



**CLARK ATLANTA UNIVERSITY**

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

# CLARK ATLANTA UNIVERSITY

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## Independent Auditors' Report

The Board of Trustees  
Clark Atlanta University:

### Report on the Financial Statements

We have audited the accompanying financial statements of Clark Atlanta University (the University), which comprise the statements of financial position as of June 30, 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 U.S. generally accepted accounting principles; 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.

#### *Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



### *Emphasis of Matter*

As discussed in note 1(t) to the financial statements, in fiscal year 2020, Clark Atlanta University adopted new accounting guidance, Accounting Standards Update (ASU) No. 2014–09, *Revenue from Contracts with Customers* (Topic 606), as amended; ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*; and ASU No. 2018–08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

### *Other Matter*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2020 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

**KPMG LLP**

Atlanta, Georgia  
November 23, 2020

**CLARK ATLANTA UNIVERSITY**

Statements of Financial Position

June 30, 2020 and 2019

Assets	2020	2019
Cash and cash equivalents	\$ 31,374,002	26,563,325
Restricted cash	3,899,622	4,099,319
Accounts receivable, net (note 2)	3,119,007	6,581,872
Pledges receivable, net (note 2)	441,031	1,074,153
Deposits held with bond trustees (note 8)	3,149,131	4,326,836
Prepays and other assets	1,143,179	1,347,826
Property, plant, and equipment, net (note 5)	124,954,262	125,163,779
Investments (notes 3 and 11)	83,801,787	81,834,232
Beneficial interest in perpetual trust (note 11)	419,407	421,530
Perkins loans receivable, net (note 4)	5,417,194	6,165,571
Asset held and not used, net (note 1)	460,000	555,000
	\$ 258,178,622	258,133,443
	\$ 258,178,622	258,133,443
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 6,696,773	8,911,369
Advances from granting agencies	747,520	624,508
Deferred revenue	506,448	487,414
Bonds payable, net (note 8)	13,264,537	15,926,924
Refundable advances (note 4)	5,613,537	7,083,187
Note payable	307,143	624,813
Mortgages payable (note 7)	982,556	1,305,730
Other liabilities (note 16)	1,722,400	2,066,880
Asset retirement obligation	1,016,726	959,173
	30,857,640	37,989,998
	30,857,640	37,989,998
Commitments and contingencies (notes 6, 7, 8, and 16)		
Net assets:		
Without donor restrictions	131,244,252	125,757,845
With donor restrictions (note 13)	96,076,730	94,385,600
	227,320,982	220,143,445
	227,320,982	220,143,445
Total	\$ 258,178,622	258,133,443
	\$ 258,178,622	258,133,443

See accompanying notes to financial statements.

**CLARK ATLANTA UNIVERSITY**

Statement of Activities

Year ended June 30, 2020

(with summarized financial information for the year ended June 30, 2019)

	<u>2020</u>			
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	<u>2019 Total</u>
Revenue, gains, and other support:				
Tuition and fees, excluding student aid	\$ 60,619,628	—	60,619,628	66,843,022
Government grants	1,554,297	22,124,677	23,678,974	16,865,694
Private gifts and grants	2,942,392	3,465,380	6,407,772	8,100,872
Investment income, net	446,139	30,097	476,236	253,096
Auxiliary enterprises	12,743,834	—	12,743,834	16,146,423
Net realized and unrealized gains on investments	117,909	36,392	154,301	223,218
Amounts allowed per university's endowment spending policy	—	1,941,426	1,941,426	2,092,948
Other revenue	1,226,962	86,614	1,313,576	2,741,297
Net assets released from restriction for satisfaction of program restrictions (note 14)	<u>27,997,077</u>	<u>(27,997,077)</u>	<u>—</u>	<u>—</u>
Total operating revenue, gains, and other support	<u>107,648,238</u>	<u>(312,491)</u>	<u>107,335,747</u>	<u>113,266,570</u>
Expenses (note 9):				
Instruction	28,159,150	—	28,159,150	31,031,912
Research	7,826,073	—	7,826,073	8,149,710
Academic support	9,363,011	—	9,363,011	9,809,900
Student services	10,314,416	—	10,314,416	10,680,860
Institutional support	26,406,409	—	26,406,409	25,637,522
Public service	2,183,904	—	2,183,904	2,291,941
Auxiliary enterprise	14,876,693	—	14,876,693	16,004,990
Student aid	3,032,175	—	3,032,175	—
Total operating expenses	<u>102,161,831</u>	<u>—</u>	<u>102,161,831</u>	<u>103,606,835</u>
Change in net assets from operating activities	<u>5,486,407</u>	<u>(312,491)</u>	<u>5,173,916</u>	<u>9,659,735</u>
Nonoperating activities:				
Private gifts and grants	—	162,040	162,040	169,551
Investment income, net	—	1,115,386	1,115,386	1,254,994
Net realized and unrealized gains on investments	—	2,669,744	2,669,744	1,866,866
Change in beneficial interest in perpetual trusts	—	(2,123)	(2,123)	8,468
Amounts allowed per university's endowment spending policy	—	(1,941,426)	(1,941,426)	(2,092,948)
Change in net assets from nonoperating activities	<u>—</u>	<u>2,003,621</u>	<u>2,003,621</u>	<u>1,206,931</u>
Change in net assets	5,486,407	1,691,130	7,177,537	10,866,666
Net assets, beginning of year	<u>125,757,845</u>	<u>94,385,600</u>	<u>220,143,445</u>	<u>209,276,779</u>
Net assets, end of year	<u>\$ 131,244,252</u>	<u>96,076,730</u>	<u>227,320,982</u>	<u>220,143,445</u>

See accompanying notes to financial statements.

**CLARK ATLANTA UNIVERSITY**

Statement of Activities

Year ended June 30, 2019

	<b>2019</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Revenue, gains, and other support:			
Tuition and fees, excluding student aid	\$ 66,843,022	—	66,843,022
Government grants	1,483,007	15,382,687	16,865,694
Private gifts and grants	2,694,170	5,406,702	8,100,872
Investment income, net	212,908	40,188	253,096
Auxiliary enterprises	16,146,423	—	16,146,423
Net realized and unrealized gains on investments	163,847	59,371	223,218
Amounts allowed per university's endowment spending policy	—	2,092,948	2,092,948
Other revenue	2,663,869	77,428	2,741,297
Net assets released from restriction for satisfaction of program restrictions (note 14)	<u>21,160,382</u>	<u>(21,160,382)</u>	<u>—</u>
Total operating revenue, gains, and other support	<u>111,367,628</u>	<u>1,898,942</u>	<u>113,266,570</u>
Expenses (note 9):			
Instruction	31,031,912	—	31,031,912
Research	8,149,710	—	8,149,710
Academic support	9,809,900	—	9,809,900
Student services	10,680,860	—	10,680,860
Institutional support	25,637,522	—	25,637,522
Public service	2,291,941	—	2,291,941
Auxiliary enterprise	16,004,990	—	16,004,990
Total operating expenses	<u>103,606,835</u>	<u>—</u>	<u>103,606,835</u>
Change in net assets from operating activities	<u>7,760,793</u>	<u>1,898,942</u>	<u>9,659,735</u>
Nonoperating activities:			
Private gifts and grants	—	169,551	169,551
Investment income, net	—	1,254,994	1,254,994
Net realized and unrealized gains on investments	—	1,866,866	1,866,866
Change in beneficial interest in perpetual trusts	—	8,468	8,468
Amounts allowed per university's endowment spending policy	—	(2,092,948)	(2,092,948)
Change in net assets from nonoperating activities	<u>—</u>	<u>1,206,931</u>	<u>1,206,931</u>
Change in net assets	7,760,793	3,105,873	10,866,666
Net assets, beginning of year	<u>117,997,052</u>	<u>91,279,727</u>	<u>209,276,779</u>
Net assets, end of year	<u>\$ 125,757,845</u>	<u>94,385,600</u>	<u>220,143,445</u>

See accompanying notes to financial statements.

