KPMG

CLARK ATLANTA UNIVERSITY

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

CLARK ATLANTA UNIVERSITY

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KPMG LLP
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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, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2019 and 2018, 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(s) to the financial statements, in fiscal year 2019, the University adopted new accounting guidance, Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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 December 2, 2019 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
December 2, 2019

CLARK ATLANTA UNIVERSITY

Statements of Financial Position

June 30, 2019 and 2018

Assets		**2019**	**2018**
Cash and cash equivalents	$	26,563,325	26,709,518
Restricted cash		4,099,319	3,603,639
Accounts receivable, net (note 2)		6,581,872	3,054,316
Pledges receivable, net (note 2)		1,074,153	950,141
Deposits held with bond trustees (note 8)		4,326,836	3,971,024
Prepaids and other assets		1,347,826	1,203,551
Property, plant, and equipment, net (note 5)		125,163,779	123,206,687
Investments (notes 3 and 11)		81,834,232	80,056,627
Beneficial interest in perpetual trust (note 11)		421,530	413,062
Perkins loans receivable, net (note 4)		6,165,571	8,087,640
Asset held and not used, net (note 1)		555,000	650,000
Total assets	$	258,133,443	251,906,205
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	8,911,369	7,968,318
Advances from granting agencies		624,508	1,428,824
Deferred revenue		487,414	624,910
Bonds payable, net (note 8)		15,926,924	18,512,275
Refundable advances (note 4)		7,083,187	8,298,693
Note payable		624,813	864,369
Mortgages payable (note 7)		1,305,730	1,615,797
Other liabilities (note 16)		2,066,880	2,411,360
Asset retirement obligation		959,173	904,880
Total liabilities		37,989,998	42,629,426
Commitments and contingencies (notes 6, 7, 8, and 16)			
Net assets:			
Without donor restrictions		125,757,845	117,997,052
With donor restrictions (note 13)		94,385,600	91,279,727
Total net assets		220,143,445	209,276,779
Total	$	258,133,443	251,906,205

See accompanying notes to financial statements.

CLARK ATLANTA UNIVERSITY

Statement of Activities

Year ended June 30, 2019
(with summarized financial information for the year ended June 30, 2018)

	2019			2018
	Without donor restrictions	With donor restrictions	Total	Total
Revenue, gains, and other support:				
Tuition and fees	$ 84,802,058	—	84,802,058	85,659,682
Less student aid	(17,959,036)	—	(17,959,036)	(15,609,413)
Tuition and fees – net	66,843,022	—	66,843,022	70,050,269
Government grants	1,483,007	15,382,687	16,865,694	15,129,972
Private gifts and grants	2,694,170	5,406,702	8,100,872	8,222,008
Investment income, net	212,908	40,188	253,096	143,574
Auxiliary enterprises	16,146,423	—	16,146,423	14,991,874
Net realized and unrealized gains on investments	163,847	59,371	223,218	347,686
Amounts allowed per university's endowment spending policy	—	2,092,948	2,092,948	1,758,036
Other revenue	2,663,869	77,428	2,741,297	1,303,606
Net assets released from restriction for satisfaction of program restrictions (note 14)	21,160,382	(21,160,382)	—	—
Total operating revenue, gains, and other support	111,367,628	1,898,942	113,266,570	111,947,025
Expenses (note 9):				
Instruction	31,031,912	—	31,031,912	29,808,870
Research	8,149,710	—	8,149,710	7,518,859
Academic support	9,809,900	—	9,809,900	8,690,392
Student services	10,680,860	—	10,680,860	9,681,211
Institutional support	25,637,522	—	25,637,522	25,542,699
Public service	2,291,941	—	2,291,941	1,959,436
Auxiliary enterprise	16,004,990	—	16,004,990	15,080,415
Total operating expenses	103,606,835	—	103,606,835	98,281,882
Change in net assets from operating activities	7,760,793	1,898,942	9,659,735	13,665,143
Nonoperating activities:				
Private gifts and grants	—	169,551	169,551	532,377
Investment income, net	—	1,254,994	1,254,994	771,332
Net realized and unrealized gain on investments	—	1,866,866	1,866,866	3,901,728
Change in beneficial interest in perpetual trusts	—	8,468	8,468	25,945
Amounts allowed per university's endowment spending policy	—	(2,092,948)	(2,092,948)	(1,758,036)
Gain on reversionary land transaction	—	—	—	6,200,000
Change in net assets from nonoperating activities	—	1,206,931	1,206,931	9,673,346
Change in net assets	7,760,793	3,105,873	10,866,666	23,338,489
Net assets, beginning of year	117,997,052	91,279,727	209,276,779	185,938,290
Net assets, end of year	$ 125,757,845	94,385,600	220,143,445	209,276,779

