Consolidated Financial Statements and Report of Independent Auditors

Abilene Christian University

May 31, 2018 and 2017

Independent Auditor's Report

To the Board of Trustees
Abilene Christian University
Abilene, Texas

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Abilene Christian University, which comprise the consolidated statement of financial position as of May 31, 2018, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Abilene Christian University as of May 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter
The consolidated financial statements of Abilene Christian University as of and for the year ended May 31, 2017, were audited by Davis Kinard & Co, PC, who joined Eide Bailly LLP on December 4, 2017, and whose report dated August 7, 2017, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued a report dated August 15, 2018 on our consideration of Abilene Christian University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Abilene Christian University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Abilene Christian University's internal control over financial reporting and compliance.

Eide Bailly LLP

Abilene, Texas
August 15, 2018

Abilene Christian University

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

May 31, 2018 and 2017

ASSETS	2018	2017
Cash and cash equivalents	$ 22,548,789	$ 7,640,226
Accounts and notes receivable, net	13,636,146	8,741,141
Contributions receivable, net	17,797,139	35,270,462
Inventories	784,000	2,212,482
Prepaid expenses and other assets	3,404,324	3,644,020
Investments	433,313,572	385,887,206
Charitable trusts and annuities	36,861,699	35,915,480
Property and equipment, net	242,046,742	227,539,296
Total assets	$770,392,411	$706,850,313
LIABILITIES AND NET ASSETS		
Accounts payable	$ 5,815,035	$ 4,927,038
Accrued interest payable	929,158	837,068
Accrued salaries and benefits	16,335,420	15,292,947
Deposits and other liabilities	9,211,780	8,711,826
Reserve for charitable trusts and annuities	18,609,695	19,549,795
Long-term obligations		
Principal amount	145,710,188	129,479,647
Debt issuance cost and premium, net of accumulated amortization	2,497,553	1,341,954
Total liabilities	199,108,829	180,140,275
Net assets		
Unrestricted	273,202,770	247,421,584
Temporarily restricted	175,987,764	161,023,915
Permanently restricted	122,093,048	118,264,539
Total net assets	571,283,582	526,710,038
Total liabilities and net assets	$770,392,411	$706,850,313

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:				
Revenues, gains, and other support				
Tuition and fees	$138,416,775	$ -	$ -	$ 138,416,775
Less scholarship allowances	(63,482,660)	-	-	(63,482,660)
Net tuition and fees	74,934,115	-	-	74,934,115
Auxiliary enterprises sales and services	20,977,896	-	-	20,977,896
Private gifts and grants	5,580,450	1,794,405	-	7,374,855
Endowment support	10,091,255	10,636,818	-	20,728,073
Government grants and contracts	5,294,081	-	-	5,294,081
Other revenue	6,327,661	-	-	6,327,661
Net assets released from restrictions	11,639,064	(11,639,064)	-	-
Total revenues, gains, and other support	134,844,522	792,159	-	135,636,681
Expenses				
Operating expenses:				
Program expenses				
Instruction and research	46,484,927	-	-	46,484,926
Public services	2,949,489	-	-	2,949,489
Academic support	12,950,532	-	-	12,950,532
Student services	29,831,393	-	-	29,831,393
Expenses of auxiliary enterprises	21,279,025	-	-	21,279,025
Supporting expenses				
Fundraising	4,189,371	-	-	4,189,371
Management and general	27,455,596	-	-	27,455,596
Total operating expenses	145,140,333	-	-	145,140,333
Change in net assets from operating activities	(10,295,811)	792,159	-	(9,503,652)
Non-operating:				
Contributions for endowment, plant, and other	-	6,476,808	1,718,539	8,195,347
Investment return, net of amount designated for operations	15,692,613	28,097,569	267,652	44,057,834
Other revenue	178,328			178,328
Net assets released from endowment, plant, and other	20,490,452	(20,490,452)	-	-
Expenses for endowment, plant, and other	(345,451)	-	-	(345,451)
Changes in value of split-interest agreements	61,055	87,765	1,842,318	1,991,138
Net non-operating revenues, expenses, and other changes	36,076,997	14,171,690	3,828,509	54,077,196
Total change in net assets	25,781,186	14,963,849	3,828,509	44,573,544
Net assets at beginning of year	247,421,584	161,023,915	118,264,539	526,710,038
Net assets at end of year	$273,202,770	$175,987,764	$122,093,048	$571,283,582