**CLARK ATLANTA UNIVERSITY**  
**Statements of Cash Flows**  
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 7,177,537	10,866,666
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,855,774	9,034,837
Amortization of asset held and not used	95,000	95,000
Amortization of bond issuance costs	27,185	69,662
Accretion of asset retirement obligation	57,553	54,293
Provision for bad debt	594,816	107,983
Receipt of agency funds (Federal Direct Student Loans and Federal Pell Grants)	81,977,816	85,958,657
Disbursement of agency funds	(81,977,816)	(85,958,657)
Contributions, grants, and income restricted for long-term investment and acquisition of property, plant, and equipment	(162,040)	(169,551)
Debt guarantee obligation expense (benefit)	14,444	(2,310)
Net realized and unrealized gains on investments and beneficial interest in perpetual trust	(2,821,922)	(2,098,552)
Changes in operating assets and liabilities:		
Accounts receivable, net	2,890,000	(2,291,999)
Pledges receivable	533,122	(124,012)
Prepays and other assets	204,647	(144,275)
Accounts payable and accrued expenses	(1,013,660)	18,275
Other liabilities	(358,924)	(342,170)
Advances from granting agencies	123,012	(804,316)
Deferred revenue	19,034	(137,496)
Net cash provided by operating activities	<u>16,235,578</u>	<u>14,132,035</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	80,256,323	31,710,125
Purchases of investments	(79,472,226)	(31,025,199)
Loans advanced to students (Perkins)	—	(136)
Proceeds from student loan repayments	826,426	578,665
Purchases of property, plant, and equipment	(9,847,193)	(10,067,153)
Net cash used in investing activities	<u>(8,236,670)</u>	<u>(8,803,698)</u>
Cash flows from financing activities:		
Contributions and income restricted for long-term investment and acquisitions of property, plant, and equipment	162,040	169,551
Principal repayments on bonds, notes, and mortgages payable	(3,330,416)	(3,204,636)
Refundable advances	(1,469,650)	(1,215,506)
Net cash used in financing activities	<u>(4,638,026)</u>	<u>(4,250,591)</u>
Net increase in cash and cash equivalents	3,360,882	1,077,746
Cash and cash equivalents beginning of year	<u>36,541,233</u>	<u>35,463,487</u>
Cash and cash equivalents end of year	<u>\$ 39,902,115</u>	<u>36,541,233</u>
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 31,374,002	26,563,325
Restricted cash	3,899,622	4,099,319
Deposits held with bond trustee	3,149,131	4,326,836
Cash and cash equivalents within non-endowed investment funds	<u>1,479,360</u>	<u>1,551,753</u>
Total cash and cash equivalents and restricted cash	<u>\$ 39,902,115</u>	<u>36,541,233</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 727,045	1,017,692
Purchase of property, plant, and equipment included in accounts payable and accrued expenses	373,027	1,573,963

See accompanying notes to financial statements.



# CLARK ATLANTA UNIVERSITY

## Notes to Financial Statements

June 30, 2020 and 2019

### (1) Summary of Significant Accounting Policies

Clark Atlanta University (CAU or the University), which was formed in 1988 as a result of the consolidation of two independent, historically black institutions—Atlanta University (established 1865) and Clark University (established 1869), is a United Methodist Church–related, private, coeducational, residential, and comprehensive urban research university located in Atlanta, Georgia. The University offers undergraduate, graduate, doctoral, and professional degrees, as well as nondegree certificate programs. The University is classified by Carnegie as an R2 Research Institute and is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. The University is primarily supported by tuition and fees from students.

#### (a) Basis of Presentation

The financial statements of the University have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP) as promulgated by the Financial Accounting Standards Board (FASB).

#### (b) Classification of Net Assets

The net assets, revenue, expenses, gains, and losses of the University are classified based on the existence or absence of donor-imposed purpose or time restrictions. Accordingly, the net assets of the University and changes therein are classified and reported as follows:

*Without donor restrictions* – Net assets that are not subject to donor-imposed purpose or time stipulations

*With donor restrictions* – Net assets subject to donor-imposed stipulations that will be met either by actions of the University and/or the passage of time or in perpetuity; the University reports gifts of cash and other assets as donor-restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are restricted as to timing of use. When a donor restriction expires, that is, when a stipulated time restriction expires or purpose restriction is accomplished, donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction. Net assets in this class include donor-restricted endowment funds and its earnings. The University is generally permitted to use or expend part or all of the income and gains derived from the donated assets based on donor-imposed designations.

Revenue is reported as increases in net assets without donor restrictions unless its use is limited by donor-imposed restrictions. Contributions of assets other than cash and cash equivalents are recorded at their estimated fair value at the date of the gift as determined by independent appraisal or other valuation methods as deemed appropriate by management. Contributions to be received after one year are recorded as pledge receivables and are discounted at rates commensurate with the risk involved as of the date of the unconditional promise to give. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

## CLARK ATLANTA UNIVERSITY

### Notes to Financial Statements

June 30, 2020 and 2019

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law requiring the activity to be reported as net assets with donor restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications (releases) from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. Donor-imposed restrictions on gifts to acquire long-lived assets are released from restriction at the time such long-lived assets are placed into service.

#### **(c) Cash and Cash Equivalents, Restricted Cash, and Deposits Held with Bond Trustees**

Cash and cash equivalents consist primarily of demand deposits at financial institutions. Short-term investments with original maturities of three months or less when purchased are classified as cash equivalents. The credit risk is the amount of deposits in excess of federally insured limits. The amount of deposits in excess of federally insured limits was \$34,770,740 and \$30,160,091, respectively, as of June 30, 2020 and 2019. Restricted cash consists of cash on hand that is restricted for a specific purpose. Restricted cash consists of mortgages payable escrow deposits and Perkins' loan student repayments. Deposits held with bond trustees consist of debt service funds, which are restricted for the payment of debt related to certain outstanding bonds payable.

#### **(d) Accounts Receivable**

The University's receivables primarily consist of amounts due from students for tuition and fees, receivables from federal and state agencies, and agency receivables. Receivables are stated at amounts due, net of an allowance for doubtful accounts. The University determines its allowance for doubtful accounts by considering the University's previous loss history and specific account circumstances. Past-due status is based on contractual terms of the receivable. Receivables are written off once the University determines that the receivable is no longer collectible.

#### **(e) Works of Art**

The collections that were acquired prior to 2005 through purchases and contributions since the University's inception are not recognized as assets on the accompanying statements of financial position. Purchases of collection items are recorded as artwork in net assets without donor restrictions in the year in which the items are acquired or as net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Works of art are included as a component of property, plant, and equipment, net. Works of art are not depreciated.

#### **(f) Investments**

Investments are carried at fair value with the change in fair value being recorded as unrealized gains (losses). The fair value of publicly traded fixed-income and equity securities is based on quoted market prices and exchange rates, if applicable.

Investments in alternative investments (often in the form of limited partnerships) often do not have readily determinable fair values and are valued using the most current information provided by the general partner and/or the investment manager. The change in net assets related to partnership interests is presented as realized and unrealized gains and losses based on the estimated fair value of

## CLARK ATLANTA UNIVERSITY

### Notes to Financial Statements

June 30, 2020 and 2019

each partnership interest. Private equity investments are generally valued at amounts determined by management based on information provided by fund managers or general partners, unless there is an active secondary trading market in the securities. Hedge fund investments are valued at amounts determined by management based on information provided by fund managers or general partners, unless a significant investment event occurs that mandates a revaluation of the investment.

Valuations for alternative investments provided by the general partners and/or investment managers are evaluated by management, and management believes such values are reasonable estimates of fair value. These investments are valued at fair value estimated using the Net Asset Values (NAV) as a practical expedient.

The University's investments include various types of investment securities and investment vehicles. Investment securities and vehicles are exposed to several risks, such as interest rate, currency, market, and credit risks. Due to the level of risk associated with certain investment securities and vehicles, it is at least reasonably possible that changes in the values of investment securities and vehicles will occur in the near term and that such changes could materially affect the amounts reported in the University's financial statements.

Certain investments of endowment and similar funds are pooled. Net investment gains (losses) and net investment income are allocated to the pooled endowment funds based on the fair value of the endowment pooled asset funds, proportionately, at the beginning of the fiscal year. Investment income is recorded net of investment expenses of \$161,111 and \$280,657, for the years ended June 30, 2020 and 2019, respectively.

