Baylor University

Financial Statements

Years Ended May 31, 2020 and 2019,
and Report of Independent Certified Public Accountants

BAYLOR UNIVERSITY

FINANCIAL STATEMENTS

Years Ended May 31, 2020 and 2019

TABLE OF CONTENTS

Introduction

The leadership of Baylor University ("Baylor" or the "University") is pleased to present this management discussion and analysis ("MD&A") of the University's financial statements as of May 31, 2020. The MD&A is intended to provide readers of the financial statements open and transparent insights into the University's financial condition. The discussion presented here should be read in conjunction with the financial statements and notes that follow.

The University offers a vibrant campus community for more than 18,000 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 faculty. 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 comparative Balance Sheets, Statements of Activities, Statements of Cash Flows, and Notes to the Financial Statements as of May 31, 2020 and 2019. 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 Sheets

The **Balance Sheets** present the University's assets, liabilities and net assets at May 31, 2020 and 2019. These statements provide 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.

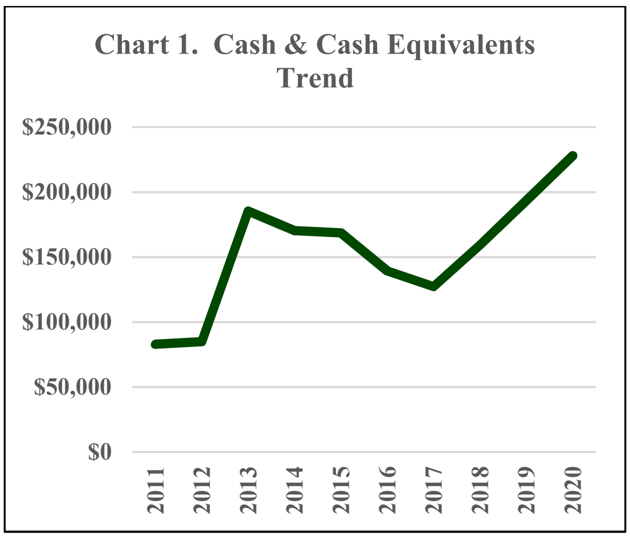
The University's Balance Sheets as of May 31, 2020 and 2019, are summarized below:
(in thousands of dollars)

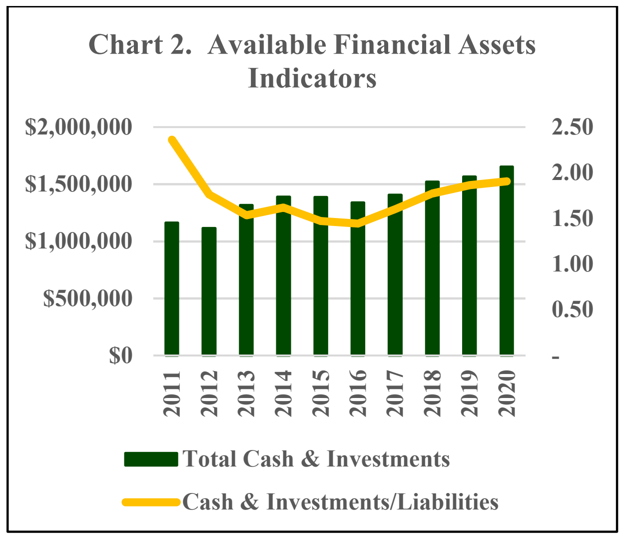
			Increase (Decrease)	
Summary Balance Sheets	2020	2019	Amount	Percentage
Cash and cash equivalents	$ 228,052	$ 193,519	$34,533	17.8%
Receivables, net	211,059	115,130	95,929	83.3%
Prepaid expenses & other assets	37,045	17,610	19,435	110.4%
Long-term investments	1,425,665	1,371,999	53,666	3.9%
Capital assets, net	1,074,881	1,109,311	(34,430)	-3.1%
Total Assets	$ 2,976,702	$ 2,807,569	$ 169,133	6.0%
Payables, trade and personnel-related	74,393	56,170	18,223	32.4%
Notes & bonds payable	579,119	588,429	(9,310)	(1.6)%
Other liabilities	213,283	195,505	17,778	9.1%
Net assets	2,109,907	1,967,465	142,442	7.2 %
Total Liabilities & Net Assets	$ 2,976,702	$ 2,807,569	$ 169,133	6.0%

Total assets grew by 6 percent from May 31, 2019 to May 31, 2020 as several significant changes occurred in the balance sheet. The largest percentage change in assets is a 110.4 percent increase in prepaid expenses and other assets, which occurred primarily through prepaid charges related to the implementation of a cloud-based financial and human capital management system. Net receivables had the largest dollar change, resulting from increased contributions receivable supporting the University's $1.1 billion Give Light comprehensive campaign. Total liabilities increased slightly from May 31, 2019 to May 31, 2020, while net assets increased 7.2 percent.

Overall, these changes demonstrate an improving financial position and increasing available financial asset balances for the University. Cash and cash equivalents have consistently increased the last three fiscal years (Chart 1) while total cash and investments has increased to two times total liabilities as depicted in Chart 2:

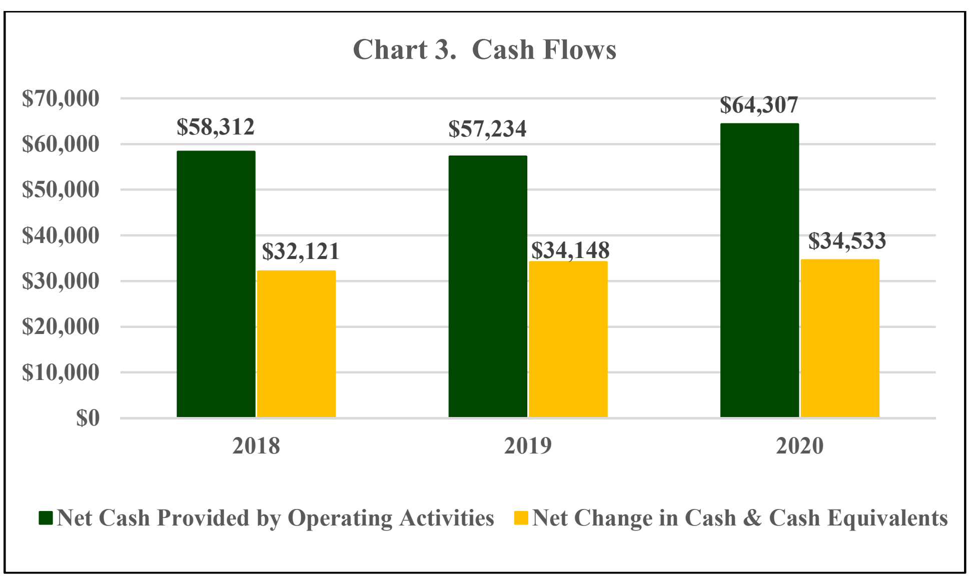
(in thousands of dollars)





