Baylor University

Financial Statements

Years Ended May 31, 2019 and 2018,
and Report of Independent Certified Public Accountants

BAYLOR UNIVERSITY

FINANCIAL STATEMENTS

Years Ended May 31, 2019 and 2018

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Introduction

The leadership of Baylor University (the University) is pleased to present this management discussion and analysis ("MD&A") of the University's financial statements as of May 31, 2019. The MD&A is intended to provide readers of the financial statements open and transparent insights into the University's financial condition. The discussion should be read in conjunction with the financial statements and notes that follow.

The University provides a vibrant campus community for more than 17,000 students by blending interdisciplinary research with an international reputation for educational excellence and a faculty commitment to teaching and scholarship. Baylor's mission is to educate students for worldwide leadership and service by integrating academic excellence and Christian commitment within a caring community. Baylor University enjoys high standing among many national rating services that evaluate quality of education, research activity, affordability, baccalaureate value, and athletic excellence. These rankings recognize not only Baylor as a whole, but also the University's many respected schools and departments, which are led by gifted, award-winning professors. In addition to the University, these financial statements include the activity of two legally separate entities over which the University has control, the Brazos Valley Public Broadcasting Foundation and the Central Texas Technology & Research Park.

This financial report includes the Balance Sheet, Statement of Activities, Statement of Cash Flows, and Notes to the Financial Statements. The financial statements and notes are prepared in accordance with principles established for not-for-profit universities by the Financial Accounting Standards Board (FASB).

Balance Sheet

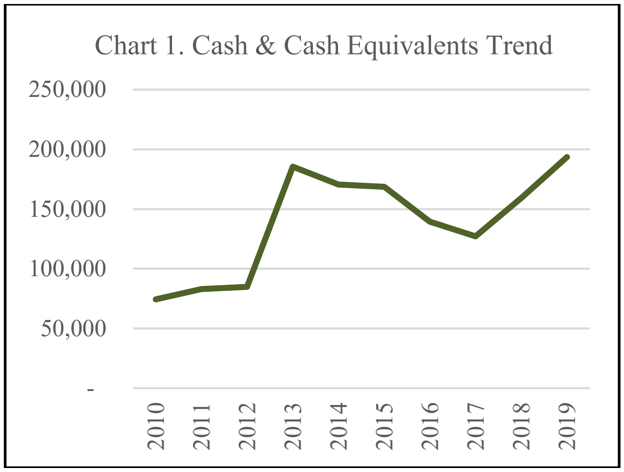
The **Balance Sheet** presents the University's assets, liabilities and net assets at May 31, 2019 and 2018. This statement provides a snapshot of the University's financial position as of a specific point in time, as well as information regarding assets owned by the University, amounts owed to vendors, lenders, and others, and net assets.

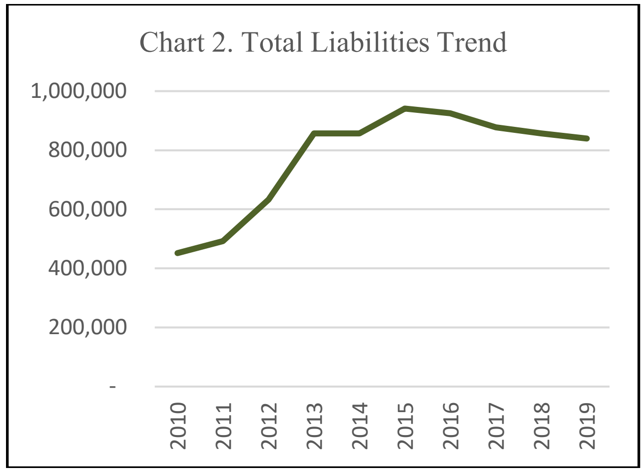
The University's Balance Sheet as of May 31, 2019 and 2018, is summarized below *(in thousands of dollars)*:

Summary of the Balance Sheet	2019	2018	Increase (Decrease) Amount	Increase (Decrease) Percentage
Cash and cash equivalents	$ 193,519	$ 159,371	$ 34,148	21.4 %
Receivables, net	115,130	129,696	(14,566)	(11.2)%
Prepaid expenses & other assets	17,610	7,379	10,231	138.7 %
Long-term investments	1,371,999	1,361,000	10,999	0.8 %
Capital assets, net	1,109,311	1,147,481	(38,170)	(3.3)%
Total Assets	$ 2,807,569	$ 2,804,927	$ 2,642	0.1 %
Payables, trade and personnel-related	56,170	56,274	(104)	(0.1)%
Notes & bonds payable	588,429	597,117	(8,688)	(1.5)%
Other liabilities	195,505	203,891	(8,386)	(4.1)%
Net assets	1,967,465	1,947,645	19,820	1.0 %
Total Liabilities & Net Assets	$ 2,807,569	$ 2,804,927	$ 2,642	0.1 %

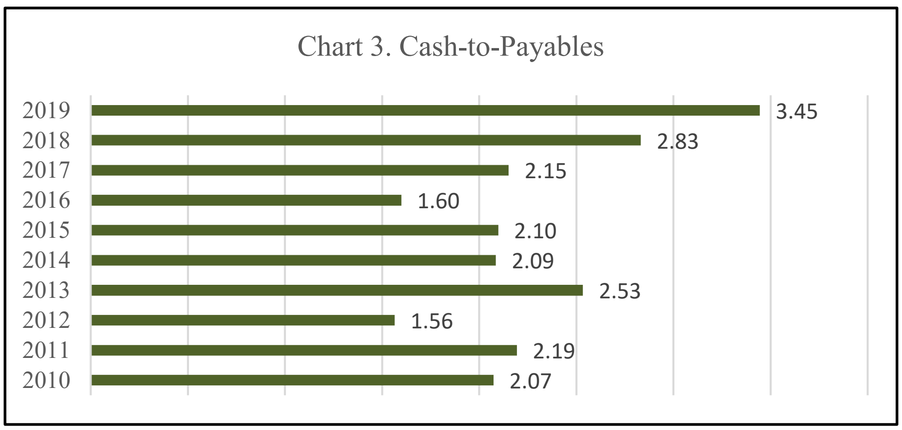
The most significant change in the balance sheet from May 31, 2018 to May 31, 2019, is a 21.4% increase in cash and cash equivalents, which occurred primarily through the liquidation of outstanding receivables and a reduction in capital asset additions. Capital assets had the largest change, with a $38.2 million decline, due to $61.0 million of depreciation, partially offset by $24.1 million in net capital asset additions. Each category of liabilities declined by small amounts from May 31, 2018 to May 31, 2019, while net assets increased 1 percent.

Overall, these changes demonstrate improving liquidity for the University. Following several years of decline, cash and cash equivalents have increased the last two fiscal years (Chart 1) while total liabilities have declined as depicted in Chart 2 *(in thousands of dollars)*:





This positive trend is further illustrated by Chart 3, comparing Cash and Cash Equivalents to Payables. After several years of fluctuations between 1 and 2 times, cash has increased to 3.5 times the payables balance on May 31, 2019.

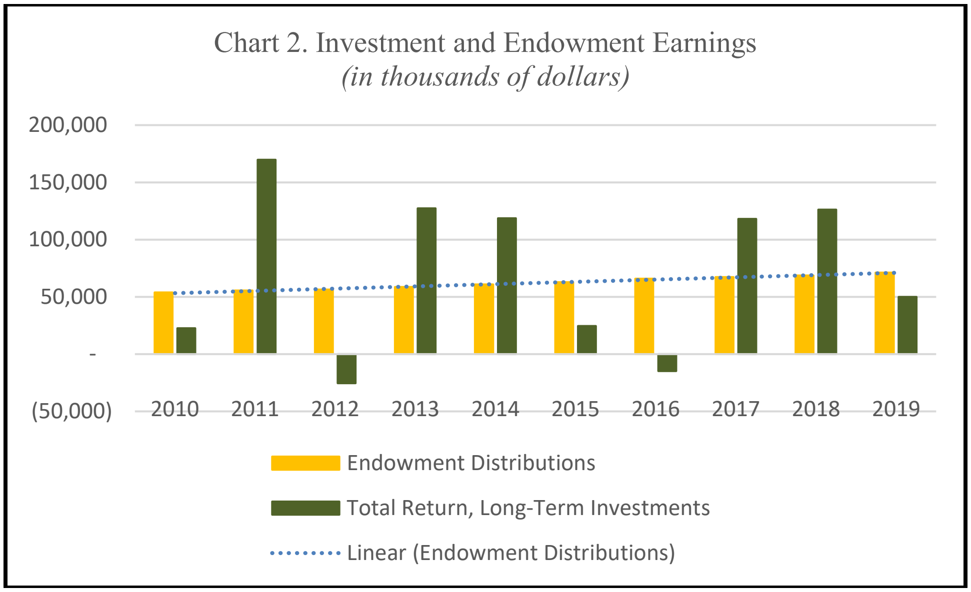


Endowment and Long-Term Investments

The University's endowment funds are primarily invested through the Baylor University Fund (BUF). The BUF is an internally managed portfolio which is invested through over 80 managers that specialize in different sectors of the global financial market. Long-term investments, which includes endowment funds, operating funds, annuities, and life income funds, total just under $1.4 billion as of May 31, 2019. The return on long-term investments, including realized gains and losses, and unrealized gains and losses totaled $50 million for the year compared to $124.1 million as of May 31, 2018.

While gains and losses on investments fluctuate with returns on financial markets each year, support to the University in the form of scholarships, professorships, and other important initiatives is dependable and rising.

In accordance with Board of Regents policy, endowment distributions are set at 5% of a three year rolling-average value, which resulted in $69.5 million of distributions to the University in FY2019.



Capital Assets

Maintaining a campus for approximately 17,000 students requires significant investments in quality facilities for instruction, research, residential life, and other functions of the University. Capital investments include renovation, replacement, and new construction of facilities. Projects are financed by a combination of donor contributions, reserves, and debt issuance. The following summary reflects capital investments over the past ten fiscal years, along with the change in capital assets, net of depreciation. Over this period, net additions have exceeded depreciation by approximately $500 million, an indication that the University is maintaining and enhancing facilities over time. Capital additions and improvements have slowed in the most recent three fiscal years.