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2017

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

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 44,573,544	$ 33,831,398
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation of property and equipment	10,152,485	8,754,152
Amortization of debt issuance cost and premium	(234,868)	(342,899)
Loss on disposal of assets	6,489	41,070
Provision for credit losses	1,269,785	529,627
(Increase) decrease in:		
Accounts and notes receivable	(6,375,311)	(361,458)
Contributions receivable	333,180	(2,317,085)
Inventories	1,428,482	(122,735)
Prepaid expenses and other assets	239,696	168,626
Increase (decrease) in:		
Accounts payable	(162,121)	(3,189,565)
Accrued interest payable	92,089	510,297
Accrued salaries and benefits	1,042,473	343,023
Deposits and other liabilities	499,954	(682,136)
Contributions restricted for long-term investment	(8,195,348)	(12,406,144)
Interest and dividends restricted for reinvestment	(62,792)	(75,986)
Changes in value of split-interest agreements	(1,991,138)	(1,750,288)
Net unrealized and realized gains on investments	(53,994,457)	(38,899,086)
Net cash used in operating activities	(11,377,858)	(15,969,189)
Cash flows from investing activities		
Additions to property and equipment	(23,591,114)	(52,059,327)
Repayment of loans from students, faculty, and others	210,522	353,462
Proceeds from sales and maturities of investments	78,034,315	100,910,346
Purchases of investments	(62,238,273)	(86,059,813)
Net cash used in investing activities	(7,584,550)	(36,855,332)

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended May 31, 2018 and 2017

	2018	2017
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment in endowment and other	$ 2,268,264	$ 3,568,821
Investment in plant	15,617,824	10,425,421
	17,886,088	13,994,242
Other financing activities:		
Interest and dividends restricted for reinvestment	62,791	75,986
Payments of split-interest obligations	(1,673,729)	(1,514,808)
Proceeds from lines of credit	15,570,000	49,110,000
Payments on lines of credit	(15,570,000)	(53,390,000)
Proceeds from long-term obligations	18,994,132	134,672,833
Payments of long-term obligations	(2,788,778)	(89,836,425)
Proceeds from premium	1,700,212	6,781,979
Payments of debt issuance cost	(309,745)	(4,705,006)
	15,984,883	41,194,559
Net cash provided by financing activities	33,870,971	55,188,801
Net change in cash and cash equivalents	14,908,563	2,364,280
Cash and cash equivalents at beginning of year	7,640,226	5,275,946
Cash and cash equivalents at end of year	$ 22,548,789	$ 7,640,226
Non-cash investing and financing activities:		
Improvements capitalized by increases to accounts payable	$ 1,050,119	$ 3,518,846
Equipment capitalized by an increase to long-term obligations	25,188	36,826
Equipment capitalized by a non-cash contribution	-	107,100
Other required disclosures:		
Cash paid for interest	$ 6,164,827	$ 3,718,860

Certain prior year amounts regarding cash flows within operating activities have been reclassified for consistency with the current year presentation. This change in reclassification does not affect previously reported cash flows from operating activities in the consolidated statement of cash flows.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Basis of Accounting

The consolidated financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The focus of these 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 three classes of net assets - unrestricted, temporarily restricted, or permanently restricted.

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

Statement of Activities

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

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 unrestricted net asset class. The University does not imply a time restriction on the use of contributed long-lived assets unless specified by donors. Contributions of cash or other assets to be used to acquire land, building, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released upon the acquisition of such assets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Endowment

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

Fair Value Measurements

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

Fair Value Option

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

Investments

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

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

Other investments include cash and cash equivalents carried at cost, which approximates fair value, and notes receivable carried at net realizable value, which approximates fair value. The net realized and unrealized gains (losses) in fair value of investments are reflected in the consolidated statements of activities within investment return, net of amount designated for operations. The value of endowment support is determined by the amounts provided from the endowment to support the operations of the University. Total investment income reported in Note D is determined by combining endowment support and investment return, net of amount designated for operations.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments – continued

Income and realized and unrealized gains and losses on investments of endowments and similar funds are reported as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund; as changes in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income or if the funds have not been appropriated for use in operations; and as changes in unrestricted net assets in all other cases.