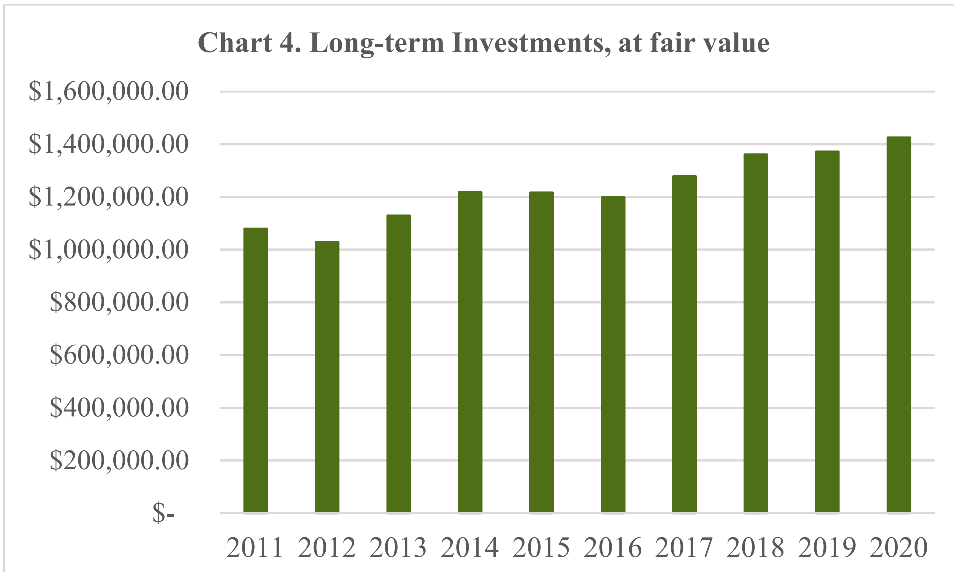
The consistent, positive cash trend is further illustrated by Chart 3, which illustrates the net cash provided by operating activities and the net change in cash and cash equivalents for each of the past three fiscal years.

(in thousands of dollars)

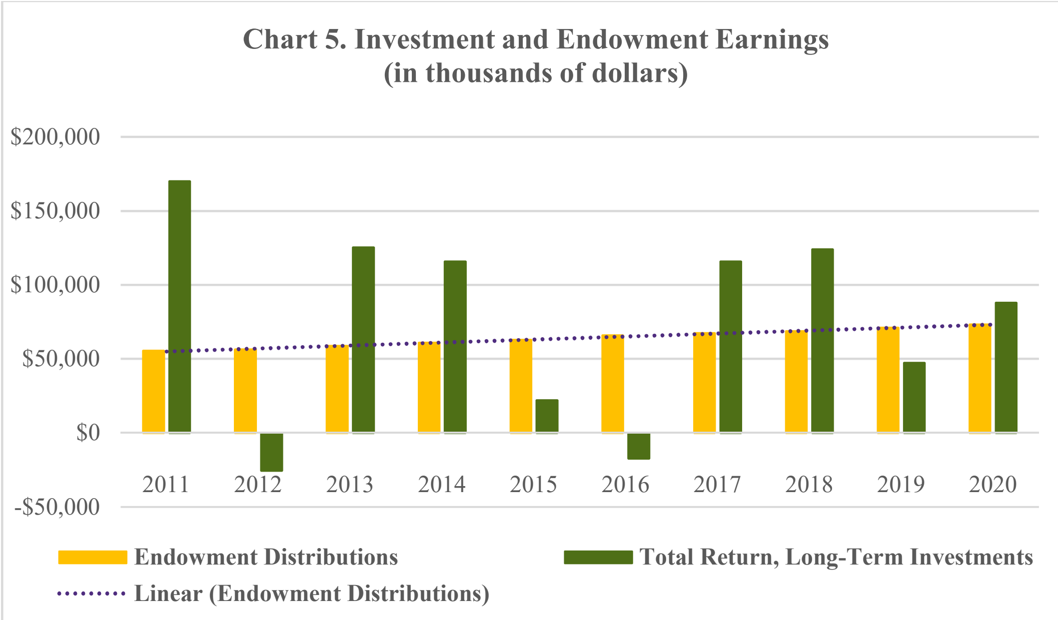


Endowment and Long-Term Investments

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 over $1.4 billion as of May 31, 2020. The return on long-term investments, including realized gains and losses, and unrealized gains and losses totaled $87.9 million for FY2020 compared to $47.2 million for FY2019. Chart 4 presents a ten-year history of long-term investments at fair value (*in thousands of dollars*).



While gains and losses on investments fluctuate with returns in financial markets each year, support to the University in the form of scholarships, professorships, and other important initiatives is dependable and rising. Effective with the year ended May 31, 2020, the Board of Regents adopted a change in the University's spending policy. Beginning with fiscal year 2020, annual BUF endowment distributions are set to approximate 5% of the net asset value at the beginning of the year, with a minimum distribution equal to the total dollar amount distributed in the previous fiscal year and a maximum distribution cap of 7% of the average net asset value over the previous 36 months. This spending policy resulted in $73.2 million of distributions to the University in FY 2020. For the year ended May 31, 2019, the distribution was based on 5% of the previous 48-months' rolling average net asset value per unit of the BUF unit as further described in Note 3.



Capital Assets

Maintaining a campus for approximately 18,000 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 $460 million, an indication that the University is maintaining and enhancing facilities over time. Capital additions and improvements have slowed in the most recent fiscal years.

Changes in Capital Assets
(in thousands of dollars)

Year Ended May 31,	Capital Asset Additions, net	Depreciation	Net Change	Property, Plant & Equipment, net
2011	$ 42,735	$ 30,950	$ 11,785	$ 634,333
2012	68,444	30,937	37,507	671,840
2013	171,000	31,046	139,954	811,794
2014	223,219	34,750	188,469	1,000,263
2015	174,808	43,364	131,444	1,131,707
2016	97,710	50,532	47,178	1,178,885
2017	51,457	56,779	(5,322)	1,173,563
2018	34,073	60,155	(26,082)	1,147,481
2019	22,805	60,975	(38,170)	1,109,311
2020	25,080	59,510	(34,430)	1,074,881
	$ 911,331	$ 458,998	$ 452,333	

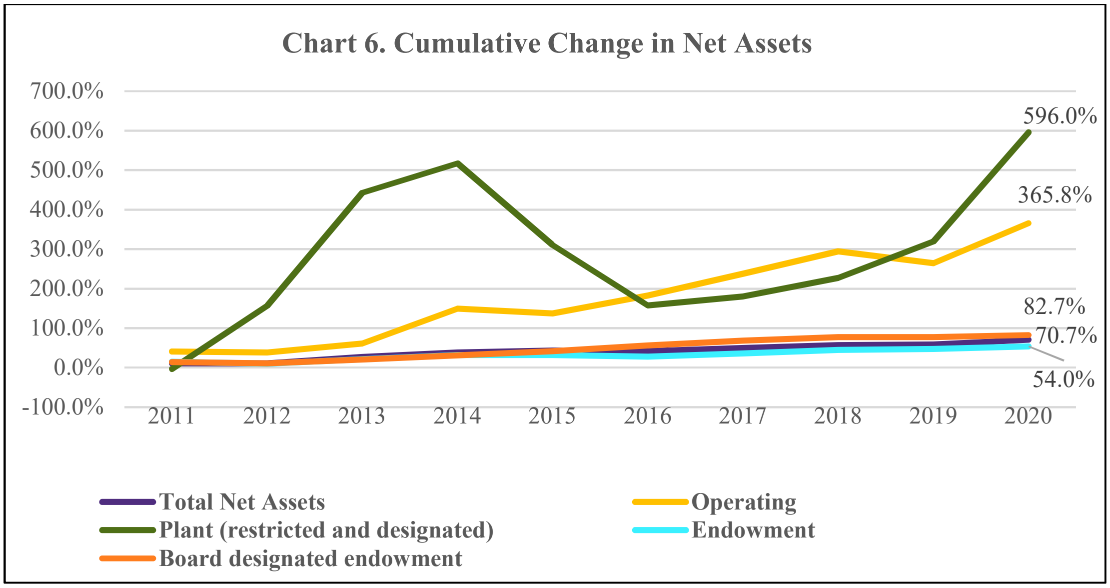
Net Assets

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):

