

ARIZONA CHRISTIAN UNIVERSITY
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2024 AND 2023



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**ARIZONA CHRISTIAN UNIVERSITY
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Arizona Christian University
Phoenix, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Arizona Christian University, which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Christian University, as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Arizona Christian University and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Arizona Christian University's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arizona Christian University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Arizona Christian University's ability to continue as a going concern for a reasonable period of time.

Board of Trustees
Arizona Christian University

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 11, 2024

ARIZONA CHRISTIAN UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and Cash Equivalents	\$ 3,658,496	\$ 3,559,879
Investments	1,558,653	1,335,516
Accounts Receivable, Net	1,179,460	814,360
Contributions Receivable, Net	5,754,803	3,693,408
Contribution Receivable, Gift In-Kind	2,031,900	2,031,900
Prepaid Expenses and Other Assets	200,858	308,455
Funds Held with Escrow	2,283,815	2,362,510
Property and Equipment, Net	43,389,219	44,421,620
Asset Held for Sale	4,290,000	-
Right-of-Use Asset - Financing	1,251,299	1,444,483
	<u>65,598,503</u>	<u>59,972,131</u>
Total Assets	<u>\$ 65,598,503</u>	<u>\$ 59,972,131</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 3,259,594	\$ 2,580,630
Other Accrued Liabilities	1,278,483	777,096
Deferred Revenue	2,133,941	1,864,720
Notes Payable	12,250,000	8,800,000
Bonds Payable	22,931,985	23,288,169
Lease Liability - Financing	1,332,144	1,524,909
Contract Liability	384,176	415,753
Annuity Liability	768,276	787,169
Total Liabilities	44,338,599	40,038,446
NET ASSETS		
Without Donor Restrictions	13,959,495	14,256,037
With Donor Restrictions	7,300,409	5,677,648
Total Net Assets	21,259,904	19,933,685
Total Liabilities and Net Assets	<u>\$ 65,598,503</u>	<u>\$ 59,972,131</u>

See accompanying Notes to Financial Statements.

ARIZONA CHRISTIAN UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Tuition and Fees, Net	\$ 16,483,840	\$ -	\$ 16,483,840
Investment Income	84,232	350,873	435,105
Auxiliary Enterprises	7,962,139	-	7,962,139
Change in Value of Split-Interest Agreement	-	(18,002)	(18,002)
Other Income	94,606	-	94,606
Government Grants	57,413	-	57,413
Private Gifts, Grants, and Contracts	2,524,000	2,657,091	5,181,091
In-Kind Contributions	3,472,508	-	3,472,508
Net Assets Released from Restrictions	1,367,201	(1,367,201)	-
Total Revenues, Gains, and Other Support	32,045,939	1,622,761	33,668,700
EXPENSES			
Educational and General:			
Instruction	4,617,175	-	4,617,175
Academic Support	3,170,657	-	3,170,657
Student Services	13,196,280	-	13,196,280
Institutional Support	5,642,586	-	5,642,586
Auxiliary Enterprises	5,715,783	-	5,715,783
Total Expenses	32,342,481	-	32,342,481
CHANGE IN NET ASSETS	(296,542)	1,622,761	1,326,219
Net Assets - Beginning of Year	14,256,037	5,677,648	19,933,685
NET ASSETS - END OF YEAR	<u>\$ 13,959,495</u>	<u>\$ 7,300,409</u>	<u>\$ 21,259,904</u>

See accompanying Notes to Financial Statements.

ARIZONA CHRISTIAN UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Tuition and Fees, Net	\$ 13,905,898	\$ -	\$ 13,905,898
Investment Income	-	194,928	194,928
Auxiliary Enterprises	6,544,674	-	6,544,674
Change in Value of Split-Interest Agreement	-	(23,271)	(23,271)
Other Income	36,340	-	36,340
Government Grants	239,070	-	239,070
Private Gifts, Grants, and Contracts	2,429,523	712,893	3,142,416
Private Gifts, Related Parties	290,458	-	290,458
In-Kind Contributions	274,082	-	274,082
Net Assets Released from Restrictions	1,340,672	(1,340,672)	-
Total Revenues, Gains, and Other Support	25,060,717	(456,122)	24,604,595
EXPENSES			
Educational and General:			
Instruction	4,105,663	-	4,105,663
Academic Support	3,206,239	-	3,206,239
Student Services	12,801,581	-	12,801,581
Institutional Support	5,571,063	-	5,571,063
Auxiliary Enterprises	4,754,000	-	4,754,000
Total Expenses	30,438,546	-	30,438,546
CHANGE IN NET ASSETS	(5,377,829)	(456,122)	(5,833,951)
Net Assets - Beginning of Year	19,633,866	6,133,770	25,767,636
NET ASSETS - END OF YEAR	<u>\$ 14,256,037</u>	<u>\$ 5,677,648</u>	<u>\$ 19,933,685</u>

See accompanying Notes to Financial Statements.

ARIZONA CHRISTIAN UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,326,219	\$ (5,833,951)
Adjustment to Reconcile Change in Net Assets to Net Cash		
Used by Operating Activities:		
Depreciation and Amortization	2,367,341	2,333,269
Amortization on Bond Expenses	48,816	48,815
(Gain) Loss on Investments	(185,772)	(103,920)
Donated Securities	(87,086)	-
In-Kind Property, Plant and Equipment Contribution	(4,290,000)	-
Change in Value of Annuity Obligation	(18,893)	(3,908)
Change in Pledge Discount	916,707	4,807
Bad Debt Expense	431,060	854,515
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(694,490)	(1,076,241)
Contributions Receivable, Net	(3,079,772)	574,304
Grants Receivable	-	2,280,374
Prepaid Expenses and Other Assets	81,936	88,417
Accounts Payable and Other Accrued Liabilities	1,184,774	308,844
Deferred Revenues	269,221	193,586
Net Cash Used by Operating Activities	(1,729,939)	(331,089)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments from Reinvested Income and Sales Proceeds	(19,973)	(165,678)
Proceeds from Sales of Investments	69,694	35,389
Purchases of Property, Plant, and Equipment	(877,753)	(305,059)
Net Cash Used by Investing Activities	(828,032)	(435,348)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits with Bond Trustee	78,695	(278,820)
Proceeds from Issuance of Notes Payable	3,450,000	3,520,000
Payments on Lease Obligations	(431,107)	(410,102)
Repayment on Bonds Payable	(405,000)	(385,000)
Distributions to Beneficiaries	(36,000)	(36,000)
Net Cash Provided by Financing Activities	2,656,588	2,410,078
NET INCREASE IN CASH AND CASH EQUIVALENTS	98,617	1,643,641
Cash and Cash Equivalents - Beginning of Year	3,559,879	1,916,238
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,658,496</u>	<u>\$ 3,559,879</u>
SUPPLEMENTAL DISCLOSURES FROM OPERATING ACTIVITIES		
Cash Paid for Interest	<u>\$ 2,271,828</u>	<u>\$ 1,978,278</u>
Noncash Investing Activity:		
Right-of-Use Asset Obtained in Exchange for New Financing Lease Liability	<u>\$ 238,342</u>	<u>\$ -</u>
In-Kind Property, Plant, and Equipment Contributions	<u>\$ 4,290,000</u>	<u>\$ -</u>
Noncash Financing Activity:		
Retirement of Bonds Payable through New Bond Proceeds	<u>\$ -</u>	<u>\$ 5,280,000</u>

