

Grand Canyon University

**REPORT ON AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
AND ON FEDERAL AWARDS PROGRAMS IN ACCORDANCE WITH
THE OMB UNIFORM GUIDANCE
For the years ended June 30, 2021 and 2020**

Table of Contents

	<u>Page</u>
Part I – Consolidated Financial Statement and Schedule of Expenditures of Federal Awards	
Independent Auditors’ Report	3
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8
Supplementary Information:	
Information required by the U.S. Department of Education	27
Schedule of Expenditures of Federal Awards	35
Notes to Schedule of Expenditures of Federal Awards	36
Part II – Reports on Internal Control and Compliance	
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38
Independent Auditors’ Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with Uniform Guidance	40
Part III – Audit Findings and Questioned Costs	
Summary Schedule of Findings and Questioned Costs	43
Summary Schedule of Prior Audit Findings	45

Part I

**Consolidated Financial Statements and
Schedule of Expenditures of Federal Awards**

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
GRAND CANYON UNIVERSITY
Phoenix, Arizona

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Grand Canyon University and subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grand Canyon University as of June 30, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on the University's related party transactions, calculation of its Title IV 90/10 revenue percentage and financial responsibility supplemental schedule is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. In addition, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2021 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



San Diego, California
November 18, 2021

Grand Canyon University
Consolidated Statements of Financial Position
(In thousands)

	<u>As of June 30,</u>	
	<u>2021</u>	<u>2020</u>
ASSETS:		
Current assets		
Cash and cash equivalents	\$ 407,438	\$ 307,374
Restricted cash	—	229
Student accounts receivable, net	13,808	11,589
Pledges receivable	1,379	89
Other receivables	4,288	4,449
Other current assets	4,817	5,173
Total current assets	<u>431,730</u>	<u>328,903</u>
Property and equipment, net	1,296,295	1,230,909
Intangible assets, net	101,500	116,000
Pledges receivable, net	1,521	—
Other assets	319	392
Total assets	<u>\$ 1,831,365</u>	<u>\$ 1,676,204</u>
LIABILITIES:		
Current liabilities		
Accounts payable	\$ 16,503	\$ 8,689
Accrued compensation and benefits	31,219	23,940
Accrued liabilities	6,749	6,941
Student deposits	110,161	110,106
Deferred revenue	59,068	64,876
Current portion of notes payable and capital leases	357	361
Total current liabilities	<u>224,057</u>	<u>214,913</u>
Other noncurrent liabilities	3,748	4,836
Notes payable and capital leases, less current portion	1,160,407	1,045,714
Total liabilities	<u>1,388,212</u>	<u>1,265,463</u>
NET ASSETS:		
Without donor restrictions	437,442	410,122
With donor restrictions	5,711	619
Total net assets	<u>443,153</u>	<u>410,741</u>
Total liabilities and net assets	<u>\$ 1,831,365</u>	<u>\$ 1,676,204</u>

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

Grand Canyon University
Consolidated Statements of Activities
(In thousands)

	Year Ended June 30,	
	2021	2020
Changes in net assets without donor restrictions:		
Revenues:		
Net tuition and fees	\$ 1,245,575	\$ 1,169,386
Contributions and grants	11,888	15,377
Auxiliary enterprises	10,077	13,106
Other income	3,320	8,356
Total revenues, gains and other support without donor restrictions	<u>1,270,860</u>	<u>1,206,225</u>
Net assets released from restrictions	1,974	3
Total revenues and releases	<u>1,272,834</u>	<u>1,206,228</u>
Expenses:		
Instructional program services	328,414	311,472
General and administrative	23,860	22,250
Fundraising	1,324	485
Auxiliary enterprises	13,847	15,256
Educational service fee	755,256	711,896
Interest expense	57,666	59,530
Depreciation and amortization	65,147	62,487
Total expenses	<u>1,245,514</u>	<u>1,183,376</u>
Increase in net assets without donor restrictions	<u>27,320</u>	<u>22,852</u>
Changes in net assets with donor restrictions:		
Contributions	7,062	221
Investment return, net	4	—
Net assets released from restrictions	(1,974)	(3)
Increase in net assets with donor restrictions	<u>5,092</u>	<u>218</u>
Increase in total net assets	32,412	23,070
Net assets, beginning	410,741	387,671
Net assets, ending	<u>\$ 443,153</u>	<u>\$ 410,741</u>