Summary of Net Assets	2020	2019	Increase (Decrease) Amount	Increase (Decrease) Percentage
Net assets without donor-imposed restrictions				
Operating	$ 116,069	$ 90,891	$ 25,178	27.7%
Designated for plant	141,593	123,183	18,410	14.9%
Board designated endowment	247,256	240,708	6,548	2.7%
Invested in plant	314,288	348,050	(33,762)	(9.7)%
	819,049	802,832	16,217	2.0%
Net assets with donor-imposed restrictions				
Restricted by time or purpose	30,962	30,023	939	3.1%
Endowment	1,134,183	1,082,114	52,069	4.8%
Annuity and living trusts	30,713	33,057	(2,344)	(7.1)%
Restricted for plant	94,843	19,439	75,404	387.9%
	1,290,701	1,164,633	126,068	8.1%
Total Net Assets	$ 2,109,907	$ 1,967,465	$ 142,442	7.2%

Both net assets with and without donor restrictions improved for the fiscal year ended May 31, 2020, with the most significant change in net assets restricted 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 6. The largest increases over this period were in net assets restricted or designated for plant and net assets from operations.



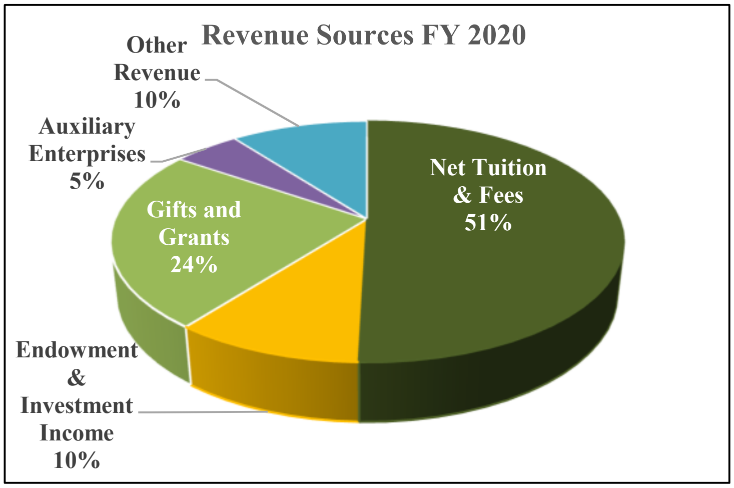
Statement of Activities

The **Statement of Activities** presents the University's revenues, expenses, and other changes in net assets for a period of time. The Statement of Activities for the fiscal years ended May 31, 2020 and 2019, is summarized below *(in thousands of dollars)*:

Summary of the Statements of Activities	2020	2019	Increase (Decrease) Amount	Increase (Decrease) Percentage
Tuition and fees, net	$466,084	$432,673	$33,411	7.72%
Endowment distributions and investment returns	74,095	72,783	1,312	1.80%
Gifts and grants	109,629	60,012	49,617	82.68%
Auxiliary enterprises	46,471	54,761	-8,290	-15.14%
Other revenue and additions	95,451	90,076	5,375	5.97%
Operating revenue	791,730	710,305	81,425	11.46%
Salaries & Wages	308,040	289,282	18,758	6.48%
Personnel benefits	90,166	90,379	(213)	-0.24%
Student wages & fellowships	35,670	34,325	1,345	3.92%
Operating expenses	258,055	210,484	47,571	22.60%
Depreciation	59,510	60,975	(1,465)	-2.40%
Interest expense	24,340	24,646	(306)	-1.24%
Operating Expenses	775,781	710,091	65,690	9.25%
Operating Margin	15,949	214	15,735	7352.80%
Non-Operating Activities	126,493	19,606	106,887	545.17%
Change in Net Assets	$ 142,442	$ 19,820	$ 122,622	618.68%

Revenues

Operating revenues increased $81.4 million, or 11.46%, from fiscal year 2019 to 2020, primarily resulting from increased gifts and grants. Gifts and grants, which includes donor contributions and grants from all sources, showed the largest percentage increase at 82.7% percent, primarily due to successful fundraising associated with the University's $1.1 billion Give Light comprehensive campaign. Increases in non-operating activities primarily resulted from investment returns which exceeded $93 million in the FY2020 fiscal year, an increase of 81% over the previous year.



Net tuition and fees represent the largest share of total University revenues, at just over 50%. Within the net tuition and fees revenue category, further revenue diversification has been achieved through the growth of online graduate and professional programs, which has grown to $54.1 million, or 11.6 percent of net tuition and fees.

As chart 7 illustrates, net tuition and fee revenue has increased, in a mostly linear fashion, each fiscal year from 2011 to 2020, at an average annual rate of 7.5%, through both enrollment growth and increasing net revenue per student. However, the share of total revenue funded by net tuition and fees has fluctuated from a low of 49.7% in FY 2012 to a high of 63.9% in FY 2016, dipping to 50.4% in FY 2020. This fluctuation results primarily from variances in annual investment returns and, to a lesser extent, variances in gifts and grants revenue.

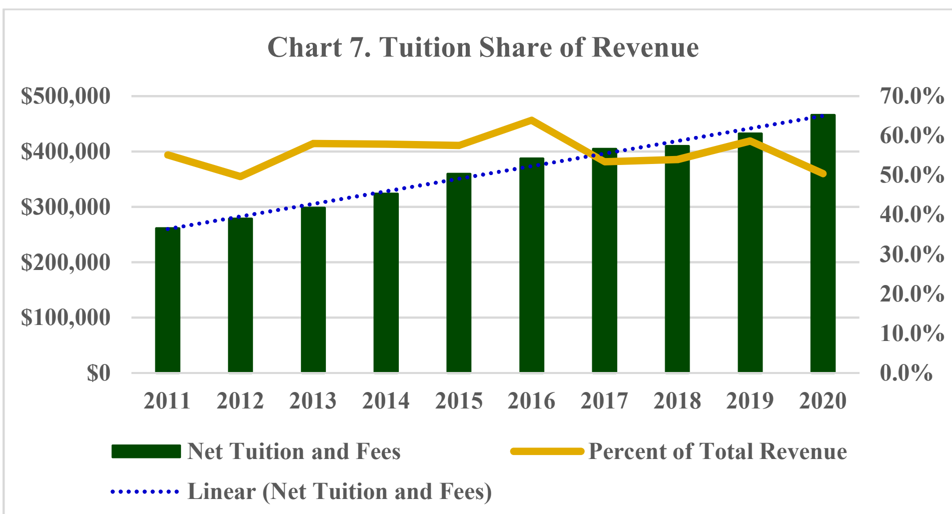
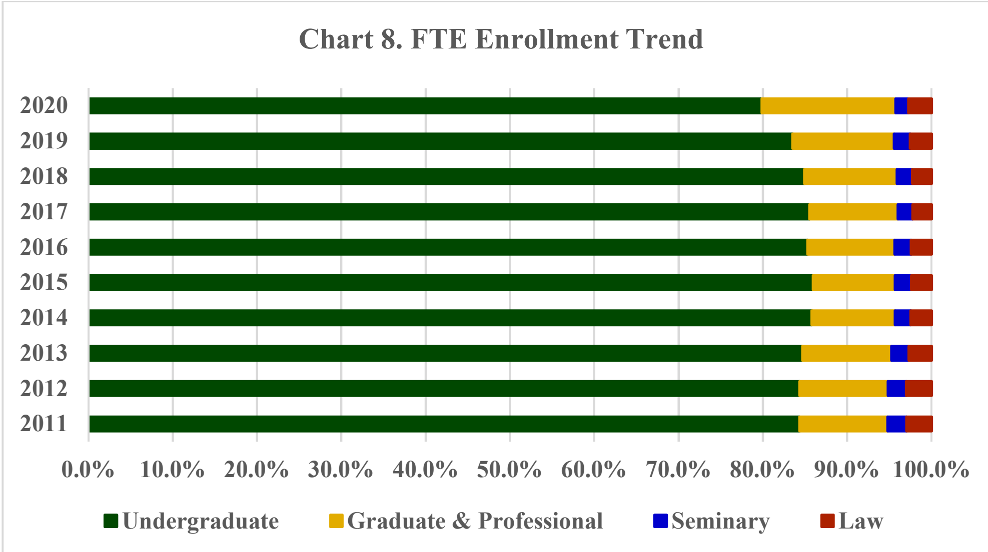