See accompanying Notes to Financial Statements.

**ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 1 NATURE OF ORGANIZATION

Arizona Christian University (the University) is based in Glendale, Arizona providing Christian higher education to more than 1,400 total students, including more than 1,100 undergraduates. The University is accredited by the Higher Learning Commission, one of six regional institutional accreditors in the United States, covering states from Arizona to West Virginia. The University is a culturally and theologically conservative university where students and their professors are serious about deepening their Christian faith and where relationships and community matter most. In the last decade, Arizona Christian University has more than doubled in size and has nine consecutive years of record enrollment. The University has added many new academic programs while transitioning from its Bible college roots to a comprehensive, non-denominational Christian liberal arts university with a vision of transforming culture with truth, and with a goal of producing Christian leaders of influence and excellence. At the same time, the University has become increasingly diverse, more than tripling the number of black and Hispanic students, who now comprise more than 40% of the student population. In 2021 the Department of Education designated the University a "Hispanic-Serving Institution" (HSI). Arizona Christian University students regularly volunteer in the community through required service projects that help develop spiritual commitment and servant-leadership skills.

The University has been ranked annually as a "Best Regional College" by U.S. News & World Report since 2017 and was also ranked the top university in Arizona by College Consensus in 2018 and 2019, and as a Best Online College, having added online degree programs in 2017. The University in 2020 was ranked by U.S. News & World Report as the No. 1 Undergraduate Teaching Institution in the West Region, and as No. 3 in Social Mobility due to its demonstrated ability to educate students from more challenging socio-economic backgrounds.

Since its founding, the University had occupied a campus located in north central Phoenix, comprised of approximately 20 acres. On November 14, 2018, the University entered into a land exchange agreement with the former Thunderbird School of Global Management (controlled by Arizona State University). The University exchanged its former 20-acre site with existing improvements with the Thunderbird site containing 68 acres and significantly greater number of classrooms, residence hall rooms, dining facilities and parking. This transaction provided the University space to grow its enrollment for the future. Classes began on August 14, 2019, at this new location, and ACU has grown 50 percent since making the move just five years ago. A subsequent public bond through the Arizona Industrial Development Authority enabled the University to retire its existing debt, pay for the cost of relocating to its new Glendale campus and fund several capital expenditures for classrooms, infrastructure repairs, and athletic fields. In 2021, a gift of \$3,500,000 enabled the University to acquire the former Glendale-Peoria YMCA and associated parking lot, bringing the University's total campus footprint to 75 acres.

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University maintains its accounts and prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and highly liquid investments with original maturities of three months or less. These accounts may, at times, exceed federally insured limits. The University has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments consist of equities, bonds, mutual funds, and cash equivalents and are stated at fair value. The net realized and unrealized gains on investments and annuity investments are reflected in investment income in the statements of activities. Donated securities are recorded at fair value at the date of donation and thereafter carried in conformity with the stated policy. Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of the University's investments and total net assets balance could fluctuate materially.

The University maintains custodian accounts at various custodians. Although the University monitors the custodians and believes that they are appropriate, there is no guarantee that the custodians will not become insolvent. The University believes that, in the event of the insolvency of a custodian, some of the University's assets may be unavailable for a period of time but that it would fully recover its assets. The University holds investments as part of an endowment fund, which has a portion of one agreement that functions as a charitable gift annuity. Annual annuity payments of \$36,000 are required for the remainder of the lifetime of one individual. The estimated liability is recorded as an annuity liability on the statements of financial position and is revalued annually using a discount rate established at the inception of the agreement and appropriate actuarial assumptions. Actuarial changes and annuity payments are reported as change in value of split-interest agreements in the statements of activities. The University is not required to maintain separate reserve funds adequate to meet future payments under governing states laws. The remainder of the funds will create an endowment fund for scholarships at the University and, as such, is recorded as net assets with donor restrictions invested in perpetuity.

**ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable, Net

Accounts receivable is comprised of amounts owed by students for tuition and fees and other miscellaneous receivables. Tuition and fees are due at the beginning of each semester. The accounts receivable balance is stated net of an allowance for credit losses of \$1,088,390 as of June 30, 2024 and 2023. Accounts receivable not paid by the last day of the month in which school begins are considered past due. The University periodically assess its methodologies for estimating credit losses in consideration with historical trends, changes in the overall economic environment, and current future economic conditions. Student accounts are written off when deemed uncollectible. Interest was not charged on past due accounts for the years ended June 30, 2024 and 2023.

Contributions Receivable, Net and Contributions Receivable, Gift In-Kind, Net

Contributions receivable, net are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. The fair value is computed using a present value technique applied to anticipated cash flows using the risk adjusted discount rates designed to reflect the assumptions that market participants must use in pricing the asset. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed. Contributions receivable, gift in-kind, consists of a gift including products and services related to the installation of athletic fields. The receivable balance for this gift totaled \$2,031,900 for the years ended June 30, 2024 and 2023.

In-Kind Contributions

Contributions of noncash assets and services are recorded at their fair values in the period received. In-kind gifts received totaled \$3,472,508 and \$274,082 for the years ended June 30, 2024 and 2023, respectively. See Note 16.