#### **(g) Property, Plant, and Equipment**

Property, plant, and equipment are stated at cost at the date of acquisition or at estimated fair value at the date of donation if acquired as gifts, less accumulated depreciation and amortization. Depreciation of buildings and equipment and amortization of leasehold improvements are computed using the straight-line method over the estimated useful lives of the respective assets or the terms of the respective capital leases. Land is not depreciated. Expenditures for maintenance are expensed and expenditures for capital lease renewals and capital improvements are generally capitalized. A summary of depreciable lives is as follows:

	<u>Years</u>
Buildings	40 Years
Improvements	10–25 Years
Furniture and equipment	10 Years
Vehicles and software	7 Years
Computers	5 Years
Capital leases – telecommunications equipment	3 Years

## CLARK ATLANTA UNIVERSITY

### Notes to Financial Statements

June 30, 2020 and 2019

#### **(h) Asset Held and Not Used**

The University has a hotel/restaurant property with a net book value of \$460,000 and \$555,000 as of June 30, 2020 and 2019, respectively. The hotel/restaurant property is located on the outskirts of the University's campus. In accordance with Accounting Standards Codification (ASC) Topic 360, *Property, Plant and Equipment*, the property was classified as an "asset held and not used" in the accompanying statements of financial position as of June 30, 2020 and 2019. The carrying value is being written down over the remaining estimated economic life and is evaluated for impairment as required. The University recorded \$95,000 in expense for the years ended June 30, 2020 and 2019 in institutional support on the accompanying statements of activities.

#### **(i) Impairment of Long-Lived Assets**

Long-lived assets, such as property, plant, and equipment and assets held and not used, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the University first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

#### **(j) Tuition and Fees**

Under FASB ASC Topic 606, *Revenue From Contracts with Customers*, revenue is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services (i.e., the transaction price).

Tuition and educational fees are recorded in the fiscal year in which the performance obligation has been met. The academic year revenue corresponds to one fiscal year. The order of the academic year is Fall, Spring, and Summer. The University records tuition and fees received prior to the fiscal year-end for the semester's beginning in the subsequent fiscal year as deferred revenue in the statements of financial position. Tuition is charged at different rates depending on the enrollment status of the student. As part of a student's course of instruction, certain fees, such as technology fees, are billed to students. Tuition and fees are earned over the applicable academic term and are not considered separate performance obligations. Student aid is awarded to students to defray the costs of the academic programs, which reduce the amount of revenue recognized. For the year ended June 30, 2020, the approximate \$61 million in net revenue from tuition and fees reflects aggregate reductions from student aid of approximately \$21 million against gross charges for which the amounts at published rates were approximately \$82 million. Financial aid, awards, and scholarships awarded to students were \$21,791,623 in 2020 and \$17,959,036 in 2019.

**CLARK ATLANTA UNIVERSITY**

Notes to Financial Statements

June 30, 2020 and 2019

The following table provides the components of tuition and fees revenue by programs for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Undergraduate programs	\$ 72,372,904	75,282,950
Graduate programs	<u>10,038,347</u>	<u>9,519,108</u>
Total at published rates	82,411,251	84,802,058
Less institutional aid for undergraduate programs	(21,335,680)	(17,581,482)
Less institutional aid for graduate programs	<u>(455,943)</u>	<u>(377,554)</u>
Total tuition and fees revenue	<u>\$ 60,619,628</u>	<u>66,843,022</u>

**(k) Auxiliary Enterprises Revenue and Other Revenue**

Auxiliary enterprise revenue primarily includes resident halls, food services, parking services, health services, campus bookstore, and special events. The distinguishing characteristic of auxiliary services is that they are managed as an essentially self-supporting activity. Auxiliary enterprise revenue is recorded when the performance obligation has been met in the fiscal year. For the years ended June 30, 2020 and 2019, respectively, the approximate \$12.7 million and \$16.1 million in net revenue from auxiliary enterprises reflects aggregate reductions from student aid of approximately \$0.5 million and \$0.1 million, respectively, against gross charges for which the amounts at published rates were approximately \$13.2 million and \$16.2 million, respectively. Student Aid awarded to students was \$549,897 in 2020 and \$136,880 in 2019.

**(l) Private Gifts and Grants**

Unconditional promises to give are recorded when a signed donor agreement is received.

The University reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. For donor-restricted gifts received and expensed during the same fiscal year, the University records those gifts directly into net assets without donor restrictions.

The University reports gifts of property, plant, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**(m) Government Grants**

Funding from the federal and state governments is recorded as government grants revenue when it is for a specified activity with a defined budget, period of performance, and scope of work undertaken by the University. The agreement with the government agency may take the form of a contract, grant, or cooperative agreement and is generally in direct support of the University's mission. Revenue is

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recognized when services are rendered, milestones are met, or qualifying expenses are incurred as specified in the terms and conditions of the agreements, not necessarily when payments are received. Unearned revenue results when cash is received from government agencies in advance of revenue being earned. Unearned revenue is recorded as a liability (deferred revenue) until it is earned. Amounts recorded in accounts receivable are for services rendered or expenditures incurred in advance of the receipt of funds. Indirect cost recoveries are based on negotiated rates with grantor agencies and represent recoveries of facilities and administrative costs incurred under grants and contracts agreements.

#### **(n) Novel Coronavirus Pandemic (COVID-19)**

In March 2020, the World Health Organization declared the novel coronavirus a pandemic. The outbreak of the disease has affected travel, commerce and financial markets globally, including in the United States. The continued spread of COVID-19 and its impact on social interaction, travel, economies and financial markets may significantly affect operations and financial condition, including, among other things, (i) the ability of the University to conduct its operations and/or the cost of operations, (ii) governmental and non-governmental funding, and (iii) financial markets impacting investments valuation and interest rates.

In March, 2020, the University postponed commencement until May 16, 2021 for 2020 graduates and soon thereafter the decision was made by the University to continue offering instruction in all its courses in a virtual format only for the remainder of the spring 2020 academic term. Students continued to meet their academic requirements for the remainder of the 2019 – 2020 academic year. The University has continued to operate virtually for the fall 2020 academic semester as the University works with state medical officials, public health experts, and scientists to create a viable plan that could bring students back to campus.

As a result of actions taken by the University to move to remote learning, the University provided refunds for room and board, meals, parking, and student fees on a prorated basis, of approximately 40% of the spring 2020 term or approximately \$3.7 million. The University continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic mission.

As COVID-19 disruptions impacted operations and liquidity of various industries, including higher education, the federal Coronavirus Aid, Relief and Economic Security (CARES) Act was passed on March 27, 2020. The CARES Act appropriated funds specifically for higher education institutions as general grants, minority-serving and strengthening institutions grants, and unmet needs grants. During fiscal 2020, under the CARES Act, the College received \$8,724,393 in grants to support expenses and revenue loss attributable to COVID-19. The stimulus funding grants were recorded as conditional contributions in accordance with subtopic ASC 958-605, as amended by ASU 2018-08, in government grants and contracts in the accompanying statements of activities.

#### **(o) Allocation of Functional Expenses**

Expenses are reported in the statements of activities in categories recommended by the National Association of Colleges and University Business Officers. The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the University. Costs related to the operation and maintenance of physical plant, including depreciation of

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plant assets and interest expense, are allocated to program services and supporting activities based on square footage or estimate of time and usage of the University's facilities.

**(p) Atlanta University Center Consortium, Inc. and Robert W. Woodruff Library, Inc.**

Atlanta University Center Consortium, Inc. and Robert W. Woodruff Library, Inc. are affiliated organizations that allocate a portion of their expenses to the Atlanta University Center institutions that receive benefits from the organizations. The expenses recorded by the University primarily relate to the cost of operating the Robert W. Woodruff Library, which is utilized by the University, and the other Atlanta University Center institutions. Expenses allocated to the University during the years ended June 30, 2020 and 2019 from these organizations totaled \$4,983,853 and \$5,069,035, respectively, and are recorded in academic support in the accompanying statements of activities.

**(q) Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts that are reported in the accompanying financial statements and disclosures during the reporting period. Significant items subject to such estimates and assumptions include, but are not limited to, valuations for certain investments without readily determinable fair values, allowances for uncollectible accounts and pledges receivable, debt guaranteed obligation, and estimated useful lives of capital assets. Actual results could differ from those estimates.

**(r) Loss Contingencies**

The University accounts for loss contingencies in accordance with ASC Topic 450, *Contingencies*. Accordingly, when management determines that it is probable that an asset has been impaired or a liability has been incurred, the University accrues its best estimate of the loss if it can be reasonably estimated. The University's legal costs related to litigation are expensed as incurred.

**(s) Income Tax Status**

The University is recognized by the Internal Revenue Service as an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), except for taxes on income from activities unrelated to its exempt purpose.

The University evaluates its uncertain tax positions using the provisions of ASC Topic 740, *Income Taxes*. The University follows the criterion that an individual tax position has to meet some or all of the benefits of that position to be recognized in the University's financial statements. The University determines whether the relevant tax authority would more likely than not sustain that tax position following an audit by a tax authority.

