



# ***Annual Financial Report***

2 0 1 9 - 2 0 2 0

**LEAD ON.™**

**TCU®**





# Texas Christian University

## Annual Financial Report

### For the year ended May 31, 2020

---

LETTER FROM THE CHANCELLOR	2
FINANCIAL OVERVIEW	6
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	21
STATEMENTS OF FINANCIAL POSITION	23
STATEMENT OF ACTIVITIES	24
STATEMENTS OF CASH FLOWS	25
NOTES TO FINANCIAL STATEMENTS	26
BOARD OF TRUSTEES	52
FINANCIAL STAFF	53



LETTER FROM CHANCELLOR VICTOR J. BOSCHINI, JR.

In this annual report, I am pleased to highlight Texas Christian University's fiscal year 2019-2020 accomplishments as we strive to achieve our strategic goals and remain a force for the greater good.

But first I must acknowledge that the past eight months have been a deeply uncertain time for many of us. The ongoing global health and economic crisis created extraordinary circumstances and significant challenges for many in the Horned Frog Family.

Our world and our community are adjusting to ever-evolving life and work patterns to protect public health in the midst of this pandemic. Similarly, TCU's senior leaders, faculty and staff continue to be proactive in ensuring the University's continued success as a world-class, values-centered university.



This spring, we witnessed the monumental efforts of our faculty and staff as they successfully moved more than 3,000 courses online in record time to meet the needs of our 11,000 undergraduate and graduate students. With the leadership and partnership of our Board of Trustees, we have made and will continue to make appropriate adjustments to our ongoing operations that allow us to protect our students and campus community from the significant impact COVID-19 will have on higher education in the short and long term. Though TCU is a

fiscally responsible and stable organization, even we are not immune from the operational and financial impacts that have had an effect on our decision-making for months and years to come.

It is with pride that I look back on those unprecedented times, because of what we accomplished, together. And it is with optimism that I look forward to what TCU can do for the future of our community. We can and will be our best, even under the most challenging circumstances.

## ***Welcoming Tomorrow's Leaders***

In 2019, we welcomed one of the most diverse, best-qualified freshman classes in our history, with more than 300 students identified as first-generation college students. This class will graduate during TCU's 150th year – a special milestone and distinction. Selected from a pool of more than 19,000 applicants, this class had an average ACT score of 28. They represented 48 states and 38 countries, contributing to a broad mix of cultures and perspectives on campus that is conducive to learning and navigating a complex world. These incoming students joined an impressive academic community, including two Horned Frogs who earned a Fulbright award for 2020. TCU boasts more than three dozen recipients of the prestigious Fulbright honor since 1965, with 35 honorees selected since 2010.

Teresa Abi-Nader Dahlberg, our provost and vice chancellor for Academic Affairs, continues to build her academic team. Together they focus on creating and supporting strategies to best serve our students' needs and build the academic profile and reputation of our University. New academic leadership appointments include Ms. Tracy Hull, formerly associate dean, now dean of the Mary Coats Burnett Library; Dr. Frank Hernandez, dean of the College of Education; and Dr. Sonya Watson, dean of the AddRan College of Liberal Arts.

We also welcomed the first class of medical school students to the TCU and UNTHSC School of Medicine. This talented, diverse cohort of students came to us from many different backgrounds, with 48 percent hailing from

17 other states. Twelve students are TCU graduates. All 60 members of the first class are Dorman Scholars, thanks to a generous donation from entrepreneur and businessman Paul Dorman that covered their first full year of tuition. This impressive group boasted an average 3.62 college GPA and an average MCAT score of 508 out of a possible 528. Not only are these students committed to becoming compassionate physicians, they are also giving of themselves by volunteering in underserved areas.

We celebrate these achievements as we continue to strengthen our academic reputation – not just by the numbers, but also through the accomplishments of each and every student, staff and faculty member contributing to TCU's academic stature.



## ***Building for the Future***

TCU continues to lead as one of the top universities in the country. The University was named the No. 3 college for student engagement by *The Wall Street Journal/Times Higher Education*, the No. 2 best-run college by *The Princeton Review* and a 2019 “Great College to Work For,” the ninth consecutive year TCU has received this recognition. At the time of this printing, TCU was also recently named a “Great College to Work For” for the 10<sup>th</sup> consecutive year.

TCU was also named to the inaugural cohort of First Forward Institutions by the National Association for Student Personnel Administrators and the Center for First-Generation Student Success. The First Forward designation recognizes institutions of higher education who have demonstrated a commitment to improving experiences and advancing outcomes for first-generation college students.

As it has continued to focus on strengthening the student experience and campus culture, the University was also recognized with the 2019 Higher Education Excellence in Diversity Award. This is the second year TCU has earned this designation from *INSIGHT Into Diversity* magazine, highlighting our ongoing commitment to move forward in the realm of diversity, equity and inclusion. At the time of this publication, TCU was recently announced as a recipient for the third consecutive year.

A number of advancements were made in inclusive excellence initiatives, including the addition of training workshops for faculty and staff in unconscious bias, cultural proficiency and intercultural conflict. The University hosted these trainings, as well as campuswide “listening sessions,” roundtables and other discussions to encourage inclusive excellence. A DEI Inventory Forum was hosted on campus following the initial results of a universitywide DEI inventory. A DEI Collaboration Committee was formed to create strategies to bridge gaps and support inclusive excellence actions on campus, including the appointment of DEI advocates across the University. And a DEI Award was launched to recognize faculty and staff who transform TCU by making a more diverse, equitable and inclusive learning environment.

Several transformational building projects were also underway throughout 2019-2020 as part of an ongoing investment in infrastructure: creating and improving buildings, classrooms, labs and the overall physical campus.

On the east campus, the expansion of the Neeley School of Business and a new Fine Arts building took shape. The Fine Arts Building, which opened in June 2019, brought together academic programs in graphic design, fashion merchandising and interior design.

Dedicated in January 2020, the Spencer and Marlene Hays Business Commons, as well as Spencer Hays Hall and Tom and Marilyn Sumner Hall, provide a new hub for the education of Horned Frog business students. With the addition of the Hays Business Commons, all four business school halls, including Charles D. Tandy Hall and Steve and Sarah Smith Entrepreneurs Hall, were united under one roof.



On the west side of campus, world-class upgrades and an expansion to Amon G. Carter Stadium's east side were completed in spring 2020, and a virtual stadium renovation dedication was held later. Plans are being made to host recruits for all sports in this area and utilize it outside of game day to engage TCU alumni, family and friends.

TCU announced it is not only a founding partner of Fort Worth's new Dickies Arena in the Will Rogers complex, but is the exclusive educational partner, allowing us to expand TCU's reach well beyond the campus. This partnership provides use of the arena space, year-round branding presence, and the opportunity for athletic and community collaborations.

## ***Lead On: The Next Chapter***

*Lead On: A Campaign for TCU*, the most ambitious fundraising effort in TCU's history, launched publicly October 24, 2019, with a \$1 billion campaign goal. The high-level, primary focus of the campaign is to secure unparalleled support for people and programs and to increase TCU's endowment in support of the University's strategic plan – *Vision in Action: Lead On*. The campaign has surpassed \$667 million given by more than 46,500 donors, including \$101 million in new gifts and pledges for FY2020, making it the second-best year of philanthropic support in University history. \$220 million has been committed to the University's endowment, including a \$10 million gift from Brenda and Mike Harrison in December 2019 to establish the Brenda and Mike Harrison Endowed Scholarship Program at TCU, which will provide permanent need and merit-based financial aid to students from middle-income families. In recognition of their generosity, TCU has named the new administration building "The Harrison."



Despite the challenges presented by COVID-19, we are very proud that the University has been able to prioritize academic progression for our students by pivoting to online and hybrid learning models. Like most universities, TCU's athletic programs have been impacted by the pandemic. Women's basketball was in the middle of their best season in more than 10 years when they were called home. The rifle team was set to defend its national championship title when they received the call. Some sports were just beginning their seasons: baseball was 11-4 and ranked nationally, and men's tennis was in a nine-game winning streak and ranked No. 7. Other sports were more fortunate: TCU's team reached the semifinals in the National Invitational Volleyball Championship, and the women's soccer team earned an NCAA Tournament bid for the fourth consecutive year. Though modified, we are excited to have recently begun to compete in athletics on a national stage again; it is gratifying to support our student-athletes as they perform their best.



We at TCU remain optimistic about our future and the future of our Horned Frogs. We are committed to our TCU Connected Campus experience that prioritizes the safety and health of our community coupled with outstanding academics. It has been a wonderful experience seeing our culture of connection at work when it matters most. We have proved that the Horned Frog Family has the strength, courage and resilience to position TCU for even greater success.

Warm regards,

A handwritten signature in black ink, reading "Victor J. Boschini, Jr." in a cursive style.

Victor J. Boschini, Jr.  
Chancellor

## DISCUSSION OF FINANCIAL RESULTS

Texas Christian University's (TCU) results from financial operations in Fiscal Year 2020 (FY20) reflected a deficit, while enrollment trends and support from donors continued to be favorable. The University's operating expenses outpaced revenue on a United States generally accepted accounting principles financial reporting basis by \$1.2 million in FY20 compared to operating revenue outpacing expenses by \$23.8 million in the prior year, resulting in total net assets of \$2.4 billion at the end of FY20.

## UNIVERSITY HIGHLIGHTS

**Enrollment trends.** The University continues to experience a solid demand for an education at TCU. The University received 21,145 applications for the fall semester 2020. Admission was offered to 48.0% of applicants, with a yield of 22.5% and enrolled freshman class of 2,287. This compares to fall 2019 statistics with an acceptance rate of 47.1%, yield of 24.1% and enrolled freshman class of 2,159. The first-year class size for fall 2020 was in line with a previously announced strategic goal of increasing the undergraduate population to approximately 9,500 students. The University exceeded this goal in the fall 2020 semester with 9,704 undergraduates enrolled as compared to 9,477 undergraduates enrolled in the fall 2019 semester. In addition to the solid undergraduate demand for a TCU education, graduate enrollment remained relatively steady at 1,556 for the fall semester 2020 compared to 1,490 for the fall semester 2019 and remained consistent with the stated goal of approximately 1,500 graduate students. Further, the University had a total of 119 medical school students for the summer 2020 session after welcoming the inaugural class of 60

medical school students in the summer of 2019, reaching the halfway mark of anticipated total enrollment of 240 students by the summer of 2022.

**Generous donor support.** The University continues to benefit from the generous support of its many loyal donors. During FY20, TCU secured \$125.3 million in gifts, pledges and pledge payments, as compared to \$108.1 million in FY19. Cash receipts totaled \$59.2 million including payments on pledges to *The Campaign for TCU*, a comprehensive capital campaign completed in May 2012. FY20 Annual Fund gifts as reported by University Advancement totaled \$12.7 million, comparable to the total reported in FY19. The number of undergraduate alumni donors was 7,812 in FY20. Alumni participation continues to compare favorably to peer institutions and reflects the strong financial support of our alumni. The total number of donors including alumni, parents, friends, corporations, and foundations was 13,518.

TCU began a new multiyear fund-raising effort in support of the University's strategic planning goals on June 1, 2012, and publicly launched *Lead On: A Campaign for TCU* in October 2019. The campaign is focused on scholarships, academic programs, and faculty support with emphasis on significantly increasing the University's Endowment. Gifts and pledges to the new campaign totaled \$669.1 million through May 31, 2020, of which \$221.0 million was designated to the TCU Endowment and the remainder designated for facilities projects, annually expendable funds, and general University support.

## STATEMENT OF FINANCIAL POSITION

The *Statement of Financial Position* presents the assets, liabilities, and net assets of the University



on May 31, the close of the fiscal year. The net assets are classified as without donor restrictions or with donor restrictions depending upon whether any restrictions were placed upon the funds at the time they were received by the University. While the Board of Trustees may designate funds for specific purposes, only donors or other external third parties may impose the restrictions as they are defined in the financial statements. Funds with perpetual donor restrictions, for example the corpus of a gift to the Endowment, are funds that the donor has stipulated may never be spent. Investments with perpetual donor restrictions reflect the original principal of gifts that the donor stipulated must be invested into perpetuity. The unspent earnings or market appreciation arising from such gifts is combined with other expendable funds and classified as donor restricted with time or purpose in accordance with donor instructions. Funds classified as donor restricted with time or purpose may be spent only upon the occurrence of a specified event or after a defined period of time, or may be spent only for those purposes specified by the donor. Funds without donor restrictions are available for the general support of the University in accordance with policies established by the Board of Trustees.

The *Statement of Financial Position* reflects the University's continued investment in facilities and expanded debt instruments, in context of the uncertainty presented by the pandemic in FY20. Total University assets increased \$177.4 million in FY20, primarily due to increases in facilities construction and renovation, as well as in short-term investments, to end the year at \$3.5 billion in total assets. Total University liabilities increased \$225.2 million to \$1.1 billion, primarily due to the

issuance of \$309.4 million of refunding taxable bonds and issuance of \$150.0 million of taxable debt in FY20, partially offset by the refinancing of outstanding bonds of \$137.8 million.

## **Cash**

The University closely forecasts and monitors cash flows and liquidity in order to meet operating and contractual commitments. A majority of the University's operating and working capital is held in short-duration Treasury securities. Other working capital investments include Treasury backed money market funds. These funds are rated Aa3 by Moody's Investors Service. At year-end, the University's cash balance was \$16.3 million. Cash fluctuations year over year are primarily due to transfers between cash and short-term investments. The University's cash and short-term investments of its working capital outside of the Endowment totaled \$380.5 million at year-end, of which a portion was encumbered to make final payments on completed capital projects. During FY20, the University used cash to purchase and construct capitalized assets totaling \$152.3 million.

## **Contributions Receivable**

Gross contributions receivable resulting from binding donor pledges relating to the renovation of the Amon G. Carter Stadium, Ed and Rae Schollmaier Arena (formerly Daniel-Meyer Coliseum), Charlie and Marie Lupton Baseball Stadium, M.J. Neeley School of Business, Football Recruiting Area, Dee J. Kelly Alumni & Visitors Center, TCU Music Center, and Amon G. Carter Stadium expansion totaled \$53.1 million as of May 31, 2020. The net value of those contributions receivable was \$50.0 million as of May 31, 2020, as determined by discounting future cash flows.