Funds Held With Escrow

The bond proceeds, in part, are held to finance capital expenditures relating to the new campus such as classrooms, infrastructure repairs, and athletic fields. In addition, there's accounts held in escrow for other debt for the first few interest payments.

**ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Annuity Obligations

Some contributions received, such as interests in charitable gift annuity contracts and other charitable trusts, have donor-imposed obligations to make payments to the donor or other beneficiaries. Annuity obligations arising from such gifts are established at the time of the contribution using life expectancy actuarial tables and are revalued annually. Actuarial gains and losses resulting from the annual revaluation of annuity obligations are reflected as with donor restriction, consistent with the method used to initially record the contributions.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of prepaid advertising, inventory, and other miscellaneous prepaid items. Inventory is stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. Prepaid advertising is a result of the sale of a previously owned radio station. In the contract dated June 23, 2015, as part of the sale, \$1,000,000 of in-kind advertising was committed over the following 10 years. As of June 30, 2024, prepaid advertising relating to this agreement was recorded at \$151,200 net of a present value discount of \$34,448, using a present value rate of 3.5%. As of June 30, 2023, prepaid advertising relating to this agreement was recorded at \$252,000 net of a present value discount of \$57,412, using a present value rate of 3.5%.

Property, Plant, and Equipment, Net

Expenditures for property and equipment greater than \$1,000 are capitalized at cost. Donated items are recorded at fair market value on the date of the gift. Costs of maintenance and repairs are charged to expense as incurred. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in revenue, gains, and other support for the period. Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

Buildings and Building Improvements	50 Years
Furniture and Equipment	7 to 10 Years
Vehicles	7 Years

Right-of-Use Assets

The University determines if an arrangement is a lease at inception. Finance leases are included in right-of-use asset – financing and lease liability – financing in the statements of financial position. As of June 30, 2024 and 2023, the University did not have any operating leases.

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Right-of-Use Assets (Continued)

Right-of-use (ROU) assets represent the University's right to use an underlying asset for the lease term and lease liabilities represent the University's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the University will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The University has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right-of-use assets on the statements of financial position.

Classes of Net Assets

The financial statements report amounts by class of net assets:

Net Assets Without Donor Restriction – Revenues are currently available for operations and resources invested in property and equipment.

Net Assets With Donor Restriction – Net assets whose use by the University is subject to donor-imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time. Net assets may be subject to donor-imposed restrictions that they be maintained permanently by the University but permit the University to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Tuition, Auxiliary, and Fees

Tuition and fees income is earned by the University evenly throughout each semester. Tuition and fees income is recorded when earned. Tuition and fees income is reported on the statements of activities net of institutional aid and scholarships of \$19,141,205 and \$15,225,721 for the years ended June 30, 2024 and 2023, respectively. Auxiliary services income is recorded when earned.

Revenue Recognition

The University provides academic instruction toward baccalaureate degrees. Tuition and fee revenue is recognized over the period in which the academic courses are provided. Financial assistance in the form of institutional scholarships and grants awarded to students reduce the amount of tuition and fee revenue recognized. In addition, students who adjust their course load or withdraw completely may receive a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. Payments for services are due upon registration for each academic term.

The University also provides auxiliary services, such as residence and food services. Revenue from these services is recognized over the period in which the goods and services are provided. Students that withdraw from the University may receive a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of auxiliary revenue recognized.

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable (Student)

Accounts receivable represents payments not yet received for academic terms already completed. The following table depicts activities for accounts receivable related to tuition, fees, and auxiliary services:

	2024	2023
Accounts Receivable, Beginning of the Year	\$ 814,360	\$ 392,634
Payments Made	(24,080,879)	(19,359,933)
Charges for Tuition and Fees and Auxiliary	24,445,979	20,450,572
Change in Allowance and Write Offs	-	(668,913)
Accounts Receivable, End of the Year	<u>\$ 1,179,460</u>	<u>\$ 814,360</u>

Deferred Revenue

Deferred revenue represents payments received prior to the start of the academic term. The following table depicts activities for deferred revenue related to tuition, auxiliary services, food service, and other.

	Balance June 30, 2022	Refunds Issued	Revenue Recognized Included in June 30, 2023 Balance	Cash Received in Advance of Performance	Balance June 30, 2023
Tuition	\$ 129,026	\$ -	\$ (129,026)	\$ 235,886	\$ 235,886
Auxiliary	185,500	-	(185,500)	291,300	291,300
Food Service	1,349,940	-	(96,425)	-	1,253,515
Other	6,668	-	(6,668)	84,019	84,019
Total	<u>\$ 1,671,134</u>	<u>\$ -</u>	<u>\$ (417,619)</u>	<u>\$ 611,205</u>	<u>\$ 1,864,720</u>

	Balance June 30, 2023	Refunds Issued	Revenue Recognized Included in June 30, 2024 Balance	Cash Received in Advance of Performance	Balance June 30, 2024
Tuition	\$ 235,886	\$ -	\$ (235,886)	\$ 158,082	158,082
Auxiliary	291,300	-	(291,300)	136,372	136,372
Food Service	1,253,515	-	(96,387)	-	1,157,128
Other	84,019	-	(84,019)	682,359	682,359
Total	<u>\$ 1,864,720</u>	<u>\$ -</u>	<u>\$ (707,592)</u>	<u>\$ 976,813</u>	<u>\$ 2,133,941</u>

The balance of deferred revenue at June 30, 2024 less any refunds will be recognized as revenue over the academic term as services are rendered. The University applies the practical expedient in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09 paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The University anticipates that students enrolled for the Fall semester will continue their studies in the Spring semester, and that students who receive their baccalaureate degree in December or May will be replaced by an equivalent number of new enrollees.

**ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue (Continued)

In addition, deferred revenue represents food service costs due to a cash influx at the beginning of a 10-year contract with Sodexo. A 15-year contract with Sodexo for \$1,730,000 was entered into in June 2018, continuing through June 2033. This contract was amended in July 2021 and extended until June 2036.

Contract Liability

Contract liability represents equipment purchased by Sodexo for \$473,642 and being amortized over 15 years beginning on September 1, 2021.