See accompanying notes to financial statements.

CLARK ATLANTA UNIVERSITY

Statement of Activities

Year ended June 30, 2018

	Without donor restrictions	With donor restrictions	Total
Revenue, gains, and other support:			
Tuition and fees	$ 85,659,682	—	85,659,682
Less student aid	(15,609,413)	—	(15,609,413)
Tuition and fees – net	70,050,269	—	70,050,269
Government grants	1,428,228	13,701,744	15,129,972
Private gifts and grants	2,718,524	5,503,484	8,222,008
Investment income, net	126,753	16,821	143,574
Auxiliary enterprises	14,991,874	—	14,991,874
Net realized and unrealized gains on investments	346,112	1,574	347,686
Amounts allowed per university's endowment spending policy	—	1,758,036	1,758,036
Other revenue	1,298,551	5,055	1,303,606
Net assets released from restriction for satisfaction of program restrictions (note 14)	18,676,906	(18,676,906)	—
Total operating revenue, gains, and other support	109,637,217	2,309,808	111,947,025
Expenses (note 9):			
Instruction	29,808,870	—	29,808,870
Research	7,518,859	—	7,518,859
Academic support	8,690,392	—	8,690,392
Student services	9,681,211	—	9,681,211
Institutional support	25,542,699	—	25,542,699
Public service	1,959,436	—	1,959,436
Auxiliary enterprise	15,080,415	—	15,080,415
Total operating expenses	98,281,882	—	98,281,882
Change in net assets from operating activities	11,355,335	2,309,808	13,665,143
Nonoperating activities:			
Private gifts and grants	—	532,377	532,377
Investment income, net	—	771,332	771,332
Net realized and unrealized gain on investments	—	3,901,728	3,901,728
Change in beneficial interest in perpetual trusts	—	25,945	25,945
Amounts allowed per university's endowment spending policy	—	(1,758,036)	(1,758,036)
Gain on reversionary land transaction	6,200,000	—	6,200,000
Net assets released from restriction for equipment (note 14)	34,145	(34,145)	—
Net assets released from restriction for construction (note 14)	300,000	(300,000)	—
Change in net assets from nonoperating activities	6,534,145	3,139,201	9,673,346
Change in net assets	17,889,480	5,449,009	23,338,489
Net assets, beginning of year	100,107,572	85,830,718	185,938,290
Net assets, end of year	$ 117,997,052	91,279,727	209,276,779

See accompanying notes to financial statements.