Chart 8 depicts the University's fall semester full-time equivalent (FTE) enrollments over the past ten fiscal years. As the chart shows, reliance on undergraduate enrollments has declined the past three fiscal years as new online graduate and professional programs have been added, increasing revenue diversification. Undergraduate enrollment has decreased to 80% of total FTE enrollment in FY 2020.

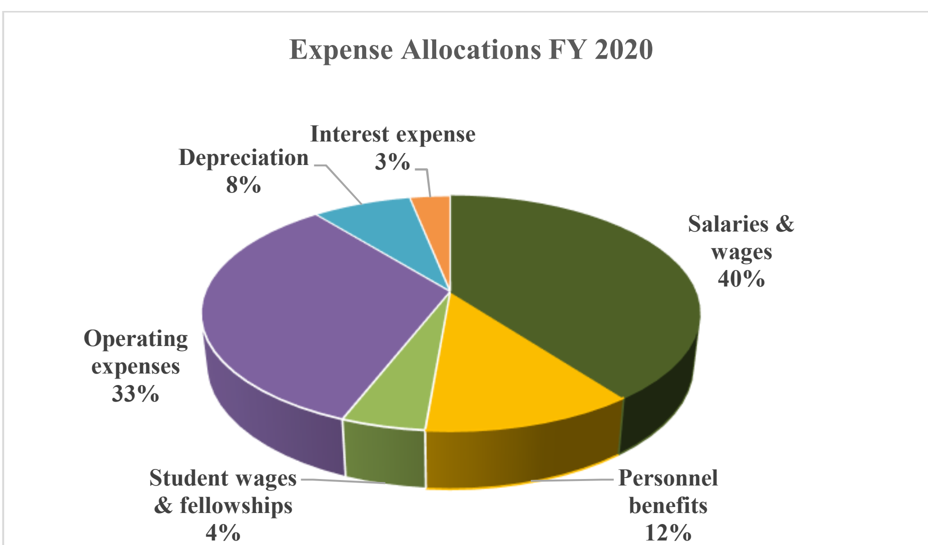


Gifts and grants, from both operating and non-operating sources, rose by a combined $115.7 million from FY 2019 to FY 2020 as a result of two significant increases. Grants and contracts revenue more than doubled from $25.9 million to $71.3 million. This increase in grants and contracts funding results from an emphasis of the University's *Illuminate* strategic plan, along with CARES Act funding. Additionally, gifts and grants restricted to plant improvements increased by approximately $62 million over the prior year.

Expense and Other Changes

Total operating expenses rose in FY 2020 by $65 million in comparison to FY 2019, a 9.25% increase. The most significant factors contributing to this increase are in salaries and wages, a $19 million increase, and operating expenses, which rose $47.5 million.

Salaries and wages make up the largest allocation of expenses each year, currently 40% of the total. As online graduate and professional education programs have been added, they have been a primary driver of increased operating expenses contracted services, which rose to 33% of total expenses and other changes.



Institutional and Economic Outlook

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce, and financial markets globally. The University has been and continues to closely monitor the COVID-19 pandemic and its impact on the Baylor community. In January 2020, the President of the University established a COVID-19 task force to assist in the planning of Baylor's operations during the pandemic. To protect the health of the University's students, faculty and staff, the University has taken significant steps to proactively promote social distancing in the Baylor community.

The University has been proactive in encouraging and enabling both returning and prospective students to enroll at Baylor for the Summer and upcoming Fall semester, instituting several initiatives to ensure the health, wellbeing and continued engagement with its students, such as conducting student surveys and implementing the "Bear Care" student outreach program. Beginning March 23, 2020, undergraduate and graduate instruction occurred through online/virtual means with students meeting academic requirements through online course instruction for the remainder of the 2019/2020 academic year.

To help reduce the risk of COVID-19 spread, Fall 2020 class schedules have been adjusted with most of the on-campus course instruction to be completed before the Thanksgiving holiday and final exams conducted online in early December. Course delivery for the Fall will be flexible with in-person, hybrid, and online classroom formats which can be adjusted in accordance with CDC and social distancing guidelines. Due to the fewer days on campus, costs for housing, dining and parking have been reduced on a prorated basis for students. Additionally, the University is taking a number of steps to increase social distancing and protection of faculty, staff, and students through technology upgrades, reduction of classroom occupancy levels, staggered scheduling, reduced seating density, revised dining operations, required wearing of face coverings or masks while on campus, the addition of nearly a dozen large, enclosed and temperature controlled tent structures to create additional space for social distancing, use of robotic cleaning in high traffic areas, as well as increased cleaning frequencies, outside air flow to buildings and improved indoor air quality through UV-C air filtration technologies.

The full impact of COVID-19 and the scope of any adverse impact on the University's operations and financial condition cannot be fully determined at this time. The University cannot predict (i) the duration or extent of the COVID-19 pandemic; (ii) the duration or expansion of travel restrictions and restrictions on assemblies or gatherings; (iii) what effect any COVID-19 or any other outbreak/pandemic-related restrictions or warnings may have on demand for the University's services, including higher education in general, (iv) whether and to what extent the COVID- 19 pandemic may disrupt the State, national or global economy, or whether any such disruptions may adversely impact the University's operations or financial condition; or (v) whether any of the foregoing may have a material adverse effect on the operations or financial condition of the University. Potential adverse consequences to the University of COVID-19 may include, but are not limited to, a decline in enrollment, postponement or cancellation of athletic events, decline in demand for University housing, parking and dining, decline in demand for University programs that involve travel or that have international connections, and a decrease in interest and investment income from the University's investment assets.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2020 and 2019, 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 University'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 University'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.

Grant Thornton

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, 2020 and 2019, 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 ("MD&A") 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 the MD&A.

Grant Thornton LLP

Dallas, Texas
September 29, 2020

BAYLOR UNIVERSITY
Balance Sheets

May 31, 2020 and 2019
(in thousands of dollars)

	2020	2019
ASSETS		
Cash & cash equivalents	$ 228,052	$ 193,519
Student accounts receivable, net	28,637	22,691
Contributions receivable, net	125,702	54,472
Grants & other receivables, net	49,154	29,336
Prepaid expenses & other	37,045	17,610
Student loans receivable, net	7,566	8,631
Long-term investments, at fair value	1,425,665	1,371,999
Property, plant & equipment, net	1,074,881	1,109,311
Total assets	**$ 2,976,702**	**$ 2,807,569**
LIABILITIES & NET ASSETS		
Liabilities		
Accounts payable	$ 53,097	$ 26,516
Personnel related current liabilities	21,296	29,654
Deposits & deferred revenues	129,132	123,445
Accrued postretirement benefits	53,217	50,148
Notes & bonds payable, net	579,119	588,429
Other liabilities	30,934	21,912
Total liabilities	$ **866,795**	$ **840,104**
Net Assets		
Without donor restrictions	819,206	802,832
With donor restrictions	1,290,701	1,164,633
Total net assets	**2,109,907**	**1,967,465**
Total liabilities & net assets	**$ 2,976,702**	**$ 2,807,569**

See accompanying notes to financial statements.