Support and Revenue

Support revenue, which include unconditional promises to give, are reported as increases in net assets without donor restrictions unless use of the related assets is limited by explicit donor stipulation or by the passage of time. Contributions are recognized as revenues in the period an unconditional promise is made, or a gift is received, net of an allowance for uncollectible amounts. Contributions restricted by the donor for a specific purpose are recorded as support in net assets with donor restrictions until the specified purpose or time restriction has been met by the University. Upon satisfaction of the restriction, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions.

Noncash contributions are recorded at the estimated fair value on the date of donation. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Other income consists of various fees, royalties, facility rental, and other miscellaneous revenue, and is recorded when performance obligations are met.

Grants from Governmental Agencies

Conditional government grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each contract, are made. Funds received but not yet earned are shown as deferred revenue. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the University will record such disallowance at the time the final assessment is made. A portion of the University's revenue is derived from cost reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the University has incurred expenditures in compliance with specific contract or grant provisions. The University received cost reimbursable grants of \$1,848,600 that have not been recognized at June 30, 2024 because qualifying expenditures have not yet been incurred.

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs for the years ended June 30, 2024 and 2023 of \$235,580 and \$145,646, respectively, are expensed as incurred and included in the statements of activities.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). However, income from certain activities not directly-related to the University's tax-exempt purpose is subject to taxation as unrelated business income. The University utilizes the provisions of FASB ASC 740-10, *Accounting for Uncertain Tax Positions*. The University continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings. The University's tax returns are subject to review and examination by federal, state, and local authorities.

Adoption of New Accounting Standards

The University has adopted Accounting Standards Update (ASU) 2016-03, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses. The University adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the University's financial statements but did change how the allowance for credit losses is determined.

Subsequent Events

In preparing the financial statements, the University has evaluated events and transactions for potential recognition or disclosure through November 11, 2024, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated. Subsequent to year end, on August 13, 2024, the University entered into a letter of credit as required by the Department of Education in the amount of \$869,000. The letter of credit expires on August 12, 2025.

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 3 AVAILABLE RESOURCES AND LIQUIDITY

The University monitors its liquidity requirements on a daily basis as part of its plan to meet the overall obligations to vendors, employees, holders of promissory notes, and all other financial requirements. Furthermore, as contained in Note 8, the University closed an Industrial Revenue Bond for nearly \$25 million, which contains certain liquidity and days of cash covenants for the ensuing years. The University has developed a five-year forecast of future enrollments and the resulting revenue and expenses. This forecast encompasses the required liquidity to manage the University, as well as the cash necessary to be in full compliance with the bond covenants. As part of its short-term and near-term liquidity requirements, the University is prepared to offer for sale certain land parcels of unused property contained in the total 68 acres, included as part of the Exchange Agreement with Thunderbird School of Management (TSGM).

These parcels are comprised of approximately four to six acres that are not considered essential to the overall operations of the campus. This land fronts a major street in Glendale, Arizona and the University would consider selling this nonessential land in order to meet operating liquidity requirements and bond covenants.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing operating activities of teaching, fundraising, athletic programs, and administrative services to support these activities. The University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Resources received from students through cash payments on account and from federal financial aid are also made a part of the resources available to meet general expenditures requirements.

As of June 30, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

	2024	2023
Cash and Cash Equivalents	\$ 3,658,496	\$ 3,559,879
Accounts Receivable, Net	1,179,460	814,360
Contributions Receivable for General Expenditures		
Due in One Year or Less	3,131,250	2,500,110
Total	<u>\$ 7,969,206</u>	<u>\$ 6,874,349</u>

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 4 INVESTMENTS

The University holds investments as part of an endowment fund, which has a portion of one agreement that functions as a charitable gift annuity. Annual annuity payments of \$36,000 are required for the remainder of the lifetime of one individual. The estimated liability is recorded as an annuity liability on the statements of financial position and is revalued annually using a discount rate established at the inception of the agreement and appropriate actuarial assumptions. Actuarial changes and annuity payments are reported as change in value of split-interest agreements in the statements of activities. The University is not required to maintain separate reserve funds adequate to meet future payments under governing states laws. The remainder of the funds will create an endowment fund for scholarships at the University and, as such, is recorded as net assets with donor restrictions invested in perpetuity. Investments consist of the following as of June 30:

	2024	2023
Cash and Cash Equivalents	\$ 87,804	\$ 40,276
Mutual Funds	154,308	159,304
Common Stock	1,083,808	915,675
Preferred Stock	12,915	10,883
Corporate and Government Bonds	219,818	209,378
Total	<u>\$ 1,558,653</u>	<u>\$ 1,335,516</u>

Investment income from investments and deposits held with bond trustee consist of the following for the years ended June 30:

	2024	2023
Dividend and Interest Income, Net Fees	\$ 249,333	\$ 91,008
Net Realized and Unrealized Gains	185,772	103,920
Total	<u>\$ 435,105</u>	<u>\$ 194,928</u>

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 5 FAIR VALUE MEASUREMENTS

The University uses appropriate valuation techniques to determine fair value based on inputs available. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. As defined in FASB ASC 820-10, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the University uses various methods including market, income, and cost approaches. Based on these approaches, the University often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable inputs. The University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the University is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position, which are measured at the fair value on a recurring basis, and the level within the fair value measurement hierarchy in which the fair value measurements fall as of June 30:

		2024		
	Fair Value	Level 1	Level 2	Level 3
Investments:				
Mutual Funds	\$ 154,308	\$ 154,308	\$ -	\$ -
Common Stock	1,083,808	1,083,808	-	-
Preferred Stock	12,915	12,915	-	-
Corporate and Government Bonds	219,818	-	219,818	-
Total	1,470,849	<u>\$ 1,251,031</u>	<u>\$ 219,818</u>	<u>\$ -</u>
Reconciling Item at Cost:				
Cash and Cash Equivalents	87,804			
Total Investments	<u>\$ 1,558,653</u>			
		2023		
	Fair Value	Level 1	Level 2	Level 3
Investments:				
Mutual Funds	\$ 159,304	\$ 159,304	\$ -	\$ -
Common Stock	915,675	915,675	-	-
Preferred Stock	10,883	10,883	-	-
Corporate and Government Bonds	209,378	-	209,378	-
Total	1,295,240	<u>\$ 1,085,862</u>	<u>\$ 209,378</u>	<u>\$ -</u>
Reconciling Item at Cost:				
Cash and Cash Equivalents	40,276			
Total Investments	<u>\$ 1,335,516</u>			

Valuation techniques: mutual funds, common stock, and preferred stock are valued based on published rates as of the last day of the fiscal year. Municipal, corporate, and government bonds are valued based on other relevant information generated by similar market transactions.