Use of Estimates

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

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

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

For the years ended May 31, 2018 and 2017, 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, 2018, the University's tax years 2012 to 2018 remain subject to examination.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the University considers all cash and other highly liquid investments with original maturities of three months or less to be cash equivalents. Cash restricted by donors or held in endowment are reflected in investments. The University places its cash and cash equivalents with high quality financial institutions, which at times may exceed federally insured limits. The University has not experienced any losses on such accounts. Deposits subject to credit risk were $0.00 and $3,476,958 at May 31, 2018 and 2017, respectively. Cash balances of $28,538 and $454,557 at May 31, 2018 and 2017, respectively, were restricted for the Federal Perkins Loan Program and are required to be reported in a separate account.

Accounts and Notes Receivable

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts and Notes Receivable - continued

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

Estimated allowances for credit losses are maintained at levels that, in the judgment of management, are adequate to meet the present and potential future risks of uncollectible receivable balances. Management's judgment is based on a variety of factors, which include experience related to charge-offs and recoveries and scrutiny of individual accounts and notes receivable. Receivables are unsecured and considered past due based on contractual terms. 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 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 $15,000 and $22,463 were recorded for obsolete inventory for the years ended May 31, 2018 and 2017, respectively. In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-11, *Simplifying the Measurement of Inventory*. ASU 2015-11 requires inventory to be recorded at the lower of cost or net realizable value. Management implemented ASU 2015-11 prospectively for fiscal year 2018.

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 $614,303 and $918,279 for the years ended May 31, 2018 and 2017, 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 indicates that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent the carrying value exceeds the fair value of the asset. There were no indicators of asset impairment as of May 31, 2018 and 2017.

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 an unrestricted or restricted contribution based on the donor's wishes. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and the gain is recognized. The estimated present value of future payments to be made under these agreements is calculated using the AFR rate in effect at the time of the agreement and the beneficiary's current life expectancy.

Debt Issuance Costs

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition

Revenue is recognized when earned. 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 are recognized when cash, securities, unconditional promises to give, or other assets or forgiveness of liabilities are received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Revenue is reported as an increase in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Appreciation and depreciation of investments is reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor imposed stipulations, by the passage of time, or by law. Expirations of temporary restrictions on net assets are reclassified as unrestricted net assets and reported in the statements of activities as a net assets released from restriction.

Income and net gains on investments of endowments and similar funds are reported as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of the permanent endowment fund and as increases in temporarily restricted net assets in all other cases until the funds are appropriated and spent. Net losses on investments of endowments and similar funds are reported as reductions in temporarily restricted net assets to the extent of accumulated endowment earnings reported as such, if any, with the remaining net losses reported as reductions in unrestricted net assets.

Advertising Costs

Advertising costs are expensed as incurred and totaled $2,253,200 and $1,428,374 for the years ended May 31, 2018 and 2017, respectively.

Functional Allocation of Expenses

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

Change in Accounting Estimate

Effective June 1, 2017, the University changed its estimate of allocation of certain employee benefits by function in order to more closely align these certain benefit expenses with the program function to which they correspond. The result of this change in estimate resulted in a decrease in management and general expense of approximately $4,371,000; and approximate increases in instruction and research of $2,329,000, public service of $113,000, academic support of $493,000, student services of $1,012,000, fundraising of $215,000, auxiliary enterprises of $80,000 and plant and capital expenditures of $129,000. The change in estimate had no effect to total operating expenses or net assets.

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, 2018:

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

Financing receivables consisted of the following at May 31, 2017:

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

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, 2018 and 2017:

	2018	2017
Allowance for credit losses:		
Beginning balance	$211,890	$ 211,890
Charge-offs		
Recoveries	-	-
Provision	-	-
Ending balance	$211,890	$211,890
Allowance for credit losses:		
Allocated to student loans individually evaluated for impairment	$ 121,691	$ 153,052
Allocated to student loans collectively evaluated for impairment	90,199	58,838
Ending balance	$ 211,890	$ 211,890
Financing receivables:		
Balance individually evaluated for impairment	$ 349,768	$ 362,621
Balance collectively evaluated for impairment	1,819,272	1,668,421
Ending balance	$2,169,040	$2,031,042

NOTE B - FINANCING RECEIVABLES - Continued

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

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

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

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

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

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

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

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

NOTE B - FINANCING RECEIVABLES – Continued

The following table summarizes the University's investment in impaired student loans as of and for the year ended May 31, 2018:

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

The following table summarizes the University's investment in impaired student loans as of and for the year ended May 31, 2017:

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

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at May 31, 2018 and 2017:

	2018	2017
Unconditional promises expected to be collected in:		
Less than one year	$6,318,558	$19,044,884
One year to five years	12,914,823	14,341,121
Over five years	600,000	4,885,000
	19,833,381	38,271,005
Less discount for net present value	(1,152,555)	(1,680,961)
Less allowance for uncollectible contributions receivable	(883,687)	(1,319,582)
	$17,797,139	$35,270,462

The contributions are to be utilized for the following purposes:

	2018	2017
Operations and scholarships	$ 2,748,793	$ 3,081,972
Endowment	1,418,602	1,932,883
Acquisition of land, building, and equipment	13,629,744	30,255,607
	$17,797,139	$35,270,462

Contributions receivable have been discounted using rates ranging from .47% to 2.69% as of May 31, 2018 and 2017.

At May 31, 2018, 60% of the contributions receivable was comprised of one donor. At May 31, 2017, 67% of contributions receivable was comprised of two donors. All other donor balances do not exceed 10% of the total balance.

NOTE D - INVESTMENTS

Investments consisted of the following at May 31, 2018 and 2017:

	2018	2017
Mutual funds and investment partnerships managed by third parties	$311,076,906	$288,381,563
Notes receivable	62,500	62,500
Stocks and bonds	63,244,251	39,851,022
Real estate and mineral interests	54,605,353	53,247,163
Outside managed	2,363,344	2,270,988
Other investments	1,961,218	2,073,970
	$433,313,572	$385,887,206

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, 2018 and 2017:

	2018	2017
Interest income	$ 204,713	$ 224,692
Dividend income	1,564,753	1,388,908
Mineral income	8,720,249	5,963,207
Ranch income	301,735	369,092
Net realized and unrealized gains	53,994,457	38,899,086
Total investment income	$64,785,907	$46,844,985

Total investment income includes gains (losses) from fair value changes of real estate and mineral interests, which are reported at fair value under the fair value option provided by ASC 825. The gain (loss) for the years ended May 31, 2018 and 2017 were $272,663 and ($4,671,628), respectively.

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

External investment expenses of $713,290 and $589,843 were recorded as reductions to investment return for the years ended May 31, 2018 and 2017, respectively.

The investment pool consisted of the following at May 31, 2018 and 2017:

	2018	2017
Mutual funds and investment partnerships managed by third parties	$367,518,917	$323,206,544
Cash and cash equivalents	4,252,048	2,468,169
	$371,770,965	$325,674,713

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at May 31, 2018 and 2017:

	2018	2017
Land	$ 1,587,667	$ 3,438,702
Buildings	250,154,986	201,969,408
Improvements to land and buildings	81,767,360	74,623,616
Equipment	26,759,657	25,668,277
	360,269,670	305,700,003
Less accumulated depreciation and amortization	(128,531,239)	(118,411,817)
	231,738,431	187,288,186
Assets held for Sale	1,848,912	-
Construction in progress	8,459,399	40,251,110
	$242,046,742	$227,539,296

Depreciation expense on property and equipment for the years ending May 31, 2018 and 2017, was $10,152,485 and $8,754,152, respectively. Interest cost capitalized during fiscal years ended May 31, 2018 and 2017 was $107,037 and $598,715, respectively.

Construction in progress as of May 31, 2018 consisted of the Onstead Science facility and other various projects across campus. Construction in progress as of May 31, 2017 consisted of construction on the Science Complex, Wildcat Stadium and other various projects across campus.

On May 19, 2018, the board passed a resolution to re-designate 437 acres (titled Zoe property) as "available for sale.

NOTE F - LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following as of May 31, 2018 and 2017:

	2018	2017
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

NOTE F - LONG-TERM OBLIGATIONS - Continued

	2018	2017
Series 2016C Newark Higher Education Finance Corporation Revenue Improvement and Refunding Bonds due in quarterly payments ranging from $515,000 to $7,515,000 beginning October 1, 2017 maturing on October 1, 2026. Interest at the LIBOR rate in effect on the date of advance is paid quarterly.	30,000,000	24,605,598
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	-
Miscellaneous notes payable	25,188	759,049
	$145,710,188	$129,479,647

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

2019	$ 3,512,275
2020	3,012,913
2021	3,500,000
2022	3,500,000
2023	3,000,000
Thereafter	129,185,000
	$145,710,188

Total interest expense for the years ended May 31, 2018 and 2017 was $5,915,010 and $3,630,530 respectively. On September 22, 2016 all bond issues were refunded and the corresponding debt issuance cost of $579,527 and accumulated amortization of $200,937 were reversed resulting in bond extinguishment expense of $378,590 included in the total interest expense for 2017. All debt is non-collateralized.