CLARK ATLANTA UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	10,866,666	23,338,489
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		9,034,837	8,773,949
Amortization of asset held and not used		95,000	95,000
Amortization of bond issuance costs		69,662	110,983
Accretion of asset retirement obligation		54,293	51,223
Provision for bad debt		107,983	1,183,981
Receipt of agency funds (Federal Direct Student Loans and Federal Pell Grants)		85,958,657	86,099,191
Disbursement of agency funds		(85,958,657)	(86,099,191)
Contributions, grants, and income restricted for long-term investment and acquisition of property, plant, and equipment		(169,551)	(532,376)
Net loss on disposition of property		—	67,745
Gain on reversionary land transaction		—	(6,200,000)
Debt guarantee obligation expense		(2,310)	(86,391)
Net realized and unrealized gain on investments and beneficial interest in perpetual trust		(2,098,552)	(4,275,360)
Changes in operating assets and liabilities:			
Accounts receivable, net		(2,291,999)	420,472
Pledges receivable		(124,012)	(61,513)
Prepaids and other assets		(144,275)	76,452
Accounts payable and accrued expenses		18,275	(1,567,756)
Other liabilities		(342,170)	(258,088)
Advances from granting agencies		(804,316)	882,974
Deferred revenue		(137,496)	75,819
Net cash provided by operating activities		14,132,035	22,095,603
Cash flows from investing activities:			
Proceeds from the sale of investments		31,337,678	9,941,525
Purchases of investments		(31,025,199)	(11,218,112)
Loans advanced to students (Perkins)		(136)	(1,273,994)
Proceeds from student loan repayments		578,665	780,766
Purchases of property, plant, and equipment		(10,067,153)	(11,060,770)
Net cash used in investing activities		(9,176,145)	(12,830,585)
Cash flows from financing activities:			
Contributions and income restricted for long-term investment and acquisitions of property, plant, and equipment		169,551	532,376
Principal repayments on bonds, notes, and mortgages payable		(3,204,636)	(3,255,283)
Refundable advances (paid) received		(1,215,506)	49,640
Deposits (paid to) received from bond trustees		(355,812)	126,558
Net cash used in financing activities		(4,606,403)	(2,546,709)
Net increase in cash and cash equivalents		349,487	6,718,309
Cash and cash equivalents and restricted cash, beginning of year		30,313,157	23,594,848
Cash and cash equivalents and restricted cash, end of year	$	30,662,644	30,313,157
Cash and cash equivalents	$	26,563,325	26,709,518
Restricted cash		4,099,319	3,603,639
Total cash and cash equivalents, and restricted cash	$	30,662,644	30,313,157
Supplemental disclosures of cash flow information:			
Cash paid for interest	$	1,017,692	927,345
Purchase of property, plant, and equipment included in accounts payable and accrued expenses		1,573,963	649,187

See accompanying notes to financial statements.

(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 a doctoral research university 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.

(Continued)

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, and Restricted Cash

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 except for any investment purchased with funds on deposit, with bond trustees, or with funds held by external endowment investment managers, which are classified as deposits held with bond trustees and investments, respectively, in the accompanying statements of financial position. 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 $30,160,091 and $29,810,754, respectively, as of June 30, 2019 and 2018.

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.

(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.

(f) Deposits Held with Bond Trustees

These deposits consist of debt service funds, which are restricted for the payment of debt related to certain outstanding bonds payable. Deposits are stated at fair value.

(Continued)

(g) Investments

Investments are carried at fair value with the difference between fair value and cost (or fair value at date of gift) 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. Fair values for marketable alternative investments (often referred to as hedge funds that are typically in the form of limited partnerships) are not as readily determinable. Investments in these asset classes are valued using the most current information provided by the investment manager, which are reviewed and evaluated by the University.

Investments in 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 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 $280,657 and $308,312, as of June 30, 2019 and 2018, respectively.

(Continued)

(h) 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 follows:

	Years
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

(i) Asset Held and Not Used

The University has a hotel/restaurant property with a net book value of $555,000 and $650,000 as of June 30, 2019 and 2018, 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, 2019 and 2018. 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, 2019 and 2018 in institutional support on the accompanying statements of activities.

(j) 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.

(k) Tuition and Fees

Tuition and fees revenue is recorded in the fiscal year during the semester to which they apply begins. The University records tuition and fees received prior to the fiscal year-end for semesters beginning in the subsequent fiscal year as deferred revenue. Student aid provided by the University for tuition and fees is reflected as a reduction of gross tuition and fee revenue.

(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 expected 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) Auxiliary Enterprises Revenue and Other Revenue

Auxiliary enterprise revenue sources include resident halls, food services, parking services, health services, and special events. Auxiliary enterprise revenue is recorded when earned in the fiscal year. Various other nonroutine miscellaneous income is classified as other revenue.

(n) 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 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.

(o) 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, 2019 and 2018 from these organizations totaled $5,069,035 and $4,629,572, respectively, and are recorded in academic support in the accompanying statements of activities.

(Continued)

(p) 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, incurred-but-not-reported employee health benefit liability, estimated useful lives of capital assets, and the discount rate for contributions to be received after one year. Actual results could differ from those estimates.

(q) 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.