BAYLOR UNIVERSITY
Statements of Activities
For the Years Ended May 31, 2020 and 2019
(in thousands of dollars)

	Year Ended May 31, 2020		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
OPERATING REVENUES			
Tuition & fees	$ 806,333	$ –	$ **806,333**
Less scholarships	(340,249)	–	**(340,249)**
Net tuition & fees	466,084	–	**466,084**
Endowment distributions & investment income	64,522	9,573	**74,095**
Gifts & private grants	30,323	7,987	**38,310**
Grants & contracts	68,992	2,327	**71,319**
Other sources - educational & general	26,731	109	**26,840**
Other sources - intercollegiate athletics	68,611	–	**68,611**
Sales & services of auxiliary enterprises	46,471	–	**46,471**
Net assets released from restrictions	19,153	(19,153)	**–**
Total operating revenues	790,887	843	**791,730**
OPERATING EXPENSES			
Program expenses			
Salaries & wages	308,040	–	**308,040**
Personnel benefits	90,166	–	**90,166**
Student wages & fellowships	35,670	–	**35,670**
Operating expenses	258,055	–	**258,055**
Depreciation	59,510	–	**59,510**
Interest expense	24,340	–	**24,340**
Total operating expenses	775,781	–	**775,781**
Change in net assets from operating activities	15,106	843	**15,949**
NON-OPERATING ACTIVITIES			
Return on long-term investments	16,959	70,953	**87,912**
Distributions from long-term investments	(15,375)	(57,808)	**(73,183)**
Endowment earnings & distributions re-invested	–	3,020	**3,020**
Change in value of split interest agreements	255	1,016	**1,271**
Gifts for endowment, annuity & living trusts	–	31,147	**31,147**
Gifts & grants for plant improvements, net of allowance adjustments	–	82,589	**82,589**
Net assets released from restrictions for plant improvements	7,194	(7,194)	**–**
Other components of postretirement benefits cost	(745)	–	**(745)**
Change in postretirement benefits obligation other than net periodic benefits cost	(3,175)	–	**(3,175)**
Other increases (decreases)	(3,845)	1,502	**(2,343)**
Total non-operating activities	1,268	125,225	**126,493**
Change in net assets	16,374	126,068	**142,442**
Net assets at beginning of year	802,832	1,164,633	**1,967,465**
Net assets at end of year	**$ 819,206**	**$ 1,290,701**	**$ 2,109,907**

See accompanying notes to financial statements.

BAYLOR UNIVERSITY
Statements of Activities
For the Years Ended May 31, 2020 and 2019
(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 expenses	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 Cash Flows

For the Years Ended May 31, 2020 and 2019

(in thousands of dollars)

		Year Ended May 31, 2020		Year Ended May 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	**$**	**142,442**	**$**	**19,820**
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		59,510		60,975
Return on long-term investments		(87,912)		(47,243)
Distributions from long-term investments		73,183		71,124
Amortization of bond premium		(574)		(630)
Amortization of deferred debt issuance costs		231		231
Losses on disposal of property & equipment		2,566		1,531
Fixed assets gifts-in-kind		(1,259)		(455)
Contributions of securities		(7,592)		(5,889)
Proceeds from sale of contributed securities for operations		1,422		891
Contributions for endowment & plant improvements		(38,290)		(37,542)
Provision for uncollectible receivables		2,625		11,894
Changes in assets & liabilities:				
Student accounts receivable		(7,729)		(996)
Contributions receivable		(71,296)		(1,432)
Grants & other receivables		(20,699)		3,791
Prepaid expenses & other		(19,435)		(10,231)
Accounts payable		26,581		(2,348)
Personnel related current liabilities		(8,358)		2,244
Deposits & deferred revenues		5,687		(13,621)
Accrued postretirement benefits		3,069		3,757
Other liabilities		10,135		1,363
Net cash provided by operating activities		**64,307**		**57,234**
CASH FLOWS FROM INVESTING ACTIVITIES				
Student loans disbursed		(231)		(203)
Proceeds from collections of student loans		1,401		1,512
Proceeds from sales of long-term investments		18,814		24,839
Purchases of long-term investments		(57,751)		(59,719)
Proceeds from sales of property		–		257
Purchases of property, plant & equipment		(26, 387)		(24,138)
Net cash used for investing activities		**(64,154)**		**(57,452)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Contributions for endowment & plant improvements:				
Endowment, annuity & living trusts		23,780		25,061
Plant		14,510		12,481
Proceeds from sale of contributed securities for endowment & plant		6,170		4,998
Repayment of long-term debt		(8,605)		(8,289)
Debt issuance costs		(362)		–
Change in federal student loan funds refundable		(1,113)		115
Net cash provided by financing activities		**34,380**		**34,366**
Net change in cash & cash equivalents		**34,533**		**34,148**
Cash & cash equivalents at beginning of year		**193,519**		**159,371**
Cash & cash equivalents at end of year	**$**	**228,052**	**$**	**193,519**

See accompanying notes to financial statements.

OVERVIEW OF BAYLOR UNIVERSITY

Baylor University ("Baylor" or the "University"), is a private Christian University and a nationally ranked research institution, located in Waco, Texas. The University was chartered by the Republic of Texas on February 1, 1845, through the efforts of Baptist pioneer missionaries and lay leaders and is affiliated with the Baptist General Convention of Texas. The oldest continuously operating institution of higher learning in the State of Texas, Baylor has more than 145,000 alumni living in the United States and around the world and welcomes students from all 50 states, the District of Columbia, and 95 countries to study within its 12 nationally recognized academic divisions.

Since its founding in Independence, Texas, Baylor has grown to over 18,000 students, including 3,900 graduate/professional students, and more than 2,900 full-time faculty and staff. In 1886, Baylor merged with Waco University and moved to its current campus on the banks of the Brazos River. In addition to the main campus in Waco, Baylor operates the Louise Herrington School of Nursing in Dallas and offers graduate programs in Austin, Dallas, Houston, West Point, and several U.S. Army locations across the United States.

With a stated mission to educate men and women for worldwide leadership and service by integrating academic excellence and Christian commitment within a caring community, Baylor has a distinct and compelling academic mission that integrates teaching and research excellence within an unwavering Christian faith.

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 $2,354,000 and $1,134,000 as of May 31, 2020 and 2019, respectively. Student loans receivable are stated net of allowance for doubtful accounts of $603,000 and $707,000 as of May 31, 2020 and 2019, respectively. The University considered the allowances recorded at May 31, 2020 and 2019, 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, 2020, the University continues to service outstanding Perkins loans.

Grants and other receivables are stated net of allowance for doubtful accounts of $11,341,000 and $10,761,000 as of May 31, 2020 and 2019, 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 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, lease liabilities, CARES Act payroll tax deferrals and refundable advances, 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 distributed 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 project 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 parking 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 13.

CARES Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act became law on March 27, 2020 and provides support to individuals and organizations in the form of loans, grants, tax relief, and direct assistance. The University has received CARES support as follows.