Long term debt as of May 31, 2018 and 2017 included debt issuance cost, premium and accumulated amortization as follows:

	2018	2017
Debt issuance cost	$ 5,594,277	$ 5,284,533
Accumulated Amortization	(343,718)	(135,604)
Premium	(8,482,190)	(6,781,979)
Accumulated Amortization	734,078	291,096
Unamortized debt issuance cost and premium	$(2,497,553)	$(1,341,954)

NOTE G - NET ADVANCES ON LINES OF CREDIT

An agreement with First Financial Bank, Abilene (the FFIN Line), matures on October 30, 2018, and provides for maximum borrowings of up to $9,500,000 with interest payable at prime (4.75% and 4.0% at May 31, 2018 and 2017). No amount was outstanding on the FFIN Line at May 31, 2018 and 2017.

Agreement with First Financial Bank (the FFIN Endowment Line) matures on May 1, 2019 and provides for maximum borrowing of up to $5,000,000 with interest payable at prime (4.75% and 4.0% at May 31, 2018 and 2017, respectively). No amount was outstanding on the FFIN Endowment Line at May 31, 2018 and 2017.

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

All lines of credit are non-collateralized.

NOTE H - RESTRICTIONS ON NET ASSET BALANCES

Permanently restricted net assets are listed below according to the purpose for which the income for these items is to be used at May 31, 2018 and 2017:

	2018	2017
Student loans	$ 659,109	$ 596,567
Scholarships	73,982,074	71,912,518
Instruction, research, and divisional support	23,429,803	23,209,645
General operations	4,360,551	4,599,952
	102,431,537	100,318,682
Life income, student loan funds, and other accounts	19,661,511	17,945,857
	$122,093,048	$118,264,539

Temporarily restricted net assets are listed below according to the purpose for which the income for these items is to be used at May 31, 2018 and 2017:

	2018	2017
Gifts and other unexpended revenues and gains available for:		
Student loans	$ 789,834	$ 770,180
Scholarships	89,764,073	71,976,036
Instruction, research, and divisional support	48,246,716	38,106,876
General operations and unappropriated earnings	18,759,035	16,386,987
Acquisition of property and equipment	17,559,606	33,026,387
Life income, student loan funds, and other accounts	868,500	757,449
	$175,987,764	$161,023,915

NOTE I - ENDOWMENT

The University's endowment consists of individual endowment funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Unrestricted endowment represents board-designated funds.

Interpretation of Relevant Law

The University interprets the State of Texas UPMIFA as allowing the University, absent donor stipulations to the contrary as stated in the gift instrument, to appropriate so much of a donor-restricted endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. In the absence of explicit donor stipulations, the University designates 50% of endowment gifts to permanently restricted net assets and 50% to temporarily restricted net assets. The assets in the endowment fund remain restricted until appropriated for expenditure by the University.

The following factors are considered in making a determination to appropriate or accumulate donor restricted endowment funds: 1) The duration and preservation of the fund; 2) The purposes of the University and the donor restricted endowment fund; 3) General economic conditions; 4) The possible effect of inflation and deflation; 5) The expected total return from income and the appreciation of investments; 6) Other resources of the University; and 7) The investment policies of the University.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$162,817,432	$121,447,511	$100,318,682	$384,583,625
Contributions	-	1,507,229	1,507,229	3,014,458
Real estate, mineral, and other income	8,139,458	620,919	-	8,760,377
Dividends and interest	569,219	1,179,230	-	1,748,449
Net realized and unrealized gains (losses)	18,215,281	35,309,800	92,356	53,617,437
Endowment support	(10,091,255)	(10,636,818)		(20,728,073)
Transfers and other	(1,165,242)	1,601,301	513,270	949,329
Endowment net assets, end of year	$178,484,893	$151,029,172	$102,431,537	$431,945,602

NOTE I – ENDOWMENT – Continued

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

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the value that the door or UMPIFA requires the University retain as a fund of perpetual duration. Deficiencies of this nature are required to be reports as reductions to unrestricted net assets. The University had no deficiencies of this nature reported in unrestricted net assets as of May 31, 2018 and 2017.