Changes in Capital Assets
(in thousands of dollars)

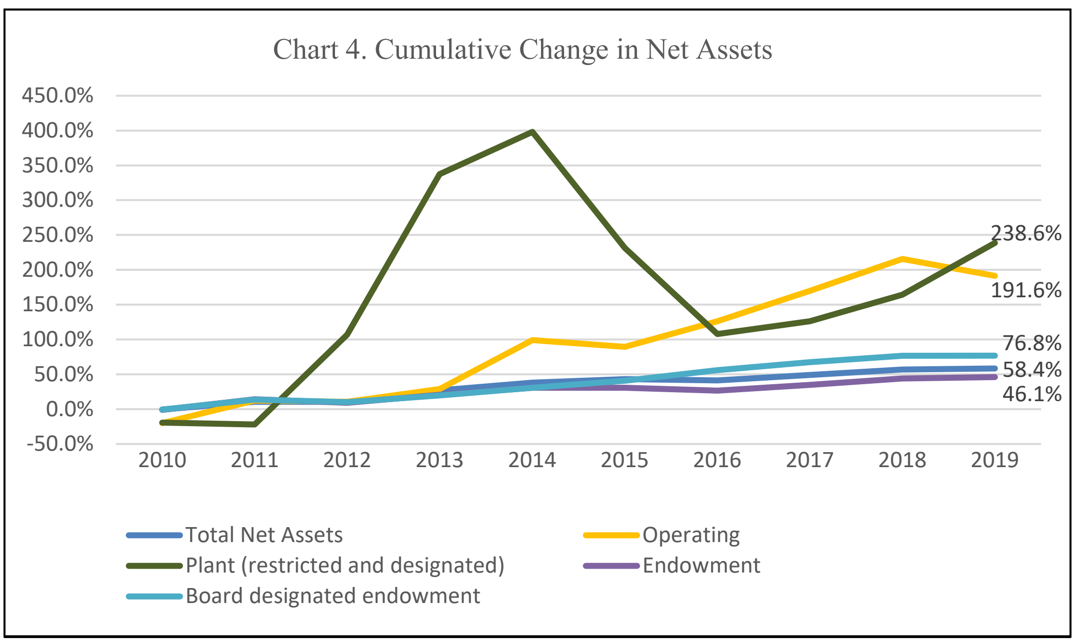
Year Ended May 31,	Property, Plant & Equipment, Net	Additions, Net	Depreciation	Net Change
2010	$ 622,548	$ 24,956	$ 29,643	$ (4,687)
2011	634,333	42,735	30,950	11,785
2012	671,840	68,444	30,937	37,507
2013	811,794	171,000	31,046	139,954
2014	1,000,263	223,219	34,750	188,469
2015	1,131,707	174,808	43,364	131,444
2016	1,178,885	97,710	50,532	47,178
2017	1,173,563	51,457	56,779	(5,322)
2018	1,147,481	34,073	60,155	(26,082)
2019	1,109,311	22,805	60,975	(38,170)
		$ 911,207	$ 429,131	$ 482,076

Net Assets

FASB standards dictate that the University classify net assets based on whether there are restrictions on the use of assets from donors, grantors, or other external parties. Internally, management or the Board of Regents may designate assets for specific purposes but these designations do not change the balance sheet classification. The following table summarizes net assets by those with and without donor-imposed restrictions, along with additional information within these two categories of net assets *(in thousands of dollars)*:

			Increase (Decrease)	
Summary of Net Assets	2019	2018	Amount	Percentage
Net assets without donor-imposed restrictions				
Operating	$ 90,891	$ 98,405	$ (7,514)	(7.6)%
Designated for plant	123,183	95,947	27,236	28.4 %
Board designated endowment	240,708	240,150	558	0.2 %
Invested in plant	348,050	366,027	(17,977)	(4.9)%
Net assets with donor-imposed restrictions				
Restricted by time or purpose	30,023	27,773	2,250	8.1 %
Endowment	1,082,114	1,070,631	11,483	1.1 %
Annuity and living trusts	33,057	33,397	(340)	(1.0)%
Restricted for plant	19,439	15,315	4,124	26.9 %
Total Net Assets	$1,967,465	$1,947,645	$ 19,820	1.0 %

Both net assets with and without donor restrictions improved for the fiscal year ended May 31, 2019, with the most significant change in net assets designated for plant additions and improvements. Below are ten year trends in net assets, which also reflect significant gains in net assets restricted to or designated for plant additions and improvements, designated as Plant (restricted and designated) in Chart 5. The largest increases over this period were in net assets restricted or designated for plant and net assets from operations.



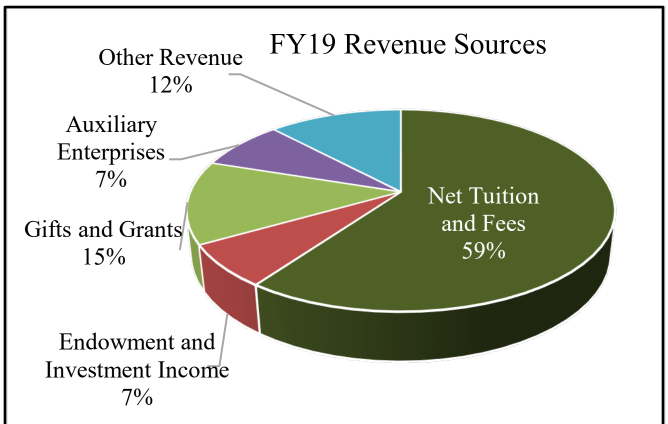
Statement of Activities

The **Statement of Activities** presents the University's revenues, expenses, and other changes in net assets for a period of time, specifically the fiscal years ended May 31, 2019 and 2018. The Statement of Activities for the fiscal years ended May 31, 2019 and 2018, is summarized below *(in thousands of dollars)*:

			Increase (Decrease)	
Summary of the Statement of Activities	2019	2018	Amount	Percentage
Tuition and fees, net	$ 432,673	$ 409,902	$ 22,771	5.6 %
Endowment distributions and investment returns	51,455	128,339	(76,884)	(59.9)%
Gifts and grants	107,639	83,703	23,936	28.6 %
Auxiliary enterprises	54,761	54,041	720	1.3 %
Other revenue and additions	90,076	83,195	6,881	8.3 %
Total revenue and other additions	$ 736,604	$ 759,180	$ (22,576)	(3.0)%
Instruction and academic support	$ 372,654	$ 347,390	$ 25,264	7.3 %
Research and public service	42,447	42,352	95	0.2 %
Student services and activities	169,832	163,006	6,826	4.2 %
Auxiliary enterprises	41,145	41,175	(30)	(0.1) %
Institutional Support	84,013	70,834	13,179	18.6 %
Other changes	6,693	(1,748)	8,441	(482.9)%
Total expenses and other changes	$ 716,784	$ 663,009	$ 53,775	8.1 %

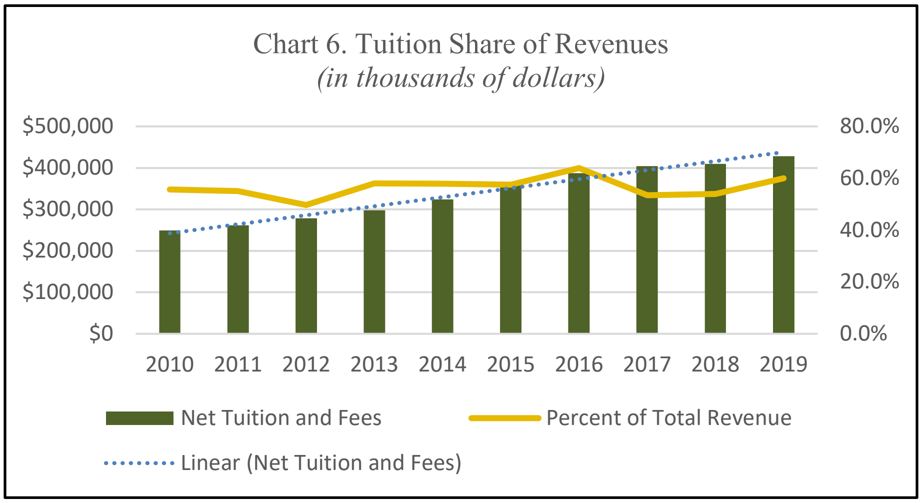
Revenues and Other Additions

Total revenue decreased $22.6 million from fiscal year 2018 to 2019 or 3% due to a decline in investment returns. Investment returns exceeded $100 million in the previous two fiscal years but fell to just over $50 million in FY2019 as market volatility increased. Gifts and grants, which includes donor contributions and grants from all sources, showed the largest percentage increase at 28.6%.

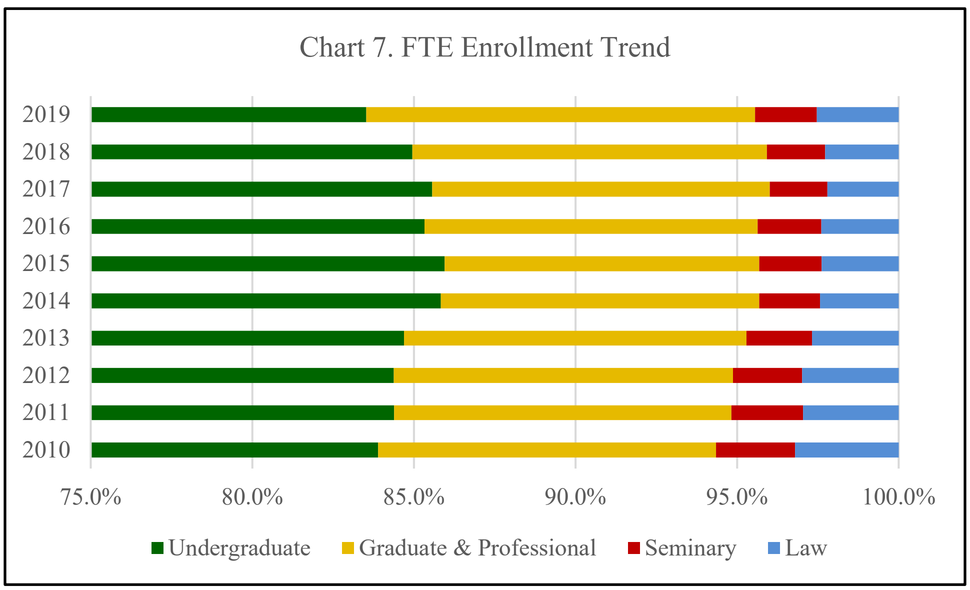


Net tuition and fees represents the largest share of total University revenues. However, the University has diversified revenue streams through auxiliary activities, gifts, grants, and endowment income. *Illuminate*, the University's academic strategic plan, includes objectives to increase external research funding. Additionally, the University strives to further enhance growth and raise the total endowment to $2 billion. Both objectives will further diversify revenue.

As chart 6 illustrates, net tuition and fee revenue has increased, in a mostly linear fashion, each fiscal year from 2010 to 2019, at an average annual rate of 7.0%. However, the share of total revenue funded by net tuition and fees has fluctuated from a low of 49.7% in FY2012 to a high of 63.9% in FY2016. This fluctuation results primarily from variances in annual investment returns and, to a lesser extent, variances in gifts and grants revenue.