(r) 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 2018 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, 2019 and 2018. The University has a policy to record interest and penalties (if any) related to income tax matters in income tax expense.

(s) 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 new standard is effective for the University for fiscal year 2020 (as amended in August 2015 by ASU No. 2015-14, *Deferral of Effective Date*). The University has not yet completed its assessment of the impact of the new guidance on its financial statements.

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 November 2019, the FASB issued ASU No. 2019-10, which deferred the effective date for not-for-profit entities until fiscal years beginning after December 31, 2020. 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, 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 will adopt the remaining provisions that are not allowed to be early adopted during fiscal year 2020.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 reduces the number of net asset classes presented from three to two, requires the presentation of expenses by functional and natural classification in one location, and requires quantitative and qualitative disclosures about liquidity and availability of financial assets. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The University has adopted the provisions of ASU 2016-14 during fiscal year 2019 and has applied the changes retrospectively. As a result of adopting this standard, certain prior year amounts have been reclassified.

Net asset reclassifications as of June 30, 2018, resulting from the adoption of ASU 2016-14, are as follows:

	ASU 2016-14 Classifications	
	Without donor restrictions	**With donor restrictions**
Net assets classifications, as previously presented:		
Unrestricted net assets	$ 117,997,052	—
Temporarily restricted net assets	—	68,597,428
Permanently restricted net assets	—	22,682,299

In June 2018, 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 not yet completed its assessment of the impact of the new guidance on its financial statements.

(2) Accounts and Pledges Receivable

Accounts receivable consist of the following as of June 30, 2019 and 2018:

		2019	2018
Accounts receivable	$	6,498,843	6,570,550
Grants receivable		3,485,591	1,668,788
Agency receivable		1,862,428	379,337
Other receivable		784,189	322,442
Total		12,631,051	8,941,117
Less allowance for doubtful accounts		(6,049,179)	(5,886,801)
Accounts receivables, net	$	6,581,872	3,054,316

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

Pledges receivable as of June 30, 2019 and 2018 are summarized as follows:

		2019	2018
Unconditional promises to give, gross	$	1,963,646	1,757,425
Less unamortized discount		(196,754)	(262,328)
Less allowance for doubtful accounts		(692,739)	(544,956)
	$	1,074,153	950,141
Pledges receivable to be collected in:			
Less than one year	$	1,253,646	911,425
One year to five years		510,000	546,000
More than five years		200,000	300,000
Pledges receivable, gross		1,963,646	1,757,425
Less unamortized discount		(196,754)	(262,328)
Less allowance for doubtful accounts		(692,739)	(544,956)
Total	$	1,074,153	950,141

Contributions 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, 2019 and 2018, 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. In 2018, the University received a donor pledge in the amount of $1,000,000 expected to be paid over a 10-year period. The University has elected to establish an allowance for this pledge in the amount of $692,739 and $544,956 as of June 30, 2019 and 2018, respectively. The collectibility of the pledge will be evaluated on a yearly basis and any necessary adjustments to the allowance will be made. This single pledge represents 51% and 57% of total gross pledges as of June 30, 2019 and 2018, respectively.

(3) Investments

The fair value of investments is summarized as follows as of June 30, 2019 and 2018:

		2019	2018
Endowment pooled funds:			
Cash, money market, and short-term funds	$	624,659	1,149,703
Certificates of deposit		9,591	82,846
Common stocks		46,313,597	33,645,820
Mutual funds:			
Equity funds		1,588,419	1,595,856
Bonds funds		12,694,600	11,997,537
Commodities funds		49,425	50,225
Real estate funds		287,877	727,445
International equity fund		—	10,556,947
Alternative funds:			
Hedge funds		7,555,084	7,593,658
Private equity funds		—	13,878
Other investment funds:			
Cash, money market, and short-term funds		1,551,753	1,179,306
Government securities		88,116	185,051
Mutual funds:			
Equity funds		7,055,824	7,205,638
Bonds funds		3,828,363	3,886,624
Commodities funds		186,924	186,093
Total investments	$	81,834,232	80,056,627

		2019	2018
With donor restrictions	$	74,013,936	72,634,821
Without donor restrictions		7,820,296	7,421,806
Total investments	$	81,834,232	80,056,627

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.