Return Objective and Risk Parameters

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

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest, dividends, rents, and royalties). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

NOTE J - CHARITABLE TRUSTS AND ANNUITIES

The University is party to a number of charitable trusts and annuities, the majority of which the University is the trustee. Assets under charitable trusts and annuities consist of the following at May 31, 2018 and 2017:

	2018	2017
University as trustee:		
Charitable trusts	$31,061,901	$30,172,789
Charitable gift annuities	5,449,775	5,450,817
	36,511,676	35,623,606
Third-party trustee	350,023	291,874
	$36,861,699	$35,915,480

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, 2018 and 2017, $539,098 and $1,252,567, respectively, were recorded as contribution revenue related to these types of agreements. On the prior year financial statement, the amount for year ended May 31, 2017 was reported as $7,252,567. 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, 2018 and 2017, was $18,609,695 and $19,549,795, 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 $3,038,145 and $2,691,337 for the years ended May 31, 2018 and 2017, respectively.

NOTE K – EMPLOYEE BENEFIT PLANS – Continued

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, 2018 and 2017 were $1,235,354 and $1,029,766 respectively, which are recorded as assets and liabilities on the consolidated statements of financial position.

In 2017, the University implemented Collateral Assignment Life Insurance policies with two key employees. The policies are loans to the employees and a note receivable to the university. The balance of the note was $1,161,026 and $1,107,986 for the years ended May 31, 2018 and 2017, respectively. The note will earn interest at IRS interest rates (2.23% and 2.04% at May 31, 2018 and 2017, respectively).

NOTE L - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

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

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

	2018	2017
Accumulated postretirement benefit obligation	$(3,250,295)	$(3,890,980)
Plan assets at fair value	-	-
Unfunded status	$(3,250,295)	$(3,890,980)
Accrued postretirement benefit cost	$(3,250,295)	$(3,890,980)

Approximate annual benefit costs for the year ended May 31:

	2018	2017
Net periodic postretirement benefit cost	$182,006	$162,583
Employer contributions	$211,944	$223,438
Plan participant contributions	35,840	18,611
Benefits paid	$247,784	$242,049

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

NOTE L - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

The weighted average assumptions related to the postretirement benefit plan are as follows at May 31, 2018 and 2017:

	2018	2017
Discount rate	3.61%	2.98%
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 $376,488 to the postretirement benefit plan in fiscal year 2019. Benefits expected to be paid over the next five years and the five fiscal years thereafter are as follows:

2019	$ 276,488
2020	281,595
2021	283,303
2022	281,391
2023	275,890
2024-2028	1,184,102

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 $818,000 and $717,000 at May 31, 2018 and 2017, respectively and is recorded in accrued salaries and benefit expenses in the accompanying consolidated statements of financial position. Management believes the liability is adequate to fund any health claims incurred but not paid or reported as of the end of the fiscal year.

NOTE N - COMMITMENTS AND CONTINGENCIES

The University leases facilities and equipment to support its study abroad programs, City Square, and other operating activities under non-cancelable operating agreements that extend through 2024. Rent expense related to these agreements for the years ended May 31, 2018 and 2017, was $2,040,641 and $1,570,886, respectively. Future minimum rentals under the non-cancelable leases as of May 31, 2018 are as follows:

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

NOTE N - COMMITMENTS AND CONTINGENCIES – Continued

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

At May 31, 2018, the University had open construction contracts for Onstead Science Complex with remaining commitments of approximately $1,900,000. At May 31, 2017, the University had open construction contracts for Wildcat Stadium and the Science Complex with remaining commitments of approximately $17,000,000.

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

NOTE O - FAIR VALUE MEASUREMENTS

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

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

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

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

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

NOTE O - FAIR VALUE MEASUREMENTS - Continued

ASU 2015-07 "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)" removes the requirement to categorize within the fair value hierarchy all investments for which the fair value is measured using the net asset value per share practical expedient. Management has adopted the provisions of ASU 2015-07 as of June 1, 2017 and has retrospectively applied the changes to the comparative financial statements presented.