Changes in net tuition revenues are driven by a combination of tuition rate increases, tuition discount rates and student enrollment changes. Chart 7 depicts the University's fall semester full-time equivalent (FTE) enrollments over the past ten fiscal years. As the chart shows, reliance on undergraduate enrollments has declined the past two fiscal years as new online graduate and professional programs have been added, increasing revenue diversification.



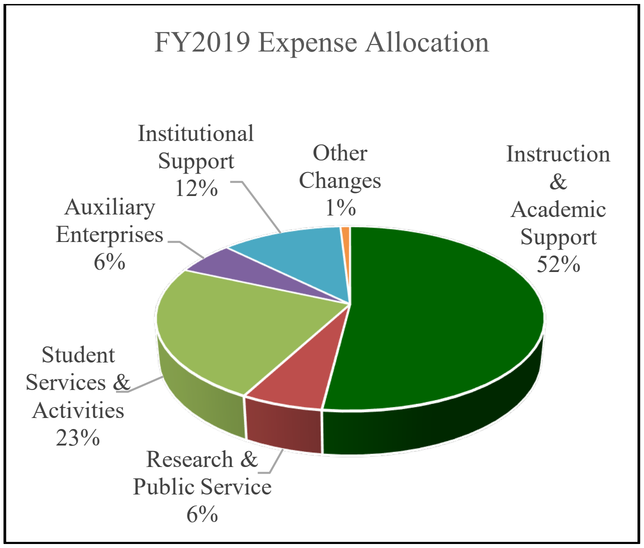
Expense and Other Changes

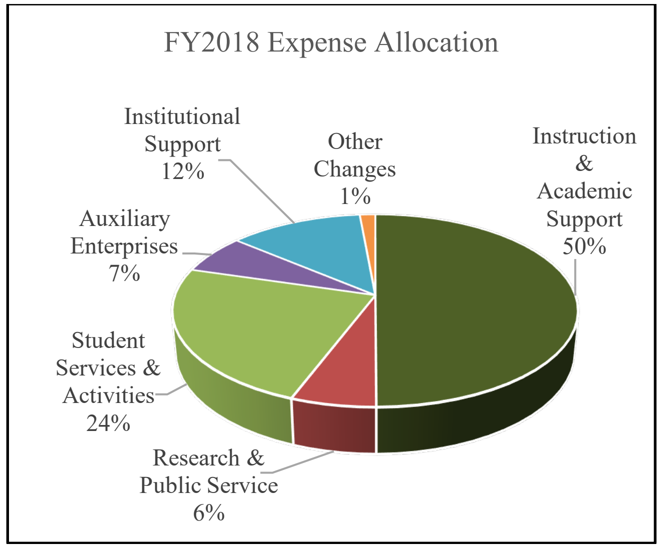
Total expenses and other changes rose in FY2019 by $54 million in comparison to FY2018. The most significant contributing factors to this increase are in Instruction and Academic Support, a $25 million increase, and Institutional Support, an increase of $13 million.

Instruction and academic support makes up the largest allocation of expenses each year and rose to 52% of total expenses in FY2019. As online graduate and professional education programs have been added, they have been a primary driver of instruction increases. Expenses for these programs totaled $11 million in FY2019 for faculty salaries and contract services.

The largest percentage increase in total expenses from FY2018 to FY2019 was in Institutional Support. The most significant contributing factor to this increase was the creation of an allowance of $10.5 million for a miscellaneous receivable.

The functional allocation of expenses has remained relatively unchanged from FY2018 to FY2019. Instruction and Academic Support rose from 50% to 52% of total expenses while Student Services and Activities and Auxiliary Enterprises each declined by one percent of the total.





Institutional and Economic Outlook

The University's academic strategic plan, *Illuminate*, includes bold metrics which are centered around four foundational pillars.

Unambiguously Christian Educational Environment
Transformational Undergraduate Education
Research and Scholarship Marked by Quality, Impact, and Visibility
Nationally Recognized Programs in Human Performance through the Arts and Athletics

Achieving significant progress toward these metrics will require focused efforts to both attract new resources and to strategically re-align resources to advance the University's mission and *Illuminate*. Plans are in place to increase research startup funds, to invest in construction or renovation of academic and research facilities, and to increase efficiencies through the transformation of administrative functions. Each of these initiatives will provide opportunities to achieve strategic outcomes.

Baylor University is not immune to the pressures all universities face as a result of the economic realities of tuition affordability, changes in federal tax legislation aimed at higher education, and changing public perceptions about the value of a college degree. However, the University is solidly positioned to face these challenges. A healthy University endowment, attractive national rankings, a strong position in the Christian University market, and valued donor support each provide the stability and strength necessary to adapt to a changing landscape while continuing to invest in a future marked by steadfast devotion to the pursuit of academic excellence animated by Christian faith.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Regents
Baylor University

We have audited the accompanying financial statements of Baylor University (the "University"), which comprise the balance sheets as of May 31, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Baylor University as of May 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other information
Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Grant Thornton LLP

Dallas, Texas
September 25, 2019

BAYLOR UNIVERSITY
Balance Sheets

May 31, 2019 and 2018
(in thousands of dollars)

	2019	2018
ASSETS		
Cash & cash equivalents	$ 193,519	$ 159,371
Student accounts receivable, net	22,691	22,072
Contributions receivable, net	54,472	53,924
Grants & other receivables, net	29,336	43,827
Prepaid expenses & other	17,610	7,379
Student loans receivable, net	8,631	9,873
Long-term investments, at fair value	1,371,999	1,361,000
Property, plant & equipment, net	1,109,311	1,147,481
Total assets	**$ 2,807,569**	**$ 2,804,927**
LIABILITIES & NET ASSETS		
Liabilities		
Accounts payable	$ 26,516	$ 28,864
Personnel related current liabilities	29,654	27,410
Deposits & deferred revenues	123,445	137,066
Accrued postretirement benefits	50,148	46,391
Notes & bonds payable, net	588,429	597,117
Other liabilities	21,912	20,434
Total liabilities	$ **840,104**	$ **857,282**
Net Assets		
Without donor restrictions	802,832	800,529
With donor restrictions	1,164,633	1,147,116
Total net assets	**1,967,465**	**1,947,645**
Total liabilities & net assets	**$ 2,807,569**	**$ 2,804,927**

See accompanying notes to financial statements.

BAYLOR UNIVERSITY
Statements of Activities
For the Years Ended May 31, 2019 and 2018
(in thousands of dollars)

	Year Ended May 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES			
Tuition & fees	$ 757,947	$ –	$ **757,947**
Less scholarships	(325,274)	–	**(325,274)**
Net tuition & fees	432,673	–	**432,673**
Endowment distributions & investment income	63,309	9,474	**72,783**
Gifts & private grants	25,079	9,055	**34,134**
Grants & contracts	24,722	1,156	**25,878**
Other sources - educational & general	29,889	56	**29,945**
Other sources - intercollegiate athletics	60,131	–	**60,131**
Sales & services of auxiliary enterprises	54,761	–	**54,761**
Net assets released from restrictions	17,399	(17,399)	**–**
Total operating revenues	707,963	2,342	**710,305**
OPERATING EXPENSES			
Program expenses			
Salaries & wages	289,282	–	**289,282**
Personnel benefits	90,379	–	**90,379**
Student wages & fellowships	34,325	–	**34,325**
Operating expenditures	210,484		**210,484**
Depreciation	60,975	–	**60,975**
Interest expense	24,646	–	**24,646**
Total operating expenses	710,091	–	**710,091**
Change in net assets from operating activities	(2,128)	2,342	**214**
NON-OPERATING ACTIVITIES			
Return on long-term investments	10,900	36,343	**47,243**
Distributions from long-term investments	(15,598)	(55,526)	**(71,124)**
Endowment earnings & distributions re-invested	–	2,752	**2,752**
Change in value of split interest agreements	54	(253)	**(199)**
Gifts for endowment, annuity & living trusts	–	26,836	**26,836**
Gifts & grants for plant improvements, net of allowance adjustments	–	20,791	**20,791**
Net assets released from restrictions for plant improvements	16,695	(16,695)	**–**
Other components of postretirement benefits cost	(613)	–	**(613)**
Change in postretirement benefits obligation other than net periodic benefits cost	(4,196)	–	**(4,196)**
Other increases (decreases)	(2,811)	927	**(1,884)**
Total non-operating activities	4,431	15,175	**19,606**
Change in net assets	2,303	17,517	**19,820**
Net assets at beginning of year	800,529	1,147,116	**1,947,645**
Net assets at end of year	**$ 802,832**	**$ 1,164,633**	**$ 1,967,465**

See accompanying notes to financial statements.

BAYLOR UNIVERSITY
Statements of Activities
For the Years Ended May 31, 2019 and 2018
(in thousands of dollars)

	Year Ended May 31, 2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
OPERATING REVENUES			
Tuition & fees	$ 720,218	$ –	$ **720,218**
Less scholarships	(310,316)	–	**(310,316)**
Net tuition & fees	409,902	–	**409,902**
Endowment distributions & investment income	60,484	8,412	**68,896**
Gifts & private grants	25,924	7,660	**33,584**
Grants & contracts	24,277	781	**25,058**
Other sources - educational & general	29,528	17	**29,545**
Other sources - intercollegiate athletics	53,650	–	**53,650**
Sales & services of auxiliary enterprises	54,041	–	**54,041**
Net assets released from restrictions	14,179	(14,179)	**–**
Total operating revenues	671,985	2,691	**674,676**
OPERATING EXPENSES			
Program expenses			
Salaries & wages	275,541	–	**275,541**
Personnel benefits	81,672	–	**81,672**
Student wages & fellowships	32,112	–	**32,112**
Operating expenditures	189,793		**189,793**
Depreciation	60,155	–	**60,155**
Interest expense	25,484	–	**25,484**
Total operating expenses	664,757	–	**664,757**
Change in net assets from operating activities	7,228	2,691	**9,919**
NON-OPERATING ACTIVITIES			
Return on long-term investments	30,660	93,402	**124,062**
Distributions from long-term investments	(15,159)	(53,523)	**(68,682)**
Endowment earnings & distributions re-invested	–	2,006	**2,006**
Change in value of split interest agreements	–	2,057	**2,057**
Gifts for endowment, annuity & living trusts	–	17,547	**17,547**
Gifts & grants for plant improvements, net of allowance adjustments	–	7,514	**7,514**
Net assets released from restrictions for plant improvements	5,342	(5,342)	**–**
Other components of postretirement benefits cost	(704)	–	**(704)**
Change in postretirement benefits obligation other than net periodic benefits cost	(77)	–	**(77)**
Other increases (decreases)	1,521	1,008	**2,529**
Total non-operating activities	21,583	64,669	**86,252**
Change in net assets	28,811	67,360	**96,171**
Net assets at beginning of year	767,846	1,083,628	**1,851,474**
Net assets at end of year, as previously reported	796,657	1,150,988	**1,947,645**
Reclassification for accounting pronouncement	**3,872**	**(3,872)**	**–**
Net assets at end of year (reclassified)	**$ 800,529**	**$ 1,147,116**	**$ 1,947,645**

See accompanying notes to financial statements.