The University has applied this criterion to all tax positions for which the statute of limitations remains open. Prior tax years open to examination by tax authorities under the statute of limitations include fiscal years 2016 through 2019 for the U.S. federal and state of Georgia jurisdictions. The University has determined that its tax positions satisfy the more likely than not criterion and that no provision for income taxes is required at June 30, 2020 and 2019. The University has a policy to record interest and penalties (if any) related to income tax matters in income tax expense.

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#### **(t) Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The University adopted this new standard in fiscal year 2020. The University's adoption of this ASU did not materially change the timing or amount of revenue recognized by the University. However, the ASU requires that tuition and fees be presented in the statements of activities at the transaction price that is net of any institutional student aid. Previously, such revenue was presented gross, at published rates, followed by a reduction for institutional student aid. Accordingly, the University's 2019 statement of activities has been revised to conform to the 2020 presentation.

In November 2019, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash - a consensus of the FASB Emerging Issues Task Force* (ASU 2016-18). The amendments in ASU 2016-18 require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. The University adopted this standard in fiscal year 2020. The University's adoption of this ASU resulted in deposits held with bond trustees and cash included within non-endowment investment funds being included with cash and cash equivalents in the reconciliation presented on the statement of cash flows. As a result, the University reclassified certain amounts previously reported in its statement of cash flows for the year ending June 30, 2019. The adoption increased beginning of year cash and cash equivalents and restricted cash by \$5,150,330, end of year cash and cash equivalents and restricted cash by \$5,878,589, net cash used in investing activities by \$372,447, and net cash used in financing activities by \$355,812.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). The amendments in ASU 2016-02 create FASB ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset (current asset) representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. In June 2020, the FASB issued ASU No. 2020-05, which further delayed the effective date of ASU 2016-02. The ASU is effective, as deferred, for the University for fiscal years beginning after December 15, 2021, and the University plans to implement the provisions of ASU 2016-02 during fiscal year 2023. The University has not yet determined the impact of the new standard on its current policies for lessee accounting.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition,



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measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. Under the ASU, not-for-profit and private entities are no longer required to disclose fair value information concerning financial instruments measured at amortized cost, such as long-term debt. This provision of ASU 2016-01 may be early adopted for financial statements, which have not yet been issued or made available for issuance. The University early adopted this provision of ASU 2016-01 in fiscal year 2017. The University adopted the remaining provisions of the ASU during fiscal year 2020. The adoption of ASU 2016-01 did not have a material effect on the University's financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurement*. After the adoption of ASU 2018-13, the University is no longer required to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements; and the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU also eliminated the requirement to disclose a roll forward for Level 3 fair value measurements, however in lieu of this roll forward, the University is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities. ASU 2018-13 is effective for the University's annual period beginning after December 15, 2019. Early adoption is permitted.

The University early adopted ASU 2018-13 as of July 1, 2019. The adoption of this accounting guidance resulted in the removal or modification of certain fair value measurement disclosures presented in the University's financial statements. The University's adoption of ASU 2018-13 did not have a material effect on its financial statements.

In June 2019, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The ASU is effective for the University in fiscal year 2020. The University has adopted this guidance noting no material impact on the financial statements.

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**(2) Accounts and Pledges Receivable**

Accounts receivable consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ 6,741,505	6,498,843
Grants receivable	2,026,875	3,485,591
Agency receivable	183,009	1,862,428
Other receivable	<u>711,613</u>	<u>784,189</u>
Total	9,663,002	12,631,051
Less allowance for doubtful accounts	<u>(6,543,995)</u>	<u>(6,049,179)</u>
Accounts receivables, net	\$ <u>3,119,007</u>	<u>6,581,872</u>

Adjustments to the allowance for doubtful accounts are classified within institutional support in the accompanying statements of activities.

Pledges receivable as of June 30, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Pledges receivable to be collected in:		
Less than one year	\$ 818,791	1,253,646
One year to five years	500,000	510,000
More than five years	<u>100,000</u>	<u>200,000</u>
Pledges receivable, gross	1,418,791	1,963,646
Less unamortized discount	(185,021)	(196,754)
Less allowance for doubtful accounts	<u>(792,739)</u>	<u>(692,739)</u>
Total	\$ <u>441,031</u>	<u>1,074,153</u>

Pledges receivable to be received after one year are discounted and recorded at their estimated fair value at the date they are pledged. The University uses an appropriate discount rate commensurate with the risks involved and the expected period of payment. The total discount on those amounts is computed using a market discount and a risk-adjusted interest rate applicable to the years in which the promises are received, with the total rate averaging 5% as of June 30, 2020 and 2019, respectively. Amortization of discounts is included in private gifts and grants in the accompanying statements of activities. An allowance for uncollectible pledges receivable is provided based on management's judgment, including such factors as the age of the receivable, creditworthiness of parties, historical collection experience, type of contribution, and nature of fundraising activity.

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**(3) Investments**

The fair value of investments is summarized as follows as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Endowment pooled funds:		
Cash, money market, and short-term funds	\$ 2,055,619	624,659
Certificates of deposit	—	9,591
Common stocks	40,851,761	46,313,597
Mutual funds:		
Equity funds	1,595,584	1,588,419
Bonds funds	17,788,755	12,694,600
Commodities funds	2,480,822	49,425
Real estate funds	973,171	287,877
Alternative funds:		
Hedge funds	5,744,417	7,555,084
Other investment funds:		
Cash, money market, and short-term funds	1,479,360	1,551,753
Government securities	—	88,116
Mutual funds:		
Equity funds	7,136,099	7,055,824
Bonds funds	3,543,892	3,828,363
Commodities funds	<u>152,307</u>	<u>186,924</u>
Total investments	\$ <u>83,801,787</u>	<u>81,834,232</u>
	<u>2020</u>	<u>2019</u>
With donor restrictions	\$ 77,572,325	74,013,936
Without donor restrictions	<u>6,229,462</u>	<u>7,820,296</u>
Total investments	\$ <u>83,801,787</u>	<u>81,834,232</u>

The endowment pooled funds consist of donor-restricted endowment corpus and funds, and gains thereon.

Other investment funds consist of endowment nonpooled funds and nonendowment funds primarily consisting of money market funds, bond funds, and equity securities.

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Net realized and unrealized gains on investments and beneficial interest in perpetual trust consist of the following as of June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Net realized gains	\$ 6,811,449	1,563,332
Net unrealized (losses) gains	(3,989,527)	535,220
Total	\$ 2,821,922	2,098,552

**(4) Perkins Loan Program**

The University provides uncollateralized Perkins program loans to students based on financial need under the U.S. Government National Direct Student Loan Program. The U.S. government provides grants to the University for a portion of the funds loaned to students. These loans are guaranteed against default by the U.S. government, and thus, no loan loss reserve has been recorded by the University at June 30, 2020 or 2019. The University is responsible for disbursements and subsequent collection of these loans. The availability of funds for ongoing loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Advances from the federal government under the Perkins program are refundable to the U.S. government upon liquidation of the Perkins program. The U.S. Department of Education announced in December 2016 that it was liquidating the Perkins Loan Program. The University began complying with this change in the fall of 2019 by discontinuing drawdowns from the program. Outstanding refundable advances in the amount of \$5,332,009 and \$6,821,925 at June 30, 2020 and 2019, respectively, payable to the federal government, are reflected within refundable advances in the accompanying statements of financial position. The remaining balance of the refundable advances payable at June 30, 2020 and 2019 consists of \$162,379 and \$162,379 related to grant agency and \$119,149 and \$98,883, related to campus clubs and organizations, respectively. Outstanding loans canceled under the program result in a reduction of the funds available for loans and a decrease in the liability to the government. As of June 30, 2020 and 2019, the University had the following outstanding student loans receivable under the Perkins loan program.

	<b>2020</b>	<b>2019</b>
Perkins loan receivable, gross	\$ 11,187,032	12,013,458
Adjustments:		
Defaulted loans submitted to the government	(4,284,904)	(4,278,195)
Other – net	(1,484,934)	(1,569,692)
Total Perkins loans receivable, net	\$ 5,417,194	6,165,571

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**(5) Property, Plant, and Equipment**

Property, plant, and equipment consisted of the following as of June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Buildings and improvements	\$ 225,324,596	215,738,824
Furniture, computers, software, equipment, capital leases, and vehicles	47,674,324	42,426,842
Land and improvements	18,924,443	18,828,255
Construction in progress	—	6,283,185
Artwork	291,671	291,671
Total assets	292,215,034	283,568,777
Less accumulated depreciation	(167,260,772)	(158,404,998)
Net book value	\$ 124,954,262	125,163,779

Depreciation expense for the years ended June 30, 2020 and 2019 amounted to \$8,855,774 and \$9,034,837, respectively.