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

Grand Canyon University
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended June 30,	
	2021	2020
Cash flows provided by operating activities:		
Changes in net assets	\$ 32,412	\$ 23,070
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	65,147	62,487
Provision for bad debts	22,525	22,194
Deferred compensation plan	3,669	4,420
Other, including fixed asset impairments	—	38
Changes in assets and liabilities:		
Accounts receivable, net	(27,049)	(21,524)
Other assets	(1,092)	645
HERRF grant received for institutional use	11,176	—
HEERF grant received for student aid	—	11,176
HEERF funds distributed to ground students	(7,903)	(10,947)
Accounts payable	10,022	(3,095)
Accrued liabilities and other	287	6,118
Student deposits	(174)	7,780
Deferred revenue	(5,579)	13,773
Deferred rent	(54)	(219)
Net cash provided by operating activities	103,387	115,916
Cash flows used in investing activities:		
Capital expenditures	(118,241)	(108,703)
Net cash used in investing activities	(118,241)	(108,703)
Cash flows provided by (used in) financing activities:		
Principal payments on notes payable and capital lease obligations	(311)	(265)
Repayments on notes payable line of credit	(75,000)	(100,000)
Proceeds from notes payable	190,000	75,000
Net cash provided by (used in) financing activities	114,689	(25,265)
Net increase (decrease) in cash and cash equivalents	99,835	(18,052)
Cash and cash equivalents and restricted cash, beginning of year	307,603	325,655
Cash and cash equivalents and restricted cash, end of year	\$ 407,438	\$ 307,603
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 56,266	\$ 58,544
Cash paid during the year for unrelated business income tax	\$ 510	\$ 194
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment included in accounts payable	\$ 1,341	\$ 3,549

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

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

1. Nature of Business

Grand Canyon University (together with its subsidiaries, the “University”) is a 501(c)(3) tax-exempt Arizona nonprofit corporation. The University was formed under the name Gazelle University on November 20, 2014, to establish or acquire, and thereafter to own and operate, a private interdenominational Christian university located in Phoenix, Arizona. On July 1, 2018, Gazelle consummated an Asset Purchase Agreement (the “Asset Purchase Agreement”) with Grand Canyon Education, Inc. (“GCE”). Pursuant to the Asset Purchase Agreement, Gazelle acquired the business operations, including the real property and improvements (the GCE campus), tangible and intangible academic and related operations (the “Transferred Assets”), and assumed certain liabilities related to the Transferred Assets. Concurrently with the consummation of that acquisition, on July 1, 2018, Gazelle changed its name to Grand Canyon University. See Note 2 to the financial statements for a full description of this transaction (the “Transaction”).

The University is a comprehensive regionally accredited university that offers 295 graduate and undergraduate degree programs, emphases and certificates across nine colleges both online, at its ground campus in Phoenix, Arizona, at leased facilities and at facilities owned by third party employers. The University’s undergraduate programs are designed to be innovative and to meet the future needs of employers, while providing students with the needed critical thinking and effective communication skills developed through a Christian, private, nonprofit, liberal arts foundation. The University offers master’s and doctoral degrees in contemporary fields that are designed to provide students with the capacity for transformational leadership in their chosen industry, emphasizing the immediate relevance of theory, application, and evaluation to promote personal and organizational change. The University is accredited by the Higher Learning Commission. The University’s wholly owned subsidiaries (Canyon Golf, LLC; Canyon Hospitality, LLC; and Canyon Promotions, LLC) are primarily used to operate and facilitate certain educational programs.

2. Formation and Transactions with Former Owner

On July 1, 2018, the University entered into an Asset Purchase Agreement with GCE, pursuant to which the University acquired the real property and improvements, (the GCE campus), tangible and intangible academic and related operations (the “Transferred Assets”) and assumed certain liabilities related to the Transferred Assets. The University paid for the Transferred Assets by issuing to GCE a senior secured note (the “Secured Note”) that is governed by a credit agreement between the University and GCE (the “Credit Agreement”). The Credit Agreement contains customary commercial credit terms, including affirmative and negative covenants applicable to the University, and provides that the Secured Note bears interest at an annual rate of 6.0%, has a maturity date of June 30, 2025, and is secured by all the assets of the University. The Secured Note provides for the University to make interest only payments during the term, with all principal and accrued and unpaid interest due at maturity and also provides that GCE will loan additional amounts to the University to fund approved capital expenditures or short-term loans during the first four years of the term on the terms set forth therein. The fair value of the assets acquired, less the liabilities assumed exceeded the purchase price by \$361,585, which was recorded as an excess of fair value of net assets acquired over consideration given for the Transaction. The transaction closed on July 1, 2018, at which time the University commenced its operations.