BAYLOR UNIVERSITY

Statements of Cash Flows

For the Years Ended May 31, 2019 and 2018

(in thousands of dollars)

	Year Ended May 31, 2019	Year Ended May 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 19,820	$ 96,171
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	60,975	60,155
Return on long-term investments	(47,243)	(124,062)
Distributions from long-term investments	71,124	68,682
Amortization of bond premium	(630)	(680)
Amortization of deferred debt issuance costs	231	560
(Gains)/losses on disposal of property & equipment	1,531	(2,274)
Fixed assets gifts-in-kind	(455)	(998)
Contributions of securities	(5,889)	(10,515)
Proceeds from sale of contributed securities for operations	891	596
Contributions for endowment & plant improvements	(37,542)	(28,782)
Provision for uncollectible receivables	11,894	1,556
Changes in assets & liabilities:		
Student accounts receivable	(996)	(2,304)
Contributions receivable	(1,432)	16,896
Grants & other receivables	3,791	(1,845)
Prepaid expenses & other	(10,231)	(1,390)
Accounts payable	(2,348)	(3,745)
Personnel related current liabilities	2,244	880
Deposits & deferred revenue	(13,621)	(7,711)
Accrued postretirement benefits	3,757	(438)
Other liabilities	1,363	(2,440)
Net cash provided by operating activities	**57,234**	**58,312**
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans disbursed	(203)	(827)
Proceeds from collections of student loans	1,512	1,262
Proceeds from sales of long-term investments	24,839	23,558
Purchases of long-term investments	(59,719)	(50,924)
Proceeds from sales of property	257	3,332
Purchases of property, plant & equipment	(24,138)	(34,133)
Net cash used for investing activities	**(57,452)**	**(57,732)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for endowment & plant improvements:		
Endowment, annuity & living trusts	25,061	13,250
Plant	12,481	15,532
Proceeds from sale of contributed securities for endowment & plant	4,998	9,919
Proceeds from long-term debt	–	112,845
Repayment of long-term debt	(8,289)	(119,258)
Debt issuance costs	–	(722)
Change in federal student loan funds refundable	115	(25)
Net cash provided by financing activities	**34,366**	**31,541**
Net change in cash & cash equivalents	**34,148**	**32,121**
Cash & cash equivalents at beginning of year	**159,371**	**127,250**
Cash & cash equivalents at end of year	**$ 193,519**	**$ 159,371**

See accompanying notes to financial statements.

OVERVIEW OF BAYLOR UNIVERSITY

The mission of Baylor University (the "University") is to educate men and women for worldwide leadership and service by integrating academic excellence and Christian commitment within a caring community.

Chartered in 1845 by the Republic of Texas and affiliated with the Baptist General Convention of Texas, the University is the oldest continuously operating institution of higher learning in the State of Texas. Established to be a servant of the church and of society, the University seeks to fulfill its calling through excellence in teaching and research, in scholarship and publication, and in service to the community, both local and global. The approximately 1,000-acre main campus is located on the banks of the Brazos River in Waco, Texas.

While remaining true to its Christian heritage, the University has grown to over 17,000 students, and its nationally recognized academic units offer 128 undergraduate, 77 masters, and 46 doctoral degree programs. In addition, the education specialist degree is offered by the School of Education, and the Juris Doctor degree is offered by the School of Law.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting & Reporting

The financial statements of Baylor University include the accounts of the University, Brazos Valley Public Broadcasting Foundation, and Central Texas Technology & Research Park, legally separate entities, over which the University has control as a sole member or for which the board of directors are chosen by the University's Board of Regents. The University's financial statements do not include the accounts of the Baylor Line Foundation, formerly known as the Baylor Alumni Association, or Baylor Waco Stadium Authority. These entities are excluded due to the nature of their relationship to the University or due to their aggregate assets, revenues, expenses and net assets not being significant in relation to the University.

The financial statements of the University are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The University's net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Without donor restrictions – net assets that are not subject to donor-imposed or legal restrictions. Unrestricted net assets may be designated for specific purposes by the University's Board of Regents (the "Board").

With donor restrictions – net assets subject to donor-imposed or legal restrictions that must be met either by actions of the University and/or the passage of time. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the University, including donor restrictions which stipulate that assets be held in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions that are not anticipated to be met in the year of receipt. Expenses are reported as decreases in net assets. Income and net gains and losses on investments in donor restricted endowments are reported as increases or decreases in net assets with donor restrictions until appropriated for expenditure by the University. All other gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets are reported as net assets released from restrictions. Changes or clarifications in donor stipulations may cause certain net assets to be reclassified between net assets. These reclassifications are reported as other increases (decreases) in net assets classes.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the University, the internal accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified into funds that are in accordance with specified activities or objectives. These financial statements, however, are prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions.

Cash & Cash Equivalents

Cash on deposit and all highly liquid financial instruments with original maturities of three months or less are classified as cash and cash equivalents, except those amounts assigned to investment managers, which are classified as investments. The University maintains its cash and cash equivalents with high quality financial institutions and these cash balances, at times, may exceed federally insured limits. Cash equivalents includes operational funds invested in bank time deposits, short-term fixed income securities, having original maturities of three months or less, and highly liquid money market funds. The University has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Receivables

Student accounts receivable are stated net of allowance for doubtful accounts of $1,134,000 and $1,388,000 as of May 31, 2019 and 2018, respectively. Student loans receivable are stated net of allowance for doubtful accounts of $707,000 and $774,000 as of May 31, 2019 and 2018, respectively. The University considered the allowances recorded at May 31, 2019 and 2018, to be reasonable and adequate to absorb potential credit losses inherent in the student accounts receivable balances and the student loan portfolio.

The assets and liabilities of student loans financed primarily by the federal government and administered by the University, primarily the Federal Perkins Loan Program, are included with those of the University. The total of the federal government portion of these loans is included in other liabilities in the accompanying balance sheets. The U.S. Congress did not renew the Perkins program after September 30, 2017, and no new loans are permitted after June 30, 2018. The University has the option to continue servicing outstanding Perkins loans or to liquidate the loan portfolio and turn over all outstanding loans to the U.S. government. As of May 31, 2019, the University continues to service outstanding Perkins loans.

Grants and other receivables are stated net of allowance for doubtful accounts of $10,761,000 and $176,000 as of May 31, 2019 and 2018, respectively.

Split Interest Agreements

Split interest agreements consist primarily of gift annuities, charitable remainder trusts, life income funds, and perpetual trusts. Assets held under these agreements are included primarily in long-term investments (see Note 4). The agreements administered by HighGround Advisors, formerly known as the Baptist Foundation of Texas, and others as temporary trustees, in which the assets will be distributed to the University upon termination, are reflected at their net present value as contributions receivable (see Note 5). Annuities payable are recorded at the present value of future payments, based on the Internal Revenue Service discount rate at the time of the original gift, and are included in other liabilities in the accompanying balance sheets.

Property, Plant & Equipment

Property, plant and equipment valued at $5,000 or more are recorded at cost at the date of acquisition or, if acquired by gift, at estimated fair value at the date of gift. Additions to plant assets are capitalized, while maintenance and minor renovations are charged to operations. Plant assets are reflected net of accumulated depreciation calculated on a straight-line basis over the estimated useful lives ranging from three to fifty years. Land and art/collections are considered non-depreciable given the nature of the assets. Equipment is removed from the records at the time of disposal.

The University recognizes asset retirement obligations ("ARO"s) that are conditional on a future event, such as the legal obligation to safely dispose of asbestos when a building is remodeled or demolished. The University measures conditional AROs at estimated fair value using site specific surveys and a probability-weighted, discounted cash flow model with multiple scenarios, if applicable.

The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset is less than the carrying value.

Deposits & Deferred Revenues

Deposits and deferred revenues consist of amounts contracted, billed, or received for education, research, intercollegiate athletics, auxiliary goods and services, vendor long-term contracts incentive payments, or rental space that have not yet been earned.

Other Liabilities

Other liabilities consist of annuities payable, interest rate swap liability, liability for conditional asset retirement obligations, and federal student loan funds refundable.

Tuition & Fees

Tuition and fees revenues are earned and recognized over the course of each semester as educational services are delivered. Scholarships provided by the University for tuition and fees are reflected as a reduction of tuition and fees revenues. Scholarships are awarded to students by the University from unrestricted revenues, restricted endowment earnings, restricted gifts or government grants. Scholarships do not include payments to students for services rendered to the University.

Contributions

Contributions are recorded as revenues in the appropriate net asset class based on donor-imposed restrictions. Expiration of temporary restrictions on donor contributions are reported as net assets released from restrictions. Contributions received with donor-imposed restrictions that are anticipated to be met in the same year as received are reported as revenues without donor restrictions.

Donor contributions to fund construction projects are classified as net assets with donor restrictions until the facility is placed in service. At that time, the net assets are released from restriction and replenish net asset balances designated for plant projects. The University follows the policy of recording contributions of long-lived assets directly as invested in plant assets.

Contributions receivable are recorded, net of an allowance for uncollectible amounts, at the present value of estimated future cash flows using a discount rate appropriate to the effective date of the gift agreement. The allowance for uncollectible contributions receivable is estimated based upon management's judgment, considering such factors as prior collection history, type of contribution, relationship with donor, nature of fundraising activity, and other relevant factors.

Other Revenue Sources

Revenues from intercollegiate athletics ticket sales, media rights, licensing and royalties and other contracts are received and recognized concurrent with event-based obligations or the passage of contract terms, but typically within the fiscal year. However, season ticket proceeds received prior to the report date for events scheduled in the upcoming fiscal year are recorded as deferred revenues and recognized as the associated events are completed.

Charges to students for campus residence, dining and laundry services are substantially billed and collected prior to the end of each semester. Associated revenues are earned and recognized over the course of each semester as these services are delivered.

Further classification of revenue sources by contract-based revenues and other revenues is included in Note 12.

