flow information related to leases is as follows for May 31, 2022:

Cash paid for amount included in the measurement of lease liabilities	
Operating cash flows from finance leases	\$ 446
Financing cash flows from finance leases	3,552
Operating cash flows from operating leases	1,794,421
ROU assets obtained in exchange for new finance lease liabilities	-
ROU assets obtained in exchange for new operating lease liabilities	18,359
Weighted-average remaining lease term in years for finance leases	2
Weighted-average remaining lease term in years for operating leases	3
Weighted-average discount rate for finance leases	3.95%
Weighted-average discount rate for operating leases	4.50%

Sub-leasing activities

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

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

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE V – LIQUIDITY - continued

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 \$357,831,019 and \$330,625,353 at May 31, 2023 and 2022, respectively, are subject to an annual spending rate of 4.5% as described in Note I. Although the University does not intend to spend from this board-designated endowment (other than amount appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As of May 31, 2023, the following assets could readily be made available within one year of the year of the statement of financial position date to meet general expenditures:

Total asset at May 31, 2023	
Cash and cash equivalents	\$ 13,422,767
Cash reserved for long-term purposes	29,163,537
Accounts and notes receivable, net	22,160,000
Contributions receivable, net	18,526,411
Inventories	755,765
Prepaid expenses and other assets	4,959,530
Investments	752,794,425
Charitable trusts and annuities	37,152,165
Operating lease ROU asset	2,356,996
Finance lease ROU asset	72,685
Property and equipment, net	406,727,110
Total assets at year-end	<u>\$1,288,091,391</u>
Less amount not available to meet general expenditures within one year	
Cash reserved for long-term purposes	\$ 29,163,537
Accounts and notes receivable	2,899,921
Contributions receivable	17,136,009
Inventories	755,765
Prepaid and other assets	4,959,530
Property and equipment	406,727,110
Operating lease ROU asset	2,356,996
Finance lease ROU asset	72,685
Charitable trusts and annuities	37,152,165
Board-designated endowment	323,737,038
Future expendable donor-restricted endowment	247,652,075
Portion of donor-restricted endowment to be retained in perpetuity	148,240,447
Trusts held by others	233,483
Total financial assets available to meet general expenditures within one year	<u>\$ 67,004,630</u>
Liquidity resources	
Bank line of credit (no balance outstanding as of May 31, 2023)	\$ 22,500,000

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE V – LIQUIDITY – Continued

As of May 31, 2022, the following assets could readily be made available within one year of the year of the statement of financial position date to meet general expenditures:

Total asset at May 31, 2022	
Cash and cash equivalents	\$ 20,855,023
Cash reserved for long-term purposes	88,668,939
Accounts and notes receivable, net	26,212,607
Contributions receivable, net	22,769,874
Inventories	728,038
Prepaid expenses and other assets	4,262,526
Investments	698,535,873
Charitable trusts and annuities	41,530,781
Operating lease ROU asset	3,921,090
Finance lease ROU asset	9,304
Property and equipment, net	347,871,259
Total assets at year-end	<u>\$1,255,365,314</u>
 Less amount not available to meet general expenditures within one year	
Cash reserved for long-term purposes	\$ 88,668,939
Accounts and notes receivable	3,309,443
Contributions receivable	20,420,720
Inventories	728,038
Prepaid and other assets	4,262,526
Property and equipment	347,871,259
Operating lease ROU asset	3,921,090
Finance lease ROU asset	9,304
Charitable trusts and annuities	41,530,781
Board-designated endowment	300,270,005
Future expendable donor-restricted endowment	238,764,954
Portion of donor-restricted endowment to be retained in perpetuity	129,834,287
Trusts held by others	246,841
Total financial assets available to meet general expenditures within one year	<u>\$ 75,527,127</u>
 Liquidity resources	
Bank line of credit (no balance outstanding as of May 31, 2022)	\$ 22,500,000

NOTE W – REVENUE FROM CONTRACTS WITH CUSTOMERS

The University's revenue from contracts with customers are included in tuition and fees and auxiliary enterprise sales and services as presented in the consolidated statements of activities. There were no impairment losses on receivables or contract assets from contracts with customers during fiscal year 2023 or 2022.