## Investments

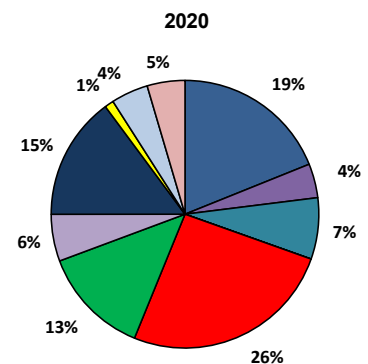
The investments line on the *Statement of Financial Position* primarily consists of Endowment funds, as well as short-term investments of working capital held in short-duration Treasury securities. Investments increased by a net \$77.0 million after making the annual Endowment payout. In the same period, annual payout from the Endowment increased to \$70.6 million, as discussed further

in the *Statement of Activities* section under Investment Returns Distributed for Operations.

Investments include short-term investments, equities, fixed income, real estate, and mineral interests as well as alternative investments. The alternative investments, including equity, debt, and real estate partnerships and hedge funds, represent 59.4% of total investments at year-end.

### Asset Allocation

(in thousands)	May 31,	
	2020	2019
Short-term investments	\$ 364,254	\$ 256,854
Domestic equity securities	\$ 79,222	\$ 135,100
International equity securities	\$ 142,886	\$ 190,030
Corporate bonds and asset-backed securities	\$ 40	\$ 54
Equity partnerships	\$ 495,470	\$ 420,118
Debt partnerships	\$ 253,451	\$ 229,801
Real estate partnerships	\$ 109,220	\$ 84,268
Hedge funds	\$ 286,331	\$ 308,899
Real estate	\$ 21,098	\$ 21,167
Mineral interests	\$ 86,354	\$ 116,617
Investments held in trust by others	\$ 87,912	\$ 86,355
<b>Total Investments</b>	<b>\$ 1,926,238</b>	<b>\$ 1,849,263</b>



## Endowment

The University's Endowment funds provide enduring support for the educational mission of the University by infusing a substantial and reliable flow of funds into the operating budget. At May 31, 2020, the Endowment totaled \$1.6 billion of the total investments balance and represented approximately 67.2% of the University's net assets. Contributions, total investment return, and other transfers increased the Endowment by \$34.1 million, and Endowment payouts reduced the Endowment by \$70.6 million for a net decrease of \$36.5 million or -2.3% from the prior year. Payout to operations from the Endowment continues to be a substantial source of operating revenue for the University, covering 12.5% and 12.9% of expenses in FY20 and FY19, respectively.

The Endowment is a commingled investment pool composed of hundreds of individual funds embodying a variety of designated and undesignated purposes. These funds fulfill donor wishes by financing designated programs until either a time or purpose restriction is satisfied or in perpetuity. Endowment funds with donor restrictions for time or purpose comprise 20.4% of the University's Endowment net assets, and an additional 29.7% of those net assets are for funds with perpetual donor restrictions. The remainder of the Endowment is primarily comprised of gifts and capital gains without donor restrictions, acting as Quasi-Endowment, which combine to provide a margin of excellence over and above that which tuition supports.



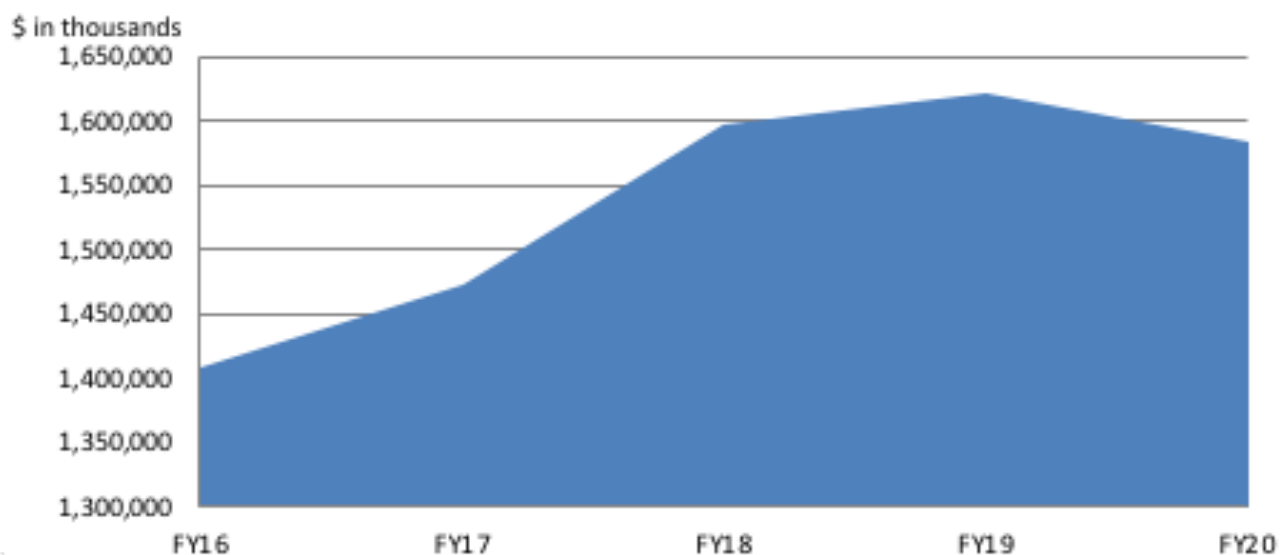
The financial goal for the Endowment is to preserve the inflation-adjusted purchasing power over the long term and provide a reliable, growing stream of income to support University programs. Therefore, the University must invest the Endowment in such a way to achieve a total return which is the actual income plus appreciation that is at least equal to inflation plus actual Endowment payout over the long term.

Three key decisions govern the management of the Endowment: the target rate of return; asset allocation among various investment categories in order to achieve the target rate of return; and the annual rate of Endowment payout (the Endowment spending limit). In FY20, approximately 95.0% of the TCU Endowment was allocated to a diverse array of marketable and nonmarketable investment strategies to achieve an expected annual average total return that exceeds inflation by 5.0% to 7.0%

over the long term. This target return is expected, over the long term, to maintain the purchasing power of the Endowment and support an annual payout rate of approximately 5.0% of the average market value over a twelve-quarter period ending December 31 of the preceding year. Using the Board of Trustees' approved spending limit, the Endowment spending rate was maintained at 5.0% for the fiscal years ended May 31, 2020 and 2019.

A substantial Endowment creates a significant revenue stream that provides additional funding for programs, facilities, and offsetting tuition. TCU's Endowment ranked nationally among the top 66 colleges and universities as of the June 30, 2019 NACUBO-Commonfund Study of Endowments. This remarkable achievement is due to the generous support of generations of TCU alumni and friends and to the fiduciary care exercised by the Board of Trustees.

**University Endowment by Year**



## ***Property and Equipment***

The University continues to invest heavily in its physical facilities to support key academic initiatives, housing, and infrastructure. During FY20, the University invested \$152.3 million in capital projects, bringing total property and equipment before accumulated depreciation to \$2.1 billion.

During FY20, several significant capital projects were completed, all associated with the University's strategic plan *Vision in Action*, which incorporates a number of people and program initiatives as well as a significant commitment to expand the University's infrastructure and facilities:

- The Intellectual Commons Outdoor Space and Features project included enhanced landscape and hardscape to develop the area along University from M. E. Sadler Hall to Charles D. Tandy Hall. This was the first of two phases and was complete for the fall 2019 semester.
- Construction of Ashley and Greg Arnold Hall and Richards Hall in Worth Hills was complete in time for fall 2019 occupancy. These two new residence halls totaling 121,200 square feet provided an additional 302 student beds in a suite-style configuration for upper division students.
- Construction of an expansion to the Neeley School of Business was complete for the spring 2020 semester. The expansion included new building additions on the east and south sides and a new auditorium. Charles D. Tandy Hall was also modified to support program needs. To accommodate the needed space, Dan D. Rogers Hall was demolished.
- Expansion to the east side of Amon G. Carter Stadium was completed in May 2020. The addition provided twenty-two luxury suites,

forty-eight loge boxes, and Legends Club level seating for approximately 1,200. A total of 105,000 square feet and 1,685 game day seats were added to the stadium, as well as technology improvements to high speed internet, Wi-Fi throughout and replacement of the scoreboard with a larger display.

- In May 2020, construction of a new Fine Arts building was complete. Approximately 33,000 square feet of space provided additional classrooms, design studios, archival storage for textiles, student study space, meeting rooms, testing and construction labs for textiles, and faculty and support offices.

## ***Bonds and Notes Payable***

Over time, TCU has funded the new building projects through a combination of gifts, reserves, and debt in the form of tax-exempt bonds and taxable notes. In FY20, total debt increased from \$668.5 million to \$893.7 million. During FY20, TCU had two major issuances of debt. The first issuance of \$309.4 million refinanced several outstanding bonds and issued \$75.0 million of new funds. This transaction generated a net present value savings of 7.7% or \$15.6 million with amortizing principal that smoothed out bullet maturities, and decreased weighted average cost of capital by 15 basis points. The \$75.0 million of the proceeds were used to fund the construction of two dormitories (Arnold Hall and Richards Hall), a new Fine Arts building and parking. The second debt transaction was an issuance of \$150.0 million of taxable debt in FY20 for which the proceeds are being held in reserve to manage liquidity during the pandemic.

Following authorization by the Executive Committee of the Board of Trustees, Management restructured the long-term debt in FY20. Despite

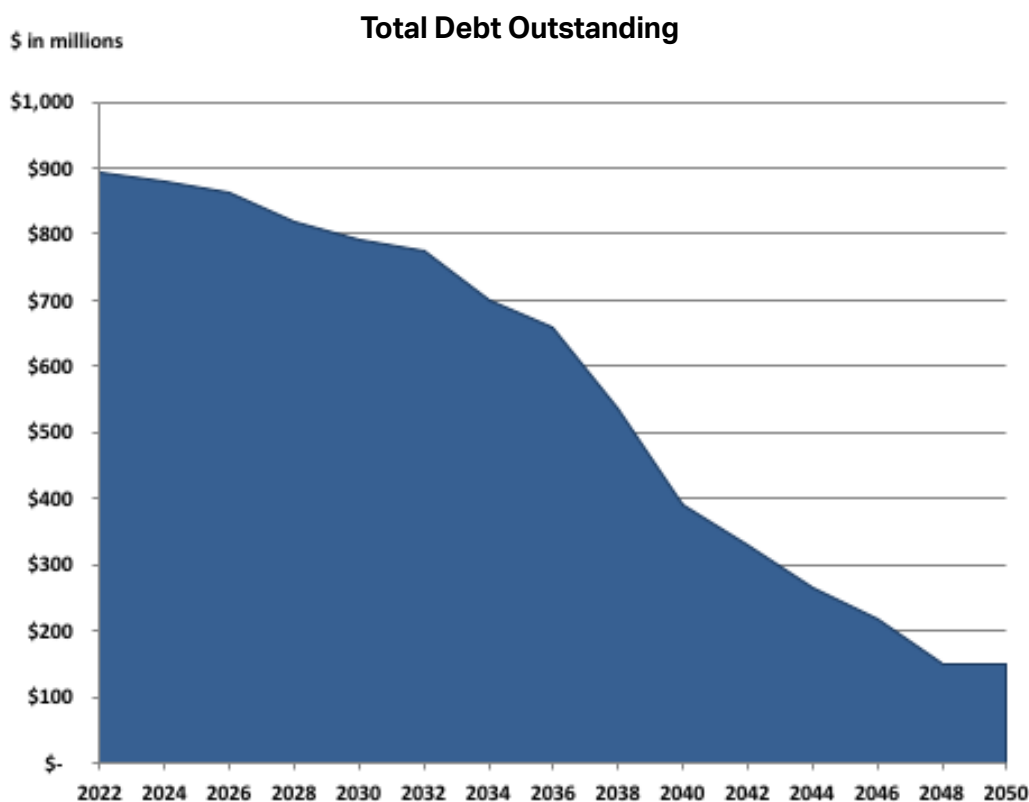


increases in debt in recent years, total debt levels remain appropriately balanced against assets of the University, donor pledges, and a maturity schedule that calls for retirement of most of the May 31, 2020 outstanding balances over the next 5 to 25 years, with the exception of the COVID-19 reserved funds, which mature for retirement in 2060. \$119.6 million in maturities are scheduled over the next ten-year period.

The management of the debt portfolio is ongoing to ensure that interest rates on variable-rate debt remain as low as possible and that the University's reporting requirements to Moody's Investors Service and other rating agencies remain in compliance. As of May 31, 2020, the University's credit rating remained unchanged with Moody's Investors Service rating TCU's long-term bonds Aa3, and Fitch Ratings rating the bonds AA-, which represent strong ratings by both firms.

## ***Net Assets Without Donor Restrictions***

University net assets without donor restrictions decreased \$2.3 million to end the year at over \$1.5 billion. Net assets without donor restrictions from operating activities decreased \$3.8 million, and net assets without donor restrictions from non-operating activities increased \$1.5 million. The net asset increases from non-operating activities included a \$2.0 million gain from actuarial changes in postretirement benefits, as well as \$65.5 million in capital contributions released from restrictions, which had no effect on total net assets and was only a reclassification from assets with donor restrictions to assets without donor restrictions. Those were partially offset by a \$53.3 million loss from investment returns, net of operating distributions and a \$12.7 million loss on the valuation of interest rate swaps.



## **Net Assets With Donor Restrictions**

Net assets with donor restrictions related to time or purpose decreased \$66.8 million to \$355.8 million at year-end, and net assets with perpetual donor restrictions increased \$21.2 million to \$471.8 million as of May 31, 2020. Therefore, total net assets with donor restrictions decreased \$45.6 million to end the year at \$827.6 million.