Net realized and unrealized gains on investments and beneficial interest in perpetual trust consist of the following as of June 30, 2019 and 2018:

		2019	2018
Net realized gains	$	1,563,332	988,243
Net unrealized gains		535,220	3,287,117
Total	$	2,098,552	4,275,360

(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, 2019 or 2018. 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 $6,821,925 and $8,045,106 for the years ended June 30, 2019 and 2018, 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 for the years ended June 30, 2019 and 2018 consists of $162,379 and $162,379 related to grant agency and $98,883 and $91,208, 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, 2019 and 2018, the University had the following outstanding student loans receivable under the Perkins loan program.

		2019	2018
Perkins loan receivable, gross	$	12,013,458	12,591,986
Adjustments:			
Defaulted loans submitted to the government		(4,278,195)	(3,078,015)
Other – net		(1,569,692)	(1,426,331)
Total Perkins loans receivable, net	$	6,165,571	8,087,640

(5) Property, Plant, and Equipment

Property, plant, and equipment consisted of the following as of June 30, 2019 and 2018:

		2019	2018
Buildings and improvements	$	215,738,824	209,738,693
Furniture, computers, software, equipment, capital leases, and vehicles		42,426,842	40,256,670
Land and improvements		18,828,255	18,790,780
Construction in progress		6,283,185	3,499,034
Artwork		291,671	291,671
Total assets		283,568,777	272,576,848
Less accumulated depreciation		(158,404,998)	(149,370,161)
Net book value	$	125,163,779	123,206,687

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to $9,034,837 and $8,773,949, 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:

		Operating leases
Year ending June 30:		
2020	$	643,016
2021		619,053
2022		447,903
2023 and thereafter		—
Total	$	1,709,972

(7) Mortgages Payable

Mortgages payable consisted of the following as of June 30, 2019 and 2018:

		2019	2018
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	$	342,566	506,348
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		963,164	1,109,449
Total	$	1,305,730	1,615,797

Annual maturities of mortgages payable in periods subsequent to June 30, 2019 are as follows:

		2019
Year ending June 30:		
2020	$	323,174
2021		336,885
2022		172,143
2023		181,741
2024		191,874
Thereafter		99,913
Total	$	1,305,730

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 $1,034,771 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, 2019 and 2018.

(8) Bonds Payable

Bonds payable consisted of the following at June 30, 2019 and 2018:

	Original	Interest rate	Maturity date	2019	2018
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	$ 13,946,714	14,460,814
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	4,298,086
Total				16,103,887	18,758,900
Less bond issuance costs				(176,963)	(246,625)
Total bonds payable, net				$ 15,926,924	18,512,275

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 $13,946,714 and $14,460,814, respectively, at June 30, 2019 and 2018 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, 2019.

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.

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).

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, 2019 and 2018 totaled $4,326,836 and $3,971,024, 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, 2019 and 2018.

Annual maturities of the bonds in periods subsequent to June 30, 2019 are as follows:

	Future Advance Project Funding Series 2007-1	Future Advance Project Funding Series 2013-1	Total
Year ending June 30:			
2020	$ 532,398	2,157,173	2,689,571
2021	559,097	—	559,097
2022	580,902	—	580,902
2023	605,178	—	605,178
2024	630,413	—	630,413
Thereafter	11,038,726	—	11,038,726
Total	$ 13,946,714	2,157,173	16,103,887

(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 $1,536,411 and $1,646,052, respectively, for the years ended June 30, 2019 and 2018. Interest expense for the years ended June 30, 2019 and 2018 was $786,117 and $927,346, respectively, and was allocated to auxiliary enterprises, student services, and institutional support based on the purpose of the debt instrument. Advertising expenses for the years ended June 30, 2019 and 2018 were $50,376 and $55,375, respectively.