The University received a Higher Education Emergency Relief Fund (HEERF) award, which was established by the CARES Act, totaling $10,777,000. No less than 50% of HEERF funds must be used for emergency financial aid grants to students. For the year ended May 31, 2020, the University had recognized $8,176,000 in HEERF grant revenue. Brazos Valley Public Broadcasting Foundation received Stabilization Funds of $75,000 provided by the Corporation for Public Broadcasting to Community Service Grant Recipients through CARES Act provisions.

The University has deferred payment of certain payroll taxes until December 31, 2021 as permitted in CARES provisions. As of May 31, 2020, $2,687,000 in deferred payroll taxes were classified as other liabilities in the financial statements.

Brazos Valley Public Broadcasting Foundation received a Paycheck Protection Program (PPP) loan of $73,000 granted by the Small Business Administration under the CARES Act. PPP loans are considered conditional contributions, with a right-of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the funds. The institution recognized contribution revenue of $31,000 equal to qualifying costs incurred and recorded remaining loan proceeds as a refundable advance at May 31, 2020 as all recognition requirements had not been met.

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.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. ASU 2020-05, issued by the FASB in June 2020, extended the effective date of the standard to fiscal years beginning after December 15, 2019, however, the University elected to early adopt the standard as of June 1, 2019. At June 1, 2019, eight leases met the definition of an operating lease, creating a right-of-use asset and lease liability totaling $3,513,000. During fiscal year 2019-2020, three additional operating leases were added.

In June 2018, the FASB issued ASU No. 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made". The amendments resulting from this ASU provide (1) a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction, including how to evaluate whether a resource provider is receiving commensurate value in an exchange transaction and (2) guidance to assist entities in determining whether a contribution is either conditional or unconditional. The standard is effective for fiscal years beginning after December 15, 2018 and was adopted by the University during fiscal year 2019-2020. At June 1, 2019, 104 private grants required reclassification of payments received from revenue to deferred revenue based on the new standard, resulting in an increase to deferred revenues and decrease to gifts & private grants of $352,000 in the Balance Sheet and Statement of Activities, respectively.

ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" was issued by the FASB in August 2018. The ASU is effective for fiscal years beginning after December 15, 2019. The University elected to early adopt the standard as of June 1, 2019. At June 1, 2019, accumulated implementation costs related to service contracts for hosted computing totaled $11,545,000. During fiscal year 2019-2020, an additional $14,476,000 in costs were incurred.

Risks and Uncertainties

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce, and financial markets globally. The University has been and continues to closely monitor the COVID-19 pandemic and its impact on the Baylor community. Though the full impact of COVID-19 and the scope of any impact on the University's operations and financial condition cannot be determined, potential adverse consequences to the University of COVID-19 may include a decline in enrollment, postponement or cancellation of athletic events, decline in demand for University housing, parking and dining, decline in demand for University programs that involve travel or that have international connections, and a decrease in interest and investment income from the University's investment assets.

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, 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, 2020 and 2019, 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 marketable alternatives (hedge funds) with significant liquidity restrictions, private investments (private equities) and real assets held in partnership format.

Whereas Level 1 investments may 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 $1,381,438,000 and $1,322,822,000 as of May 31, 2020 and 2019, respectively, and is a component of the University's long-term investment pool. The endowment consists of $1,111,338,000 and $1,060,262,000 of donor-restricted endowment net assets and $270,100,000 and $262,560,000 of Board designated endowment net assets as of May 31, 2020 and 2019, 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, 2020 are as follows *(in thousands of dollars)*:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2019	$ 240,708	$ 1,082,114	$ 1,322,822
Investment return, net of expenses	15,146	70,935	86,081
Contributions	–	30,499	30,499
Appropriated for expenditure	(13,806)	(57,808)	(71,614)
Other changes:			
Transfers to board designated	5,168	834	6,002
Terminated annuities & other	40	7,608	7,648
Endowment net assets, May 31, 2020	$ 247,256	$ 1,134,182	$ 1,381,438

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

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, 2020 and 2019, as follows *(in thousands of dollars)*:

	2020	2019
Original value	$ 103,606	$ 133,416
Market value	97,550	126,921
Unrealized losses	$ (6,056)	$ (6,495)

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. Effective with the year ended May 31, 2020, the Board adopted a change to the spending policy. Beginning with fiscal year 2020, 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.

For the year ended May 31, 2019, the endowment distribution was based on 5% of the previous 48-months' rolling average net asset market value per unit of the BUF. Under the prior spending policy, the permitted change in the dividend amount from the previous year was no less than 0% and no more than 6%, and in no case could 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.

In establishing the 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 83 and 88 different managers at May 31, 2020 and 2019, respectively. Of those, alternative assets were invested with 60 and 65 different managers at May 31, 2020 and 2019, 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 and real assets (reflected as private investments), and marketable alternatives (hedge fund) 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 various 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 investment 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, 2020, the remaining life of private equity and real asset funds ranged from one to twelve years. Marketable alternative 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 marketable alternative funds can vary due to the nature of underlying assets as well as contractual restrictions on redemption such as gating and holdback provisions. Redemption terms of the Marketable alternative funds within the portfolio range from monthly to rolling three years with various notice requirements. At May 31, 2020, BUF included twenty-four marketable alternative funds totaling $307,968,000.

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, 2020, 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	$ 86,268	$ –	$ –	$ –	$ 86,268
Public equities	365,742	–	1,222	–	366,964
Alternative assets	–	–	6,146	744,329	750,475
Real estate & other	–	–	4,590	–	4,590
Mineral rights	–	–	16,412	–	16,412
Income interests/perpetual trusts	–	–	200,956	–	200,956
Total	$ 452,010	$ –	$ 229,326	$ 744,329	$ 1,425,665

The following table presents additional information about assets that have been measured at fair value as of May 31, 2020, on a recurring basis using significant unobservable inputs (Level 3) *(in thousands of dollars)*:

	May 31, 2019 Balance	Transfers In (Out) of Level 3	Additions	Distributions	Realized & Unrealized Gains (Losses)	May 31, 2020 Balance
Equities	$ 1,235	$ –	$ –	$ –	$ (13)	$ 1,222
Alternative assets	20,083	–	5	(15,188)	1,246	6,146
Real estate & other	5,684	–	6,952	(8,198)	152	4,590
Mineral rights	14,257	–	–	(3,276)	5,431	16,412
Income interests/ perpetual trusts	193,495	–	1,616	(762)	6,607	200,956
Total	$ 234,754	$ –	$ 8,573	$ (27,424)	$ 13,423	$ 229,326

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
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
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

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, 2020 and 2019, are as follows *(in thousands of dollars)*:

	2020	2019
Fixed income securities:		
Short-term funds	$ 44,616	$ 36,757
Bonds	83,107	97,209
Equities:		
Domestic	257,419	184,194
International	208,630	231,834
Alternative assets:		
Private investments	477,619	491,152
Marketable alternatives	320,522	306,137
Mineral rights	33,752	24,716
Total	$ 1,425,665	$ 1,371,999

Long-term investments include operating, endowment, and annuity and life income assets. The annuity and life income assets under split-interest agreements total $26,713,000 and $25,786,000 as of May 31, 2020 and 2019, respectively.

The cost of long-term investments was $1,166,413,000 and $1,129,234,000 as of May 31, 2020 and 2019, 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 of private investments of $297,554 and $321,496 at May 31, 2020 and 2019, respectively, which are expected to be called over the next three years.