The major contributing factors to this decrease were a non-operating loss of \$18.0 million related to investment returns, net of operating distributions; \$65.5 million in non-operating capital contributions released from restriction, as well as \$49.9 million in operating revenue released from restriction. Both contributions released from restrictions had no effect on total net assets and were only a reclassification to net assets without donor restrictions related primarily to gifts received in prior years that were expended in FY20. The decreases were partially offset by non-operating activity of \$33.9 million related to capital and other contributions, additional annuity income of \$1.4 million, as well as increased operating revenue associated with both investment returns distributed for operations of \$30.1 million and private gifts and grants of \$22.4 million.

Unlike the net assets with donor restrictions related to time or purpose, which can be reclassified to net assets without donor restrictions upon the restricting constraint being completed or resolved, the principal value of the assets designated as with perpetual donor restrictions must be invested in perpetuity to generate income to be used only for the purposes designated by donors.

## **STATEMENT OF ACTIVITIES**

The *Statement of Activities* shows the revenues earned and the expenses incurred during FY20 in support of University operations, as well as the results of non-operating activity, primarily investment activity. The University ended the year with a deficit from operations of \$1.2 million compared to a surplus of \$23.8 million in FY19. Excluding depreciation expense of \$69.7 million in FY20 and \$64.1 million in FY19, the increase in net assets from operating activities was \$68.5 million in FY20 compared to \$88.0 million in FY19. These increases in net assets fund the University's Capital Funding Reserve and *Vision in Action* Reserve. The Capital Funding Reserve represents funds that are set aside from operations and used for recurring capital needs throughout the campus. Currently funded at \$33.0 million for FY20, this reserve is used to fund expenditures related to building improvements, capital equipment, computers, annual capital projects, and other capital activity, such as principal payments on outstanding debt. The *Lead On* Reserve represents resources that are set aside from ongoing operations to fund the capital expenditures associated with the University's strategic plan, *Vision in Action: Lead On*, which was approved by the Board of Trustees in 2017.

FY20 operating revenues increased 0.7% compared to an increase in expenses of 5.4% during the same period. The investment returns distributed for operations shown within the operating revenues section of the statement reflect the annual Endowment payout, or the amount budgeted to be spent in support of operations for the year, in addition to interest on short-term investments and invested bond proceeds. The series of transactions titled "net assets released from restrictions" represent reclassifications of assets from the with donor



restrictions category to the without donor restrictions category because the requisite conditions were satisfied. These reclassifications have no impact on total revenue.

Operating expenses are displayed by function in the *Statement of Activities*. All expenses are classified as without donor restrictions because the assets were released from donor-imposed restrictions, if any, when the expenses satisfying the restricted purpose were incurred. Depreciation expense of \$69.7 million, facility maintenance expense of \$46.5 million, and interest expense of \$18.4 million were allocated among the functional categories in proportion to the utilization of the underlying assets by each function.

Non-operating activities include gifts to the Endowment or other capital, non-operating purposes such as new buildings. Investment returns, net of the amount distributed for operations, as well as actuarial changes in retiree benefit plans, are also accounted for in this section. The University's non-operating decrease in net assets of \$46.7 million is discussed in more detail in the *Statement of Financial Position* section.

Changes in Net Assets are primarily due to capital gifts and to realized and unrealized market gains or losses that impact the carrying value of the Endowment but do not directly impact the operating budget. TCU adopts a balanced operating budget each year with the anticipation that

revenues will only slightly exceed expenses and reserves. While TCU adopts a balanced budget each year, the budget is prepared using conservative revenue projections and a provision is made in support of certain strategic initiatives within *Vision in Action*. This conservative approach to budgeting allows the University to generate a prudent increase in net assets which is dedicated in part to providing an adequate contingent reserve and, in concert with donor support, continued fulfillment of many capital projects associated with the Academy of Tomorrow strategic plan that otherwise would not be possible.

## OPERATING REVENUES

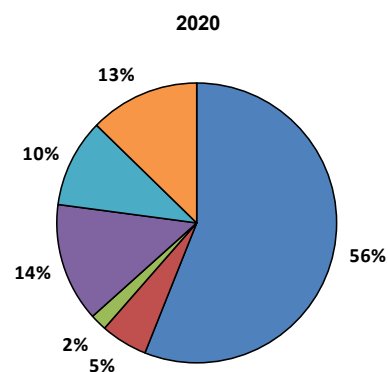
FY20 operating revenues were \$562.5 million, reflecting an increase of 0.7% over FY19. The components of the University's operating revenues are shown in the table and chart below and are also discussed below.

### Net Tuition and Fees

Tuition and fees are shown net of financial aid and represent 56.0% of University operating revenues, which is an increase of 4.7% to \$315.2 million in FY20 as compared to the prior year. The increase in revenues reflects a 4.9% increase in the tuition rate over the prior year, in addition to increased enrollment, partially offset by a general financial aid increase of 4.9% plus additional financial aid for strategic programs.

### Current Operating Revenues

(in thousands)	May 31,	
	2020	2019
Net tuition and fees	\$ 315,198	\$ 301,136
Private gifts and grants	\$ 30,422	\$ 27,771
Government grants and contracts	\$ 10,821	\$ 9,742
Investment returns distributed for operations	\$ 77,278	\$ 77,040
Auxiliary activities	\$ 57,348	\$ 65,434
Other income	\$ 71,423	\$ 77,280
<b>Total Operating Revenues</b>	<b>\$ 562,490</b>	<b>\$ 558,403</b>



TCU charges a single tuition rate for full-time students taking 12 to 18 credits, rather than charging on a per-credit-hour-basis. Annual tuition at TCU was \$49,160 in FY20. Despite the challenges created as a result of the COVID-19 pandemic, TCU supported the strategic goal of increasing the undergraduate population, undergraduate enrollment increased from 9,477 students as of the fall semester 2019 to 9,704 students as of the fall semester 2020.

Financial aid has increased steadily at TCU as a function of enrollment and tuition increases. In addition, TCU continues to steadily and intentionally increase its financial aid budget to both recruit and retain outstanding students. Financial aid increased \$11.6 million or 6.2% in FY20 to \$199.6 million, reflecting TCU's continued dedication to providing all students with additional financial aid. In FY20, 72.2% of students were awarded financial aid from TCU. The tuition discount, defined as financial aid attributable to institutional funds as a percentage of tuition revenue, was 38.8% for FY20, further demonstrating a commitment to provide a significant allocation of funds to scholarships and other sources of financial aid.

### ***Private Gifts and Grants and Government Grants and Contracts***

Current year private gifts and grants, exclusive of capital gifts reported as non-operating revenues, represent 5.4% of total operating revenues and increased \$2.7 million to \$30.4 million in FY20. Government grants and contracts make up 1.9% of the University's operating revenues and increased \$1.1 million to \$10.8 million in FY20 due to increases in various federal and state grants.

### ***Investment Returns Distributed for Operations***

Investment returns distributed for operations represent 13.7% of operating revenues and increased from the prior year to \$77.3 million. Operating investment returns reflect the annual Endowment payout, or the amount budgeted to be spent in support of operations for the year, in addition to interest on short-term investments and invested bond proceeds. The Endowment payout in FY20 was 4.4% of the Endowment value at the beginning of the fiscal year. The University's Endowment is discussed further in the *Statement of Financial Position* section.

### ***Auxiliary Activities***

Athletics revenues were previously reported in auxiliary activities but have been moved to other income as of FY20.

Auxiliary income represents 10.2% of operating revenues and decreased \$8.1 million from the prior year, ending the year with \$57.3 million in revenue. These revenues are composed primarily of student housing and dining, both of which had reduced income due to COVID-19 credits of \$7.5 million and \$3.5 million, respectively, being applied to students' accounts for the spring semester. This contributed to the decrease in auxiliary income in FY20 by \$4.8 million for housing and \$2.8 million for dining. Additionally contributing to the decrease was approximately \$0.5 million in lost bookstore and conference programs revenue due to the students no longer being on campus after March 17, 2020.

### ***Other Income***

Other income represents 12.7% of operating revenues and decreased \$5.9 million from the prior year, ending the year with \$71.4 million in revenue. These revenues are composed mostly of



athletics revenues, which primarily accounted for the decreases in other income due to the reductions in conference distributions, no participation in post-season basketball games, no participation in a bowl game in FY20, and not having a football game in FY20 similar to the Ohio State game in FY19, wherein TCU received a guarantee payout from game organizers.

## Net Assets Released from Restrictions

Net assets released from restrictions represent reclassifications of assets from the with donor restrictions category to the without donor restrictions category because the requisite conditions were satisfied. These reclassifications have no impact on total revenue.

## OPERATING EXPENSES

Total expenses increased \$29.1 million, or 5.4%, to \$563.7 million in FY20. Operating expenses are presented in the financial statements by functional area. All expenses are classified as without donor restrictions because the assets were released from donor-imposed restrictions, if any, when the expenses satisfying the restricted purpose were incurred. The components of the University's operating expenses by function are shown in the table and chart below.

### Current Operating Expenses

(in thousands)	May 31,	
	2020	2019
Instruction	\$ 208,802	\$ 195,608
Research	\$ 7,377	\$ 6,595
Academic support	\$ 60,266	\$ 52,076
Student services	\$ 145,894	\$ 144,648
Institutional support	\$ 52,609	\$ 50,116
Auxiliary activities	\$ 73,466	\$ 70,873
Fund-raising	\$ 15,259	\$ 14,643
<b>Total Operating Expenses</b>	<b>\$ 563,673</b>	<b>\$ 534,559</b>

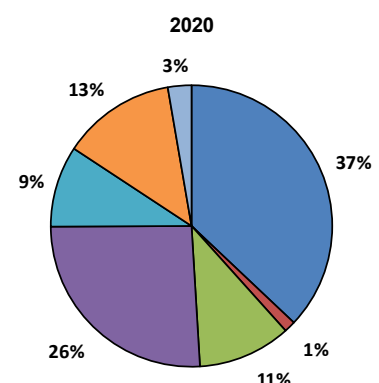
## Instruction

Instruction represents 37.0% of total operating expenses and increased by 6.7% to \$208.8 million in FY20. The increase is primarily due to compensation and fringe benefit increases for both existing employees and new faculty members, increase in School of Medicine in-kind expenses from the UNT Health Science Center, and depreciation and facility maintenance expenses related to new instruction facilities. Those were partially offset by a reduction in professional and consultant fees as well as in travel-related expenses due to curtailments related to COVID-19.

## Student Services

Athletics expenses have previously been reported in auxiliary activities, but they have been moved to student services as of FY20.

Student services represent 25.9% of total operating expenses and increased by 0.9% to \$145.9 million in FY20. Student services expenses are primarily related to athletics, which had increased interest on debt related to the new east side Amon G. Carter Stadium expansion, partially offset by no participation in a bowl game in FY20.



## Auxiliary Activities

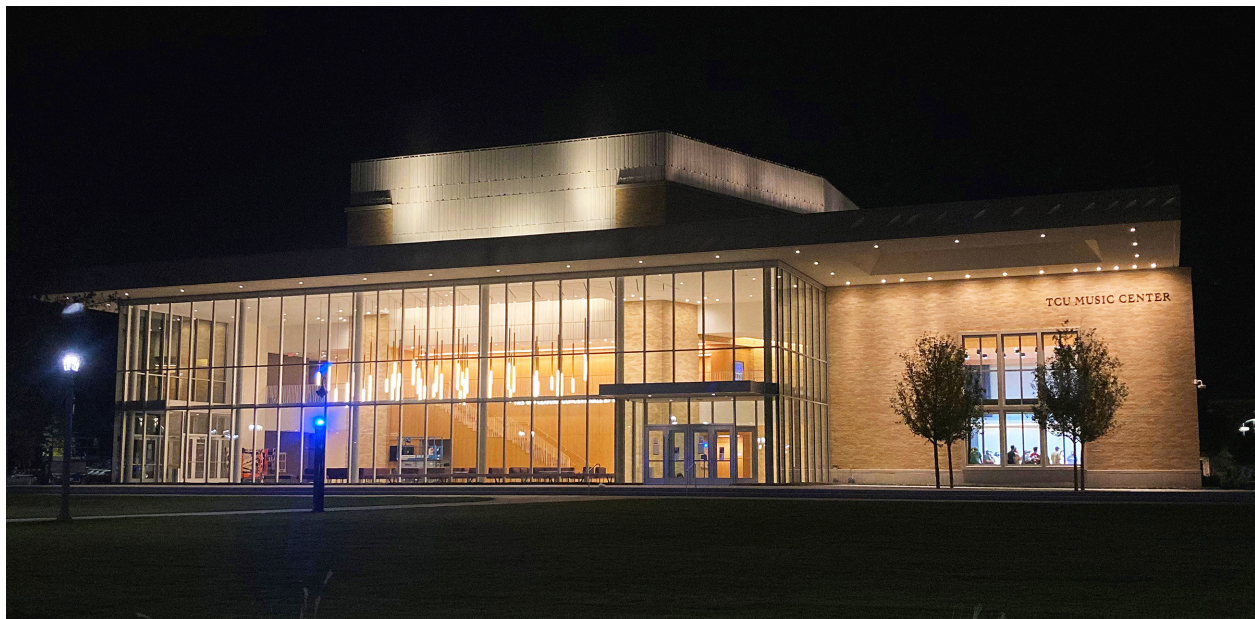
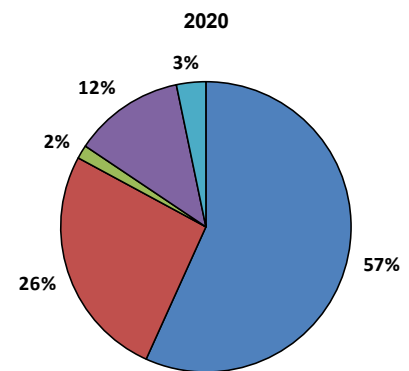
Auxiliary activities represent 13.0% of total operating expenses and increased by 3.7% to \$73.5 million in FY20. Auxiliary expenses are composed primarily of student housing and dining services. Depreciation and facility maintenance expenses related to new auxiliary facilities, an increased demand for dining services, and incremental expenses related to opening a new

dormitory accounted for most of the increase in auxiliary expenses. Those were partially offset by a reclass of Information Technology services to academic support.