There were no changes in valuation techniques as of June 30, 2024 and 2023.

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 6 CONTRIBUTIONS RECEIVABLE, NET AND CONTRIBUTIONS RECEIVABLE, GIFT IN-KIND

Contributions receivable, net consist of the following as of June 30:

	2024	2023
Amounts Due in:		
Less than One Year	\$ 3,131,250	\$ 2,500,110
One to Five Years	1,539,133	1,590,500
More than Five Years	2,500,000	-
Total Pledges Receivable	<u>7,170,383</u>	<u>4,090,610</u>
Less:		
Allowance for Uncollectible Contributions Receivable	(341,670)	(240,000)
Unamortized Discount	<u>(1,073,910)</u>	<u>(157,202)</u>
Total	<u>\$ 5,754,803</u>	<u>\$ 3,693,408</u>

Arizona Christian University receives a significant number of long-term pledges from donors in the course of fundraising and advancement activities of the University. Pledges are recognized at present value and discounted at a market rate of interest. Pledges are discounted with a 2% discount rate, corresponding with the United States Treasury Bill rate, annually. During 2020, there was a new gift enhancing the valuation for additional athletic fields. As of June 30, 2024 and 2023, \$2,031,900 remained a receivable and due within one year.

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	2024	2023
Land	\$ 11,445,000	\$ 11,445,000
Buildings and Building Improvements	34,011,766	33,441,859
Equipment and Office Equipment	5,892,600	5,507,609
Work in Process	537,496	614,641
Capitalized Interest	95,161	95,161
Total Cost of Property and Equipment	<u>51,982,023</u>	<u>51,104,270</u>
Less: Accumulated Depreciation	<u>(8,592,804)</u>	<u>(6,682,650)</u>
Net Carrying Value of Property and Equipment	<u>\$ 43,389,219</u>	<u>\$ 44,421,620</u>

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 8 NOTES AND BONDS PAYABLE

Notes and bonds payable consist of the following as of June 30:

<u>Description</u>	<u>2024</u>	<u>2023</u>
Series 2019A, collateralized by a deed of trust on all real property and all personal property owned by the University, with interest rates ranging from 4.75% to 5.625%. Bonds are due October 2049, interest payments beginning semi-annually on April 1, 2020 with principal payments beginning semi-annually on April 1, 2022	\$ 8,110,000	\$ 8,260,000
Series 2019B, collateralized by a deed of trust on all real property and all personal property owned by the University, with interest rates ranging from 5.25% to 6.5%. Bonds are due October 2049, interest payments beginning semi-annually on April 1, 2020 with principal payments beginning semi-annually on April 1, 2022	16,060,000	16,315,000
Bridge Loan, collateralized by a deed of trust on the seven-acre adjacent property owned by the University, with an interest rate of 12%. Principal payments are due at maturity of the Bridge Loan on May 25, 2025 with an option to extend.	12,250,000	8,800,000
Discount on Bonds Payable	(504,357)	(524,246)
Unamortized Bond Issuance Costs	<u>(733,658)</u>	<u>(762,585)</u>
Notes and Bonds Payable	<u>\$ 35,181,985</u>	<u>\$ 32,088,169</u>

Total interest expense was \$2,650,437 and \$2,356,887 for the years ended June 30, 2024 and 2023, respectively.

Future annual maturities of notes and bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2025	\$ 12,655,000
2026	425,000
2027	445,000
2028	470,000
2029	495,000
Thereafter	21,930,000
Total	<u>\$ 36,420,000</u>

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 8 NOTES AND BONDS PAYABLE (CONTINUED)

The University has two covenant ratio calculations related to their bonds. The calculations as of June 30, 2024 are shown below:

Without Donor Restrictions Revenue	\$ 32,045,939
Without Donor Restrictions Expense	(32,342,481)
Depreciation and Interest Expense	5,066,593
Income Available for Debt Service	4,770,051
Debt Service	<u>3,512,203</u>
Debt Service Coverage Ratio	<u><u>1.36</u></u>
Unrestricted Cash	\$ 3,658,496
Total Expenses	32,342,481
Less: Noncash Expenses	<u>(3,781,810)</u>
Total Operating Expenses	28,560,671
Operating Expense per Day	<u>78,248</u>
Days Cash on Hand	<u><u>46.75</u></u>

Subsequent to year end, on October 9, 2024, the University issued bonds through the Industrial Development Authority of the County of Maricopa, totaling \$24,715,000 with interest rates ranging from 6.375% to 7.9%. The principal use of the proceeds will be to finance capital improvements and pay off notes payable. As of the November 11, 2024, \$9,500,000 of the bridge loan has been paid off leaving a remaining balance of \$2,750,000. This has updated the 2025 debt payments above from \$12,225,000 to \$3,155,000. In addition, once the asset held for sale is sold, the proceeds will be used to pay off the remaining balance in notes payable. The increase in debt is offset by the change in interest rate and interest expense annually will not significantly change. Lastly, with this new bond issuance, the days cash on hand requirement was modified for June 30, 2024.

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Donor-restricted net assets consist of the following as of June 30:

	<u>2024</u>	<u>2023</u>
Donor-Restricted Net Assets Not Invested in Perpetuity:		
Programs	\$ 407,269	\$ 249,390
Contributions Receivable - Time Restricted	4,133,550	2,868,658
Contributions Receivable - Purpose Restricted, Athletic Field	2,031,900	2,031,900
Donor-Restricted Net Assets Invested in Perpetuity:		
Endowment Funds for Scholarships	1,154,851	1,154,851
Underwater Endowments	<u>(427,161)</u>	<u>(627,151)</u>
Total Donor-Restricted Net Assets	<u><u>\$ 7,300,409</u></u>	<u><u>\$ 5,677,648</u></u>

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Donor-restricted net asset releases consist of the following as of June 30:

	2024	2023
Scholarships	\$ 345,182	\$ 508,167
Special Events	-	405
Unconditional Promises to Give	775,167	591,500
Other	246,852	240,600
Total	<u>\$ 1,367,201</u>	<u>\$ 1,340,672</u>

NOTE 10 ENDOWMENT FUND

The University's endowment fund consists of 20 individual donor-restricted funds established for scholarships to students. 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. The University has historically recorded and maintained these funds as endowments although original gift agreements are not available for all of the funds. It is management's position that recording these funds as endowments best represents the original donor's wishes and compliance with Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Board of Trustees of the University has interpreted the (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions invested in perpetuity (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 that is not classified in net assets with donor restrictions invested in perpetuity is classified as net assets with donor restrictions not invested in perpetuity until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

As a result of the inability to distribute corpus, the Board of Trustees has determined that, unless directly addressed in the specific terms in the agreement, all donor-restricted endowments will be classified as net assets with donor restrictions invested in perpetuity.