In connection with the closing of the Asset Purchase Agreement, the University and GCE entered into a long-term master services agreement (the “Master Services Agreement”) pursuant to which GCE will provide identified technological, counseling, marketing, financial aid processing and other support services to the University in return for 60% of the University’s revenue, excluding charitable contributions or other gifts to the University that are used for purposes other than the payment of tuition and fees on behalf of students. The Master Services Agreement has an initial term of fifteen (15) years, subject to renewal options, although the University has the right to terminate the Master Services Agreement early after the later of seven (7) years or the payment in full of the Secured Note. If the University were to terminate the Master Services Agreement early, then the University would be required to pay GCE a termination

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

fee equal to one-hundred percent (100%) of the fees paid in the trailing twelve (12) month period. If the Master Services Agreement is not renewed after the initial fifteen (15) year term, the University would be required to pay GCE a non-renewal fee equal to fifty percent (50%) of the fees paid in the trailing twelve (12) month period.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Grand Canyon University and its wholly owned subsidiaries. Intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Although our current estimates contemplate current conditions, including the impact of the novel coronavirus (COVID) pandemic, and how we expect them to change in the future, it is reasonably possible that actual conditions could differ from what was anticipated in those estimates, which could materially affect our results of operations and financial condition.

Cash and Cash Equivalents

Cash and cash equivalents is comprised of cash and other short-term highly liquid investments that are readily convertible into known amounts of cash. The University considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

Restricted Cash

Restricted cash at June 30, 2020 represents the undistributed cash remaining from the grant received from the Higher Education Emergency Relief Fund (“HEERF”). The HEERF grant resulted from the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act that was enacted into law on March 27, 2020. The law provided grants to institutions of higher education to directly support students facing urgent needs related to coronavirus, and to support institutions as they cope with the immediate effects of coronavirus and school closures. The University received a total allotment of \$22,351 from this grant. During the year ended June 30, 2020, the University received \$11,176 in HEERF grants and disbursed \$10,947 to qualified students. The remaining undisbursed amount of \$229 is classified as restricted cash and deferred revenue as of June 30, 2020 and was disbursed for the year ended June 30, 2021.

Student Accounts Receivable

Student accounts receivable represents amounts due for tuition, course digital materials, technology fees and other fees from currently enrolled and former students. Students generally fund their education through grants and/or loans under various Title IV programs of the Higher Education Act, tuition assistance from military and corporate employers or personal funds.

Pledges Receivable

Unconditional promises to give (“pledges”) are recorded as contribution revenue and as receivables. Pledge contributions are classified as those pledges with donor restrictions or pledges without donor restrictions based on time

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

restrictions or donor-imposed restrictions. Pledge receivables that are expected to be received in greater than one year have been recorded at present value of \$1,521, net of discount of \$35 in the consolidated financial statements. An allowance for uncollectible pledges is estimated by management based on such factors as prior collection history, type of contribution and the nature of the fundraising activity. The University determined there was no allowance for uncollectible pledges as of June 30, 2021 and 2020.

Other Receivables

Other receivables include amounts owed to the University by the HEERF grant, GCE, the City of Phoenix under a Development Agreement and other entities. As of June 30, 2020, the University has \$1,176 recorded related to the HEERF grant, which permits higher education institutions to recover costs associated with significant changes to the delivery of instruction due to the coronavirus that were incurred on or after March 13, 2020. The University had a receivable from GCE totaling \$231 and \$774 as of June 30, 2021 and 2020, respectively. Under the terms of the Development Agreement effective July 1, 2015, the City of Phoenix has agreed to reimburse the University for public infrastructure improvements that the University completes in the neighborhood surrounding its campus. The funds that are used to reimburse the University accumulate over time from a portion of the sales taxes generated by the University, which have been remitted to the City of Phoenix, up to a maximum amount of \$19,000. The total receivable from the City of Phoenix (including construction bonds) totaled \$3,170 and \$845 as of June 30, 2021 and 2020, respectively.