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

	Functional categories							
	Instruction	Research	Academic support	Student services	Institutional support	Public services	Auxiliary enterprise	Total
Schedule of expenses by natural classification:								
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

Expenses by natural and functional classifications for the year ended June 30, 2018 are as follows:

	Functional categories							
	Instruction	**Research**	**Academic support**	**Student services**	**Institutional support**	**Public services**	**Auxiliary enterprise**	**Total**
Schedule of expenses by natural classification:								
Salaries and wages	$ 18,105,442	3,791,181	2,741,938	4,419,152	10,069,783	1,008,403	215,945	40,351,844
Fringe benefits	5,157,554	897,853	655,773	1,403,343	3,360,209	285,207	102,280	11,862,219
Contractual services	323,985	237,262	184,343	659,423	4,629,349	247,373	6,456,881	12,738,616
Travel	333,865	206,663	163,694	522,454	342,361	38,556	4,089	1,611,682
Supplies	286,482	421,359	92,361	333,458	218,169	53,228	104,068	1,509,125
Repairs and maintenance	213,938	92,981	18,899	90,842	123,920	2,809	318,682	862,071
Other expenses	492,150	200,780	182,208	811,566	2,432,067	238,516	103,173	4,460,460
Insurance	—	—	—	—	802,528	—	—	802,528
Communication costs	98,940	16,892	15,660	63,522	157,489	73,234	207,417	633,154
Printing and duplication	46,064	28,641	14,818	109,976	78,006	12,110	31,776	321,391
Utilities	1,218,171	436,614	83,997	322,344	378,626	—	1,824,058	4,263,810
Subcontracts	1,206,898	742,335	83,220	319,361	375,123	—	1,807,178	4,534,115
AUC costs	—	—	4,258,196	—	371,376	—	—	4,629,572
Interest expense	—	—	—	3,509	53,995	—	869,842	927,346
Depreciation	2,325,381	446,298	195,285	622,261	2,149,698	—	3,035,026	8,773,949
Total operating expenses	$ 29,808,870	7,518,859	8,690,392	9,681,211	25,542,699	1,959,436	15,080,415	98,281,882

(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, 2019 and 2018 were $1,445,574 and $1,408,884, 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.

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, 2019 and 2018 totaled approximately $388,000 and $577,000, 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 nontransferability, 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.

Equity Securities

Investments in equity securities include common stocks and international equities, which are valued at the quoted prices in an active market and are classified within Level 1 of the fair value hierarchy.

Fixed-Income Securities

This category includes investments in government securities and mutual funds, which take long positions in publicly traded fixed-income securities. These investments are valued at quoted prices in an active market and are classified within Level 1 of the fair value hierarchy.

Alternative Investments

Alternative investments consist primarily of investments in various partnership funds. These investments are aggregated into private equity, real assets, commingled, domestic fixed income, equity index, and hedge funds based on the characteristics of their underlying investments. These investments 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 to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.

The University has $7,555,084 and $7,607,536 of investments at June 30, 2019 and 2018, 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, 2019 and 2018, as well as related strategy:

June 30, 2019	Level 1	Level 2	Level 3	Investments measured at NAV	Total
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

June 30, 2018	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Cash, money market, and short-term funds and certificates of deposit	$ 2,411,855	—	—	—	2,411,855
Common stocks	33,645,820	—	—	—	33,645,820
Government securities	185,051	—	—	—	185,051
Mutual funds	25,649,418	—	—	—	25,649,418
International equity fund	10,556,947	—	—	—	10,556,947
Alternative investments:					
Hedge funds (a)	—	—	—	7,593,658	7,593,658
Private equity funds (b)	—	—	—	13,878	13,878
Subtotal investments	72,449,091	—	—	7,607,536	80,056,627
Beneficial interest in perpetual trust	—	—	413,062	—	413,062
Total	$ 72,449,091	—	413,062	7,607,536	80,469,689

(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, multistrategy, 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.

(b) These investments are held in a limited partnership. The partnership's objective is to generate long-term capital appreciation through its investment as a limited partnership in J.P. Morgan Partners Global Investors (Cayman), L.P. (the Main Fund). The fund seeks long-term growth of capital by investing in a portfolio of private equity securities through its investment in the Main Fund.

The values assigned to the partnership's investment in the Main Fund is based on available information and does not necessarily represent the amount that might ultimately be realized as such amount depends on future circumstances and cannot be reasonably determined until the individual investment is actually liquidated. The fair value of the investments in these funds have been estimated using the proportionate share of the funds' NAV as a practical expedient. The fund was fully liquidated in 2019.