		Fair Value Measurements at May 31, 2018 Using			
Description	May 31, 2018	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (1)
Investments:					
Mutual funds	$ 82,704,210	$ 82,704,210	$ -	$ -	$ -
Notes receivable	62,500	-	62,500	-	-
Stocks and bonds	63,244,251	63,078,641	165,610	-	-
Real estate and mineral interests	54,605,353	-	22,258,126	32,347,227	-
Hedge funds	158,593,141	-	-	-	158,593,141
Private equity/ venture capital	69,779,555	-	-	-	69,779,555
Outside managed	2,363,344	-	2,363,344	-	-
Other investments	1,961,218		1,961,218		-
Total investments	433,313,572	145,782,851	26,810,798	32,347,227	228,372,696
Charitable trusts and annuities:					
Mutual funds	36,381,676	36,381,676	-	-	-
Real estate	130,000	-	130,000	-	-
Outside managed	350,023	-	350,023	-	-
Total charitable trusts and annuities	36,861,699	36,381,676	480,023	-	-
Total assets	$470,175,271	$182,164,527	$27,290,821	$32,347,227	$228,372,696

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

NOTE O - FAIR VALUE MEASUREMENTS - Continued

		Fair Value Measurements at May 31, 2017 Using			
Description	May 31, 2017	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (1)
Investments:					
Mutual funds	$ 72,025,188	$ 72,025,188	$ -	$ -	$ -
Notes receivable	62,500	-	62,500	-	-
Stocks and bonds	39,851,022	39,719,531	131,491	-	-
Real estate and mineral interests	53,247,163	-	20,405,379	32,841,784	-
Hedge funds	131,674,818	-	-	-	131,674,818
Private equity/ venture capital	84,681,557	-	-	-	84,681,557
Outside managed	2,270,988	-	2,270,988	-	-
Other investments	2,073,970		2,073,970		-
Total investments	385,887,206	111,744,718	22,944,328	32,841,784	216,356,375
Charitable trusts and annuities:					
Mutual funds	35,493,606	35,493,606	-	-	-
Real estate	130,000	-	130,000	-	-
Outside managed	291,874	-	291,874	-	-
Total charitable trusts and annuities	35,915,480	35,493,606	421,874	-	-
Total assets	$421,802,686	$147,238,325	$25,366,202	$32,841,784	$216,356,375

The schedule below summarizes the activity for items classified as Level 3 assets for the year ended May 31, 2018 and 2017:

	2018 Mineral Interests	2017 Mineral Interests
Beginning balance	$32,841,784	$35,997,145
Total gains (losses):		
Included in net realized and unrealized losses	(2,182,788)	(5,033,374)
Gifts	-	40,000
Purchases	1,688,231	1,838,013
Redemptions	-	-
Ending balance	$32,347,227	$32,841,784

NOTE O - FAIR VALUE MEASUREMENTS - Continued

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

ASC 820 requires disclosures about significant quantitative information used in valuations for instruments classified as Level 3 measurements. The estimated fair values of Level 3 assets managed and held in limited partnership and other private investment fund structures are based on the most recent valuations provided by the external investment fund managers, adjusted for receipts and disbursements through May 31. The University reviewed and evaluated the values provided by the managers and agreed with the valuation methods and assumptions used to determine those values. Accordingly, no significant quantitative information was developed by management to complete valuations for these investments.

The fair values of Level 3 mineral interests are estimated based on the expected net revenues generated by those assets. Geological reserve analysis provides additional information for estimating fair value and was used for the largest mineral interests to obtain a more informed estimate of fair value. These methods produce a range of values, and the fair value reported by the University falls within this range. The table below indicates the range of inputs associated with highest and lowest values considered by management in developing the University's reported fair value for mineral interests.