Use of Estimates & Assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses during the reporting period, as well as the disclosure of contingent assets and liabilities. Significant items subject to such estimates and assumptions include valuations of certain investments which do not have readily determinable fair values, contributions receivable, allowances for uncollectible accounts and contingency reserves, calculations of asset retirement obligations, interest rate swap liability, and actuarially determined liabilities related to postretirement benefits. Actual results ultimately could differ from management's estimates and assumptions.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to improve readability. Assets which were previously classified as short-term investments on the Balance Sheet have been reclassified as cash and cash equivalents. In addition, presentation of expenses on the face of the Statement of Activities has been reclassified from a functional expense allocation to natural expense categories.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14 "Presentation of Financial Statements of Not-for-Profit Entities". The new pronouncement amends certain financial reporting requirements for not-for-profit entities. The standard is effective for fiscal years beginning after December 15, 2017. Accordingly, presentation of the University's financial statements for fiscal year 2019 has been modified from the previous reporting of three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to reporting two net asset classes (net assets with donor restrictions and net assets without donor restrictions). The following table provides the ASU 2016-14 net asset reclassifications as of May 31, 2018 *(in thousands of dollars)*:

	ASU 2016-14 Classifications		
Net Assets Classifications	Without donor Restrictions	With donor Restrictions	Total
As previously presented:			
Unrestricted	$ 796,657	$ –	$ 796,657
Temporarily Restricted	–	344,782	344,782
Permanently Restricted	–	806,206	806,206
Net assets as previously presented	796,657	1,150,988	1,947,645
Reclassifications to implement ASU 2016-14			
Underwater endowments (Note 3)	3,872	(3,872)	–
	$ 800,529	$ 1,147,116	$ 1,947,645

In addition to classification changes in net assets, additional disclosures regarding endowments (Note 3), liquidity and available resources (Note 9), and expenses by both their natural and functional classification (Note 13) are required and presented with these notes to the financial statements.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)" as amended by ASU 2016-20. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standards are effective for annual reporting periods beginning after December 15, 2017. The University has implemented this standard beginning in fiscal year 2019. As a result of this change in accounting principle, net tuition and fee revenues for fiscal year 2019 increased $4,100,000 and related faculty salaries and other costs increased $1,533,000.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)". Under this new standard, lessees record a right-of-use asset and a lease liability for leases with terms longer than 12 months. The standard is effective for fiscal years beginning after December 15, 2018. The University is evaluating the impact this standard will have on the financial statements beginning in fiscal year 2020.

2. FAIR VALUE MEASUREMENTS

The estimated fair values of financial instruments that differ from the carrying amounts have been determined by the University using available market information. The estimates are not necessarily indicative of the amounts the University could realize in a current market exchange.

The carrying amounts of cash and cash equivalents, short-term investments, student accounts receivable, accounts payable, personnel related, and other liabilities approximate fair value because of their short maturity.

The carrying value of loans receivable from students under government loan programs is a reasonable estimate of fair value since the loans receivable cannot be sold and can only be assigned to the U.S. government or its designees. The fair value of loans receivable from students under University loan programs approximates carrying value.

The University records long-term investments and interest rate swaps at fair value. The estimated fair value of investments is based on quoted market prices except for certain investments for which quoted market prices are not available. U.S. GAAP provides guidance for estimating the fair value of investments in investment funds that calculate net asset value ("NAV"). Accordingly, investments for which observable market prices in active markets do not exist are reported at fair value, as determined by the University, using NAV as a practical expedient of fair value and other available information. The amount determined to be fair value may incorporate the University's own assumptions, including appropriate risk adjustments for nonperformance and lack of marketability.

The estimated fair value of alternative assets managed and held in limited partnership or other private fund structures is primarily based upon the practical expedient of external investment fund managers' provided NAV, adjusted for cash flows through May 31. In instances where external investment fund managers' provided NAV are not used, the University applied additional valuation procedures furnished by qualified third parties or incorporated additional related financial data provided by fund managers to arrive at a fair value different than external investment fund manager provided values. When the University determines a different value, the investment is carried at the more conservative of the two values. Therefore, the University believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because alternative assets are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

The fair value of private investment funds offered for sale in secondary markets is estimated utilizing valuation and market study information provided by an outside consulting firm, resulting in discounts to external investment fund managers' provided NAV.

The fair value of direct real estate holdings is determined from the most recent information available to the University (i.e., appraisals and/or property tax statements).

The fair value of mineral interests is estimated based on the expected net revenues generated by those assets. With certain holdings, geological reserve analysis can provide additional information for estimating fair value. For the years ended May 31, 2019 and 2018, the University utilized an engineering report and geological study of its largest mineral interest holding to obtain a more informed estimate of fair value and incorporated the results of the study into its estimate of expected net revenues and fair value for this holding.

The fair value of income interests/perpetual trusts is estimated based on the underlying assets contributed to the trusts.

Fair value is reflected in a hierarchy which prioritizes and ranks the level of market price observability. Market price observability is impacted by a number of factors, including the type of investment, the characteristics specific to the investment, and the state of the marketplace (including the existence and transparency of transactions between market participants). Investments with readily-available actively-quoted prices or for which fair value can be measured from actively-quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

Level 1 – Quoted prices (unadjusted) are available in active markets for identical investments that the University has the ability to access as of the reporting date. The type of investments generally included in Level 1 are listed securities traded on public exchanges and open-end mutual funds and other publicly traded listed securities held indirectly through separately managed accounts, trusts, and private fund structures.

Level 2 – Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1. Fair value is determined through the use of models or other valuation methodologies. The types of investments generally included in this category are hedge funds primarily holding publicly-traded securities with significant fund level liquidity within ninety days.

Level 3 – Pricing inputs are unobservable for the investments and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation. These types of investments generally include hedge funds with significant liquidity restrictions, private equities, and real assets held in partnership format.

Whereas Level 1 investments are able to be liquidated as of the reporting date at published market values, Level 2 and 3 investments may contain restrictions on the ability to liquidate assets as of the reporting date. Investments that can be liquidated within ninety days of the reporting date at NAV or its equivalent are classified as Level 2 investments. Investments classified as Level 3 have significant liquidity restrictions which would prevent redemption within ninety days of the reporting date, if at all.

U.S. GAAP permits entities to choose to measure financial instruments and other items at fair value that are not currently required to be measured at fair value. The University has elected not to value any other financial assets or liabilities at fair value as provided for in accounting guidelines.

3. ENDOWMENT

The University's endowment totals $1,322,822,000 and $1,310,781,000 as of May 31, 2019 and 2018, respectively, and is a component of the University's long-term investment pool. The endowment consists of $1,060,262,000 and $1,049,164,000 of donor-restricted endowment net assets and $262,560,000 and $261,617,000 of Board designated endowment net assets as of May 31, 2019 and 2018, respectively. The management of the endowment is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The Board of the University has an established policy consistent with UPMIFA as adopted by the State of Texas. The University seeks to preserve the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the University classifies as perpetual endowment (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor agreement at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as permanent endowment is reflected in net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors 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
(7) The investment policies of the University

Board designated endowment net assets include gifts and other revenues that have been designated by the Board to function as endowment. These funds may be expended at the discretion of the Board. Also included are certain assets with donor restrictions that have not been expended for their restricted purpose but are being invested and the earnings expended for the restricted purpose.

Changes in endowment net assets for the year ended May 31, 2019 are as follows *(in thousands of dollars)*:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2018	$ 240,150	$ 1,070,631	$ 1,310,781
Investment return, net of expenses	9,861	36,436	46,297
Contributions	–	25,657	25,657
Appropriated for expenditure	(14,012)	(55,526)	(69,538)
Other changes:			
Transfers to Board designated	4,544	751	5,295
Terminated annuities & other	165	4,165	4,330
Endowment net assets, May 31, 2019	$ 240,708	$ 1,082,114	$ 1,322,822

Changes in endowment net assets for the year ended May 31, 2018 are as follows *(in thousands of dollars)*:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2017	$ 227,864	$ 1,003,848	$ 1,231,712
Investment return, net of expenses	23,067	98,240	121,307
Contributions	–	16,756	16,756
Appropriated for expenditure	(13,574)	(53,522)	(67,096)
Other changes:			
Transfers to Board designated	2,745	702	3,447
Terminated annuities & other	48	4,607	4,655
Endowment net assets, May 31, 2018	$ 240,150	$ 1,070,631	$ 1,310,781

From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In such instances the difference is reported as a reduction of net assets with donor restrictions in the accompanying balance sheets. Unrealized losses of this nature exist in various donor-restricted endowment funds at May 31, 2019 and 2018, as follows *(in thousands of dollars)*:

	2019	2018
Original value	$ 133,416	$ 69,231
Market value	126,921	65,359
Unrealized losses	$ (6,495)	$ (3,872)

Return Objectives & Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to meet three objectives: (1) provide a predictable, stable stream of earnings to participating accounts; (2) ensure that the purchasing power of this revenue stream does not decline over time; and (3) ensure that the purchasing power of the endowment assets do not decline over time. To meet its long-term rate-of-return objectives, the University relies on a total return strategy utilizing both income and growth to maximize the risk adjusted return through diversification of the assets. Under this policy, actual earnings, as well as a prudent portion of realized and unrealized gains may be distributed for operational needs or in accordance with donor restrictions. Accordingly, the endowment assets are invested in a diversified manner that is intended to produce results that exceed its long-term performance benchmarks. The University expects its endowment funds, over time, to provide an average rate of return at least equal to the spending policy requirements plus the rate of inflation. Actual returns in any given year may vary from this amount.

Spending Policy & How the Investment Objectives Relate to Spending Policy

Endowment distributions and investment income includes endowment distributions in accordance with the Baylor University Fund (“BUF”) spending policy, as well as, distributions of income from other endowment assets. The BUF is a unitized fund consisting of publicly traded equity and fixed income securities, alternative assets, and mineral rights; and serves as the primary investment vehicle for the University’s endowment and other long-term investments. As permitted under Texas law, the Board has adopted a spending policy for the BUF that authorizes a dividend to be paid for endowments participating in the BUF to be used for the purposes intended by donors. For the years ended May 31, 2019 and 2108, this dollar dividend per BUF unit was based on 5% of the previous 48-months’ rolling average net asset market value per unit of the BUF. The permitted change in this dividend amount from the previous year shall be no less than 0% and no more than 6%, and in no case shall the annual fiscal year distribution (dollar dividend amount per BUF unit) exceed 7% of the previous 48-months’ rolling average net asset market value per BUF unit. The dividend amount remained the same for the years ended May 31, 2019 and 2018.

Effective with fiscal year 2020, the Board adopted a change to the spending policy so that annual BUF distributions will approximate 5% of the market value of the endowment at the beginning of each fiscal year. The minimum distribution in any year shall equal the amount distributed from the previous year, and the maximum shall not exceed 7% of the average net asset value of the previous 36 months. New contributions to the endowment within a fiscal year will participate in pro-rata distributions starting in the first month of the following fiscal year.

In establishing this spending policy, the University considered the long-term expected return on its endowment assets. Accordingly, the University expects the current spending policy to preserve the real purchasing power of the endowment assets, while helping to maintain intergenerational value of the assets, as well as to provide additional real growth through new gifts and investment return.