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, 2020 and 2019, contributions receivable consists of the following *(in thousands of dollars)*:

	2020	2019
Due in 1 year	$ 46,945	$ 21,743
Due in 2 to 5 years	76,469	28,216
Due in 6 to 10 years	2,600	675
Split interest agreements	14,137	18,285
Less: Present value adjustment	(6,797)	(6,861)
Less: Allowance for uncollectible contributions receivable	(7,652)	(7,586)
Total contributions receivable, net	$ 125,702	$ 54,472

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, 2020, contributions receivable primarily consisted of unconditional promises related to endowment or capital projects, of which fourteen donors represented 93% 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 $67,297,000 and $63,050,000 as of May 31, 2020 and 2019, 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.

Conditional promises to give depend on the occurrence of a specified future and uncertain event. Conditional promises to give totaled $41,000,000 and $20,000,000 as of May 31, 2020 and 2019, respectively. The conditions to recognize these promises have not been met as of May 31, 2020; therefore, no revenue has been recorded as of May 31, 2020.

6. PROPERTY, PLANT & EQUIPMENT

At May 31, 2020 and 2019, property, plant and equipment assets consist of the following *(in thousands of dollars)*:

	2020	2019
Land	$ 81,314	$ 79,466
Land/leasehold improvements	116,265	121,870
Buildings	1,296,100	1,292,715
Equipment	172,800	166,583
Arts/collections	14,221	13,946
Other	46,781	45,251
	1,727,481	1,719,831
Less accumulated depreciation	(664,121)	(618,150)
	1,063,360	1,101,681
Construction-in-progress	11,521	7,630
Property, plant & equipment, net	$ 1,074,881	$ 1,109,311

Depreciation expense was $59,510,000 and $60,975,000 as of May 31, 2020 and 2019, 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 $1 billion and $2 billion at May 31, 2020 and 2019, respectively. The liability for conditional asset retirement obligations was $4,413,000 and $4,905,000 as of May 31, 2020 and 2019, respectively, and is included in other liabilities in the accompanying balance sheets.

7. DEPOSITS & DEFERRED REVENUES

At May 31, 2020 and 2019, deposits and deferred revenues consist of the following *(in thousands of dollars)*:

	2020	2019
Tuition & fees	$ 54,632	$ 43,342
Student enrollment deposits	3,438	2,858
Intercollegiate athletics income	30,408	33,193
Vendor long-term contracts incentive payments	28,185	35,424
Sponsored research income	8,157	1,928
Rental & other income	4,312	6,700
Total deposits & deferred revenues	$ 129,132	$ 123,445

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 generally be earned over the next one to fourteen years.

8. LEASES

The University leases a small portion of real estate, classroom space, vehicles and various equipment used in its operations. Most real estate leases do not require the University to pay real estate taxes but do require the University to pay insurance, some maintenance and other similar costs. Real estate leases do not contain purchase options. Certain of the University's real estate leases have terms that extend for several years and provide for rental rates that increase over time. Lease terms include the noncancelable portion of the underlying leases along with any reasonably certain lease periods associated with available renewal periods. The University currently does not have any finance leases or leases that contain purchase options, does not currently sublease any leased assets, and does not have any variable lease payments.

Supplemental cash flow information related to leases for May 31, 2020 are as follows.

Cash paid for amounts included in the measurement of operating lease liabilities	
Operating cash flows from operating leases	$2,206,000
Right-of-use assets obtained in exchange for operating lease obligations	
Operating leases	$2,645,000

Additional supplemental information regarding assumptions for operating leases for May 31, 2020 is as follows:

Weighted-average remaining lease term (years)	8.40
Weighted-average discount rate	3.44 %

In implementing ASU 2016-02, certain assumptions and judgements were made. A lessee that is not a public business entity is permitted to use a risk-free discount rate for the lease, determined using a period comparable with that of the lease term. Baylor has elected to use its incremental borrowing rate if the rate implicit in the lease is not readily determinable. Lessees are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients. Baylor has elected the following practical expedients.

1. An entity need not reassess whether any expired or existing contracts are or contain leases.
2. An entity need not reassess the lease classification for any expired or existing leases.
3. An entity need not reassess initial direct costs for any existing leases.

Payments on short-term leases with an initial term of 12 months or less, are recognized as lease expense when the payments are incurred and excluded from the value of right-of-use assets and lease liabilities.

As of May 31, 2020, right-of-use asset and lease liability balances are $4,402,000. The maturity of lease liabilities is as follows (*in thousands of dollars*).

Maturity	Operating	Total
2021	$ 2,079	$ 2,079
2022	1,309	1,309
2023	1,191	1,191
2024	1,191	1,191
2025	1,037	1,037
Thereafter	6,309	6,309
Total undiscounted cash flows	13,116	13,116
Less: Present value discount	(8,714)	(8,714)
Total lease liabilities	$ 4,402	$ 4,402

9. 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 $24,688,000 and $25,302,000, and interest expense was $24,915,000 and $25,276,000 for the years ended May 31, 2020 and 2019, respectively. These amounts are exclusive of premium amortization. The amount of bond premium amortization that offset interest expense was $574,000 and $630,000 for the years ended May 31, 2020 and 2019, respectively. Bond premiums are being amortized using the effective interest method over the life of the bonds.

Notes and bonds payable at May 31, 2020 and 2019, consist of the following *(in thousands of dollars)*:

	2020	2019
Interest bearing secured note payable to a corporation due in quarterly installments beginning May 1, 2015 to April 30, 2025	$ 2,684	$ 3,173
Non-interest bearing unsecured note payable to a corporation, due in annual installments through July 31, 2022	489	799
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	71,350	76,105
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 12), interest payable monthly, principal payable annually to February 1, 2032	51,010	54,060
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	573,378	581,982
Unamortized bond premium	9,517	10,091
Unamortized bond issuance cost	(3,776)	(3,644)
Total notes & bonds payable, net	$ 579,119	$ 588,429

Excluding the maturity of commercial paper, scheduled principal payments on long-term notes and bonds for the periods subsequent to May 31, 2020, are as follows *(in thousands of dollars)*:

2021	2022	2023	2024	2025	2026 and Thereafter	Total
$ 8,934	$ 9,143	$ 9,333	$ 9,711	$ 9,942	$ 511,315	$ 558,378

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, 2020, the University had an outstanding balance of $15,000,000 in commercial paper notes with a discount rate of 2.00%. 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.

See Note 20 regarding refunding of the Series 2011, 2012 and 2017 bonds, as well as a portion of commercial paper notes outstanding, and termination of the interest rate swap agreement (Note 12) associated with the Series 2017 bonds subsequent to May 31, 2020.

10. 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, 2020 and 2019 *(in thousands of dollars)*.

	2020	2019
Financial assets:		
Cash and cash equivalents	$ 228,052	$ 193,519
Student accounts receivable, net	28,637	22,691
Contributions receivable, net	125,702	54,472
Grants & other receivables, net	49,154	29,336
Student loans receivable, net	7,566	8,631
Long-term investments, at fair value	1,425,665	1,371,999
Financial assets at year-end	1,864,776	1,680,648
Less assets unavailable for expenditure within one year, due to:		
Restricted by donor with time or purpose restrictions	(1,147,060)	(1,098,230)
Subject to appropriation and satisfaction of donor restrictions	(127,323)	(74,026)
Board designated endowment funds	(270,100)	(240,708)
Financial assets available to meet cash needs for general expenditures within one year	$ 320,293	$ 267,684

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 totaling $270,100,000 as of May 31, 2020 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 $124,095,000. 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.