The following table describes valuation techniques, significant unobservable inputs, and ranges of significant input values for the University's Level 3 measurements at May 31, 2018 and May 31, 2017:

Instrument	Fair Value	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Mineral interests	2018 $32,347,227	Market approach	Multiple of recent months revenue	48 times the average monthly production for the last year (low) to 10 times the most recent annual production revenue (high)
	2017 $32,841,784	Market approach	Multiple of recent months revenue	48 times the average monthly production for the last year (low) to 10 times the most recent annual production revenue (high)

NOTE O - FAIR VALUE MEASUREMENTS - Continued

Investments That Calculate Net Asset Per Share

ASC 820 requires additional disclosure for certain types of investments that calculate net asset value per share but are not publicly traded to assist in understanding the nature and risk of these investments by major category. The table below summarizes the fair value and other pertinent liquidity information of investments in major categories at May 31, 2018:

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

ASC 820 requires additional disclosure for certain types of investments that calculate net asset value per share but are not publicly traded to assist in understanding the nature and risk of these investments by major category. The table below summarizes the fair value and other pertinent liquidity information of investments in major categories at May 31, 2017:

NOTE O - FAIR VALUE MEASUREMENTS - Continued

Investments That Calculate Net Asset Per Share - continued

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

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

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

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

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

NOTE O - FAIR VALUE MEASUREMENTS - Continued

(d) This category includes investments in hedge funds that invest in a variety of opportunistic strategies. Investments are global in scope and include: equities (long and long-short), bonds, commodities, crops, livestock and agricultural land, precious and base metals, credit, interest rate and FX trading, insurance, energy, and private investments in public companies, as well as investments in financial services startups and other co-investments. The fair values of the investments in this category have been estimated using the net asset value per share of the investments as provided by the fund managers. Investments representing approximately $2,196,192 (or 12.4%) and $1,676,002 (or 9.1%) of this category at May 31, 2018 and 2017, respectively, are "sidepocket" investments, meaning that redemptions will not take place until the underlying investments in the sidepocket are sold. The timing of the sale of the sidepocket investments cannot be estimated.

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

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

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

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

<u>Cash and Cash Equivalents, Accounts Receivable, and Net Advances on Lines of Credit</u>

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

<u>Contributions Receivable</u>

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

NOTE O - FAIR VALUE MEASUREMENTS - Continued

Investments and Charitable Trusts and Annuities

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

Long-term Obligations

Long-term obligations on the consolidated statements of financial position total $148,207,741 and $130,821,601 at May 31, 2018 and 2017, respectively. Included within these amounts are unamortized debt issuance cost and premium of $2,497,553 and $1,341,954 as of May 31, 2018 and 2017, respectively. Long-term obligations also include bonds and notes payable that are not reported at fair value, which have carrying values of $145,710,188 and $129,479,647 May 31, 2018 and 2017, respectively. The fair values of the bonds and notes payable not reported at fair value were $171,593,655 and $161,354,912 at May 31, 2018 and 2017, respectively as determined by discounting future cash flows at an appropriate rate commensurate with the risks involved. These fair values represent an estimate of what a market participant would be willing to pay to acquire the future cash flows on these instruments.

NOTE P - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

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

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

NOTE Q - ASSET RETIREMENT OBLIGATION

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

NOTE Q - ASSET RETIREMENT OBLIGATION – Continued

The following presents a summary of the asset retirement obligation activity as of and for the years ended May 31, 2018 and 2017:

Asset retirement obligation at June 1, 2016	$1,338,972
Payment of asset retirement obligation	
Asset retirement obligation at May 31, 2017	1,338,972
Payments of asset retirement obligation	441,383
Asset retirement obligation at May 31, 2018	$ 897,589

NOTE R - RELATED PARTY TRANSACTIONS

The University had unsecured receivables from related parties of $51,742 and $45,893 at May 31, 2018 and 2017, respectively. Contributions received from board members were $15,216,486 and $5,015,618 as of May 31, 2018 and 2017, respectively.

NOTE S - EXPENSES BY NATURAL CLASSIFICATION

While the consolidated statements of activities present expenses by function, the University's expenses by natural classification are as follows for the years ended May 31, 2018 and 2017:

	2018	2017
Salaries and wages	$ 58,597,737	$ 53,678,865
Personnel benefits	17,809,993	18,268,674
Student wages	2,883,524	3,291,853
Operating expenses	39,693,754	40,212,249
Plant operations and maintenance	10,087,830	11,071,762
Depreciation	10,152,485	8,754,152
Interest	5,915,010	3,630,530
	$145,140,333	$138,908,085

NOTE T - SUBSEQUENT EVENT

The University has evaluated subsequent events through August 13, 2018, the date the consolidated financial statements were issued. The University entered into a contract with Chartwells for dining services on August 9, 2018, effective June 1, 2018. As part of the contract Chartwells will pay the University approximately $2,400,000 deferred conditional gift that will be amortized over the 15-year life of the contract.