4. LONG-TERM INVESTMENTS

The University diversifies its investments among various financial instruments and asset categories and uses multiple investment strategies. As with most large endowments, these financial assets are managed primarily through external investment management firms selected and monitored by the University’s Office of Investments and the Baylor Executive Investment Committee in accordance with the University’s Endowment Investment Policy. The investment management firms are predominately organized in limited partnership, private fund, registered investment company (1940 Act mutual fund), separately managed account, and trust format. Excluding income interests and perpetual trusts, the University’s long-term investments were invested with 88 and 85 different managers at May 31, 2019 and 2018, respectively. Of those, alternative assets were invested with 65 and 62 different managers at May 31, 2019 and 2018, respectively.

Fixed income securities are assets predominately invested (directly or indirectly) in domestic and international government or corporate bonds for which active trading markets exist, including open and closed-end mutual funds holding such securities.

Public equities are assets invested (directly or indirectly) in publicly traded equity shares which are listed on national and international exchanges as well as publicly traded mutual fund trusts and private fund structures holding such securities.

Alternative assets consist of private equities, real assets, and hedge funds investments and are primarily held in limited partnership format. Capital is allocated to domestic and international markets in the various alternative investment funds. Most of the underlying assets in the private equity and real asset partnerships and trusts are not immediately liquid. Private equity fund strategies include buyouts, venture capital, distressed/special situations, emerging markets, and secondary markets. Real asset funds are predominately private limited partnerships investing in numerous types of properties and strategies such as commercial real estate, energy, power, and infrastructure, as well as timber and other natural resources and commodities including industrial and precious metals. Private equity and real asset funds are held as long-term investments and are structured as closed-end, commitment-based investment funds where the investor commits a specified amount of capital upon inception of the fund which is then drawn down over a specified period of the fund's life. These funds generally cannot be redeemed prior to the specified termination date and will only receive distributions upon a disposition of the underlying assets of the portfolio. As a limited partner, the University will not generally have any influence over the amount and timing of capital contributions and distributions. At May 31, 2019, the remaining life of private equity and real asset funds ranged from six months to twelve years. Hedge fund investments are generally open-end funds structured in limited partnership format. These funds employ various investment strategies such as long/short equity, fundamental value, multi-strategy (including a small allocation to fund-of-funds), distressed asset and debt, and short credit. The amount of liquidity available to investors is directly related to the liquidity and risk associated with the underlying portfolio. Hedge funds typically offer subscription and redemption options to investors over time periods shorter than private equity/real asset funds; however, the frequency of subscriptions or redemptions is dictated by each fund's governing documents. Liquidity of individual hedge funds also varies due to illiquid "side-pocket" investments, as well as contractual restrictions on redemption such as gating and holdback provisions. Redemption terms of hedge funds range from monthly upon thirty day notice to rolling three years upon forty-five day notice. At May 31, 2019, BUF included twenty-seven hedge funds totaling $292,628,000.

Real estate & other investments represent direct real estate and asset holdings of the University and are not held in the fund, limited partnership, and trust structures described above.

Mineral rights are held and managed for the benefit of the University under various contractual and revocable trust arrangements and are not held in the fund and limited partnership structures described above. The University retains ultimate ownership and control of these assets.

Income interests/perpetual trusts are held and managed by outside trustees under various annuity and trust arrangements for the benefit of Baylor. The University receives income distributions over time in accordance with the governing annuity, trust and gift instruments. The underlying investments of the income interests/perpetual trusts are primarily comprised of publicly traded equity and fixed income investments held in common trust funds and other funds managed or selected by the outside trustees.

The following table presents information about the University's long-term investments that are measured at fair value as of May 31, 2019, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value *(in thousands of dollars)*:

	Level 1	Level 2	Level 3	NAV	Total
Fixed income securities	$ 89,929	$ –	$ –	$ –	$ 89,929
Public equities	317,998	–	1,235	–	319,233
Alternative assets	–	–	20,083	729,310	749,393
Real estate & other	–	–	5,684	–	5,684
Mineral rights	–	–	14,257	8	14,265
Income interests/perpetual trusts	–	–	193,495	–	193,495
Total	$ 407,927	$ –	$ 234,754	$ 729,318	$ 1,371,999

The following table presents additional information about assets that have been measured at fair value as of May 31, 2019, on a recurring basis using significant unobservable inputs (Level 3) *(in thousands of dollars)*:

	May 31, 2018 Balance	Transfers In (Out) of Level 3	Additions	Distributions	Realized & Unrealized Gains (Losses)	May 31, 2019 Balance
Public equities	$ 1,101	$ –	$ 55	$ –	$ 79	$ 1,235
Alternative assets	45,686	–	4,000	(37,048)	7,445	20,083
Real estate & other	4,940	–	10,453	(9,079)	(630)	5,684
Mineral rights	11,393	–	–	(3,684)	6,548	14,257
Income interests/ perpetual trusts	196,576	–	2,620	–	(5,701)	193,495
Total	$ 259,696	$ –	$ 17,128	$ (49,811)	$ 7,741	$ 234,754

The following table presents information about the University's long-term investments that are measured at fair value as of May 31, 2018, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value *(in thousands of dollars)*:

	Level 1	Level 2	Level 3	NAV	Total
Fixed income securities	$ 110,789	$ –	$ –	$ –	$ 110,789
Public equities	355,583	–	1,101	–	356,684
Alternative assets	–	–	45,686	634,924	680,610
Real estate & other	–	–	4,940	–	4,940
Mineral rights	–	–	11,393	8	11,401
Income interests/perpetual trusts	–	–	196,576	–	196,576
Total	$ 466,372	$ –	$ 259,696	$ 634,932	$ 1,361,000

The following table presents additional information about assets that have been measured at fair value as of May 31, 2018, on a recurring basis using significant unobservable inputs (Level 3) *(in thousands of dollars)*:

	May 31, 2017 Balance	Transfers In (Out) of Level 3	Additions	Distributions	Realized & Unrealized Gains (Losses)	May 31, 2018 Balance
Public equities	$ 973	$ –	$ –	$ –	$ 128	$ 1,101
Alternative assets	40,155	–	14,078	(12,298)	3,751	45,686
Real estate & other	5,025	–	936	(840)	(181)	4,940
Mineral rights	12,226	–	2,115	(2,115)	(833)	11,393
Income interests/ perpetual trusts	188,382	–	2,647	–	5,547	196,576
Total	$ 246,761	$ –	$ 19,776	$ (15,253)	$ 8,412	$ 259,696

Whereas the preceding tables reflect income interests and perpetual trusts separately based on fair value hierarchy, the following table reflects total investments, regardless of fair value hierarchy, using traditional classification descriptions as used by the University to manage its investment portfolio. Accordingly, the underlying assets of income interests/perpetual trusts are reflected within the traditional investment classifications. Additionally, alternative assets are reflected by major asset category. Estimated fair value of long-term investments as of May 31, 2019 and 2018, are as follows *(in thousands of dollars)*:

	2019	2018
Fixed income securities:		
Short-term funds	$ 36,757	$ 38,156
Bonds	97,209	114,461
Public equities:		
Domestic	184,194	244,599
International	231,834	218,936
Alternative assets:		
Private equities	280,867	217,993
Hedge funds	306,137	308,049
Real assets	210,285	199,337
Mineral rights	24,716	19,469
Total	$ 1,371,999	$ 1,361,000

Long-term investments include operating, endowment, and annuity and life income assets. The annuity and life income assets under split-interest agreements total $25,786,000 and $26,360,000 as of May 31, 2019 and 2018, respectively.

The cost of long-term investments was $1,129,234,000 and $1,091,201,000 as of May 31, 2019 and 2018, respectively.

Distributions from long-term investments include distributions of endowment assets invested in long-term investments as well as distributions from funds other than endowment that are included in the long-term investments pool. Endowment distributions and other distributions are included in endowment distributions & investment income in the statements of activities.

Both the return on long-term investments and distributions from long-term investments are shown under non-operating activities in the statements of activities.

As part of the University's alternative assets program, the University is obligated under certain limited partnership agreements to advance funding up to specified levels upon the request of the general partner. The University had unfunded commitments consisting of the following at May 31, 2019 and 2018, respectively, which are expected to be called over the next three years *(in thousands of dollars)*:

	2019	2018
Alternative assets:		
Private equities	$ 227,670	$ 226,840
Real assets	93,826	118,054
Total unfunded commitments	$ 321,496	$ 344,894

5. CONTRIBUTIONS RECEIVABLE

As gift pledges are made to the University, the intent of the donor, the circumstances surrounding the pledge and any action taken by the University in response to the pledge are considered in determining whether the pledge is an "intent to give" or an "unconditional promise to give." An unconditional promise to give is recorded as a contribution receivable at the present value of the estimated future cash flows. Unconditional promises to give related to split interest agreements are discounted based on life expectancies of the annuity recipients.

As of May 31, 2019 and 2018, contributions receivable consists of the following *(in thousands of dollars)*:

	2019	2018
Due in 1 year	$ 21,743	$ 19,443
Due in 2 to 5 years	28,216	29,207
Due in 6 to 10 years	675	1,133
Due in greater than 10 years	–	–
Split interest agreements	18,285	19,211
Less: Present value adjustment	(6,861)	(7,603)
Less: Allowance for uncollectible contributions receivable	(7,586)	(7,467)
Total contributions receivable, net	$ 54,472	$ 53,924

Contributions receivable expected to be fulfilled more than one year from the date of the financial statements are discounted at 0.81% to 2.89%, with the discount amortized over the life of the unconditional promise. At May 31, 2019, contributions receivable primarily consisted of unconditional promises related to endowment or capital projects, of which eleven donors represented 87% of the total.

An intent to give is not recorded as gifts revenue until collected or converted to an unconditional promise to give. Intents to give totaled $63,050,000 and $58,871,000 as of May 31, 2019 and 2018, respectively. Payments on these intents to give are due in varying periods. Additionally, the University is the beneficiary under various wills and trust agreements of which the realizable amounts are not presently determinable. The University's share of such bequests is recorded when the University has an irrevocable right to the bequest and the proceeds are measurable.

During the 2019 fiscal year, the University was the beneficiary of a conditional promise to give in the amount of $20,000,000 to provide for the establishment of a University welcome center. Conditional promises to give depend on the occurrence of a specified future and uncertain event. Therefore, no revenue has been recorded as of May 31, 2019.