Although operating expenses are presented in the *Statement of Activities* by functional area, the following summarizes the composition of operating expenses by natural classification:

### Current Operating Expenses by Natural Classification

(in thousands)	May 31,	
	2020	2019
Compensation and Benefits	\$ 319,909	\$ 303,015
Supplies and Services	\$ 147,250	\$ 142,829
Utilities	\$ 8,545	\$ 9,092
Depreciation	\$ 69,551	\$ 64,065
Interest	\$ 18,418	\$ 15,558
<b>Total Operating Expenses</b>	<b>\$ 563,673</b>	<b>\$ 534,559</b>





## FINANCIAL HIGHLIGHTS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Assets and Liabilities (000s)</b>					
Total Assets	3,496,001	3,318,639	3,200,358	2,930,566	2,823,909
Total Plant Assets Book Value	2,082,306	1,924,843	1,743,879	1,579,597	1,471,785
New Construction and Renovation	146,485	195,562	129,083	118,038	110,388
Investments	1,926,238	1,849,263	1,892,568	1,708,225	1,677,250
Investments Per Student	175	169	180	164	162
Bonds and Notes Payable	893,736	668,499	607,639	522,292	535,251
<b>Income (000s)</b>					
Gross Tuition and Fees	514,798	489,157	448,366	420,428	404,330
Financial Aid	199,600	188,021	165,150	154,136	142,684
Investment Returns	77,278	77,040	71,671	67,495	62,227
Annual Fund Gifts	12,700	15,000	15,400	15,500	15,400
Other Private Gifts and Bequests	51,597	60,182	62,890	57,464	56,560
<b>Operating Budget (000s)</b>					
Total Revenue	573,400	544,119	495,200	480,500	448,200
Total Expenditures	573,400	544,119	495,200	480,500	448,200
<b>Miscellaneous</b>					
Student Enrollment	11,024	10,918	10,489	10,394	10,323
Number of Faculty (FTE)	809	801	775	759	731
Tuition and Fees	49,250	46,950	44,760	42,670	40,720

## ***FUTURE MOMENTUM***

The University continues to experience momentum as evidenced by the sustained strong demand for a TCU education, a transformed physical campus, and the addition of the School of Medicine. In order to ensure that TCU continues the momentum of continued growth in the endowment, student enrollment and ability, faculty numbers and quality, athletic presence and the size, quality and scope of the infrastructure, the Board of Trustees developed the *Vision in Action: Lead On* initiative in the spring of 2017. Lead On is the third phase of TCU's transformational strategic *Vision in Action* planning process, which began in 2003 and follows the *Vision in Action: Academy of Tomorrow* phase. *Vision in Action: Lead On* focuses on four strategic areas—academic profile and reputation; Endowment; TCU experience and campus culture; and workforce.

Additional financial aid has been provided to students for FY21 to support discounts for online instruction and assist with additional needs due to the pandemic. This additional financial aid will become permanent in FY22 and will be deployed strategically by the university. These financial aid

strategies, in concert with donor contributions to the Endowment for scholarships, are in support of the goal to improve TCU's academic profile and reputation by making TCU more accessible to talented students throughout the country.

Achieving these goals will require significant financial resources, and through careful financial stewardship the University is well-positioned to continue pursuit of TCU's educational mission. The University's liquidity position is strong and continues to improve through positive operating cash flows. Despite increases in debt in recent years, total debt levels remain appropriately balanced against assets of the University, donor pledges, and a maturity schedule that calls for retirement of most of the outstanding balances over the next 5 to 25 years. Cash and investment balances remain strong, and operating reserves are available to continue investing in strategic initiatives.

With the enduring support of students, alumni, friends, faculty, and staff, the University will continue to shape and transform the leaders who, tomorrow, will shape and transform our world.

Financial Statements and Report of  
Independent Certified Public  
Accountants

**Texas Christian University**

May 31, 2020 and 2019

**Texas Christian University**

**FINANCIAL STATEMENTS**

**Years ended May 31, 2020 and 2019**

<b>Reports of Independent Certified Public Accountants .....</b>	<b>21</b>
<b>Audited Financial Statements .....</b>	<b>23</b>
<b>Statements of Financial Position .....</b>	<b>23</b>
<b>Statement of Activities .....</b>	<b>24</b>
<b>Statements of Cash Flows .....</b>	<b>25</b>
<b>Notes to Financial Statements .....</b>	<b>26</b>

---

**GRANT THORNTON LLP**

1717 Main Street, Suite 1800  
Dallas, TX 75201-4667

**D** +1 214 561 2300

**F** +1 214 567 2370

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Trustees  
Texas Christian University

We have audited the accompanying financial statements of Texas Christian University (the "University"), which comprise the statement of financial position as of May 31, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

**Management's responsibility for the financial statements**

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

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Christian University as of May 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on 2018 summarized comparative information**

We have previously audited the University's 2018 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 24, 2018. In our opinion, the accompanying summarized comparative information as of and for the year ended May 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Dallas, Texas  
September 24, 2019

**Texas Christian University**

**STATEMENTS OF FINANCIAL POSITION**

**May 31, 2020 and 2019**  
(in thousands)

	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
Cash	\$ 16,278	\$ 16,060
Accounts receivable and accrued income, net	28,026	24,529
Contributions receivable, net	49,999	52,176
Investments	1,926,238	1,849,263
Property and equipment, net	1,470,043	1,370,984
Other assets, net	5,417	5,627
	<hr/>	<hr/>
Total assets	<u>\$ 3,496,001</u>	<u>\$ 3,318,639</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and other accrued liabilities	\$ 93,566	\$ 91,451
Refundable government student loans	4,748	6,126
Funds held in fiduciary capacity, net	12,302	12,524
Deferred income	26,350	33,745
Accrued postretirement benefits	67,406	67,641
Interest rate swaps	41,464	34,369
Bonds and notes payable, net	893,736	668,499
	<hr/>	<hr/>
Total liabilities	1,139,572	914,355
 <b>NET ASSETS</b>		
Without donor restrictions	1,528,774	1,531,034
With donor restrictions		
Time or purpose	355,833	422,641
Perpetual	471,822	450,609
	<hr/>	<hr/>
Total with donor restrictions	827,655	873,250
	<hr/>	<hr/>
Total net assets	2,356,429	2,404,284
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 3,496,001</u>	<u>\$ 3,318,639</u>

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

Texas Christian University

STATEMENT OF ACTIVITIES

Year ended May 31, 2020  
(with comparative totals for 2019)  
(in thousands)

	Without donor restrictions	With donor restrictions	2020	2019
<b>Operating revenues</b>				
Net tuition and fees	\$ 315,198	\$ -	\$ 315,198	\$ 301,136
Private gifts and grants	8,036	22,386	30,422	27,771
Government grants and contracts	10,821	-	10,821	9,742
Investment returns distributed for operations	47,226	30,052	77,278	77,040
Auxiliary activities	57,348	-	57,348	65,434
Other income	71,423	-	71,423	77,280
Net assets released from restrictions	49,844	(49,844)	-	-
Total operating revenues	559,896	2,594	562,490	558,403
<b>Operating expenses</b>				
Instruction	208,802	-	208,802	195,608
Research	7,377	-	7,377	6,595
Academic support	60,266	-	60,266	52,076
Student services	145,894	-	145,894	144,648
Institutional support	52,609	-	52,609	50,116
Auxiliary activities	73,466	-	73,466	70,873
Fund-raising	15,259	-	15,259	14,643
Total operating expenses	563,673	-	563,673	534,559
Change in net assets from operating activities	(3,777)	2,594	(1,183)	23,844
<b>Non-operating activities</b>				
Capital and other contributions	(50)	33,925	33,875	47,411
Capital contributions released from restrictions	65,571	(65,571)	-	-
Postretirement benefit actuarial changes	1,977	-	1,977	(17,215)
Investment returns, net of operating distributions above	(53,288)	(17,965)	(71,253)	(19,820)
Loss on interest rate swaps	(12,693)	-	(12,693)	(8,979)
Other	-	1,422	1,422	1,306
Change in net assets from non-operating activities	1,517	(48,189)	(46,672)	2,703
Change in net assets	(2,260)	(45,595)	(47,855)	26,547
Net assets at beginning of year	1,531,034	873,250	2,404,284	2,377,737
Net assets at end of year	\$ 1,528,774	\$ 827,655	\$ 2,356,429	\$ 2,404,284

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

**Texas Christian University**

**STATEMENTS OF CASH FLOWS**

**Years ended May 31, 2020 and 2019**  
(in thousands)

	<b>2020</b>	<b>2019</b>
<b>Operating activities:</b>		
Change in net assets	\$ (47,855)	\$ 26,547
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	69,680	64,134
Provision for bad debts	3,588	993
(Gain)/loss on disposal or sale of property and equipment	(357)	2,939
Proceeds from capital and other contributions	(33,925)	(47,411)
Investment returns, net of operating distributions	71,253	19,820
Loss on interest rate swaps	12,693	8,979
Loss on debt refunding	6,954	-
Proceeds from sale of contributed securities for operations	419	251
Non-cash contributions of property and equipment	(155)	-
Net change in charitable gift annuities	(1,422)	(1,306)
Net change in contributions receivable restricted for long-term purposes	2,177	(12,354)
Changes in operating assets and liabilities:		
Accounts receivable and accrued income	(7,085)	2,686
Other assets	169	(259)
Accounts payable and other accrued liabilities	(14,104)	(17,140)
Refundable government student loans	(1,378)	(461)
Funds held in fiduciary capacity	(222)	(24)
Deferred income	(7,395)	(3,957)
Accrued postretirement benefits	(235)	17,733
Net cash provided by operating activities	52,800	61,170
<b>Investing activities:</b>		
Purchases of property and equipment	(152,300)	(189,262)
Proceeds from sale of property and equipment	419	294
Purchases of investments	(1,383,230)	(1,225,272)
Proceeds from sales and maturities of investments	1,223,722	1,244,093
Net cash used in investing activities	(311,389)	(170,147)
<b>Financing activities:</b>		
Proceeds from capital and other contributions:		
Endowment	19,887	16,301
Property and equipment	14,038	31,110
Payments on bonds payable	(238,586)	(14,172)
Redemption of interest rate swap	(5,598)	-
Proceeds from issuance of bonds and notes	459,386	75,000
Proceeds from sale of contributed securities for long-term purposes	10,862	4,412
Payment for debt issue costs	(2,604)	-
Net change in charitable gift annuities	1,422	1,306
Net cash provided by financing activities	258,807	113,957
<b>Net increase in cash</b>	<b>218</b>	<b>4,980</b>
<b>Cash at beginning of year</b>	<b>16,060</b>	<b>11,080</b>
<b>Cash at end of year</b>	<b>\$ 16,278</b>	<b>\$ 16,060</b>
<b>Supplemental non-cash disclosure:</b>		
Property and equipment included in accounts payable	\$ 16,219	\$ 25,744

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

**Texas Christian University**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2020 and 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Texas Christian University (the University or TCU) is a private, non-profit institution of higher education, which includes ten major academic units (AddRan College of Liberal Arts, the College of Science and Engineering, the Neeley School of Business, the College of Education, the College of Fine Arts, the Bob Schieffer College of Communication, the Harris College of Nursing and Health Sciences, the John V. Roach Honors College, the School of Interdisciplinary Studies, and the TCU and UNT Health Science Center School of Medicine) whose accounts are included in the accompanying financial statements.

***Basis of Financial Reporting***

The accompanying financial statements represent the financial position and financial activities of the University, as a whole, and present transactions according to the existence or absence of donor-imposed restrictions. Accordingly, transactions and balances are classified into two categories: net assets without donor restrictions and net assets with donor restrictions.

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

***Cash***

For the purpose of reporting cash flows in the statements of cash flows, cash is comprised of cash on hand and in banks. The University places its cash with high quality financial institutions and these cash balances, at times, may exceed federally insured limits. The University has not experienced any losses on such accounts.

***Accounts Receivable and Accrued Income***

Accounts receivable are shown net of an allowance for doubtful accounts of approximately \$7.2 million and \$4.2 million at May 31, 2020 and 2019, respectively. The University estimates the allowance for doubtful accounts based on historical collections, current economic conditions, and aging of accounts receivable. Accounts receivable are written off against the allowance based on a review of specific accounts. Gross accounts receivable on the statements of financial position as of May 31 include:

	2020	2019
	(in thousands)	
Student accounts receivable	\$ 9,768	\$ 6,789
Student loans receivable	5,334	5,737
Accrued income	14,775	9,108
Other receivables	5,349	7,095
Total	<u>\$ 35,226</u>	<u>\$ 28,729</u>

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

***Contributions Receivable***

Unconditional promises to give are recorded as contributions receivable and contribution revenue when the promise is made. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. These contributions are considered fully collectible due to the giving history of the majority of the donors, and as such the University has not recorded an allowance for doubtful accounts related to contributions receivable.

As of May 31, 2020 and 2019, the University has received conditional intentions to give from donors aggregating approximately \$138.6 million and \$86.5 million, respectively. These conditional intentions to give consist of gifts restricted for specific purposes stipulated by the donors. These intentions to give are not reported as contributions until received because the donor statements of intent specify that they are not legally binding and the University allows donors to rescind their nonbinding intentions to give. Therefore, the intentions are not considered unconditional promises to give and are not reported in the accompanying statements of financial position. Should an intention to give become an unconditional promise to give at a later date, the amounts would be recognized in the financial statements at that time.

***Statement of Activities***

The University defines operating activities, as included in the accompanying statement of activities, as the revenue and expenses resulting from its educational programs and other core mission activities, along with endowment investment returns distributed for operations. Donor-restricted contributions to endowments, capital contributions, investment returns net of operating distributions, valuation changes in interest rate swaps, and actuarial changes and unrecognized prior service credits in postretirement benefit plans are excluded from operating activities and separately reported as non-operating activities in the accompanying statement of activities.