Allowance for Doubtful Accounts

The University records an allowance for doubtful accounts for estimated losses resulting from the inability, failure or refusal of its students to make required payments, which includes the recovery of financial aid funds advanced to a student for amounts in excess of the student's cost of tuition and related fees. The University determines the adequacy of its allowance for doubtful accounts based on an analysis of its historical bad debt experience, current economic trends, and the aging of the accounts receivable and student status. The University applies reserves to its receivables based upon an estimate of the risk presented by the age of the receivables and student status. The University writes off account receivable balances of active students at the earlier of the time the balances were deemed uncollectible, or one year after the revenue is generated. The University accelerates the write off of inactive student accounts such that the accounts will be written off once they are past due by 150 days. The University reflects accounts receivable with an offsetting allowance for doubtful accounts as long as management believes there is a reasonable possibility of collection. Bad debt expense is recorded as an instructional program services expense in the consolidated statement of activities.

Inventory

The University records inventory as a current asset in other assets. Inventory consists of food and beverage products that are valued at the lower of cost or net realizable value using the first-in, first-out method and retail products that are valued at the lower of cost or net realizable value using the specific identification method.

Property and Equipment

Purchases or construction of property and equipment that are acquired subsequent to the Transaction are recorded at cost less accumulated depreciation. Normal repairs and maintenance are expensed as incurred. Expenditures that materially extend the useful life of an asset are capitalized. Construction in progress represents items not yet placed in service and are not depreciated. The University capitalizes interest using its interest rates on the specific borrowings used to finance the improvements, which approximated 6.0% in the years ended June 30, 2021 and 2020. Capitalized interest for the years ended June 30, 2021 and 2020 was \$1,413 and \$973, respectively.

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Furniture and fixtures, computer equipment, and vehicles generally have estimated useful lives of ten, four, and five years,

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

respectively. Leasehold improvements are depreciated over the shorter of their lease term or their estimated useful life. Land improvements, buildings and facilities and athletic facilities are depreciated over lives ranging from 10 to 40 years while land is not depreciated.

Intangible Assets

The University recorded the assets as a long-lived asset and will amortize the intangible assets with finite lives over their useful lives, along with regular impairment reviews. The University recognizes costs as incurred when they are related to internally developing, maintaining, or restoring intangible assets that are not specifically identifiable, or the useful life is indeterminate, or the cost is inherent in the continuing operation of the business.

Leases

The University enters into various lease agreements in conducting its business. At the inception of each lease, the University evaluates the lease agreement to determine whether the lease is an operating or capital lease. In addition, many of the lease agreements contain renewal options and tenant improvement allowances. When such items are included in a lease agreement, the University records a deferred liability on the consolidated statement of financial position and records the rent expense evenly over the term of the lease. Leasehold improvements are included as investing activities and are included as additions to property, plant and equipment. For leases with renewal options, the University records rent expense and amortizes the leasehold improvement on a straight-line basis over the initial non-cancelable lease term unless it intends to exercise the renewal option. Once it extends the renewal option, the University amortizes any tenant improvement allowances over the extended lease period as well as the leasehold improvement asset (unless the extended lease term is longer than the economic life of the asset). The University expenses any additional payments under its operating leases for taxes, insurance or other operating expenses as incurred. The University will recognize liabilities for exit and disposal activities on non-cancelable lease obligations at fair value in the period the liability is incurred. For the non-cancelable lease obligations, the University will record the obligation when the contract is terminated in accordance with the contract terms.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued compensation and benefits and accrued liabilities approximate their fair value based on the liquidity or the short-term maturities of these instruments. The carrying value of capital leases approximate fair value based upon fair market valuations and assessments obtained in order to consummate the Transaction. The University has elected an exemption to not make these disclosures of fair value of financial instruments in the consolidated financial statements.

Impairment of Long-Lived Assets

The University evaluates the recoverability of its long-lived assets for impairment, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used are measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized will be measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Income Tax Status

The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a public charity in its determination letter dated November 9, 2015. It is also exempt from state income tax. However, any unrelated business income may be subject to taxation.

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2021 and 2020. The tax returns for the 2017 year and thereafter are open to examination by federal and state authorities.