The following table summarizes assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) reconciled to the accompanying statements of financial position amounts with disclosures by major security type:

	Balance as of June 30, 2018	Purchases	Realized gain	Unrealized gain	Fees and expenses	Capital infusion	Balance as of June 30, 2019
Beneficial interest in perpetual trust	$ 413,062	—	—	8,468	—	—	421,530
Total	$ 413,062	—	—	8,468	—	—	421,530

	Balance as of June 30, 2017	Purchases	Realized gain	Unrealized gain	Fees and expenses	Capital infusion	Balance as of June 30, 2018
Beneficial interest in perpetual trust	$ 387,117	—	—	25,945	—	—	413,062
Total	$ 387,117	—	—	25,945	—	—	413,062

All net realized and unrealized gains and losses in the tables above are reflected in the accompanying statements of activities as change in beneficial interest in perpetual trusts.

(Continued)

Additional information about alternative investments is as follows:

		2019 fair value	Unfunded commitments	2018 fair value	Unfunded commitments	Expected liquidation term	Redemption terms
Private equity funds	$	—	—	13,878	—	(3)	N/A (1)
Hedge funds		7,555,084	—	7,593,658	—	N/A	Annually/quarterly(2)

(1) Investments in the Main Fund are illiquid private equity securities. Limited partners are subject to additional liquidity risks as they are not permitted to withdraw from the limited partnership or to withdraw any portion of capital accounts until the liquidation term is complete.

(2) 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.

(3) This private equity had a liquidation term of 10-year ended August 11, 2011, with an option to extend for an additional 2 years, which was exercised. Investment was fully liquidated in 2019.

(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 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

(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 CAU 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 CAU.

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.

Endowment funds consist of the following as of June 30, 2019 and 2018:

		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	72,500,748	72,500,748
Board-designated endowment funds		—	—	—
Total endowment net assets	$	—	72,500,748	72,500,748

		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	71,438,808	71,438,808
Board-designated endowment funds		—	—	—
Total endowment net assets	$	—	71,438,808	71,438,808

Changes in endowment net assets for the fiscal year ended June 30, 2019 and 2018 is as follows:

		June 30, 2019		
		Without donor restrictions	With donor restrictions	Total
Endowment net assets, June 30, 2018	$	—	71,438,808	71,438,808
Fund 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	$	—	72,500,748	72,500,748

	June 30, 2018		
	Without donor restrictions	**With donor restrictions**	**Total**
Endowment net assets, June 30, 2017	$ —	68,523,694	68,523,694
Fund with deficiencies	—	—	—
Investment return:			
Net investment income	—	718,143	718,143
Net investment gain	—	3,722,630	3,722,630
Total investment return	—	4,440,773	4,440,773
Contributions to endowment	—	232,377	232,377
Amount expended	—	(1,758,036)	(1,758,036)
Endowment net assets, June 30, 2018	$ —	71,438,808	71,438,808

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, 2019 or 2018.

(i) 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, 2019 and 2018, the amount outstanding related to this borrowing, including accrued interest, net of repayments was $1,935,270 and $2,793,370, respectively.

(13) Net Assets

Net assets with donor restrictions consisted of amounts restricted for the following purposes at June 30, 2019 and 2018:

		2019	2018
Donor-restricted endowments subject to spending policy and appropriation to support the following purposes:			
Scholarships	$	44,217,658	43,560,215
Instruction		13,992,284	13,859,978
General operations		14,290,806	14,018,615
		72,500,748	71,438,808
Contributions receivable available for scholarships and student aids		1,035,095	870,876
Restricted gifts and grants available to support students and faculty, capital projects, and departmental and programmatic needs		11,737,931	9,270,687
Subject to expenditure for specified purposes:			
Student aid		8,425,281	9,021,437
Other		686,545	677,919
	$	94,385,600	91,279,727

(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, 2019 and 2018:

		2019	2018
Student aid	$	4,066,301	3,138,108
Instruction		2,559,268	2,354,803
Research		4,656,034	4,519,218
Public service		337,690	338,499
Academic support		1,931,867	1,402,882
Student services		725,545	305,109
Institutional support		6,883,677	6,618,287
Property, plant, and equipment acquired, placed in service, and capitalized		—	334,145
Total net assets released from restrictions	$	21,160,382	19,011,051