The University has adopted a total return concept for the management of all of its investments. Income generated from investments is used to meet the spending limit requirements defined by the Board of Trustees for current operating activities and may be from traditional yield plus a portion of net realized accumulated gains. If the yield is less than the defined spending limit, previously accumulated undistributed investment income and/or realized accumulated gains may be used to fund current operating activities. Any return in excess of, or deficiency from, the defined spending limit is classified as a non-operating activity. The Board-approved spending limit was 5.0% of the trailing 12-quarter average market value of the University's endowment assets for the years ended May 31, 2020 and 2019. Because the spending limit policy is integral to the management of the University's financial operations, spending limit amounts of approximately \$75 million and \$72 million have been included in operating activities as part of investment returns distributed for operations for the years ended May 31, 2020 and 2019, respectively.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period of time as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the total of the annual payout, inflation, and fees, while assuming a moderate level of investment risk. The University's target return is for its endowment funds, over time, to exceed a composite index of asset classes contained in the investment policy target mix. Actual returns in any year may vary from this amount.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

Certain restricted gifts, grants, investment income, and other restricted resources are accounted for as revenue with donor restrictions. Upon the lapse of donor-imposed restrictions or expenditures for the intended purpose, these assets are reclassified to net assets without donor restrictions, with expenditures reported as operating expenses or non-operating capital contributions released from restrictions. Contributions received with donor restrictions which are satisfied in the same reporting period are accounted for as described above and are included in net assets released from restrictions and in capital contributions released from restrictions in the accompanying statement of activities.

Revenue from tuition and fees is recognized as earned over the related academic term within the fiscal year and is reported net of student financial aid (principally scholarships) of approximately \$199.6 million and \$188.0 million in 2020 and 2019, respectively, and provision for bad debts of approximately \$3.6 million and \$1.0 million in 2020 and 2019, respectively. Charges to students for campus housing and dining services represent separate performance obligations from the delivery of academic instruction and have been treated as separate contracts in the University's financial statements. Revenue from housing and dining contracts is recognized as earned over the related academic term within the fiscal year and is included in auxiliary activities.

Advertising costs are expensed as incurred. Advertising expense was approximately \$2.7 million and \$2.9 million for the years ended May 31, 2020 and 2019, respectively.

***Contributions***

Contributions received are recognized as revenue in the period received at their fair values. Unconditional promises to give are recognized at net realizable value when the promise is made. Contributed services are recognized as revenue if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that would typically need to be purchased if not provided by donation. Contributions of art are generally not recorded on the books of the University when received, unless a readily determinable fair value is available at the date of gift. Gifts of long-lived assets are recognized at fair value at the date of gift. The University does not imply a time restriction on such gifts.

***Investments***

Investments, primarily debt and equity securities and assets held in trust, are carried at fair value. Fair values of securities are based on quoted market prices. Fair values of investments in private limited partnerships and hedge funds are based on net asset value ("NAV") as a practical expedient in estimating fair value. U.S. GAAP provides guidance for estimating the fair value of investments in investment funds that calculate NAV. The net asset values are determined by the fund manager or general partner based on their best estimates using fair value estimation techniques, substantiated, in part, by their audited financial statements and supported by the due diligence of the University's investment management. Real estate held for investment by the University is carried at fair value based upon appraisals. Mineral interests are carried at fair value based upon a valuation approach using cash flows. Short-term investments are carried at cost, which approximates the fair value of such assets. Investments which are received by gift are recorded at fair value at the date of donation and adjusted for any unrealized gains/losses occurring thereafter.

Short-term investments consist principally of cash equivalents and money market funds and are not subject to significant market or credit risks. The remaining longer-term investments are subject to market and credit risks customarily associated with those investments.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

Income and net realized and unrealized gains and losses on investments are classified as unrestricted based on the absence of donor restrictions or when appropriated for expenditure. Income and net realized and unrealized gains and losses are only classified as restricted based on the presence of donor restrictions or an implied time restriction on donor-restricted endowments. The restricted portion of the University's investments is subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity. Realized and unrealized gains and losses on funds held in trust in perpetuity are classified as with donor restrictions.

***Depreciation and Amortization***

Depreciation and amortization of property and equipment are provided on the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives for purposes of depreciation and amortization are as follows:

Land improvements	10 years
Buildings	39 years
Building renovations	25 years
Building improvements	10 years
Furniture and equipment	3 to 15 years
Library books and film	5 years

The University's asset capitalization threshold is generally \$10,000 for individual asset acquisitions.

***Debt Premium and Issuance Amounts***

Debt premium and issuance amounts are amortized using the straight-line method, which approximates the effective interest method, over the period the related bonds are outstanding. Unamortized debt premium totaled approximately \$4.6 million and \$7.5 million at May 31, 2020 and 2019, respectively, and is included in bonds and notes payable, net, in the accompanying statements of financial position.

Debt issuance costs, net of amortization, totaled approximately \$5.8 million and \$4.5 million at May 31, 2020 and 2019, respectively, and are included as a reduction to bonds and notes payable, net, in the accompanying statements of financial position.

***Interest Rate Swaps***

The University accounts for its interest rate swaps at their fair value at each fiscal year-end. They are included as liabilities in the statements of financial position as interest rate swaps. Changes in the fair value of the interest rate swaps held by the University are included in the non-operating activities section in the accompanying statement of activities as gain/(loss) on interest rate swaps.

***Student Loans***

The assets and liabilities of the Federal Perkins Loan Program, Nursing Student Loan Program, and Nurse Faculty Loan Program, which are financed primarily by the federal government and administered by the University, are included with those of the University. The total of the federal government portion of these net assets is shown as refundable government student loans in the accompanying statements of financial position. The University also has loan funds received by means of gifts or grants that are included in net assets with donor restrictions due to donor stipulations that the funds and the income earned must remain in perpetuity for loan purposes.

## Texas Christian University

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

May 31, 2020 and 2019

#### ***Income Tax Status***

The University is a tax-exempt institution under Section 501(a) of the Internal Revenue Code of 1986 (IRC), as an organization described in Section 501(c)(3) of the IRC. The University has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the financial statements regarding uncertain tax provisions. As of May 31, 2020, the University's tax years ended May 31, 2017 through 2020, generally, remain subject to examination.

#### ***Fair Value of Financial Instruments***

The University has estimated the fair values of its financial instruments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that the University could realize in a current market exchange. Determinations of fair value are based on subjective data and significant judgment relating to timing of payments and collections and the amounts to be realized, and may include audited financial statements and the due diligence of the University's investment management. Different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. The University believes that the carrying amounts of the various categories of financial instruments approximate fair value.

The University records financial instruments in accordance with the fair value guidance as contained within Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, and Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. In accordance with ASC 820, fair value is defined as the price the University would receive from the sale of an asset, or pay to transfer the liability, in a timely transaction with an independent buyer in a principal market. This guidance establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the University's assets and liabilities. The University's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument and is more fully described in Note F. The inputs are summarized in three levels as outlined below:

- Level 1 Inputs - Quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 assets include publicly traded securities and mutual funds. Valuations of these instruments do not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.
- Level 2 Inputs - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Assets in this category generally include non-exchange-traded equity mutual funds, fixed income funds, and interest rate caps. Liabilities in this category include interest rate swaps. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions.
- Level 3 Inputs - Unobservable inputs for the valuation of the asset or liability. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. Assets in this category generally include real estate; investments held in trust by others; mineral interests; and other similar assets. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

Fair values of investments in private limited partnerships and hedge funds may be based on net asset value as a practical expedient in estimating fair value in accordance with ASU 2015-07. Under this standard, investments for which fair value is measured at NAV per share (or its equivalent using the practical expedient) are removed from the fair value hierarchy. The requirements of this update are reflected in the tables in Note F.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results could differ from these estimates and assumptions.

***Prior Year Financial Information***

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended May 31, 2019, from which the summarized information was derived.

***Reclassifications***

Certain financial statement and footnote information from the prior year financial statements has been reclassified to conform with the current year presentation. The operations of intercollegiate athletics have been determined to be more appropriately categorized as student services rather than auxiliary activities. Accordingly, the revenue associated with intercollegiate athletics has been reclassified from auxiliary activities to other income on the statement of activities, and the related expenses have been reclassified from auxiliary activities to student services. There was no net impact on total operating revenue or total operating expenses. These reclassifications are also reflected in Note M which presents expenses by natural classification.

***Recent Accounting Pronouncements***

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments resulting from this ASU provide (1) a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction, including how to evaluate whether a resource provider is receiving commensurate value in an exchange transaction and (2) guidance to assist entities in determining whether a contribution is either conditional or unconditional. The standard is effective for fiscal years beginning after December 15, 2018 and was adopted by the University during fiscal year 2020. In accordance with ASU 2018-08, the University analyzed grants and contracts awarded by federal, state, and other sponsors that exceeded \$100,000. After a thorough review of grants and contracts in each category, the University determined all grants and contracts exceeding \$100,000 were unconditional, nonreciprocal transactions. The University recognized the grant and contract revenue received according to ASU 2018-08.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this new standard, lessees record a right-of-use asset and a lease liability for leases with terms longer than 12 months. The standard is effective for fiscal years beginning after December 15, 2019. The University is evaluating the impact this standard will have on the financial statements beginning in fiscal year 2021.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

***Risk and Uncertainties***

The COVID-19 pandemic, which first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. Though the full impact of COVID-19 and the scope of any impact on the University's operations and financial condition cannot be determined, potential adverse consequences to the University of COVID-19 may include a decline in enrollment, postponement or cancellation of athletic events, decline in demand for University housing and dining, decline in demand for University programs that involve travel or that have international connections, and a decrease in investment income from the University's investment assets. The extent of the impact of COVID-19 will depend on certain developments, including the duration and spread of the outbreak which, at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the University's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

**NOTE B - BRITE DIVINITY SCHOOL**

Brite Divinity School (Brite) is a separately incorporated 501(c)(3) organization with its own Board of Trustees. The assets, liabilities, and activities of Brite are not included in the accompanying financial statements except for investments at fair value totaling approximately \$12.1 million and \$12.4 million at May 31, 2020 and 2019, respectively, which are included in investments, at fair value, and also as an offsetting liability in funds held in fiduciary capacity, net, in the accompanying statements of financial position. Funds held in fiduciary capacity, net, include a receivable from Brite of approximately \$21,000 and \$76,000 at May 31, 2020 and 2019, respectively.

Brite pays annual maintenance and administrative fees to the University to cover a portion of these expenses, as a majority of these functions are performed by University personnel. Brite also reimburses the University for expenses directly attributable to its operations. The fees and reimbursements totaled approximately \$1.9 million and \$1.8 million for the years ended May 31, 2020 and 2019, respectively. The fees are included in other income and the expense reimbursements are included as offsets to operating expenses in the accompanying statement of activities.

**NOTE C - LIQUIDITY AND AVAILABILITY**

The University's financial assets available for general expenditure within one year as of May 31 are as follows:

	2020	2019
	(in thousands)	
Cash	\$ 16,278	\$ 16,060
Accounts receivable and accrued income, net	21,243	17,343
Contributions receivable, net due within one year	22,774	20,841
Investments not subject to donor restrictions or board designations	302,615	187,304
Financial assets available at year end for current use	<u>\$ 362,910</u>	<u>\$ 241,548</u>

The University has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term investments. As of May 31, 2020 and 2019, the University had available revolving lines of credit totaling \$100 million and \$50 million, respectively, which it could draw upon in the event of an anticipated liquidity need.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

Student loan balances and certain other long-term amounts recorded in accounts receivable are not available to meet general expenditures.

In addition to financial assets available to meet general expenditures within one year, the Board of Trustees-approved spending limit for the subsequent year ending May 31, 2021 of \$75 million is expected to be released from donor-restricted and board-designated financial assets over the next 12 months.

The University has board-designated endowment investments of \$695.2 million and \$705.9 million as of May 31, 2020 and 2019, respectively. Although the University does not intend to spend from its board-designated endowment funds other than spending limit amounts appropriated for general expenditure, amounts from its board-designated endowment could be made available at the discretion of the Board of Trustees.

**NOTE D - CONTRIBUTIONS RECEIVABLE**

Contributions receivable consisted of the following unconditional promises to give with donor restrictions at May 31:

	2020	2019
	(in thousands)	
Unconditional promises expected to be collected in:		
Less than one year	\$ 22,774	\$ 20,841
One to five years	25,318	30,178
More than five years	5,000	5,275
Contributions receivable	53,092	56,294
Less discount	(3,093)	(4,118)
Contributions receivable, net	\$ 49,999	\$ 52,176

Gross contributions receivable resulting from unconditional promises to give relating to the renovation of the Amon G. Carter Stadium, Ed and Rae Schollmaier Arena (formerly Daniel-Meyer Coliseum), Charlie and Marie Lupton Baseball Stadium, M. J. Neeley School of Business, Football Recruiting Area, Dee J. Kelly Alumni & Visitors Center, School of Music Performance Hall construction project, and Amon G. Carter Stadium Expansion represent approximately \$53.1 million and \$56.3 million as of May 31, 2020 and 2019, respectively. The net value of those contributions receivable was approximately \$50.0 million and \$52.2 million, as determined by discounting future cash flows, of which 44.4% is concentrated in ten donors as of May 31, 2020 and 53.2% was concentrated in thirteen donors as of May 31, 2019. The rates used for calculation of the discount ranged from 0.19% to 3.1% and from 1.4% to 3.1% for 2020 and 2019, respectively.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

**NOTE E - INVESTMENTS**

The fair values of investments at May 31 are as follows:

	2020	2019
	(in thousands)	
Short-term investments	\$ 364,254	\$ 256,854
Equities:		
Domestic securities	79,222	135,100
International securities	142,886	190,030
Fixed income:		
Corporate bonds and asset-backed securities	40	54
Alternatives:		
Equity partnerships	495,470	420,118
Debt partnerships	253,451	229,801
Real estate partnerships	109,220	84,268
Hedge funds	286,331	308,899
Real estate	21,098	21,167
Mineral interests	86,354	116,617
Investments held in trust by others	87,912	86,355
	<u>\$ 1,926,238</u>	<u>\$ 1,849,263</u>
Total investments		

Short-term investments consist of cash and cash equivalents, such as investments in money market funds and Treasury Bills.