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 10 ENDOWMENT FUND (CONTINUED)

Endowment net asset composition by type as of June 30:

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 727,690	\$ 727,690

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 527,700	\$ 527,700

Changes in endowment net assets for the years ended June 30 consist of:

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ -	\$ 527,700	\$ 527,700
Contributions	-	-	-
Investment Income:			
Dividend and Interest Income	-	32,220	32,220
Net Realized and Unrealized Gains	-	185,772	185,772
Change in Value of Split Interest Agreements	-	(18,002)	(18,002)
Endowment Net Assets - End of Year	\$ -	\$ 727,690	\$ 727,690

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ -	\$ 419,892	\$ 419,892
Contributions	-	-	-
Investment Income:			
Dividend and Interest Income	-	91,008	91,008
Net Realized and Unrealized Gains	-	103,920	103,920
Change in Value of Split Interest Agreements	-	(87,120)	(87,120)
Endowment Net Assets - End of Year	\$ -	\$ 527,700	\$ 527,700

Fund with Deficiencies

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. The University had donor-restricted endowment funds require to be maintained in perpetuity of \$1,154,850 as of June 30, 2024 and 2023. The University had \$427,161 and \$627,151 in funds with deficiencies which were reported in net assets with donor restrictions as of June 30, 2024 and 2023, respectively.

**ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 10 ENDOWMENT FUND (CONTINUED)

Fund with Deficiencies (Continued)

Deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new with donor restrictions invested in perpetuity contributions and borrowings for operations and continued appropriations for certain programs that were deemed prudent by the board of trustees.

Return Objectives and Risk Parameters

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 grow the purchasing power of the endowment assets. Endowment assets are invested to yield a level of return to meet the objectives of the fund while adhering to a prudent level of risk. For endowments that contain annuities, the investment strategy is to equal or exceed the annual annuity payout.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield. The University targets a diversification allocation of equity securities and fixed income investments weighted according to the anticipated needs of the University, currently at 70% equity and 30% fixed income. For endowments that contain annuities, investments are primarily in equities.

Spending Policy and How Investment Objectives Relate to Spending Policy

In accordance with UPMIFA, the University considers the following factors in deciding to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

The spending policy of the University will be recommended annually by management using the seven factors mentioned previously and approved by the board of trustees in conjunction with the annual budget. Any subsequent modification to the spending policy will be approved by the board of trustees. The University currently seeks to keep distributions from endowment at or below 5% of average endowment net assets over a three-year period. Based on market performance, distributions may vary from year to year. The University appropriates funds for expenditure as they are distributed and available for scholarships or programmatic needs.

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 11 LEASES

The University leases equipment for various areas on campus. The leases expire at various dates through 2032 and provide for renewal options. In the normal course of business, it is expected that these leases will be renewed or replaced by similar leases.

The following table provides quantitative information concerning the University's leases:

	2024	2023
Finance Lease Cost:		
Amortization of Right-of-Use Assets	\$ 457,187	\$ 318,671
Interest on Lease Liabilities	90,399	122,696
Total Lease Cost	<u>\$ 547,586</u>	<u>\$ 441,367</u>
Other Information:		
Financing Cash Flows from Financing Leases	\$ 431,107	\$ 410,102
Right-of-Use Asset Obtained in Exchange for New Financing Lease Liabilities	\$ 238,342	\$ -
Weighted-Average Remaining Lease Term - Financing Lease	4.44 Years	4.79 Years
Weighted-Average Discount Rate - Financing Leases	6.89%	6.85%

Future commitments for these leases are as follows:

<u>Year Ending June 30,</u>	<u>Financing Leases</u>
2025	\$ 353,625
2026	349,646
2027	347,693
2028	345,740
2029	157,697
Thereafter	-
Total	<u>1,554,401</u>
Less: Interest	<u>(222,257)</u>
Total Lease Liability	<u>\$ 1,332,144</u>

NOTE 12 FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain administrative expenses have been allocated among programs and supporting services.

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 12 FUNCTIONAL ALLOCATION OF EXPENSES (CONTINUED)

The University allocates interest, depreciation, and facilities expenses among the programs and supporting services benefited through an evaluation of square footage usage. The majority of other expenses are allocated by full-time equivalent employee hours based on department. There are also certain employees who allocate between functions based on how much time is spent on each one.

Program activity expense reflects the major activities of the institution for instruction, research, academic support, student services, auxiliary enterprises, and public services. Support activities reflect institutional support services.

The functional allocation of expenses consists of the following for the years ended June 30:

	2024			
	Program	M&G	Fundraising	Total
Salaries	\$ 9,316,128	\$ 656,644	\$ 1,367,986	\$ 11,340,758
Payroll Taxes	669,075	45,682	64,896	779,653
Benefits	1,488,822	65,891	89,093	1,643,806
Total Salaries and Related	11,474,025	768,217	1,521,975	13,764,217
Travel	1,118,348	8,322	30,064	1,156,734
Events, Meetings, and Conferences	218,014	6,080	12,411	236,505
Marketing	15,869	-	219,711	235,580
Dues, Fees, and Subscriptions	502,524	19,505	103,666	625,695
Utilities	1,238,001	58,490	30,963	1,327,454
Maintenance and Repairs	613,977	35,320	106,722	756,019
Supplies	227,145	3,802	99,940	330,887
Contracted Services	5,858,735	336,629	788,528	6,983,892
Bad Debt Expense	-	431,060	-	431,060
Miscellaneous	723,195	164,056	17,375	904,626
Professional Fees	1,414	104,058	46,992	152,464
Interest	2,472,166	117,311	60,960	2,650,437
Bank Fees	26,924	323,148	20,682	370,754
Depreciation and Amortization	2,209,558	152,645	53,954	2,416,157
Total Expenses	<u>\$ 26,699,895</u>	<u>\$ 2,528,643</u>	<u>\$ 3,113,943</u>	<u>\$ 32,342,481</u>