**(6) Operating Leases**

The University has several operating leases, primarily for equipment rental. A summary of future minimum operating lease payments for cancelable and noncancelable leases with initial or remaining lease terms in excess of one year is as follows:

	<b>Operating leases</b>
Year ending June 30:	
2021	\$ 715,749
2022	526,353
2023 and thereafter	20,375
Total	\$ 1,262,477

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**(7) Mortgages Payable**

Mortgages payable consisted of the following as of June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Mortgage payable in semiannual installments of principal and interest, bearing interest at the annual fixed rate of 3%, maturing in April 2021, collateralized by certain real property	\$ 173,833	342,566
Mortgage payable in semiannual installments of principal and interest, bearing interest at the annual fixed rate of 5.5%, maturing August 2024, collateralized by certain real property	808,723	963,164
Total	\$ 982,556	1,305,730

Annual maturities of mortgages payable in periods subsequent to June 30, 2020 are as follows:

	<b>2020</b>
Year ending June 30:	
2021	\$ 336,885
2022	172,143
2023	181,741
2024	191,874
2025	99,913
Total	\$ 982,556

As a requirement of the mortgage agreements, the University is required to maintain a debt service reserve account and repair and replacement reserve account amounting to \$1,046,869 with a bank that is a member of the FDIC until the applicable mortgage matures. This amount is included in restricted cash on the accompanying statements of financial position as of June 30, 2020 and 2019.

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**(8) Bonds Payable**

Bonds payable consisted of the following at June 30, 2020 and 2019:

	<u>Original</u>	<u>Interest rate</u>	<u>Maturity date</u>	<u>2020</u>	<u>2019</u>
Rice Capital Access Program, LLC (formerly Commerce Capital Access Corporation) Future Advance Project Funding Bond, Series A 2007-1 4.13%	\$ 18,349,186	Fixed	2037	\$ 13,414,315	13,946,714
Rice Capital Access Program, LLC (formerly, Commerce Capital Access Corporation) Future Advance Project Funding Bond, Series A 2013-1 0.757%	13,733,594	Fixed	2020	—	2,157,173
Total				13,414,315	16,103,887
Less bond issuance costs				(149,778)	(176,963)
Total bonds payable, net				<u>\$ 13,264,537</u>	<u>15,926,924</u>

On May 20, 2007, the University signed a promissory note with Commerce Capital Access Corporation under the Historically Black Colleges and Universities (HBCU) Capital Financing Program in the amount of \$20,000,000. The purpose of this issuance was to finance the renovation of several of the University's residence halls and the associated infrastructure. Additionally, the demolition of Brawley Hall was completed in fall 2007 using funds from this program. These projects were completed in fiscal year 2009. Total funds drawn down as required to complete these activities were \$18,349,186. The Series 2007 bonds are collateralized by property, pledged revenue, and the debt service reserve fund.

The total amount of principal outstanding for the Series 2007-1 bonds of \$13,414,315 and \$13,946,714, respectively, at June 30, 2020 and 2019 is made up of eight bonds, each carrying fixed rates ranging from 3.63% to 5.22%. The interest rate noted in the table above of 4.13% is the weighted average interest rate based on the rate applicable and the amount outstanding for each individual bond at June 30, 2020.

On January 16, 2013, the University signed a promissory note for a Capital Project Loan Agreement (the Agreement) with Commerce Capital Access Program, LLC under the HBCU Capital Financing Program in the amount of \$13,733,594. The purpose of the Agreement was to provide funds to refinance and defease the outstanding Series 1995 revenue bond. During the year ended June 30, 2020, the University fully repaid the remaining obligation on this bond.

All of the above bonds require the establishment of an escrow account into which a deposit amounting to 5% of each advance is required to be made. The University has assigned all rights and interest to the escrow account to the trustee for the lender. The use of the escrow funds is governed, in part, by a trust indenture, which provides for claims against the escrow account for a share of defaulted loans of other borrowers participating in the HBCU Capital Financing Program (note 16).

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The bonds also require the University to make certain deposits into a debt service account held by the trustee for the periodic payment of bond interest and retirement of bond principal and the creation of other specific reserve accounts. The balances held in these accounts as of June 30, 2020 and 2019 totaled \$3,149,131 and \$4,326,836, respectively, and are included in deposits held with bond trustees in the accompanying statements of financial position. Additionally, both agreements contain debt covenants that require net income available for debt service be equal to at least 120% of the maximum annual debt service. The University is in compliance with the debt covenants as of June 30, 2020 and 2019.

Annual maturities of the bonds in periods subsequent to June 30, 2020 are as follows:

	<b>Future Advance Project Funding Series 2007-1</b>
Year ending June 30:	
2021	\$ 559,097
2022	580,902
2023	605,178
2024	630,413
2025	653,000
Thereafter	10,385,725
Total	\$ 13,414,315

During the year ended June 30, 2020, the University applied to receive a deferment under the Coronavirus Aid, Relief, and Economic Security Act through the Historically Black College and University Capital Financing Program. On September 15, 2020, the University entered into a promissory note related to Series A 2007-1 Bond, dated May 25, 2007. The initial deferment period began retroactively, on April 1, 2020 and ended on September 30, 2020, and represents a temporary postponement of principal and interest payments. The interest will not be capitalized during the deferment and will not continue to accrue beyond the stated bond maturity date. The University must repay the principal amount of its loan, with any interest accrued during the deferment, which will cause an extension of the loan's maturity. As a result of entering the promissory note, subsequent to June 30, 2020, the U.S. Department of Education refunded the University for the payments that were made during the deferment period.

**(9) Expenses**

The University's primary program services are instruction, research, and public service. Expenses reported as academic support, student services, institutional support, and auxiliary enterprises are incurred in support of these primary program services. Institutional support includes fundraising expenses of \$1,887,478 and \$1,536,411, respectively, for the years ended June 30, 2020 and 2019. Interest expense for the years ended June 30, 2020 and 2019 was \$707,697 and \$786,117, respectively, and was allocated to auxiliary enterprises, student services, and institutional support based on the purpose of the debt



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instrument. Advertising expenses for the years ended June 30, 2020 and 2019 were \$47,062 and \$50,376, respectively.

Expenses by natural and functional classifications for the year ended June 30, 2020 are as follows:

	Functional categories								Total
	Instruction	Research	Academic support	Student services	Institutional support	Public service	Auxiliary enterprise	Student aid	
Salaries and wages	\$ 17,469,736	3,934,061	3,033,763	5,178,388	11,545,078	1,040,114	335,519	—	42,536,659
Fringe benefits	4,517,249	770,328	760,274	1,394,179	3,655,370	253,055	95,338	—	11,445,793
Contractual services	337,005	621,180	172,403	779,380	4,265,255	164,726	5,809,838	—	12,149,787
Travel	295,074	125,378	171,781	395,992	216,012	22,583	2,197	—	1,229,017
Supplies	160,828	290,728	72,647	370,217	586,649	41,555	71,993	—	1,594,617
Repairs and maintenance	221,333	103,172	15,732	83,070	105,325	9,495	319,988	—	858,115
Other expenses	157,586	79,588	157,665	645,116	2,786,783	548,737	219,791	—	4,595,266
Insurance	—	—	88,983	—	924,831	—	—	—	1,013,814
Communication costs	110,131	17,509	19,567	65,872	164,540	97,845	203,939	—	679,403
Printing and duplication	50,792	18,534	5,077	129,924	186,639	5,314	(41,605)	—	354,675
Utilities	1,061,094	380,315	73,166	280,886	331,409	—	1,588,855	—	3,715,725
Subcontracts	1,246,330	577,769	83,220	319,361	375,123	480	1,807,178	—	4,409,461
AUC costs	—	—	4,534,143	—	449,710	—	—	—	4,983,853
Student aid	—	—	—	—	—	—	—	3,032,175	3,032,175
Interest expense	—	—	—	2,032	33,344	—	672,321	—	707,697
Depreciation	2,531,992	907,511	174,590	669,999	780,341	—	3,791,341	—	8,855,774
Total operating expenses	\$ 28,159,150	7,826,073	9,363,011	10,314,416	26,406,409	2,183,904	14,876,693	3,032,175	102,161,831

Expenses by natural and functional classifications for the year ended June 30, 2019 are as follows:

	Functional categories								Total
	Instruction	Research	Academic support	Student services	Institutional support	Public service	Auxiliary enterprise	Student aid	
Salaries and wages	\$ 17,837,204	4,151,297	2,856,577	4,651,974	10,648,199	1,105,321	297,506	—	41,548,078
Fringe benefits	5,885,025	1,037,270	852,657	1,761,467	3,616,034	349,023	97,034	—	13,598,510
Contractual services	361,064	495,333	226,058	947,868	5,139,824	222,422	7,090,259	—	14,482,828
Travel	412,414	275,873	378,998	484,730	315,662	23,926	4,796	—	1,896,399
Supplies	265,940	435,837	100,671	383,671	247,112	56,145	90,585	—	1,579,961
Repairs and maintenance	202,234	97,514	14,730	70,667	110,201	183	310,932	—	806,461
Other expenses	458,954	224,204	314,726	735,614	2,156,439	434,950	150,498	—	4,475,385
Insurance	5,985	2,145	83,654	1,584	684,825	—	8,962	—	787,155
Communication costs	101,743	15,716	13,607	61,160	263,691	88,068	98,726	—	642,711
Printing and duplication	66,502	21,015	12,458	164,360	78,469	11,903	(53,771)	—	300,936
Utilities	1,145,871	410,701	79,012	303,213	356,155	—	1,715,798	—	4,010,750
Subcontracts	1,243,580	759,210	83,220	319,361	375,123	—	1,807,178	—	4,587,672
AUC costs	—	—	4,602,866	—	466,169	—	—	—	5,069,035
Interest expense	—	—	—	2,172	45,260	—	738,685	—	786,117
Depreciation	3,045,396	223,595	190,666	793,019	1,134,359	—	3,647,802	—	9,034,837
Total operating expenses	\$ 31,031,912	8,149,710	9,809,900	10,680,860	25,637,522	2,291,941	16,004,990	—	103,606,835

## CLARK ATLANTA UNIVERSITY

### Notes to Financial Statements

June 30, 2020 and 2019

#### (10) Retirement Plan

The University participates in a multiemployer defined-contribution retirement plan with the Teacher's Insurance and Annuity Association and College Retirement Equities Fund, which covers substantially all full-time faculty, staff, and certain other salaried employees. Personnel are eligible and it is required that they enroll in the plan after they have completed two years of full-time service and have attained age 21. Full-time faculty and staff members with two years or more of service at another institution of higher education are eligible for the retirement plan at the time of hire. Faculty and staff contribute 3% of monthly gross income, and the University contributes 5% of monthly gross income. Total expenses under this plan for the years ended June 30, 2020 and 2019 were \$1,514,146 and \$1,445,574, respectively.

#### (11) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction among market participants. There is a three-tier fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the University's assumptions (unobservable inputs). Fair value measurements are classified under the following hierarchy:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Pricing inputs other than Level 1 that are either directly or indirectly observable
- Level 3: Unobservable pricing inputs developed using the University's estimates and assumptions, which reflect those that market participants would use in pricing an asset or liability.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the University. The University considers observable data to be the market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The University evaluates its hierarchy disclosures each reporting period, and based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the University expects that changes in classifications between different levels will be rare.

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, deposits held with bond trustees, and accounts payable approximate fair value because of the nature and relatively short maturity of these financial instruments and are included in Level 1 of the fair value hierarchy table.

A reasonable estimate of the fair value of the refundable advances and the Perkins loans receivable, which represent federally sponsored student loans with U.S. government-mandated interest rates and repayment terms and are subject to significant restrictions as to their transfer or disposition, could not be made because the refundable advances and the Perkins loans receivable are not marketable and can only be assigned to the U.S. government or its designees. The fair value of notes receivable from students under the University's loan programs and from others approximates carrying value. Furthermore, accounts receivable have been reduced by allowances, which approximates their net realizable values.

## CLARK ATLANTA UNIVERSITY

### Notes to Financial Statements

June 30, 2020 and 2019

Pledges receivable for current year gifts are initially measured at fair value in the year the receivable is recorded based on the present value of future cash flows discounted at a rate commensurate with risks involved, which is an application of the income approach. Current year gifts included in pledges receivable reflected at fair value at June 30, 2020 and 2019 totaled approximately \$427,500 and \$388,000, respectively.

Investments whose values are based on quoted market prices in active markets are classified within Level 1 and include active listed equities, mutual funds, certain U.S. government and sovereign obligations, and certain money market securities. The University does not adjust the quoted price for such instruments, even in situations where the University holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within Level 2. Investments include positions that are not traded in active markets and/or are subject to transfer restrictions. Valuations may be adjusted to reflect illiquidity and/or non transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs as they trade infrequently or not at all. When observable prices are not available for these securities, the University uses one or more valuation techniques (e.g., the market approach, the income approach, or the cost approach) for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market, and/or other risk factors.

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy.

**(a) Common stocks**

Common stocks are valued at the quoted prices in an active market and are classified within Level 1 of the fair value hierarchy.

**(b) Mutual Funds**

This category includes funds that predominantly take long positions in publicly traded fixed-income securities, however may also include funds with investment strategies in equities and commodities. These investments are valued at quoted prices in an active market and are classified within Level 1 of the fair value hierarchy.

**(c) Alternative Investments**

Alternative investments consist of hedge funds which are valued at fair value estimated using NAV reported by the investment managers as a practical expedient. In accordance with ASC Subtopic 820-10, *Fair Value Measurements and Disclosures – Overall*, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended

**CLARK ATLANTA UNIVERSITY**

Notes to Financial Statements

June 30, 2020 and 2019

to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.

The University has \$5,744,417 and \$7,555,084 of investments at June 30, 2020 and 2019, respectively, which are reported at estimated fair value using NAV per share as a practical expedient. Unless it is probable that all or a portion of the investment will be sold for an amount different from NAV, the University has applied a practical expedient and concluded that the NAV reported by the underlying fund approximates the fair value of these investments.

Assets and liabilities recorded at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The following is a summary of the University's investments within the fair value hierarchy as of June 30, 2020 and 2019, as well as related strategy:

<u>June 30, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments measured at NAV</u>	<u>Total</u>
Cash, money market, and short-term funds and certificates of deposit	\$ 3,534,979	—	—	—	3,534,979
Common stocks	40,851,761	—	—	—	40,851,761
Mutual funds	33,670,630	—	—	—	33,670,630
Alternative investments:					
Hedge funds (a)	—	—	—	5,744,417	5,744,417
Subtotal investments	78,057,370	—	—	5,744,417	83,801,787
Beneficial interest in perpetual trust	—	—	419,407	—	419,407
Total	\$ 78,057,370	—	419,407	5,744,417	84,221,194

<u>June 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments measured at NAV</u>	<u>Total</u>
Cash, money market, and short-term funds and certificates of deposit	\$ 2,186,003	—	—	—	2,186,003
Common stocks	46,313,597	—	—	—	46,313,597
Government securities	88,116	—	—	—	88,116
Mutual funds	25,691,432	—	—	—	25,691,432
Alternative investments:					
Hedge funds (a)	—	—	—	7,555,084	7,555,084
Subtotal investments	74,279,148	—	—	7,555,084	81,834,232
Beneficial interest in perpetual trust	—	—	421,530	—	421,530
Total	\$ 74,279,148	—	421,530	7,555,084	82,255,762

**CLARK ATLANTA UNIVERSITY**

Notes to Financial Statements

June 30, 2020 and 2019

- (a) These investments are held in a hedge fund that seeks to generate long-term capital appreciation with relatively low volatility and a low correlation with traditional equity and fixed-income markets. The hedge fund is a diversified portfolio of investments in relative value, long/short equities, credit, merger arbitrage/event driven, short selling, opportunistic/macro, multi-strategy, and derivatives in foreign exchange contracts. The fair values of the investments in these funds have been estimated using the NAV per share of the funds as a practical expedient.

Additional information about alternative investments is as follows:

	<u>2020 fair value</u>	<u>Unfunded commitments</u>	<u>2019 fair value</u>	<u>Unfunded commitments</u>	<u>Expected liquidation term</u>	<u>Redemption terms</u>
Hedge funds	\$ 5,744,417	—	7,555,084	—	N/A	Annually/quarterly(1)

- (1) Generally, Series B shares may be redeemed on an annual basis effective as of the last day of a shareholder's anniversary quarter. Class EE shares may be redeemed on a quarterly basis.

**(12) Endowment Net Assets**

The University's endowment consists of approximately 200 individual funds established for a variety of purposes. All funds within the endowment are donor restricted. As required by US GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

**(a) Interpretation of Relevant Law**

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the historical value (corpus) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions (1) the original value of primary gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The University considers available endowment earnings as being appropriated for expenditure when the actual qualified expenditure occurs.