The amounts reported for the University's investments in hedge funds and limited partnerships are the estimates of the University's alternative investment managers, based on their best estimates using fair value estimation techniques, substantiated, in part, by the investments' audited financial statements and supported by the due diligence of the University's investment management. However, given the inherent limitations in any estimation technique, the values presented herein are not necessarily indicative of the amount that the University could realize in a current transaction. Future events could affect the estimates of fair value and could be material to the financial statements.

Direct investments in real estate and mineral interests are carried at fair value. The University believes that fair value accurately reflects the value of these investments and is a preferable method of accounting for these investments and records the change in fair value in investment returns, net of operating distributions in the statement of activities.

Mineral interests consist primarily of royalty interests in oil, natural gas, and natural gas liquids which are developed and produced by oil and gas companies independent of the University. The mineral interests are primarily located in Texas, Oklahoma, New Mexico, Louisiana, Arkansas, and Mississippi. The University's valuation process for determining the fair value of producing mineral interests is based upon cash flows. Under the cash flows valuation method, the fair value of mineral interests is determined using a multiple of the average monthly net cash flows from producing royalties for the fiscal year. The resulting fair value determination is reviewed by an independent petroleum engineer in conjunction with management's due diligence process. In addition, non-producing mineral and non-participating royalty interests are valued by an independent petroleum engineer annually based on bonus potential and net mineral acreage retained by the University.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

The following table summarizes the fair value measurement of the University's investments in certain entities that calculate net asset value per share as of May 31, 2020:

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice
		(in millions)			
Investments in:					
Hedge funds	(a)	\$ 286	\$ -	(c)	(d)
Limited partnerships	(b)	858	626	n/a	n/a

(a) This category includes 15 hedge funds with multiple strategies such as long/short equity, absolute return, multi-strategy, event-driven and global macro. The fair values of the investments in this category have been estimated using net asset value per share of the investments, substantiated in part by the investments' audited financial statements. There are no gates or other limitations imposed upon redemption amounts; however, some hedge fund managers have withdrawal provisions established upon entering their funds which limit an investor's ability to withdraw amounts without a variable charge of up to 5%.

- Five investments, valued at \$158.0 million, can be redeemed on a quarterly basis.
- Three investments, valued at \$70.2 million, can be redeemed on an annual basis.
- One investment, valued at \$11.0 million, can be redeemed every two years from the date of issuance.
- As of May 31, 2020, the University was in the process of redeeming six investments totaling \$47.1 million.

(b) This category includes private equity limited partnerships that invest primarily in diversified leveraged buyout and venture capital companies, opportunistic distressed debt/equity securities, senior secured mortgages, and secondary investments. This category also includes real asset limited partnerships invested primarily in commercial mortgages and properties located almost exclusively in North America. The fair values of the investments in this category have been estimated using the net asset value of the University's ownership interest in the partners' capital. The net asset values are determined by the fund manager or general partner based upon the latest investee information available, including financial statements and other similar data necessary to the valuation process. Pending capital commitments by the University to these partnerships total approximately \$626 million through 2023. Generally, partnership investments cannot be redeemed because the investments are structured as closed-end funds with maturity dates 10 or more years from initial acquisition. All funds in this category can be redeemed in the secondary market at a discount or premium to current fair value depending on the market for each particular fund subject to, in some cases, certain approval rights of the general partners.

(c) Hedge fund redemption frequency varies by fund and may occur the last day of each calendar quarter, annually on January 31, February 28, or December 31, or every two years on December 31.

(d) Hedge fund redemption notice varies by fund and may be from 60 to 90 days depending on the fund.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

Investments held in trust by others consist primarily of investments in securities and mineral-producing interests. The fair values are presented as follows from information provided by independent trustees as of May 31:

	2020	2019
	(in thousands)	
Milton E. Daniel Trust	\$ 60,543	\$ 59,886
Charles H. Harris Foundation	8,606	8,197
Charitable remainder trusts, net, at estimated net present value	14,794	14,471
Other estates and trusts	3,969	3,801
	<hr/>	<hr/>
Total investments held in trust by others	\$ 87,912	\$ 86,355
	<hr/>	<hr/>

The University has received as contributions various types of split-interest agreements and investments held in trust by others, including charitable gift annuities, pooled income funds, charitable remainder trusts, and perpetual trusts. The assets for charitable remainder trusts and perpetual trusts are neither in the possession nor under the control of the University, but are held and administered by fiscal agents independent of the University. These assets are included in the accompanying financial statements because the University has legally enforceable, irrevocable rights or claims, including those as to income or eventual distribution of the assets. The associated net assets included in pooled income funds and perpetual trusts are recorded in investments and are revalued to fair value at each year-end based upon valuations provided by trustees. The associated net assets under charitable remainder trusts and charitable gift annuities are recorded in investments and are revalued to fair value at each year-end using standard IRS-required valuation methodologies. The assumed rate of return used was 7.19% at May 31, 2020 and 2019. Contributions to split-interest agreements were \$0.1 million and \$2.1 million for the years ended May 31, 2020 and 2019, respectively.

Under the charitable gift annuity arrangements, the University has recorded the assets at fair value and the liabilities to the donors or the donors' beneficiaries at the present value of the estimated future payments to be distributed by the University to such individuals. The amount of the contribution is the difference between the assets and the liability and is recorded as contribution revenue with donor restrictions.

Under the pooled income fund and charitable remainder trust agreements, the University has recorded the contribution with donor restrictions at the present value of the estimated future benefits to be received based on the ultimate disposition of the assets dependent on the donor's intent. Subsequent changes in fair value for charitable remainder trusts are recorded as changes in value in net assets with donor restrictions and are reflected in the statement of activities as investment returns, net of operating distributions.

Under the perpetual trust agreements, the assets are held in perpetuity and recorded in investments in the accompanying statements of financial position. The University has recorded the assets and has recognized contribution revenue with donor restrictions at the fair value of the University's beneficial interest in the trust assets. Income earned on the trust assets is included in investment returns distributed for operations in the accompanying statement of activities. Subsequent changes in the fair value of the beneficial interest in the trust assets are recorded in the statement of activities as investment returns with donor restrictions, net of operating distributions.

**Texas Christian University**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**May 31, 2020 and 2019**

The net investment return for the years ended May 31 consists of the following:

	2020	2019
	(in thousands)	
Dividends and interest	\$ 40,895	\$ 41,274
Mineral income	8,992	12,499
Net realized and unrealized gain (loss)	(43,862)	3,447
Net investment return	<u>\$ 6,025</u>	<u>\$ 57,220</u>

**NOTE F - FAIR VALUE MEASUREMENT**

The schedule below classifies certain of the University's assets and liabilities carried at fair value based upon the three-tier hierarchy required by ASC 820 and the NAV permitted under FASB ASU 2015-07 as of May 31, 2020:

		Fair Value Measurements at May 31, 2020 Using			
Description	2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at NAV
		(in thousands)			
Short-term investments	\$ 364,254	\$ 364,254	\$ -	\$ -	\$ -
Equities	222,108	222,108	-	-	-
Fixed income	40	-	40	-	-
Hedge funds	286,331	-	-	-	286,331
Limited partnerships	858,141	-	-	-	858,141
Real estate	21,098	-	-	21,098	-
Mineral interests	86,354	-	-	86,354	-
Investments held in trust by others	87,912	-	-	87,912	-
Total investments	1,926,238	586,362	40	195,364	1,144,472
Interest rate swaps	(41,464)	-	(41,464)	-	-
Total	<u>\$ 1,884,774</u>	<u>\$ 586,362</u>	<u>\$ (41,424)</u>	<u>\$ 195,364</u>	<u>\$ 1,144,472</u>

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

The schedule below classifies certain of the University's assets and liabilities carried at fair value based upon the three-tier hierarchy required by ASC 820 and the NAV permitted under FASB ASU 2015-07 as of May 31, 2019:

		Fair Value Measurements at May 31, 2019 Using			
Description	2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at NAV
		(in thousands)			
Short-term investments	\$ 256,854	\$ 256,854	\$ -	\$ -	\$ -
Equities	325,130	325,130	-	-	-
Fixed income	54	-	54	-	-
Hedge funds	308,899	-	-	-	308,899
Limited partnerships	734,187	-	-	-	734,187
Real estate	21,167	-	-	21,167	-
Mineral interests	116,617	-	-	116,617	-
Investments held in trust by others	86,355	-	-	86,355	-
Total investments	1,849,263	581,984	54	224,139	1,043,086
Interest rate swaps	(34,369)	-	(34,369)	-	-
Total	\$ 1,814,894	\$ 581,984	\$ (34,315)	\$ 224,139	\$ 1,043,086

The schedule below summarizes the activity for the items above which have been classified as Level 3 investments:

	Real estate	Mineral interests	Investments held in trust
	(in thousands)		
Ending balance at May 31, 2018	\$ 21,086	\$ 124,655	\$ 87,608
Net gains/(losses)	81	(8,038)	(1,253)
Ending balance at May 31, 2019	21,167	116,617	86,355
Net gains/(losses)	(69)	(30,263)	1,557
Ending balance at May 31, 2020	\$ 21,098	\$ 86,354	\$ 87,912

Unrealized and realized gains and losses on the investments valued using significant unobservable inputs are included, net of investment management fees and related expenses, in investment returns distributed for operations and investment returns, net of operating distributions, in the accompanying statement of activities. Specific valuation techniques are not disclosed because all valuation information is provided by third parties. For the year ended May 31, 2020, net unrealized losses of approximately \$28.8 million relate to Level 3 assets still held at May 31, 2020. For the year ended May 31, 2019, net unrealized losses of approximately \$9.2 million related to Level 3 assets still held at May 31, 2019.

**Texas Christian University**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**May 31, 2020 and 2019**

**NOTE G - PROPERTY AND EQUIPMENT**

Property and equipment, at cost or fair market value at the date of receipt by gift, are as follows at May 31:

	2020	2019
	(in thousands)	
Land improvements	\$ 62,362	\$ 56,975
Buildings, renovations, and improvements	1,593,120	1,337,522
Furniture and equipment	192,729	176,382
Library books and film	34,252	33,211
	<hr/>	<hr/>
Property and equipment	1,882,463	1,604,090
Less accumulated depreciation	(612,263)	(553,859)
	<hr/>	<hr/>
	1,270,200	1,050,231
Land	95,789	95,789
Construction-in-progress	104,054	224,964
	<hr/>	<hr/>
Property and equipment, net	<u>\$ 1,470,043</u>	<u>\$ 1,370,984</u>

Depreciation expense was approximately \$69.5 million and \$64.1 million for the years ended May 31, 2020 and 2019, respectively.

The University had outstanding commitments for construction and renovation of approximately \$16.7 million and \$134.9 million at May 31, 2020 and 2019, respectively.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

**NOTE H - BONDS AND NOTES PAYABLE AND REVOLVING LINE OF CREDIT**

The carrying value of bonds and notes payable, net, consisted of the following at May 31:

	2020	2019
	(in thousands)	
2000 Red River Higher Education Variable Rate Demand Revenue Bonds, partially refunded in 2020, due March 1, 2030, bearing interest at variable rates (1.40% at May 31, 2020 and 1.42% at May 31, 2019)	\$ 30,000	\$ 50,000
2006 Red River Higher Education Variable Rate Demand Revenue Bonds, due March 15, 2035, bearing interest at variable rates (1.80% at May 31, 2020 and 1.40% at May 31, 2019)	80,000	80,000
2010A Red River Higher Education Revenue Bonds, refunded in 2020, bearing interest at a variable rate of 2.63% at May 31, 2019	-	46,000
2011 Red River Higher Education Revenue Bonds, refunded in 2020, bearing interest at rates between 4% and 5.25%, net of unamortized premium of \$184,000 at May 31, 2019	-	37,314
2013 Red River Higher Education Revenue Bonds, partially advance-refunded in 2020, due in annual payments until the March 15, 2023 call date, bearing interest at rates between 4% and 5.25%, net of unamortized premium \$2.5 million at May 31, 2019	7,250	100,400
2013A Red River Higher Education Revenue Bonds, refunded in 2020, bearing interest at a variable rate of 2.63% at May 31, 2019	-	31,000
2015 Red River Higher Education Loan, fully retired in 2020, bearing interest at 1.19% at May 31, 2019	-	3,640
2015A Taxable Senior Notes, due March 15, 2045, bearing interest at 3.97%	50,000	50,000
2016 Red River Higher Education Loan, due in annual payments through March 15, 2027, bearing interest at 2.30%	33,910	34,255
2016A Red River Higher Education Revenue Refunding Bonds, due in annual payments through March 15, 2038, bearing interest at rates between 4% and 5%, net of unamortized premium of \$4.6 million and \$4.8 million at May 31, 2020 and 2019, respectively	33,131	34,343

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
	(in thousands)	
2017 Red River Higher Education Revenue Refunding Notes, due in annual payments through March 15, 2026, bearing interest at 2.44%	\$ 30,821	\$ 31,059
2017A Taxable Senior Notes, due August 11, 2037, bearing interest at 3.61%	100,000	100,000
2019 Taxable Senior Notes, due April 9, 2043, bearing interest at 3.82%	75,000	75,000
2020 Red River Higher Education Revenue Refunding Taxable Bonds, due in annual payments March 15, 2026 through March 15, 2045, bearing interest at rates between 2.164% and 3.397%	309,385	-
2020A Taxable Senior Notes, due May 14, 2060, bearing interest at 3.6%	<u>150,000</u>	<u>-</u>
Bonds and notes payable	899,497	673,011
Unamortized debt issuance costs	<u>(5,761)</u>	<u>(4,512)</u>
Bonds and notes payable, net	<u>\$ 893,736</u>	<u>\$ 668,499</u>

The fair value of bonds and notes payable was approximately \$973 million and \$700 million for the years ended May 31, 2020 and 2019, respectively, and were valued at the present value of future payments discounted at the prevailing interest rates for comparable debt instruments as of their valuation dates. All bond and note issuances are unsecured.