ARIZONA CHRISTIAN UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 12 FUNCTIONAL ALLOCATION OF EXPENSES (CONTINUED)

	2023			
	Program	M&G	Fundraising	Total
Salaries	\$ 8,829,065	\$ 586,500	\$ 1,026,289	\$ 10,441,854
Payroll Taxes	635,121	38,310	59,693	733,124
Benefits	1,068,908	157,603	55,205	1,281,716
Total Salaries and Related	10,533,094	782,413	1,141,187	12,456,694
Travel	1,090,940	6,017	31,523	1,128,480
Events, Meetings, and Conferences	202,135	5,631	8,922	216,688
Marketing	18,760	-	126,886	145,646
Dues, Fees, and Subscriptions	489,714	28,788	64,719	583,221
Utilities	1,137,431	53,870	28,594	1,219,895
Maintenance and Repairs	716,964	26,793	45,040	788,797
Supplies	238,814	5,396	62,173	306,383
Contracted Services	5,077,096	834,524	607,166	6,518,786
Bad Debt Expense	-	854,515	-	854,515
Miscellaneous	719,821	278,843	7,572	1,006,236
Professional Fees	3,388	47,082	48,862	99,332
Interest	2,206,275	96,404	54,208	2,356,887
Bank Fees	254,852	21,670	98,380	374,902
Depreciation and Amortization	2,178,199	150,859	53,026	2,382,084
Total Expenses	<u>\$ 24,867,483</u>	<u>\$ 3,192,805</u>	<u>\$ 2,378,258</u>	<u>\$ 30,438,546</u>

NOTE 13 RETIREMENT PLAN

The University has a contribution retirement 403(b) plan covering substantially all personnel who have met certain employment requirements. There were employer contributions to the plan of \$136,763 and \$115,057 for the years ended June 30, 2024 and 2023, respectively. Employees are allowed to make voluntary contributions on pre-tax basis. Employees are immediately vested in the University's contributions.

NOTE 14 CONCENTRATIONS

The University received a substantial amount of support from a number of various individuals and organizations. As of June 30, 2024, contributions from two individual donors accounted for approximately 32% of the support revenue total. As of June 30, 2023, contributions from two individual donors accounted for approximately 26% of the support revenue total. Three individual donors accounted for 76% of outstanding pledges for the year ended June 30, 2024 and one individual donors accounted for 48% of outstanding pledges for the year ended June 30, 2023. A significant reduction in the level of support from these sources could have an adverse effect on the University's programs and activities.

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NOTE 15 RELATED PARTY TRANSACTIONS

The University reported contributions receivable due from related parties of \$1,038,559 and \$180,000 as of June 30, 2024 and 2023, respectively. The University also reported contribution revenue from related parties of \$1,215,393 and \$290,458 for the years ended June 30, 2024 and 2023, respectively.

NOTE 16 CONTRIBUTED NONFINANCIAL ASSETS

The University received the following contributions of nonfinancial assets for the year ended June 30:

	2024	2023
Land and Property	\$ 3,300,570	\$ -
Supplies	100	5,034
Services	171,838	269,048
Total	<u>\$ 3,472,508</u>	<u>\$ 274,082</u>

All donated services and assets were utilized by the University's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

Contributed assets received by the University are recorded as in-kind contribution revenue and an expense when the items are donated to the University. Donated items are valued the wholesale prices that would be received for selling similar items. Land and property were donated to the University and valued using a fair market value assessment of the property using comparable sales and market data.

NOTE 17 FINANCIAL SUSTAINABILITY

Arizona Christian University continued its pattern of growth and positive financial development during fiscal year 2024, providing ample evidence of its continued long-term financial sustainability.

The University's 2018 acquisition of a much larger campus has continued to enable the University to grow its tuition and room and board revenue at a rate not possible at its previous location. For the fall 2023 semester, the University significantly exceeded its own ambitious enrollment projections and increased its enrollment year-over-year by more than 10%. This was the University's 9th straight year of record enrollment, and the University's total enrollment now stands at over 1,400 in the Fall 2024 semester. Much of the increased enrollment can be attributed to focused management, the move to the new Glendale campus, as well as the consistent ranking by U.S. News & World Report as a "Best Regional College" since 2017, as discussed further in Note 1. The Chronicles of Higher Education, in its 2023-24 Almanac Edition (Aug. 18, 2023), listed ACU as the 9th-fastest growing out of 318 such baccalaureate institutions in the United States during the decade between fall 2011 and fall 2021 with 76.1 percent growth (from 598 to 1053).

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NOTE 17 FINANCIAL SUSTAINABILITY (CONTINUED)

At the same time, with more residential space available, the University significantly increased the number of students living on campus and participating in meal plans. In Fall 2024, the University continues to have over 600 students living on campus. Since 2019, the number of students living on campus has increased by 113%.

Gift revenue in fiscal year 2024 grew to \$8.7 million, including a donation of a church property valued at more than \$4 million. The momentum and enthusiasm for the University's continued growth, improvement in academic rankings, and construction of new athletic fields is expected to continue to attract major gifts and new donors to the University. The University retained an experienced and well-known fundraising consultant to conduct a feasibility study, and the enthusiastic response from University stakeholders supported the launch in 2023 of a three-year, \$25 million comprehensive fundraising campaign. The fundraising team, headed by Vice President of Advancement Dr. Anthony Allen, former President of Hannibal LaGrange University, continues to grow the fundraising efforts of the University.

The University has several strategic initiatives underway that will significantly expand the number of degree programs and improve the student experience. The following initiatives are expected to drive significant enrollment growth and improved student retention over the next three years:

- In 2023, the University received approval to offer its first graduate degrees, including a Master's in Education and a master's in Marriage and Family Therapy. Both programs have launched, and enrollment in those programs doubled in 2024.
- ACU also received approval for a Master's Degree in Christian Leadership and initial enrollment is strong
- The University is in advanced discussions with an Arizona-based public university about a partnership that has the potential to significantly expand the number of degree programs available to ACU students.