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 donor-restricted endowment fund
- (3) General economic conditions
- (4) Effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments

## CLARK ATLANTA UNIVERSITY

### Notes to Financial Statements

June 30, 2020 and 2019

(6) Other resources of the University

(7) The investment policies of the University

#### **(b) Return Objectives and Risk Parameters**

The University has adopted investment and spending policies for endowment assets that attempt to provide a total return (yield plus capital appreciation) necessary at least to preserve and enhance (in real dollars terms) the principal of the endowment fund and at the same time provide a dependable source of income for current operations. The basic objective of the University's endowment investment is to achieve an average annual total real rate of return (adjusted for inflation) of at least 5% as measured over a three-year market period and at the same time outperform the Standard and Poor's 500 Stock Index and other selected weighted market indices.

#### **(c) Strategies Employed for Achieving Objectives**

The endowment of the University is a permanent fund with disciplined investment strategies and management to include fixed-income and equity investments. The purpose of the fixed-income investments is to provide a predictable and dependable source of income and minimize portfolio volatility. The purpose of the University's equity investments is to provide current income, growth of income, and appreciation of principal. The fixed-income and equity portions of the investment portfolio are diversified in order to provide reasonable assurance that investment in either a single security or a class of securities cannot have an excessive impact on the total portfolio.

#### **(d) Spending Policy and How the Investment Objectives Relate to Spending Policy**

The administration of the University's endowment follows the general provisions of UPMIFA. Under the provisions of this state law, the board of trustees may appropriate expenditures of an underwater endowment fund as is deemed prudent for the uses and purposes for which an endowment fund is established. The University has applied accounting principles generally accepted in the United States of America when allocating investment gains to the net asset classes for financial statement purposes.

The trustees of the University have established an endowment fund spending policy that attempts to balance the long-term objective of maintaining the purchasing power of the endowment with the goal of providing funds to underwrite the educational needs of current and future generations of students and to enhance the financial well-being of the University.

The University has a policy of appropriating for distribution each year 5% of its endowment fund's weighted average fair value over the prior 12 quarters through the fiscal year ending one year prior to the fiscal year in which the distribution is planned.

**CLARK ATLANTA UNIVERSITY**

Notes to Financial Statements

June 30, 2020 and 2019

Endowment funds consist of the following as of June 30, 2020 and 2019:

	<b>June 30, 2020</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	74,408,547	74,408,547
Board-designated endowment funds	—	—	—
Total endowment net assets	\$ —	74,408,547	74,408,547

	<b>June 30, 2019</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	72,500,748	72,500,748
Board-designated endowment funds	—	—	—
Total endowment net assets	\$ —	72,500,748	72,500,748

Changes in endowment net assets for the fiscal year ended June 30, 2020 and 2019 is as follows:

	<b>June 30, 2020</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Endowment net assets, June 30, 2019	\$ —	72,500,748	72,500,748
Funds with deficiencies	—	—	—
Investment return:			
Net investment income	—	1,074,975	1,074,975
Net investment gain	—	2,612,210	2,612,210
Total investment return	—	3,687,185	3,687,185
Contributions to endowment	—	162,040	162,040
Amount expended	—	(1,941,426)	(1,941,426)
Endowment net assets, June 30, 2020	\$ —	74,408,547	74,408,547

**CLARK ATLANTA UNIVERSITY**

Notes to Financial Statements

June 30, 2020 and 2019

	<b>June 30, 2019</b>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2018	\$ —	71,438,808	71,438,808
Funds with deficiencies	—	—	—
Investment return:			
Net investment income	—	1,205,806	1,205,806
Net investment gain	—	1,779,531	1,779,531
Total investment return	—	2,985,337	2,985,337
Contributions to endowment	—	169,551	169,551
Amount expended	—	(2,092,948)	(2,092,948)
Endowment net assets, June 30, 2019	\$ —	<u>72,500,748</u>	<u>72,500,748</u>

From time to time, the fair 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. Deficiencies of this nature are reported in net assets with donor-imposed restrictions. There were no funds with deficiencies for the year ended June 30, 2020 or 2019.

*Endowment Borrowing*

In 1997, the University's Board of Trustees authorized a borrowing of up to \$10,000,000 from the University's endowment to fund the University's operations as necessary. In that same year, the University borrowed \$7,000,000 from the endowment at an interest rate of 1.5%. As of June 30, 2020 and 2019, the amount outstanding related to this borrowing, including accrued interest, net of repayments was \$1,964,299 and \$1,935,270, respectively.



**CLARK ATLANTA UNIVERSITY**

Notes to Financial Statements

June 30, 2020 and 2019

**(13) Net Assets**

Net assets with donor restrictions consisted of amounts restricted for the following purposes at June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Donor-restricted endowments subject to spending policy and appropriation to support the following purposes:		
Scholarships	\$ 45,242,473	44,217,658
Instruction	14,313,629	13,992,284
General operations	14,852,445	14,290,806
	74,408,547	72,500,748
Contributions receivable available for scholarships and student aids	427,502	1,035,095
Restricted gifts and grants available to support students and faculty, capital projects, and departmental and programmatic needs	12,434,470	11,737,931
Subject to expenditure for specified purposes:		
Student aid	8,121,679	8,425,281
Other	684,532	686,545
	\$ 96,076,730	94,385,600

Net assets with donor restrictions are summarized as follows for the purpose of complying with the U.S. Department of Education's (DOE) standards of financial responsibility, as set forth in 34 CFR 668.171-2, as of and for the year ended June 30, 2020:

Term endowments with donor restrictions	\$ 8,250,753
Net assets with donor restrictions: restricted in perpetuity	23,020,503
Net assets with donor restrictions: restricted by time and purpose	64,805,474
Net assets with donor restrictions	\$ 96,076,730

**CLARK ATLANTA UNIVERSITY**

Notes to Financial Statements

June 30, 2020 and 2019

**(14) Net Assets Released from Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions consist of the following for the years ended June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Student aid	\$ 7,051,554	4,066,301
Instruction	2,491,984	2,559,268
Research	4,212,274	4,656,034
Public service	444,133	337,690
Academic support	2,860,532	1,931,867
Student services	1,219,384	725,545
Institutional support	9,717,216	6,883,677
Total net assets released from restrictions	\$ 27,997,077	21,160,382

**(15) Liquidity and Availability of Financial Assets**

Resources available to the University to fund general expenditures, such as operating expenses, interest and principal payments on debt, and internally funded capital construction, have seasonal variations related to the timing of tuition billings, receipts of gifts and pledge payments, and transfers from the endowment.

The University actively manages its resources, utilizing a combination of short, medium, and long-term operating investment strategies, to align its cash inflows with anticipated outflows, in accordance with policies approved by its Board of Trustees, while also striving to maximize the investment of its available funds.

At June 30, 2020 and 2019, existing financial assets and liquidity resources available within one year to meet general expenditures were as follows:

	<b>2020</b>	<b>2019</b>
Financial assets, at year-end	\$ 131,621,181	131,066,838
Less financial assets unavailable for general expenditure within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by commercial or contractual terms	(12,467,072)	(14,591,726)
Restricted by donor with time or purpose restrictions	(600,000)	(710,000)
Subject to appropriation and satisfaction of donor restrictions	(74,408,547)	(72,500,748)
Investment held in perpetual trust	(419,407)	(421,530)
Receipt or collections expected after one year	(5,484,260)	(4,998,254)
Financial assets available to meet cash needs for general expenditures within one year	\$ 38,241,895	37,844,580

## CLARK ATLANTA UNIVERSITY

### Notes to Financial Statements

June 30, 2020 and 2019

#### (16) Commitments and Contingencies

##### (a) *Federal and State Financial Assistance*

Certain federal and state-funded financial aid programs are routinely audited by various government agencies. Such audits could result in claims against the resources of the University. The reports on those examinations, which are conducted for the University by auditors engaged pursuant to specific regulatory requirements, are required to be submitted to both the University and the respective government agency. These government agencies have the authority to determine liabilities as well as to limit, suspend, or terminate the University's participation in these programs. Management does not believe that the University will incur significant liabilities as a result of any such audits.

##### (b) *HBCU Capital Financing Program*

The University is contingently liable, under the bonds described in note 8, for a portion of certain notes payable of other HBCUs under the HBCU Capital Financing Program. The liability is limited to the fair value of the University's related HBCU Capital Financing Program escrow accounts at the time of default. This contingent liability is secured by the escrow account described in note 8. The term of the contingent liability is based on several factors, including the timing of the potential default of another HBCU under the HBCU Capital Financing Program. As such, the University is unable to measure the amount of the contingent liability at June 30, 2020 or 2019.