6. PROPERTY, PLANT & EQUIPMENT

At May 31, 2019 and 2018, property, plant and equipment assets consist of the following *(in thousands of dollars)*:

	2019	2018
Land	$ 79,466	$ 77,586
Land/leasehold improvements	121,870	121,836
Buildings	1,292,715	1,279,329
Equipment	166,583	162,617
Arts/collections	13,946	13,631
Other	45,251	43,441
	1,719,831	1,698,440
Less accumulated depreciation	(618,150)	(572,174)
	1,101,681	1,126,266
Construction-in-progress	7,630	21,215
Property, plant & equipment, net	$ 1,109,311	$ 1,147,481

Depreciation expense was $60,975,000 and $60,155,000 as of May 31, 2019 and 2018, respectively. The Equipment category includes computers, software and other types of equipment above the $5,000 threshold. The Other category includes vehicles, library materials and miscellaneous other assets. Real and personal property were insured for $2 billion at May 31, 2019 and 2018, respectively. The liability for conditional asset retirement obligations was $4,905,000 and $4,639,000 as of May 31, 2019 and 2018, respectively, and is included in other liabilities in the accompanying balance sheets.

7. DEPOSITS & DEFERRED REVENUES

At May 31, 2019 and 2018, deposits and deferred revenues consist of the following *(in thousands of dollars)*:

	2019	2018
Tuition & fees	$ 43,342	$ 43,887
Student enrollment deposits	2,858	2,923
Intercollegiate athletics income	33,193	38,533
Vendor long-term contracts incentive payments	35,424	43,139
Sponsored research income	1,928	1,083
Rental & other income	6,700	7,501
Total deposits & deferred revenues	$ 123,445	$ 137,066

Deferred tuition and fees, student enrollment deposits, sponsored research, and other income will primarily be earned in the subsequent fiscal year. Intercollegiate athletics, vendor long-term contracts incentive payments, and rental deferred income includes advance ticket sales, football suite revenues, television income, advertising income, vendor long-term contracts incentive payments, and rental contracts advance payments that will be earned over the next one to twelve years.

8. NOTES & BONDS PAYABLE

Notes and bonds payable consist of both non-interest bearing unsecured notes and interest bearing unsecured and secured notes, commercial paper with varying maturities, and bonds with varying terms and maturity dates to March 1, 2043. Interest payments on a cash basis totaled $25,302,000 and $26,310,000, and interest expense was $25,276,000 and $26,358,000 for the years ended May 31, 2019 and 2018, respectively. These amounts are exclusive of premium amortization. The amount of bond premium amortization that offset interest expense was $630,000 and $680,000 for the years ended May 31, 2019 and 2018, respectively. Bond premiums are being amortized using the effective interest method over the life of the bonds.

Notes and bonds payable at May 31, 2019 and 2018, consist of the following *(in thousands of dollars)*:

	2019	2018
Interest bearing secured note payable to a corporation due in quarterly installments beginning May 1, 2015 to April 30, 2025	$ 3,173	$ 3,638
Non-interest bearing unsecured note payable to a corporation, due in annual installments through July 31, 2022	799	1,109
Taxable Commercial Paper Notes, Series A, with varying maturities and discount rates rolled at each maturity	15,000	15,000
Series 2011 Clifton Higher Education Finance Corporation Tax-Exempt Fixed Rate Bonds, interest ranging from 3.00% to 5.25% payable semiannually, principal payable annually beginning March 1, 2012 to March 1, 2032	76,105	80,705
Series 2012 Waco Education Finance Corporation Tax-Exempt Fixed Rate Bonds, interest ranging from 4.125% to 5.00% payable semiannually, principal payable March 1, 2043	120,000	120,000
Series 2012A Baylor University Taxable Fixed Rate Bonds, bearing interest at 4.313% payable semiannually, principal payable March 1, 2042	200,000	200,000
Series 2017 Waco Education Finance Corporation Tax-Exempt Variable Rate Bonds, swapped to a fixed rate of 2.476% (see Note 11), interest payable monthly, principal payable annually to February 1, 2032	54,060	56,975
Series 2018 Baylor University Taxable Fixed Rate Bonds, interest ranging from 3.54% to 4.019% payable semiannually, principal payable March 1, 2028 & March 1, 2038	112,845	112,845
Total notes & bonds payable prior to unamortized premium & debt issuance costs	581,982	590,272
Unamortized bond premium	10,091	10,721
Unamortized bond issuance cost	(3,644)	(3,876)
Total notes & bonds payable, net	$ 588,429	$ 597,117

Excluding the maturity of commercial paper, scheduled principal payments on long-term notes and bonds for the periods subsequent to May 31, 2019, are as follows *(in thousands of dollars)*:

2020	2021	2022	2023	2024	2025 and Thereafter	Total
$ 8,604	$ 8,934	$ 9,143	$ 9,333	$ 9,711	$ 521,257	$ 566,982

The University has a taxable commercial paper program that provides for borrowings in the form of individual notes up to an aggregate of $50,000,000. The notes bear a fixed discount rate, established on the borrowing date, with no more than $15,000,000 maturing on any one day and maturities not to exceed 270 days. At May 31, 2019, the University had an outstanding balance of $15,000,000 in commercial paper notes with a discount rate of 2.50%. The University anticipates that the commercial paper will continue to be rolled at maturity until such time that it is refunded by long-term debt or repaid by the University.

9. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The University's financial assets available to meet cash needs for general expenditure within one year consist of the following as of May 31, 2019 and 2018 *(in thousands of dollars)*.

	2019	2018
Financial assets:		
Cash and cash equivalents	$ 193,519	$ 159,371
Student accounts receivable, net	22,691	22,072
Contributions receivable, net	54,472	53,924
Grants & other receivables, net	29,336	43,827
Student loans receivable, net	8,631	9,873
Long-term investments, at fair value	1,371,999	1,361,000
Financial assets at year-end	1,680,648	1,650,067
Less assets unavailable for expenditure within one year, due to:		
Restricted by donor with time or purpose restrictions	(1,098,230)	(1,091,434)
Subject to appropriation and satisfaction of donor restrictions	(74,026)	(67,064)
Board designated endowment funds	(240,708)	(240,150)
Financial assets available to meet cash needs for general expenditures within one year	$ 267,684	$ 251,419

The University is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the University must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. In addition, as described in Note 3, the Board has established board designated endowment in which funds may be expended for specified purposes approved by the Board. Board designated endowment may be drawn upon, with Board approval, in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

The University has a goal to maintain cash and short-term investments on hand to meet a minimum of 60 days of normal operating expenses, which are, on average, approximately $119,396,000. The University has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the University invests cash in excess of daily requirements in various short-term investments, including money market funds and commercial paper.

10. NET ASSETS

The University's net assets for the year ended May 31, 2019 are categorized by purpose as follows *(in thousands of dollars)*:

	Without Donor Restrictions	With Donor Restrictions	Total
Unrestricted-designated for operations	$ 90,891	$ –	$ 90,891
Unrestricted-designated for plant	123,183	–	123,183
Subject to donor restriction	–	30,023	30,023
Endowment	–	1,060,262	1,060,262
Endowment-board designated	240,708	21,852	262,560
Annuity and living trusts	–	33,057	33,057
Invested in or restricted for plant	348,050	19,439	367,489
Total net assets, May 31, 2019	$ 802,832	$ 1,164,633	$ 1,967,465

The University's net assets for the year ended May 31, 2018 are categorized by purpose as follows *(in thousands of dollars)*:

	Without Donor Restrictions	With Donor Restrictions	Total
Unrestricted-designated for operations	$ 98,405	$ –	$ 98,405
Unrestricted-designated for plant	95,947	–	95,947
Subject to donor restriction	–	27,773	27,773
Endowment	–	1,049,164	1,049,164
Endowment-board designated	240,150	21,467	261,617
Annuity and living trusts		33,397	33,397
Invested in or restricted for plant	366,027	15,315	381,342
Total net assets, May 31, 2018	$ 800,529	$ 1,147,116	$ 1,947,645

11. DERIVATIVE FINANCIAL INSTRUMENTS

On June 11, 2010, the University entered into a swap arrangement with a financial institution counterparty in order to swap the University's Series 2008A variable rate demand bonds with an original balance of $75,860,000 as of May 31, 2010, for a fixed rate of 2.476% through February 1, 2032, in exchange for monthly payments equal to 68% of three-month London Interbank Offered Rate. On May 30, 2017, the Series 2008A bonds, with a value of $59,750,000 were refinanced through the issuance of the Series 2017 variable rate bonds, having the same maturity schedule. The notional amount of the swap declines in accordance with the repayment of the Series 2017 bonds. The fair value of the University's interest rate swap liability was $4,003,000 and $2,242,000 at May 31, 2019 and 2018, respectively, and is included in other liabilities in the balance sheets. The change in the fair value of the interest rate swap resulted in loss of $1,761,000 and a gain of $2,542,000 for the years ended May 31, 2019 and 2018, respectively. The fair value was measured using Level 2 valuation techniques.

12. REVENUES FROM CONTRACTS WITH CUSTOMERS

Student charges for tuition, fees, housing, and dining are deemed to result in separate performance obligations and have been treated as separate contracts in the University's financial statements. In the Statements of Activities, tuition and fee revenues are generally reported net of scholarships and housing and dining charges are separately reported as sales and services of auxiliary enterprises.

Other contract revenues recognized, summarized by source, for the year ended May 31, 2019 are as follows *(in thousands of dollars)*:

	Contract-Based Revenue	Other revenue	Total
Other sources - educational & general	$ 5,621	$ 24,324	$ 29,945
Other sources - intercollegiate athletics	58,768	1,363	60,131
Sales & services of auxiliary enterprises	51,171	3,590	54,761
Total	$ 115,560	$ 29,277	$ 144,837

Other contract revenues recognized, summarized by source, for the year ended May 31, 2018 are as follows *(in thousands of dollars)*:

	Contract-Based Revenue	Other revenue	Total
Other sources - educational & general	$ 4,553	$ 24,992	$ 29,545
Other sources - intercollegiate athletics	51,956	1,694	53,650
Sales & services of auxiliary enterprises	50,445	3,596	54,041
Total	$ 106,954	$ 30,282	$ 137,236

13. EXPENSES BY FUNCTIONAL CLASSIFICATION

While the statements of activities present expenses by natural classification, the University's expenses by functional classification for the year ended May 31, 2019, are as follows *(in thousands of dollars)*:

	Instruction & Academic Support	Research & Public Service	Student Services & Activities	Auxiliary Enterprises	Institutional Support	Totals
Salaries & wages	$ 174,799	$ 12,682	$ 55,861	$ 1,988	$ 43,952	$ 289,282
Personnel benefits	53,055	3,119	15,444	797	17,964	90,379
Student wages & fellowships	17,562	6,091	7,900	2,118	654	34,325
Operating expenses	56,440	9,060	55,537	14,690	74,757	210,484
Depreciation	17,270	5,935	21,523	13,514	2,733	60,975
Interest on indebtedness	9,950	1,326	6,338	6,060	972	24,646
Plant/other distributed costs	43,578	4,234	7,229	1,978	(57,019)	–
Total expenses	$ 372,654	$ 42,447	$ 169,832	$ 41,145	$ 84,013	$ 710,091

The University's expenses by functional classification for the year ended May 31, 2018, are as follows *(in thousands of dollars)*:

	Instruction & Academic Support	Research & Public Service	Student Services & Activities	Auxiliary Enterprises	Institutional Support	Totals
Salaries & wages	$ 163,736	$ 12,276	$ 53,560	$ 1,963	$ 44,006	$ 275,541
Personnel benefits	49,695	3,099	14,409	714	13,755	81,672
Student wages & fellowships	16,463	5,712	7,268	2,071	598	32,112
Operating expenses	50,124	9,906	51,859	15,273	62,631	189,793
Depreciation	16,599	5,808	21,276	13,671	2,801	60,155
Interest on indebtedness	9,982	1,384	6,694	6,377	1,047	25,484
Plant/other distributed costs	40,791	4,167	7,940	1,106	(54,004)	-
Total expenses	$ 347,390	$ 42,352	$ 163,006	$ 41,175	$ 70,834	$ 664,757

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. Expenses for information technology have been allocated based on the number of devices, the number of full-time equivalent employees, or other functional expenses; depending on the type of expense allocated.