The University is in a strong cash position following the successful closing of a \$24,715,000 public bond offering in October 2024. Proceeds will replace the high-interest bridge loan, as well as fund other initiatives to fuel continued enrollment growth, student retention, facilities, and financial stewardship. There has been improved profitability and revenue growth that has allowed ACU to increase their composite score from 0.2 in 2023 to 0.8 in 2024.

Early forecasts indicate the University will achieve a 10th straight year of record enrollment in Fall 2025, along with increased numbers of students living on campus and using a meal plan. In addition, the University Board of Trustees' Board approved a balanced budget for fiscal year 2025 based on projections of 1035 undergraduate students, which the University exceeded. The approved budget also provides for hitting the debt service coverage ratio and days cash on hand covenants. However, if enrollment is flat or even declines in Fall 2025, management is prepared to take action to reduce staffing levels and expense levels as needed.

ARIZONA CHRISTIAN UNIVERSITY
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NOTE 18 CONTINGENCIES

In the normal course of operations, the University is subject to certain claims. In management's opinion, the ultimate resolution of these claims would not have a significant adverse effect upon the overall financial position, operations, or cash flows of the University.

NOTE 19 COMPOSITE SCORE

The University participates in various federally funded student financial aid programs. Under regulatory provisions of these programs, the University is required to demonstrate financial responsibility by meeting a certain composite score based on a formula developed by the Department of Education. This score uses financial ratios based on the University's audited financial statements. The composite score calculated reflects the overall relative financial health of institutions along a scale of negative 1.0 to positive 3.0.

The composite score for the year ended June 30, 2024 is as follows:

Primary Reserve Ratio			
	Expendable Net Assets	\$ (691,742)	-0.0214
	Total Expenses	<u>\$ 32,342,481</u>	
Equity Ratio			
	Modified Net Assets	\$ 20,221,345	0.3132
	Modified Assets	<u>\$ 64,559,944</u>	
Net Income Ratio			
	Change in Net Assets Without Donor Restrictions	\$ (296,542)	-0.0093
	Total Revenues Without Donor Restrictions	<u>\$ 32,045,939</u>	
Primary Reserve Strength Factor Score			(0.21)
Equity Strength Factor Score			1.88
Net Income Strength Factor Score			0.82
Primary Reserve Weighted Score			(0.09)
Equity Weighted Score			0.75
Net Income Weighted Score			0.16
COMPOSITE SCORE			<u>0.8</u>

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NOTE 19 COMPOSITE SCORE (CONTINUED)

The composite score for the year ended June 30, 2023 is as follows:

Primary Reserve Ratio		
Expendable Net Assets	\$ (2,998,868)	-0.0985
Total Expenses	<u>\$ 30,438,546</u>	
Equity Ratio		
Modified Net Assets	\$ 19,753,685	0.3304
Modified Assets	<u>\$ 59,792,131</u>	
Net Income Ratio		
Change in Net Assets Without Donor Restrictions	\$ (5,377,829)	-0.2146
Total Revenues Without Donor Restrictions	<u>\$ 25,060,717</u>	
Primary Reserve Strength Factor Score		(0.99)
Equity Strength Factor Score		1.98
Net Income Strength Factor Score		0.84
Primary Reserve Weighted Score		(0.39)
Equity Weighted Score		0.79
Net Income Weighted Score		<u>(0.17)</u>
COMPOSITE SCORE		<u>0.2</u>

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NOTE 19 COMPOSITE SCORE (CONTINUED)

See below for additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV.

Property, Plant, and Equipment, net

3	Pre-implementation property, plant, and equipment, net	
a.	Ending balance of pre-implementation as of June 30, 2023	\$ 30,180,226
b.	Reclassify capital lease assets previously included in PPE, net prior to the implementation of ASU 2016-02 leases standard	-
c.	Less subsequent depreciation and disposals (net of accumulated depreciation)	<u>(1,032,558)</u>
d.	Balance pre-implementation property, plant, and equipment, net	29,147,668
4	Debt financed post-implementation property, plant, and equipment, net	
	Long-lived assets acquired with debt subsequent to June 30, 2019:	
d.	Total property, plant, and equipment, net acquired with debt exceeding 12 months	12,635,484
5	Construction in progress - acquired subsequent to June 30, 2019	532,156
6	Post-implementation property, plant, and equipment, net, acquired without debt:	
a.	Long-lived assets acquired without use of debt subsequent to June 30, 2019	<u>1,073,911</u>
7	Total Property, Plant, and Equipment, net - June 30, 2024	<u><u>\$ 43,389,219</u></u>

Debt to be excluded from expendable net assets

8	Pre-implementation debt:	
a.	Ending balance of pre-implementation as of June 30, 2023	\$ 10,360,337
b.	Reclassify capital leases previously included in long-term debt prior to the implementation of ASU 2016-02 leases standard.	-
c.	Less subsequent debt repayments	<u>(405,000)</u>
d.	Balance Pre-implementation Debt	9,955,337
9	Allowable post-implementation debt used for capitalized long-lived assets:	
d.	Balance Post-implementation Debt	12,635,484
10	Construction in progress (CIP) financed with debt or line of credit	532,156
11	Long-term debt not for the purchase of property, plant, and equipment or liability greater than assets value	<u>12,059,008</u>
	Total Long Term Debt - June 30, 2024	<u><u>\$ 35,181,985</u></u>

12 Terms of current year debt and line of credit for PPE additions:

	Issue Date	Maturity Date	Nature of Capitalized Amounts	Amount Capitalized
a.			Equipment	
b.	Nov 21, 2019	Oct 1, 2049	Land improvements	\$ 11,252,553
c.			Buildings	
d.	Nov 21, 2019	Oct 1, 2049	CIP	\$ 532,156
e.	Nov 21, 2019	May 5, 2025	Equipment and Buildings	\$ 1,382,931

Unsecured related-party receivables

19	Secured related-party receivables	\$ -
20	Unsecured related party receivables	<u>1,038,559</u>
21	Total secured and unsecured related-party receivables	<u><u>\$ 1,038,559</u></u>