Net Assets

The University's net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University are classified and reported as follows:

- *Net Assets without donor restrictions* – Net assets without donor restrictions include the revenues and expenses related to the University's operations. Also included are contributions not subject to donor-imposed restrictions and donor restricted contributions whose restrictions are met in the same reporting period.
- *Net Assets with donor restrictions* – Net assets with donor restrictions include contributions subject to donor-imposed restrictions that are perpetual in nature, purpose restricted or time-restricted. Net assets are released from donor restrictions either by actions of the University pursuant to those restrictions or the passage of time.

Commitments and Contingencies

The University accrues for a contingent obligation when it is probable that a liability has been incurred and the amount is reasonably estimable. When the University becomes aware of a claim or potential claim, the likelihood of any loss exposure will be assessed. If it is probable that a loss will result, and the amount of the loss is estimable, the University records a liability for the estimated loss. If the loss is not probable or the amount of the potential loss is not estimable, the University discloses the claim if the likelihood of a potential loss is reasonably possible and the amount of the potential loss could be material. Estimates that are particularly sensitive to future changes include tax, legal, and other regulatory matters, which are subject to change as events evolve, and as additional information becomes available during the administrative and litigation process. The University expenses legal fees as incurred.

Insurance/Self-Insurance

The University uses a combination of insurance and self-insurance for a number of risks, including claims related to employee health care, workers' compensation, general liability, and business interruption. Liabilities associated with these risks will be estimated based on, among other things, historical claims experience, severity factors, and other actuarial assumptions. The University's loss exposure related to self-insurance will be limited by stop loss coverage on a per occurrence and aggregate basis. The University regularly analyzes its reserves for incurred but not reported claims, and for reported but not paid claims related to self-funded insurance programs. While the University believes its reserves are adequate, significant judgment is involved in assessing these reserves such as assessing historical paid claims, average lags between the claims' incurred date, reported dates and paid dates, and the frequency and severity of claims. There may be differences between actual settlement amounts and recorded reserves and any resulting adjustments will be included as an expense once a probable amount is known.

Concentration of Credit Risk

All of the University's cash and cash equivalents and restricted cash as of June 30, 2021 and 2020, are in cash positions with multiple reputable financial institutions.

A majority of the University's revenues are derived from tuition financed under the Title IV programs of the Higher Education Act of 1965, as amended (the "Higher Education Act"). The financial aid assistance programs are

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

subject to political and budgetary considerations and are subject to extensive and complex regulations. The University's administration of these programs is periodically reviewed by various regulatory agencies. Any regulatory violation could be the basis for the initiation of potentially adverse actions including a suspension, limitation, or termination proceeding, which could have a material adverse effect on the University.

Students obtain access to federal student financial aid through a Department of Education prescribed application and eligibility certification process. Student financial aid funds are generally made available to students at prescribed intervals throughout their predetermined expected length of study. Students typically apply the funds received from the federal financial aid programs first to pay their tuition and fees. Any remaining funds are distributed directly to the student.

Revenue Recognition

Net tuition and fees

On July 1, 2019, the University adopted "Revenue from Contracts with Customers" using the modified retrospective method applied to all contracts. Net tuition and fee revenues consist primarily of tuition, net of scholarships, and fees, including meals and housing, derived from courses taught by the University online, on ground, and at facilities it leases or those of employers, as well as from related educational resources that the University provides to its students, such as access to online materials. Tuition revenue is recognized pro-rata over the applicable period of instruction. A contract is entered into with a student and covers a course or semester. Revenue recognition occurs once a student starts attending a course. The University also charges online students an upfront learning management fee, which is deferred and recognized over the initial course. The University recognizes housing revenue over the period the ground student is utilizing the services. The University recognizes meals or food sales at the time of delivery or at a point in time. The University has no costs that are capitalized to obtain or to fulfill a contract with a customer. Auxiliary enterprises include revenues from the University hotel, golf course, arena, retail stores and the promotions enterprises and are recognized at the time of delivery or service as these services were transferred at a point in time. Contribution and grants, including gifts of cash and other assets are recorded as with or without donor restrictions based on the existence and/or nature of any donor restrictions. Other income includes interest earned on cash and cash equivalents. For the years ended June 30, 2021 and 2020, the University's net tuition and fee revenue was reduced by approximately \$308,323 and \$263,748, respectively, as a result of scholarships that the University offered to students. Sales tax collected from students is excluded from net revenues. Collected but unremitted sales tax is included as an accrued liability in our consolidated statement of activities.