Fundraising expenses of $19,481,000 and $17,854,000 incurred by the University in 2019 and 2018, respectively, are included primarily in the institutional support category in the statements of activities.

14. RETIREMENT PLAN

The University provides a defined contribution retirement income plan and a voluntary tax deferred annuity program for faculty and staff that are administered by outside sources. The defined contribution plan is not a matching plan. Retirement benefits equal the amount accumulated to each individual employee's credit at the date of retirement. The University's contributions to the plan for the years ended May 31, 2019 and 2018, were $27,915,000 and $25,889,000, respectively.

15. POSTRETIREMENT BENEFITS

The University provides medical and life insurance benefits for eligible retired faculty and staff. Employees are eligible for such benefits if they retire after attaining specified age and service requirements while employed by the University. Group medical benefits have no lifetime maximum, and the maximum benefit for life insurance is $20,000.

Through May 31, 2002, full-time faculty and staff became eligible for these benefits upon reaching age fifty-five and having twenty years of full-time service at retirement. Effective June 1, 2002, employees with twenty years of continuous, full-time service at the University as of May 31, 2007, continue under the postretirement medical and life insurance programs in effect before June 1, 2002. Employees not meeting the above eligibility requirements may still participate in the postretirement medical program upon reaching age fifty-five and having ten years of full-time service at retirement. These employees will not receive postretirement life insurance benefits and will not be reimbursed for Medicare Part B premiums. Effective June 1, 2002, upon death of a retiree, the surviving spouse (current spouse upon retirement) has the same option of continuation in the postretirement medical program. These surviving spouses will not receive postretirement life insurance benefits and will not be reimbursed for Medicare Part B premiums.

Effective January 1, 2014, retirees age 65 and over transitioned from the existing medical benefits plan to a Health Reimbursement Arrangement to provide fixed annual contributions for medical expenses. Retirees age 65 and over, with twenty years of continuous, full-time service at the University as of May 31, 2007, continue to receive a Medicare Part B premium reimbursement.

Effective December 31, 2015, the University approved the establishment of a Health Reimbursement Arrangement ("HRA") to provide fixed annual contributions for pre-65 retiree medical expenses. Current pre-65 retirees, and those retiring prior to January 1, 2017, may elect to remain in the group medical plan; or, beginning January 1, 2017, opt into the HRA.

The following tables set forth the required disclosures for postretirement benefits, as well as the components of net periodic benefits costs and weighted-average assumptions as of the measurement date, May 31, 2019 *(in thousands of dollars)*:

Change in benefits obligation:	2019	2018
Measurement date	5/31/2019	5/31/2018
Accumulated postretirement benefits obligation (APBO) at beginning of year	$ 46,391	$ 46,829
Service cost	1,179	1,057
Interest cost	1,927	1,876
Plan participants' contributions	198	258
Actuarial (gain) loss	2,882	(1,095)
Benefit payments	(2,429)	(2,534)
Accumulated postretirement benefits obligation (APBO) at end of year	$ 50,148	$ 46,391
Change in plan assets:		
Fair value of plan assets at beginning of year	$ –	$ –
Employer contributions	2,231	2,276
Plan participants' contributions	198	258
Benefit payments	(2,429)	(2,534)
Fair value of plan assets at end of year	$ –	$ –
Funded (unfunded) status of plan	$ (50,148)	$ (46,391)

Amounts recognized as changes in unrestricted net assets arising from postretirement benefits plan but not yet included in periodic benefits cost:	2019	2018
Prior service cost (credit)	$ (9,980)	$ (11,953)
Net loss	18,125	15,902
Total	$ 8,145	$ 3,949

The University expects to amortize, from accumulated unrestricted net assets, $1,973,000 of prior service cost credits and $764,000 of net losses as components of net periodic benefits cost during the year ending May 31, 2020.

Weighted-average assumptions at measurement date:	5/31/2019	5/31/2018
Discount rate	3.98%	4.25%
Health care cost trend rate	7.25%	8.25%
Ultimate health care cost trend rate	4.50%	4.50%
Year ultimate trend rate reached	2028	2027

The inflation rates for retiree contributions are assumed to be the same as the medical cost inflation rates.

Plan contributions:

The University expects to contribute $2,125,000 to its postretirement benefits plan during the year ending May 31, 2020. The tables below provide additional information related to projected cash flows and fiscal year costs *(in thousands of dollars)*:

Projected Cash flows:	2020	2021	2022	2023	2024	Fiscal years 2025-2028
Gross benefits payments net of employee contributions:	$ 2,125	$ 2,222	$ 2,322	$ 2,408	$ 2,496	$ 13,590

Components of net periodic postretirement benefits cost:	6/1/2018-5/31/2019	6/1/2017-5/31/2018
Measurement date	5/31/2018	5/31/2017
Service cost	$ 1,179	$ 1,057
Other components of postretirement benefits cost:		
Interest cost	$ 1,927	$ 1,876
Amortization of:		
Prior service cost	(1,973)	(1,973)
Actuarial loss	659	801
Total other components of postretirement benefits cost	$ 613	$ 704
Total net periodic postretirement benefits cost	$ 1,792	$ 1,761
Other changes in plan assets & benefits obligation recognized:		
Net actuarial (gain) loss	$ 2,882	$ (1,095)
Amortization of:		
Prior service cost	1,973	1,973
Actuarial gain	(659)	(801)
Change in postretirement benefits obligation other than net periodic benefits cost	$ 4,196	$ 77
Total recognized in net assets & net periodic benefits cost	$ 5,988	$ 1,838

Weighted-average assumptions for net periodic postretirement benefits cost:		
Measurement date	5/31/2018	5/31/2017
Discount rate	4.25%	4.10%
Health care cost trend rate	8.25%	8.50%
Ultimate health care cost trend rate	4.50%	4.50%
Year ultimate trend rate reached	2027	2026
Average future working lifetime (years)	17.1	17.1

Other information: (in thousands of dollars:)	6/1/2018-5/31/2019	6/1/2017-5/31/2018
1% increase in trend rates		
Effect on service + interest cost	–	1
Effect on APBO	9	23
1% decrease in trend rates		
Effect on service + interest cost	–	(1)
Effect on APBO	(9)	(22)

16. TAX STATUS & ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The University is exempt from income tax under section 501(a) of the Internal Revenue Code ("IRC") of 1986, as amended, as an organization described in section 501(c)(3) of the IRC as evidenced by its most recent determination letter dated May 23, 2002. The University has been classified as an organization that is not a private foundation because it qualifies under section 509(a)(1) as an educational institution, and donations to it qualify for deduction as charitable contributions. However, income generated from activities unrelated to the University's exempt purpose is subject to tax under IRC section 511. The University files unrelated business income tax and other returns as required by government authorities.

Tax positions taken relating to the University's tax-exempt status, unrelated business income activities taxable income and deductibility of expenses, and other miscellaneous tax positions taken by the University would more likely than not be sustained by examination. Accordingly, the University has not recorded an income tax liability for uncertain tax benefits. As of May 31, 2019, the University's tax years ended May 31, 2016 through 2019, generally, remain subject to examination.

17. RELATED PARTY TRANSACTIONS

Members of the University's Board of Regents and senior administration may, from time to time, be associated, either directly or indirectly, with entities doing business with the University. Accordingly, the University has Board of Regents, faculty, and staff written conflict of interest policies that require any such association, including those of immediate family members, to be disclosed on an annual basis and updated as appropriate during the year. If such associations exist, measures are taken to mitigate any actual or perceived conflict. For the years ended May 31, 2019 and 2018, there were no related party transactions that were not effectively mitigated.

18. COMMITMENTS & CONTINGENCIES

Capital Expenditures & Other Commitments

At May 31, 2019, the University has commitments to expend approximately $6,384,000 to fulfill contracts related to building renovations and other capital projects.

The University also is contractually obligated under various agreements ensuring access to, or advantageous pricing of, goods and services used in the operations of the University.

Leases

The University incurred $2,108,000 and $2,085,000 in operating lease expenses for facilities and equipment in the years ended May 31, 2019 and 2018, respectively. As of May 31, 2019, the University has lease commitments for future periods as follows *(in thousands of dollars)*:

	2020	2021	2022	2023	2024	2025 and thereafter	Total
Equipment	$ 686	$ 640	$ 5	$ 1	$ –	$ –	$ 1,332
Other	1,565	1,336	1,196	1,095	1,095	6,376	12,663
	$ 2,251	$ 1,976	$ 1,201	$ 1,096	$ 1,095	$ 6,376	$ 13,995

Contingencies

The University is a party to various investigations, legal proceedings and claims associated with the University's implementation of Title IX of the Education Amendments of 1972 and the Violence Against Women Reauthorization Act of 2013, some of which are covered by insurance. Although it is impossible to predict with certainty the outcome, the administration is not aware of any current claims or contingencies, that either are not already reflected in the financial statements or will not be covered by insurance, which would materially impact the financial position of the University. Additional claims relating to such matters may be asserted in the future; however, sufficient information is not currently available to predict the potential outcome or financial impact.

The University is a party to various other legal proceedings and complaints arising in the ordinary course of business, some of which are covered by insurance. The resolution of such matters is not currently expected to have a material impact on the financial position of the University.

The University participates in several federal and state grant programs and must comply with requirements of the grantor agencies. The administration is of the opinion that the University is in compliance with these grantor requirements.

19. SUBSEQUENT EVENTS

On September 20, 2019, the University received a gift agreement from a donor for a $100,000,000 pledge, which is comprised of a $75,000,000 pledge to be fulfilled over a three year period beginning in fiscal year 2021 and a matching gift up to $25,000,000 to be fulfilled over a period not to exceed seven years.

The University has evaluated subsequent events through September 25, 2019, the date when financial statements were issued, and concluded that there were no additional material subsequent events requiring adjustment or disclosure.