11. NET ASSETS

The University's net assets for the year ended May 31, 2020 are categorized by purpose as follows *(in thousands of dollars)*:

	Without Donor Restrictions	With Donor Restrictions	Total
Unrestricted-designated for operations	$ 116,069	$ –	$ 116,069
Unrestricted-designated for plant	141,593	–	141,593
Subject to donor restriction	–	30,962	30,962
Endowment	–	1,111,339	1,111,339
Endowment-board designated	247,256	22,844	270,100
Annuity and living trusts	–	30,713	30,713
Invested in or restricted for plant	314,288	94,843	409,131
Total net assets, May 31, 2020	$ 819,206	$ 1,290,701	$ 2,109,907

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

12. 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 $7,183,000 and $4,003,000 at May 31, 2020 and 2019, 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 $3,180,000 and a gain of $1,761,000 for the years ended May 31, 2020 and 2019, respectively. The fair value was measured using Level 2 valuation techniques.

See Note 20 regarding refunding of the Series 2011, 2012 and 2017 bonds, as well as a portion of commercial paper notes outstanding, and termination of the interest rate swap agreement associated with the Series 2017 bonds subsequent to May 31, 2020.

13. 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, 2020 are as follows *(in thousands of dollars)*:

	Contract - Based Revenues	Other revenues	Total
Other sources - educational & general	$ 7,434	$ 19,406	$ 26,840
Other sources - intercollegiate athletics	61,736	6,875	68,611
Sales & services of auxiliary enterprises	43,377	3,094	46,471
Total	$ 112,547	$ 29,375	$ 141,922

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

	Contract - Based Revenues	Other revenues	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

14. 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, 2020, are as follows *(in thousands of dollars)*:

	Instruction & Academic Support	Research & Public Service	Student Services & Activities	Auxiliary Enterprises	Institutional Support	Totals
Salaries & wages	$ 185,121	$ 14,569	$ 59,865	$ 2,088	$ 46,397	$ 308,040
Personnel benefits	56,352	3,385	15,797	664	13,968	90,166
Student wages & fellowships	18,754	6,258	7,874	2,050	734	35,670
Operating expenses	72,319	44,811	56,298	12,042	72,585	258,055
Depreciation	18,211	6,266	19,005	13,056	2,972	59,510
Interest on indebtedness	9,824	1,300	6,267	6,006	943	24,340
Plant/other distributed costs	43,983	4,251	7,080	1,437	(56,751)	–
Total expenses	$ 404,564	$ 80,840	$ 172,186	$ 37,343	$ 80,848	$ 775,781

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

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 $19,903,000 and $19,481,000 incurred by the University in 2020 and 2019, respectively, are included primarily in the institutional support category in the statements of activities.

15. 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, 2020 and 2019, were $29,344,000 and $27,915,000, respectively.

16. 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, 2020 and 2019 *(in thousands of dollars)*:

Change in benefits obligation:	2020	2019
Measurement date	5/31/2020	5/31/2019
Accumulated postretirement benefits obligation (APBO) at beginning of year	$ 50,148	$ 46,391
Service cost	1,305	1,179
Interest cost	1,954	1,927
Plan participants' contributions	202	198
Actuarial (gain) loss	1,966	2,882
Benefit payments	(2,358)	(2,429)
Accumulated postretirement benefits obligation (APBO) at end of year	$ 53,217	$ 50,148
Change in plan assets:		
Fair value of plan assets at beginning of year	$ –	$ –
Employer contributions	2,156	2,231
Plan participants' contributions	202	198
Benefit payments	(2,358)	(2,429)
Fair value of plan assets at end of year	$ –	$ –
Funded (unfunded) status of plan	$ (53,217)	$ (50,148)

Amounts recognized as changes in unrestricted net assets arising from postretirement benefits plan but not yet included in periodic benefits cost:	2020	2019
Prior service cost (credit)	$ (8,007)	$ (9,980)
Net loss	19,326	18,125
Total	$ 11,319	$ 8,145

The University expects to amortize, from accumulated unrestricted net assets, $1,973,000 of prior service cost credits and $809,000 of net losses as components of net periodic benefits cost during the year ending May 31, 2021.

Weighted-average assumptions at measurement date:	5/31/2020	5/31/2019
Discount rate	3.24%	3.98%
Health care cost trend rate	6.75%	7.25%
Ultimate health care cost trend rate	4.50%	4.50%
Year ultimate trend rate reached	2029	2028

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 $2,176,000 to its postretirement benefits plan during the year ending May 31, 2021. The tables below provide additional information related to projected cash flows and fiscal year costs *(in thousands of dollars)*:

Projected Cash flows:	2021	2022	2023	2024	2025	Fiscal years 2026-2029
Gross benefits payments net of employee contributions:	$ 2,176	$ 2,277	$ 2,364	$ 2,445	$ 2,517	$ 13,621

Components of net periodic postretirement benefits cost:	6/1/2019-5/31/2020	6/1/2018-5/31/2019
Measurement date	5/31/2019	5/31/2018
Service cost	$ 1,305	$ 1,179
Other components of postretirement benefits cost:		
Interest cost	$ 1,954	$ 1,927
Amortization of:		
Prior service cost	(1,973)	(1,973)
Actuarial loss	764	659
Total other components of postretirement benefits cost	$ 745	$ 613
Total net periodic postretirement benefits cost	$ 2,050	$ 1,792
Other changes in plan assets & benefits obligation recognized:		
Net actuarial (gain) loss	$ 1,966	$ 2,882
Amortization of:		
Prior service cost	1,973	1,973
Actuarial gain	(764)	(659)
Change in postretirement benefits obligation other than net periodic benefits cost	$ 3,175	$ 4,196
Total recognized in net assets & net periodic benefits cost	$ 5,225	$ 5,988

Weighted-average assumptions for net periodic postretirement benefits cost:

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
Average future working lifetime (years)	17.2	17.1

Other information: (in thousands of dollars:)	6/1/2019-5/31/2020	6/1/2018-5/31/2019
1% increase in trend rates		
Effect on service + interest cost	–	–
Effect on APBO	6	9
1% decrease in trend rates		
Effect on service + interest cost	–	–
Effect on APBO	(6)	(9)

17. 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, 2020, the University's tax years ended May 31, 2017 through 2020, generally, remain subject to examination.

18. 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 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, 2020 and 2019, there were no related party transactions that were not effectively mitigated.

19. COMMITMENTS & CONTINGENCIES

Capital Expenditures & Other Commitments

At May 31, 2020, the University has commitments to expend approximately $25,002,000 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 $2,403,000 and $2,108,000 in operating lease expenses for facilities and equipment in the years ended May 31, 2020 and 2019, respectively. Lease commitments for future periods are described in Note 8.

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.

Baylor is the defendant in a lawsuit filed in the United States District Court for the Western District of Texas, Waco Division, asserting a class action claim on behalf of all Baylor undergraduate and graduate students from the Spring 2020 semester seeking damages due to the shift to online instruction and diminished on-campus activities in the second half of the Spring 2020 semester. Substantially similar lawsuits have been filed against many other institutions of higher education. While the outcome cannot be predicted at this time, the University intends to vigorously defend this lawsuit. No assurance can be given that future lawsuits or other legal proceedings will not be initiated against the University in connection with COVID-19. The scope of any adverse impact to the University resulting from any such claim or proceeding cannot be determined at this time.

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.

20. SUBSEQUENT EVENTS

On August 20, 2020, the University issued $38,730,000 in tax-exempt (Series 2020A) and $217,435,000 in taxable (Series 2020B) revenue refunding bonds through the Waco Education Finance Corporation. Proceeds of the bonds were used to refund the series 2011, 2012, and 2017 bonds issues (Note 9), partially refund outstanding commercial paper (Note 9) and to terminate the interest rate swap arrangement (Note 12).

The University has evaluated subsequent events through September 29, 2020, the date when financial statements were issued, and concluded that there were no additional material subsequent events requiring adjustment or disclosure.