(Continued)

(15) Liquidity and Availability of Financial Assets

Availability of Financial Assets for General Expenditures

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

Financial assets, at year-end	$	131,066,838
Less those unavailable for general expenditure within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by commercial or contractual terms		(14,591,726)
Restricted by donor with time or purpose restrictions		(710,000)
Subject to appropriation and satisfaction of donor restrictions		(72,500,748)
Investment held in perpetual trust		(421,530)
Receipt or collections expected after one year		(4,998,254)
Financial assets available to meet cash needs for general expenditures within one year	$	37,844,580

(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 term of the contingent liability at June 30, 2019 or 2018.

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, 2019 and 2018, the University's escrow account had been charged a total of $836,292 and $810,206, respectively, to cover the University's portion of the defaulted payments. The University also recorded $2,309 and $86,392 of debt guarantee obligation benefit during the years ended June 30, 2019 and 2018, 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, 2019 or 2018, 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, 2019 and 2018, the University has recorded a liability of $1,173,405 and $1,175,715, respectively, within other liabilities 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 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 $6,842,010 and $8,155,377 as of June 30, 2019 and 2018, 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, 2019 and 2018. Future payments due by the University under the unconditional purchase obligation are as follows:

		Amount
Year ending June 30:		
2020	$	1,349,152
2021		1,368,568
2022		1,387,220
2023		1,406,574
2024		—
Total	$	5,511,514

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, 2019 and 2018 were $1,560,366 and $1,674,214, respectively.

(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 $2,066,880 and $2,411,360 for June 30, 2019 and June 30, 2018, respectively, and is included in Other Liabilities in the Statement 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, 2019 through December 2, 2019, which is the date the financial statements were available to be issued. There were no matters requiring disclosure as of this date.

SUPPLEMENTAL SCHEDULE

Schedule 1

CLARK ATLANTA UNIVERSITY

Statement of Changes in Net Assets

Year ended June 30, 2019

		Without donor restrictions	With donor restrictions	Total 2019
Revenue 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		111,367,628	3,105,873	114,473,501
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		103,606,835	—	103,606,835
Change in net assets		7,760,793	3,105,873	10,866,666
Net assets beginning of year		117,997,052	91,279,727	209,276,779
Net assets end of year	$	125,757,845	94,385,600	220,143,445

See accompanying independent auditors’ report.

CLARK ATLANTA UNIVERSITY

Statement of Changes in Net Assets

Year ended June 30, 2018

	Without donor restrictions	With donor restrictions	Total 2018
Revenue and other support:			
Tuition and fees, net	$ 70,050,269	—	70,050,269
Government grants	1,428,228	13,701,744	15,129,972
Private gifts and grants	2,718,524	6,035,861	8,754,385
Net investment income	126,753	788,153	914,906
Auxiliary enterprises	14,991,874	—	14,991,874
Net realized and unrealized gain on investments and perpetual trust	346,112	3,929,247	4,275,359
Other revenue	7,498,551	5,055	7,503,606
Net assets released from restrictions:			
Satisfaction of program restrictions	18,676,906	(18,676,906)	—
Satisfaction of equipment acquisition restrictions	34,145	(34,145)	—
Satisfaction of construction restrictions	300,000	(300,000)	—
Total revenue and other support	116,171,362	5,449,009	121,620,371
Expenses:			
Instruction	29,808,870	—	29,808,870
Research	7,518,859	—	7,518,859
Academic support	8,690,392	—	8,690,392
Student services	9,681,211	—	9,681,211
Institutional support	25,542,699	—	25,542,699
Public service	1,959,436	—	1,959,436
Auxiliary enterprises	15,080,415	—	15,080,415
Total expenses	98,281,882	—	98,281,882
Change in net assets	17,889,480	5,449,009	23,338,489
Net assets beginning of year	100,107,572	85,830,718	185,938,290
Net assets end of year	$ 117,997,052	91,279,727	209,276,779

See accompanying independent auditors’ report.