The 2000 and 2006 bonds are variable rate bonds in a weekly mode and can be tendered by holders upon demand. Remarketing agents selected by the University determine the interest rates and market the bonds at rates that will price the bonds at a market value of approximately 100% of the principal balance outstanding, plus accrued interest. The University has \$110 million of bank-supported standby bond purchase agreements (SBPA). In the event that the remarketing agent is unable to market the bonds at any given time, the bonds could become callable and the SBPA bank would be required to pay the balance at that time. The SBPAs mature in May 2025.

On November 17, 2008, the University entered into a 20-year floating to fixed rate \$20 million notional amount interest rate swap, in which the University agreed to pay an annual fixed rate of 4.25%. The University entered into this rate swap to minimize the interest rate risk related to the 2000 bonds. On January 30, 2020 the University issued Series 2020, which refinanced \$20 million of Series 2000 and terminated this interest rate swap. At May 31, 2019, the fair value of the swap represented a liability to the University of approximately \$5.3 million. Periodic settlements of the swap were recorded as a component of interest expense.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

On March 3, 2005, the University entered into, at no cost, a 29.1-year \$80 million notional amount interest rate swap, in which the University agrees to pay an annual fixed rate of 4.34%. The University entered into this rate swap to minimize the interest rate risk related to the 2006 bonds. The fair value of the swap represented a liability to the University of approximately \$41.5 million and \$29.0 million at May 31, 2020 and 2019, respectively. Periodic settlements of the swap are recorded as a component of interest expense.

On December 2, 2010, the University entered into an agreement to issue \$120 million in Higher Education Revenue Bonds (Series 2010A), an installment bond series. The bonds were issued in installments and subsequent principal payments have been made, with a total of \$46 million outstanding at May 31, 2019. In 2020, Series 2010A was refunded with proceeds from Series 2020.

On December 19, 2013, the University entered into an agreement to issue \$50 million in Higher Education Revenue Bonds (Series 2013A), an installment bond series. The bonds were issued in periodic installments, with a total of \$31 million outstanding at 2019. In 2020, Series 2013A was refunded with proceeds from Series 2020.

On August 11, 2017, the University entered into an agreement with a private lender to issue \$100 million of Taxable Senior Notes at a fixed rate of 3.61% and due on August 11, 2037. Identified functionally as Series 2017A, the proceeds from the Notes were used to renovate and expand the Neeley School of Business facilities and construct a new School of Music Performance Hall. The Neeley School of Business renovation is a \$75 million capital project for which approximately \$57.4 million in binding written pledges, non-binding agreements, and donor gifts had been committed through May 31, 2020 and 2019. The School of Music Performance Hall is a \$53 million capital project for which approximately \$12 million in binding written pledges, non-binding agreements, and donor gifts had been committed through May 31, 2020 and 2019.

On December 20, 2017, the University issued \$31.6 million in Higher Education Revenue Refunding Notes (Series 2017). Proceeds from the sale of the notes were placed in escrow to refund the Series 2010 bonds, which were called and redeemed in March 2020.

On April 9, 2019, the University entered into an agreement with a private lender to issue \$75 million of Taxable Senior Notes at a fixed rate of 3.82% and due on April 9, 2043. Identified functionally as Series 2019, the proceeds of the Notes are being used to fund the construction of The Harrison administration building, a \$57 million capital project, and to expand the east side of Amon G. Carter Stadium, a \$113 million capital project. Approximately \$53.1 million and \$42.8 million in binding written pledges, non-binding agreements, and donor gifts had been committed toward the stadium expansion through May 31, 2020 and 2019, respectively.

On January 30, 2020, the University entered into an agreement to issue \$309 million in Higher Education Revenue Refunding and Improvement Taxable Bonds at fixed rates ranging from 2.16% to 3.40%, based on maturities ranging from March 15, 2026 to March 15, 2045. Identified functionally as Series 2020, the proceeds refinanced in part or all of Series 2000, 2010A, 2011, 2013A, and issued \$75 million in new funds to construct projects including two dormitories, a new Fine Arts building, and parking. The transaction generated a net present value savings of 7.2% or \$15.6 million, but also resulted in a current year loss of \$7.0 million. Additionally, proceeds were placed in escrow to refund a portion of the Series 2013 bonds which are callable in March 2023. The unrefunded portion of Series 2013 fully amortizes by March 2023, coinciding with the Series 2013 call date.

On May 15, 2020, the University entered into an agreement with a private lender to issue \$150 million of Taxable Senior Notes at a fixed rate of 3.60% and due on May 14, 2060. Identified functionally as Series 2020A, the proceeds from the Notes are being held in reserve to manage liquidity during the worldwide COVID-19 pandemic. As of May 31, 2020, no proceeds have been spent.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

ASC 815, *Derivatives and Hedging*, states that not-for-profit organizations are not permitted special hedge accounting for derivatives used to hedge forecasted transactions. Accordingly, the interest rate swaps have not been accounted for by the University as a hedge. Changes in the fair value of the swaps are included as non-operating activities in the statement of activities as loss on interest rate swaps.

Aggregate scheduled maturities of bonds and notes payable are as follows (in thousands):

Year ended May 31

2021	\$ 8,079
2022	8,365
2023	8,641
2024	6,272
2025	6,454
Thereafter	<u>857,105</u>
Total bonds and notes payable	894,916
Unamortized premium	4,581
Unamortized bond issuance costs	<u>(5,761)</u>
Bonds and notes payable, net	<u>\$ 893,736</u>

As of May 31, 2020 and 2019, the University had available revolving lines of credit totaling \$100 million and \$50 million, respectively, supporting operations, with staggered maturities through December 2022. No borrowings were outstanding under any line of credit at May 31, 2020 and 2019. Borrowings under the revolving lines of credit would be unsecured and bear interest at rates which fluctuate with LIBOR or the federal funds borrowing rate (0.18% and 2.43% at May 31, 2020 and May 31, 2019, respectively). The University has a \$110 million standby bond purchase agreement, maturing May 26, 2025, to provide liquidity support for the Series 2000 and Series 2006 variable rate demand bonds.

Cash payments of interest totaled approximately \$25.2 million and \$22.3 million for the years ended May 31, 2020 and 2019, respectively. Interest capitalized totaled approximately \$8.6 million and \$6.9 million for the years ended May 31, 2020 and 2019, respectively. Interest expense was approximately \$18.4 million and \$15.6 million for the years ended May 31, 2020 and 2019, respectively.

**NOTE I - RETIREMENT BENEFITS**

All full-time University faculty and staff who have two years of service may participate in retirement plans administered by the Teachers Insurance and Annuity Association/College Retirement Equities Fund, VOYA, or Pension Fund of the Christian Church. The University's contributions to the plans are 11.5% of the participant's salary base. Contributions to the plans by the University were approximately \$19.2 million and \$18.0 million for the years ended May 31, 2020 and 2019, respectively.

In addition to retirement contributions, the University provides certain health care insurance benefits for retired employees. Normal retirement age is 65. For employees hired prior to January 1, 2005, early retirement is possible, beginning at age 55, with a minimum of five years of service, provided that a retiree's years of service plus age equal or exceed 75 at the date of retirement. For employees hired after December 31, 2004, early retirement is possible, beginning at age 55, with a minimum of 10 years of service, provided that a retiree's years of service plus age equal or exceed 75 at the date of retirement. The University funds insurance premiums on a current basis.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

The University provides Medicare eligible retirees with a monthly benefit amount toward the purchase of individual medical and prescription drug coverage through a private Medicare exchange. Insured dental benefits are offered to Medicare eligible and pre-Medicare eligible retirees. Self-insured medical and prescription drug benefits are provided by the plan for pre-Medicare eligible retirees. The cost for the plan for participants who are not Medicare eligible is projected to increase in the future at the health care cost trend rates disclosed below.

In 2020, the University modified its plan so that only employees who attain age 45 on or before December 31, 2020, are eligible for the health insurance benefits currently available to retired employees. Current employees between ages 40 to 44 on December 31, 2020, will be enrolled in the defined contribution retiree health savings program ("RHSP"). In addition, employees will be automatically enrolled in the RHSP the month following their 40<sup>th</sup> birthday. Employees in the RHSP will vest after 10 years of service.

The following tables set forth information regarding postretirement benefits attributable to employees of the University at May 31 (determined using a measurement date of May 31):

Change in benefit obligation:

	2020	2019
	(in thousands)	(in thousands)
Accumulated postretirement benefit obligation at beginning of year	\$ 67,641	\$ 49,908
Service cost	2,299	1,638
Interest cost	2,307	2,055
Actuarial loss/(gain)	(1,977)	17,215
Plan participants' contributions	630	536
Benefit payments	(3,494)	(3,711)
Accumulated postretirement benefit obligation at end of year	<u>\$ 67,406</u>	<u>\$ 67,641</u>

Reconciliation of funded status:

	2020	2019
	(in thousands)	(in thousands)
Accumulated postretirement benefit obligation (unfunded)	\$ 67,406	\$ 67,641
Unrecognized actuarial loss	(37,399)	(42,224)
Unrecognized prior service credit	14,473	18,322
Accrued postretirement benefit cost	<u>\$ 44,480</u>	<u>\$ 43,739</u>

Reconciliation of accrued postretirement benefit cost:

	2020	2019
	(in thousands)	(in thousands)
Accrued postretirement benefit cost at beginning of year	\$ 43,739	\$ 45,303
Net periodic postretirement benefit cost	3,605	1,611
University contributions	(2,864)	(3,175)
Accrued postretirement benefit cost at end of year	<u>\$ 44,480</u>	<u>\$ 43,739</u>

**Texas Christian University**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**May 31, 2020 and 2019**

Components of net periodic postretirement benefit cost:

	2020	2019
	(in thousands)	
Service cost	\$ 2,299	\$ 1,638
Interest cost	2,307	2,055
Recognized actuarial loss	2,848	1,767
Amortization of prior service credit	(3,849)	(3,849)
	<u>\$ 3,605</u>	<u>\$ 1,611</u>
Net periodic postretirement benefit cost		

Change in plan assets:

	2020	2019
	(in thousands)	
Fair value of plan assets at beginning of year	\$ -	\$ -
University contributions	2,864	3,175
Plan participants' contributions	630	536
Benefit payments	(3,494)	(3,711)
	<u>\$ -</u>	<u>\$ -</u>
Fair value of plan assets at end of year		

Postretirement benefit changes reported as non-operating activities:

	Projected 2021 (unaudited)	2020 (in thousands)	2019 (in thousands)
Recognized actuarial loss included in net periodic benefit cost	\$ 2,468	\$ 2,848	\$ 1,767
Unrecognized actuarial loss/(gain) adjustment	<u>-</u>	<u>(4,825)</u>	<u>15,448</u>
Actuarial loss/(gain)	<u>\$ 2,468</u>	<u>\$ (1,977)</u>	<u>\$ 17,215</u>

**Texas Christian University**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**May 31, 2020 and 2019**

Weighted-average assumptions used in calculating amounts relating to postretirement benefit obligations:

	2020	2019
Discount rate used	2.75%	3.50%
Health care cost trend rates:		
Initial post-65 trend rate	N/A	N/A
Ultimate post-65 trend rate	N/A	N/A
Years to decrease to ultimate trend rate	N/A	N/A
Initial pre-65 trend rate	6.50%	7.00%
Ultimate pre-65 trend rate	5.00%	5.00%
Years to decrease to ultimate trend rate	3	4
Initial dental trend rate	5.00%	5.00%
Ultimate dental trend rate	5.00%	5.00%
Years to decrease to ultimate trend rate	-	-

Effect of a 1-percentage point increase in health care cost trend rate on:

	2020	2019
	(in thousands)	
Accumulated postretirement benefit obligation as of May 31	\$ 2,346	\$ 2,086
Service cost plus interest cost for year beginning June 1	258	239

Effect of a 1-percentage point decrease in health care cost trend rate on:

	2020	2019
	(in thousands)	
Accumulated postretirement benefit obligation as of May 31	\$ (1,880)	\$ (1,686)
Service cost plus interest cost for year beginning June 1	(200)	(187)

Expected postretirement benefit payments, net of expected plan participants' contributions (in thousands):

2021	\$ 2,873
2022	2,769
2023	2,875
2024	2,989
2025	3,115
Years 2026 - 2030	17,182

The University expects to contribute \$2.87 million to the plan during the year ended May 31, 2021.

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

**NOTE J - CONDITIONAL ASSET RETIREMENT OBLIGATIONS**

In accordance with ASC 410, *Asset Retirement and Environmental Obligations*, the University has asset retirement obligations primarily related to asbestos remediation in some of the older University facilities. Asbestos abatement was estimated primarily using building surveys. The value of the asset retirement obligation is \$1.0 million and \$0.7 million at May 31, 2020 and 2019, respectively, and is reported in accounts payable and other accrued liabilities in the accompanying statements of financial position. The net book value of the associated assets is \$0.3 million and \$0.1 million at May 31, 2020 and 2019, respectively, and is reported in property and equipment, net, in the accompanying statements of financial position.

**NOTE K - NET ASSETS**

At May 31, net assets are categorized by purpose as follows:

	Without donor restrictions	With donor restrictions	2020	2019
	(in thousands)			
Internally designated for specific programs and net investment in plant	\$ 738,264	\$ -	\$ 738,264	\$ 699,831
Restricted by donor for plant	-	4,759	4,759	56,291
Restricted by donor for scholarships and programs	-	28,353	28,353	26,623
Endowment funds	790,510	793,650	1,584,160	1,620,665
Student loan funds	-	893	893	874
	<u>\$ 1,528,774</u>	<u>\$ 827,655</u>	<u>\$ 2,356,429</u>	<u>\$ 2,404,284</u>
Total net assets				

Net assets with donor restrictions includes balances restricted by donors and the income from such assets which is either restricted until appropriated for expenditure or unrestricted based on donor stipulations. This category also includes balances restricted by donors subject to certain time or purpose limitations.