In prior years, two of the member institutions associated with the program defaulted on the bonds. This required two draws from the debt obligation guarantee fund in 2016 totaling \$23,679. As of June 30, 2020 and 2019, the University's escrow account had been charged a total of \$838,788 and \$836,292, respectively, to cover the University's portion of the defaulted payments. The University also recorded \$14,444 and \$2,309 of debt guarantee obligation expense during the years ended June 30, 2020 and 2019, respectively. The University's escrow account will be restored to the extent that funds are recovered from the defaulting member institution through foreclosure of collateral and other legal means. As of June 30, 2020 or 2019, no recoveries had been obtained by the University.

ASC Topic 460, *Guarantees*, requires that, upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligations it assumes. As of June 30, 2020 and 2019, the University has recorded a liability of \$1,187,849 and \$1,173,405, respectively, within accounts payable and accrued expenses on the statements of financial position related to this guarantee and believes that this amount represents the fair value of this obligation.

##### (c) *Ground Lease and Energy Services Agreement*

The University entered into a ground lease agreement dated as of June 1, 2007 with TUFF CAUB LLC, a Georgia limited liability company, as lessee (the Lessee), pursuant to which the University leased the central utility plant to the Lessee for a term of 30 years. Under the terms of the ground lease, the Lessee agreed to finance the design, construction, and equipping of the renovation and upgrade of the central utility plant and to operate the central utility plant through a management agreement with Energy Services Group, LLC (ESG). Under the terms of an energy services agreement dated as of June 1, 2007 among the Lessee, ESG, and the University, the Lessee and ESG have agreed to provide the University with steam, hot water, and chilled water, and the University has agreed to the payment of certain fees specified in the energy services agreement. The initial term of the energy services agreement is 15 years from the commencement date. Upon ESG and TUFF CAUB LLC's

## CLARK ATLANTA UNIVERSITY

### Notes to Financial Statements

June 30, 2020 and 2019

consent, the term may be extended at the election of the University for an additional 6-year period at the conclusion of the 15-year base period, for a total of 21 years. The Development Authority of Fulton County issued \$15.2 million in tax-exempt revenue bonds and loaned the proceeds of such bonds to the Lessee to provide the Lessee with the funds to renovate and upgrade the central utility plant. Upon the earlier of the expiration of the ground lease or the day on which all amounts due under the bonds have been paid in full by the Lessee, ownership of the improved central utility plant transfers to the University.

Under the energy services agreement, the University has an unconditional purchase obligation (i.e., obligations to transfer funds in the future for fixed or minimum quantities of goods or services at fixed or minimum prices, such as take-or-pay contracts) totaling \$5,511,513 and \$6,842,010 as of June 30, 2020 and 2019, respectively, related to the University's share of the payment of certain fixed debt service costs and operations and maintenance expenses of the Lessee and ESG. In accordance with U.S. GAAP, the unconditional purchase obligation was not recognized as a liability in the University's statements of financial position at June 30, 2020 and 2019. Future payments due by the University under the unconditional purchase obligation are as follows:

	<u>Amount</u>
Year ending June 30:	
2021	\$ 1,368,568
2022	1,387,220
2023	1,406,574
2024	—
2025	—
	<hr/>
Total	\$ <u><u>4,162,362</u></u>

In addition to the fixed debt service costs and operations and maintenance expenses, variable charges covering the delivery costs associated with the utilities are also paid by the University to the Lessee. Total variable and fixed costs incurred by the University under the energy services agreement during the years ended June 30, 2020 and 2019 were \$1,620,056 and \$1,560,366, respectively.

## CLARK ATLANTA UNIVERSITY

### Notes to Financial Statements

June 30, 2020 and 2019

#### **(d) Food Service Operations**

The University entered into a 10-year contract with Sodexo Operations, LLC (Sodexo) on July 1, 2015 to manage and operate the daily food service operations and also to remodel the main dining hall facility. The total cost to Sodexo for the remodeling was approximately \$3,445,000. That cost is amortized over the 10-year term. Should CAU terminate the agreement early, CAU will be responsible to make payment to Sodexo for any unamortized balance of the remodeling costs. The outstanding balance was \$1,722,400 and \$2,066,880 for June 30, 2020 and June 30, 2019, respectively, and is included in other liabilities in the statements of financial position. Also included in the agreement, CAU has a minimum sales requirement for meal plans of \$425,000 annually; based on existing sales volume, CAU more than exceeds that requirement annually. CAU is also responsible to provide annually to Sodexo a working capital fund equal to four weeks of resident dining meal plan rates, and any unused portion is returned to CAU. Conversely, Sodexo provides funding to CAU for scholarships, facility enhancements, and meal credits for various named purposes.

#### **(e) Legal Matters**

The University is involved in legal proceedings and claims that have arisen in the ordinary course of its business and have not been fully adjudicated. The ongoing litigation of the University, when fully concluded and determined, will not, in the opinion of management, have a material adverse effect on the financial position of the University.

#### **(17) Subsequent Events**

In connection with the preparation of the financial statements, the University's management reviewed subsequent events after the statement of financial position date of June 30, 2020 through November 23, 2020, which is the date the financial statements were available to be issued. There were no additional matters requiring disclosure as of this date.

## **SUPPLEMENTAL SCHEDULES**

## CLARK ATLANTA UNIVERSITY

## Statement of Changes in Net Assets

Year ended June 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total 2019</u>
Revenue, gains, and other support:			
Tuition and fees, net	\$ 66,843,022	—	66,843,022
Government grants	1,483,007	15,382,687	16,865,694
Private gifts and grants	2,694,170	5,576,253	8,270,423
Net investment income	212,908	1,295,182	1,508,090
Auxiliary enterprises	16,146,423	—	16,146,423
Net realized and unrealized gain on investments and perpetual trust	163,847	1,934,705	2,098,552
Other revenue	2,663,869	77,428	2,741,297
Net assets released from restrictions:			
Satisfaction of program restrictions	21,160,382	(21,160,382)	—
Total revenue and other support	<u>111,367,628</u>	<u>3,105,873</u>	<u>114,473,501</u>
Expenses:			
Instruction	31,031,912	—	31,031,912
Research	8,149,710	—	8,149,710
Academic support	9,809,900	—	9,809,900
Student services	10,680,860	—	10,680,860
Institutional support	25,637,522	—	25,637,522
Public service	2,291,941	—	2,291,941
Auxiliary enterprises	16,004,990	—	16,004,990
Total expenses	<u>103,606,835</u>	<u>—</u>	<u>103,606,835</u>
Change in net assets	7,760,793	3,105,873	10,866,666
Net assets beginning of year	<u>117,997,052</u>	<u>91,279,727</u>	<u>209,276,779</u>
Net assets end of year	<u>\$ 125,757,845</u>	<u>94,385,600</u>	<u>220,143,445</u>

See accompanying independent auditors' report.

## CLARK ATLANTA UNIVERSITY

## Statement of Changes in Net Assets

Year ended June 30, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total 2020</u>
Revenue, gains, and other support:			
Tuition and fees	\$ 60,619,628	—	60,619,628
Government grants	1,554,297	22,124,677	23,678,974
Private gifts and grants	2,942,392	3,627,420	6,569,812
Net investment income	446,139	1,145,483	1,591,622
Auxiliary enterprises	12,743,834	—	12,743,834
Net realized and unrealized gain on investments and perpetual trust	117,909	2,704,013	2,821,922
Other revenue	1,226,962	86,614	1,313,576
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>27,997,077</u>	<u>(27,997,077)</u>	<u>—</u>
Total revenue and other support	<u>107,648,238</u>	<u>1,691,130</u>	<u>109,339,368</u>
Expenses:			
Instruction	28,159,150	—	28,159,150
Research	7,826,073	—	7,826,073
Academic support	9,363,011	—	9,363,011
Student services	10,314,416	—	10,314,416
Institutional support	26,406,409	—	26,406,409
Public service	2,183,904	—	2,183,904
Auxiliary enterprises	14,876,693	—	14,876,693
Student aid	<u>3,032,175</u>	<u>—</u>	<u>3,032,175</u>
Total expenses	<u>102,161,831</u>	<u>—</u>	<u>102,161,831</u>
Change in net assets	5,486,407	1,691,130	7,177,537
Net assets beginning of year	<u>125,757,845</u>	<u>94,385,600</u>	<u>220,143,445</u>
Net assets end of year	<u>\$ 131,244,252</u>	<u>96,076,730</u>	<u>227,320,982</u>

See accompanying independent auditors' report.