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE W – REVENUE FROM CONTRACTS WITH CUSTOMERS - continued

Disaggregation of revenues

A summary of revenue from contracts with customers related to tuition and fees for the years ended May 31, 2023 and 2022 disaggregated by the major classification of student type is as follows.

Student Classification	2023	2022
	Tuition and Fees, Net	Tuition and Fees, Net
Undergraduate tuition	\$55,844,895	\$49,824,043
Graduate tuition	23,284,663	22,655,977
Education fee	5,431,128	3,991,750
Total	\$84,560,686	\$76,471,770

A summary of revenue from contracts with customers related to auxiliary enterprises revenue for the years ended May 31, 2023 and 2022 disaggregated by type is as follows:

Revenue Classification	2023	2022
	Amount, Net	Amount, Net
Housing	\$ 11,299,593	\$ 10,164,638
Food service	10,494,744	9,123,301
Other	914,995	946,727
Total	\$22,709,332	\$20,234,666

A summary of revenue from contracts with customers related to sponsored awards revenue for the years ended May 31, 2023 and 2022 as follows:

Revenue Classification	2023	2022
	Amount, Net	Amount, Net
Other revenue	\$ 6,983,141	\$ 4,900,672

Contract balances

A summary of receivables and contract liabilities from contracts with customer is as follows for fiscal year 2023:

	June 1, 2022	May 31, 2023
Student accounts receivable, net	\$ 5,470,975	\$ 5,005,693
Student loan receivable	\$ 976,980	\$ 564,994
Grants and other receivable	\$ 1,966,495	\$ 583,462
Student accounts and deposits collected in advance	\$ 68,666	\$ 68,620
Deferred revenue – tuition	\$ 7,263,309	\$ 8,600,832

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE W – REVENUE FROM CONTRACTS WITH CUSTOMERS - continued

A summary of receivables and contract liabilities from contracts with customer is as follows for fiscal year 2022:

	<u>June 1, 2021</u>	<u>May 31, 2022</u>
Student accounts receivable, net	\$ 4,816,225	\$ 5,470,975
Student loan receivable	\$ 1,125,519	\$ 976,980
Grants and other receivable	\$ 1,548,250	\$ 1,966,495
Student accounts and deposits collected in advance	\$ 78,306	\$ 68,666
Deferred revenue – tuition	\$ 5,907,987	\$ 7,263,309

Substantially all of the deferred tuition revenue at June 1, 2022 was recognized as revenue during 2023 as generally all performance obligations for tuition revenue are met within two-three months of the fiscal year end. Additionally, amounts of deferred tuition revenue at May 31, 2023 represent cash received from students during fiscal year 2023 primarily for academic services to be provided in the subsequent year.

NOTE X – CONTRIBUTED NONFINANCIAL ASSETS

As of June 1, 2021, the University adopted ASU 2020-07 (Topic 958), *Presentation and disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contribution of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

For the years ended May 31, 2023 and 2022, contributed nonfinancial assets recognized within the statement of activities included:

	<u>2023</u>	<u>2022</u>
Books	\$ 3,091	\$ 202
Equipment	-	65,617
Livestock	2,000	-
Services	-	75,000
Use of private plane	-	22,440
	<u>\$5,091</u>	<u>\$163,259</u>

The nonfinancial assets listed above were recognized within revenue. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. Contributed items were utilized in the following programs:

Abilene Christian University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended May 31, 2023 and 2022

NOTE X – CONTRIBUTED NONFINANCIAL ASSETS - continued

<u>Contributed Items</u>	<u>Programs</u>
Books	Teacher education's curriculum library & Department of Engineering and Physics
Equipment	Williams PAC and Moody Coliseum
Livestock	Department of Agricultural and Environmental Sciences
Services	Donor-restricted for Wessel Hall Project
Use of private plane	Round trip flight from Abilene to Wyoming for donor visit

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contributions of services also include services received from personnel of Investment Services.

NOTE Y - SUBSEQUENT EVENT

The University has evaluated subsequent events through August 11, 2023, the date the consolidated financial statements were issued. No subsequent events were identified for disclosure through this date.