**NOTE L - ENDOWMENT**

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

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

***Interpretation of Relevant Law***

The University interprets the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) enacted in the State of Texas as allowing the University, absent explicit donor stipulations to the contrary as stated in the gift instrument, to appropriate as much of a donor-restricted endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. As a result of this interpretation, the University classifies as perpetual endowments (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as donor-restricted net assets only until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of donor-restricted contributions and continued appropriation for certain programs that were deemed prudent by the University. Deficiencies of this nature exist in various donor-restricted endowment funds, which together have an original value of \$41.9 million and a fair value of \$40.6 million with a deficiency of approximately \$1.3 million as of May 31, 2020, and an original value of \$9.2 million and a fair value of \$9.1 million with a deficiency of approximately \$113,000 as of May 31, 2019. These deficiencies are included in investment returns, net of operating distributions in the statement of activities and reported in net assets with donor restrictions in the statements of financial position.

***Endowment Net Assets***

Endowment net assets consist of the following at May 31, 2020:

	Without donor restrictions	With donor restrictions (in thousands)	Total
Donor-restricted endowment funds	\$ -	\$ 793,650	\$ 793,650
Board-designated endowment funds	790,510	-	790,510
Total endowment net assets	<u>\$ 790,510</u>	<u>\$ 793,650</u>	<u>\$ 1,584,160</u>

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

Endowment net assets consist of the following at May 31, 2019:

	Without donor restrictions	With donor restrictions (in thousands)	Total
Donor-restricted endowment funds	\$ -	\$ 789,462	\$ 789,462
Board-designated endowment funds	831,203	-	831,203
Total endowment net assets	<u>\$ 831,203</u>	<u>\$ 789,462</u>	<u>\$ 1,620,665</u>

Changes in endowment net assets for the years ended May 31, 2020 and 2019 are as follows:

	Without donor restrictions	With donor restrictions (in thousands)	Total
Endowment net assets at May 31, 2018	\$ 816,499	\$ 779,450	\$ 1,595,949
Contributions	621	16,301	16,922
Total investment return	32,180	21,296	53,476
Endowment spending	(41,477)	(27,585)	(69,062)
Transfers to create designated funds	23,380	-	23,380
Endowment net assets at May 31, 2019	831,203	789,462	1,620,665
Contributions	134	19,281	19,415
Total investment return	(1,353)	12,986	11,633
Endowment spending	(42,528)	(28,079)	(70,607)
Transfers to create designated funds	3,054	-	3,054
Endowment net assets at May 31, 2020	<u>\$ 790,510</u>	<u>\$ 793,650</u>	<u>\$ 1,584,160</u>

**Texas Christian University**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**May 31, 2020 and 2019**

**NOTE M - EXPENSES BY NATURAL CLASSIFICATION**

The University categorizes operating expenses according to functional classifications in its statement of activities. The natural classifications of University operating expenses according to major budget categories are presented below. Interest expense on external debt is allocated to the functional categories which have benefitted from the proceeds of the external debt. Directly attributable depreciation expense is reported in each functional category based on usage of assets. All expenses associated with utilities and operation and maintenance of facilities are allocated to the functional classifications based on square footage occupancy.

Operating expenses by natural classification at May 31, 2020:

	Compensation								
	Faculty	Exempt staff	Non exempt and other wages	Benefits	Utilities	Supplies services and other	Depreciation	2020 Total	
	(in thousands)								
Instruction	\$ 91,351	\$ 10,376	\$ 14,055	\$ 39,143	\$ 2,321	\$ 36,103	\$ 15,453	\$ 208,802	
Research	-	2,356	1,480	1,128	21	2,280	112	7,377	
Academic support	303	16,623	5,576	7,931	572	20,597	8,664	60,266	
Student services	699	40,629	9,131	18,392	2,296	51,485	23,262	145,894	
Institutional support	161	19,213	5,303	8,283	315	15,140	4,194	52,609	
Auxiliary activities	474	3,756	8,394	4,012	3,008	36,755	17,067	73,466	
Fund-raising	-	7,140	928	3,072	12	3,308	799	15,259	
Total operating expenses	\$ 92,988	\$ 100,093	\$ 44,867	\$ 81,961	\$ 8,545	\$ 165,668	\$ 69,551	\$ 563,673	

Operating expenses by natural classification at May 31, 2019:

	Compensation								
	Faculty	Exempt staff	Non exempt and other wages	Benefits	Utilities	Supplies services and other	Depreciation	2019 Total	
	(in thousands)								
Instruction	\$ 86,189	\$ 9,324	\$ 13,682	\$ 35,154	\$ 2,385	\$ 35,103	\$ 13,771	\$ 195,608	
Research	-	2,500	886	1,014	25	2,061	109	6,595	
Academic support	632	13,574	5,249	6,072	544	17,752	8,253	52,076	
Student services	226	37,657	8,257	16,128	805	60,174	21,401	144,648	
Institutional support	98	18,720	6,369	7,717	339	13,318	3,555	50,116	
Auxiliary activities	454	4,998	12,014	5,221	4,980	27,057	16,149	70,873	
Fund-raising	-	6,998	962	2,920	14	2,922	827	14,643	
Total operating expenses	\$ 87,599	\$ 93,771	\$ 47,419	\$ 74,226	\$ 9,092	\$ 158,387	\$ 64,065	\$ 534,559	

**NOTE N - CONTINGENCIES**

During the normal course of business, the University is involved in various litigation and disputes. The University does not believe that the ultimate resolution of any of these matters will have a material impact on the financial position, results of operations or cash flows of the University.

**NOTE O - SUBSEQUENT EVENTS**

The University has evaluated events through September 22, 2020, the date the financial statements were available to be issued, and has determined there are no material subsequent events or transactions that would require additional disclosure in the University's financial statements.



**WHEREVER  
WE MAY GO,  
OUR HEARTS  
ARE HERE.**

**TCU**

# TEXAS CHRISTIAN UNIVERSITY

## *Board of Trustees 2019-2020*

### **Ms. Leanne S. Acuff**

Civic Leader  
Snowmass Village, Colorado

### **Mrs. Sheryl L. Adkins-Green**

Chief Marketing Officer  
Mary Kay, Inc.  
Dallas, TX

### **Mrs. Allie Beth McMurtry Allman**

Founder and Chief Executive Officer  
Allie Beth Allman & Associates  
Dallas, TX

### **Mrs. Amy Roach Bailey**

Civic Leader  
Fort Worth, TX

### **Mr. Michael K. Berry**

President  
Hillwood Properties  
Fort Worth, TX

### **Mr. Joe D. Briggs**

Counsel  
NFL Players Association  
Washington, DC

### **Mr. Edward "Eddie" A. Clark**

President and Chief Executive Officer  
Professional Turf Products of Texas  
Euless/Fort Worth, TX

### **Mrs. Brenda Almes Cline**

Chief Financial Officer  
Kimbell Art Foundation  
Fort Worth, TX

### **Mr. J. Kelly Cox**

Oil/Ranching  
John L. Cox Company  
Midland, TX

### **Ms. Marilyn E. Davies**

Chief Executive Officer  
Bailey Banks Seismic, LP  
Katy, TX

### **Mr. Barry E. Davis**

Executive Chairman  
EnLink Midstream  
Dallas, TX

### **Mr. G. Hunter Enis**

Partner and President  
Four Sevens Oil Company  
Fort Worth, TX

### **Mrs. Kathryn Thompson Farmer**

Executive Vice President of Operations  
BNSF Railway Company  
Fort Worth, TX

### **Mrs. Charlotte Scharbauer French**

Civic Leader  
Fort Worth, TX

### **Mrs. Marcia Fuller French**

President and Treasurer  
William M. Fuller Foundation  
Fort Worth/Midland, TX

### **Mr. Alan D. Friedman**

President  
Trisept, Inc.  
Dallas, TX

### **Mr. Rafael "Rafa" G. Garza**

Founder and Managing Director  
Bravo Equity Partners  
Fort Worth, TX

### **The Honorable Charles L. Geren**

Texas State Representative District 99  
President, Railhead Smokehouse  
Fort Worth, TX

### **Mr. Nick A. Giachino**

Retired  
PepsiCo  
Wilmington, North Carolina

### **Mr. Elliott J. Hill**

President of Consumer and  
Marketplace  
Nike, Inc.  
Beaverton, Oregon

### **Mr. Bruce W. Hunt**

President  
Petro-Hunt, LLC  
Dallas, TX

### **Mr. Mark L. Johnson**

Principal/Portfolio Manager  
Luther King Capital Management  
Fort Worth, TX

### **Mr. Dee J. Kelly, Jr.**

Partner  
Kelly Hart & Hallman, LLC  
Fort Worth, TX

### **Mr. J. Bryan King**

Principal  
Luther King Capital Management  
Fort Worth, TX

### **Mr. J. Luther King, Jr.**

Chairman/CIO and Founder  
Luther King Capital Management  
Fort Worth/Dallas, TX

### **Mr. G. Malcolm Loudon**

President  
Walsh Holdings, LLC  
Fort Worth, TX

### **Ms. Mary Ralph Lowe**

Chief Executive Officer  
Maralo LLC  
Houston/Fort Worth, TX

### **Mr. Kade L. Matthews**

Rancher  
Clarendon, TX

### **Mr. Thomas F. Meagher, Jr.**

Managing Director and Partner  
Grosvenor Capital Management, LP  
Chicago, Illinois

### **Mrs. Kit Tennison Moncrief**

Civic Leader  
Fort Worth, TX

### **Mr. Ronald C. Parker**

Founder, President/Chief Executive  
Officer  
R&P Parker Holdings, LLC  
Plano, TX

### **Mr. John H. Pinkerton**

Owner  
John H. Pinkerton Company  
Fort Worth, TX

### **Mr. Roger A. Ramsey**

Retired  
Allied Waste Industries, Inc.  
Houston, TX

### **Mr. Trevor D. Rees-Jones**

Chief Executive Officer and President  
Chief Oil & Gas LLC  
Dallas, TX

### **Ms. Nancy Tartaglino Richards**

Founder and Chairman  
First Preston HT  
Dallas, TX

### **Mrs. Joan Glusing Rogers**

Civic Leader  
Fort Worth, TX

### **Mr. Matthew K. Rose**

Retired Executive Chairman  
BNSF Railway Company  
Fort Worth, TX

### **Mr. William "Billy" E. Rosenthal**

Chairman  
Penrose Group, LLC  
Fort Worth, TX

### **Mr. Edgar H. Schollmaier**

Retired  
Alcon Laboratories, Inc.  
Fort Worth, TX

### **Mrs. Jan Tucker Scully**

Civic Leader  
Fort Worth, TX

### **Mr. Richard "Ricky" Lee Stuart II**

Co-Owner  
Chicken Express  
Weatherford, TX

### **Mr. LaDainian T. Tomlinson**

President, Tomlinson's Touching Lives  
Foundation  
Analyst, NFL Network  
Westlake TX

### **Mr. Duer Wagner III**

Chairman and President  
Duer Wagner III Interests  
Fort Worth/Dallas, TX

### **Mr. F. Howard Walsh III**

President  
Walsh Holdings, Inc.  
Fort Worth, TX

### **The Honorable Roger Williams**

U.S. House of Representatives,  
U.S. District 25  
Weatherford, TX/Washington, DC

### **Mr. Rick L. Wittenbraker**

Retired  
Waste Management, Inc.  
Houston, TX

### **Mr. Michael G. Wright**

Partner, Business Jet Center  
President, Medical Cities, Inc.  
Dallas, TX

### **Mrs. Kimbell Fortson Wynne**

Civic Leader  
Fort Worth, TX

## *Ex Officio Trustee*

### **Mr. Tim M. Hoch**

President  
Hoch Law Firm, P.C.  
Fort Worth, TX

### **Mrs. Diane Lochtrog Johnson**

Retired  
Camp Fire First Texas  
Fort Worth, TX

### **Mrs. Skylar Brogdon O'Neal**

Principal  
Summit Cove Investments, LP  
Fort Worth, TX

## *Officers of the University*

### **Dr. Victor J. Boschini, Jr.**

Chancellor

### **Dr. Teresa Abi-Nader Dahlberg**

Provost and Vice Chancellor for  
Academic Affairs

### **Dr. Kathryn Cavins-Tull**

Vice Chancellor for Student Affairs

### **Ms. Yohna J. Chambers**

Vice Chancellor and Chief Human  
Resources Officer

### **Mr. Brian G. Gutierrez**

Vice Chancellor for  
Finance and Administration

### **Mrs. Tracy Syler-Jones**

Vice Chancellor for Marketing and  
Communication

### **Dr. Darron J. Turner**

Chief Inclusion Officer,  
Title IX Coordinator,  
and Senior Advisor to the Chancellor

### **Mr. Donald J. Whelan, Jr.**

Vice Chancellor for  
University Advancement

## *Officers of the Board of Trustees*

### **Mr. Mark L. Johnson**

Chairman

### **Mrs. Kit Tennison Moncrief**

Vice Chairman

### **Ms. Jean M. Mrasek**

Secretary

### **Mr. Brian G. Gutierrez**

Treasurer



## **Financial Staff**

**2019-2020**

**Brian G. Gutierrez**

*Vice Chancellor for Finance and Administration*

**James R. Hille**

*Chief Investment Officer*

**Kim K. Adams**

*Interim Associate Vice Chancellor and Controller*

**Alisa Cody**

*Director of Accounting*

**M. Keith Garrison**

*Director of Alternative Assets*

**Cheryl Kennon**

*Assistant Vice Chancellor for Finance*

**Ali Rattan**

*Assistant Controller*

**Evelyn H. Richardson**

*Director of Finance and Treasury*

**Tammie Sibley**

*Associate Vice Chancellor for Finance*



**OFFICE OF THE VICE CHANCELLOR FOR  
FINANCE AND ADMINISTRATION**

TCU Box 297041

Fort Worth, Texas 76129

817.257.7815 phone

817.257.7750 fax