The following table presents our revenues, without and with restrictions, disaggregated by the nature of transfer of services for the years ended June 30, 2021 and 2020:

	As of June 30,	
	2021	2020
Tuition revenues (tuition, housing, meals, and fees)	\$ 1,553,898	\$ 1,433,134
Contributions and grants	18,950	15,598
Auxiliary enterprises (golf, hotel, arena, Lope Shops, other)	10,077	13,106
Other revenues	3,324	8,356
Total revenues	1,586,249	1,470,194
Scholarships	(308,323)	(263,748)
Net Revenues	\$ 1,277,926	\$ 1,206,446

The University's student account receivables represent unconditional rights to consideration from its contracts with students; accordingly, students are not billed until they start attending a course and the revenue recognition process has commenced. Once a student has been invoiced, payment is due immediately. Included in each invoice to the student

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

are all educational related items including tuition, net of scholarships, housing, educational materials, fees, etc. The University does not have any contract assets. The University's contract liabilities were reported as deferred revenue and student deposits in the consolidated statements of financial position. Deferred revenue and student deposits in any period represent the excess of tuition, fees, and other student payments received as compared to amounts recognized as revenue on the consolidated statements of activities and are reflected as current liabilities in the accompanying consolidated statements of financial position. The University's education programs have starting and ending dates that differ from its fiscal year end. Therefore, at the end of the fiscal year, a portion of revenue from these programs was not yet earned.

The University identified a performance obligation associated with the provision of its educational instruction and other educational services, housing services, and other academic related services and used the output measure for recognition as the period of time over which the services were provided to our students. The University identified performance obligations related to its hotel, golf course, restaurants, sale of branded promotional items and other auxiliary enterprises and recognized revenue at the point in time goods or services are provided to its customers. The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during stated refund periods. Certain states in which students reside impose separate, mandatory refund policies, which override the University's policy to the extent in conflict. If a student withdraws at a time when only a portion, or none of the tuition is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the tuition that was not refunded pro-rata over the applicable period of instruction. However, for students that have taken out financial aid to pay their tuition and for which a return pursuant to Title IV of the Higher Education Act is required as a result of his or her withdrawal, the University recognizes revenue after a student withdraws only at the time of cash collection. The University has elected the short-term contract exemption with respect to its performance obligations under its contracts with students as all such contracts have original terms of less than one year.

Contributions and Grants

On July 1, 2020, the University adopted the accounting guidance for contributions received and contributions made using a modified prospective basis. Contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions.

On March 27, 2020, the CARES Act was passed which authorized funding under the HEERF to Institutions of Higher Learning. These funds were divided into a "Student Portion" and "Institutional Portion". The Student Portion is required to be provided as Emergency Financial Aid Grants to students for expenses related to the disruption of campus operations due to coronavirus. The Institutional Portion is to be used to reimburse the University for costs it incurred related to disruption on campus. The University decided to use the Institutional Portion to provide additional student grants and other expenditures for the direct benefit of students. As of June 30, 2021, the University completed the disbursement of the entire \$11,176 in emergency financial aid grants to eligible students. In addition, the University received the Institutional Portion of the CARES Act funds in the amount of \$11,176. The University retained \$3,273 to offset housing refunds issued to students in the Spring semester of 2020. The remaining amount of \$7,903 was disbursed directly to students as additional emergency financial aid grants.

Accounting Pronouncements Adopted in 2021 and 2020

In June 2018, the FASB issued "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." This guidance should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution is conditional, which affects the timing of the revenue recognized. Contributions are recognized

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted. Accordingly, the standard is effective for the University on July 1, 2020, using a modified prospective basis. The University adopted this guidance on July 1, 2020 and as a result increased its contribution revenue recognized in its consolidated financial statements.

Recent Accounting Pronouncements

In February 2016, the FASB issued “*Leases*.” The standard establishes a right-of-use (“ROU”) model that requires a lessee to recognize a ROU asset and a lease liability on the consolidated statement of financial position for all leases with lease terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statement of activities. This standard’s adoption date was extended in November 2019 with ASU 2019-10, “*Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) Effective Dates*,” and then extended again in June 2020 with ASU 202-05, “*Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*.” This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2021, and early adoption is permitted. Accordingly, the standard is effective for the University on July 1, 2022, using a modified retrospective transition approach. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The University continues to evaluate the impact that the future adoption of this standard will have on its consolidated financial statements and the University believes the adoption will slightly increase its assets and liabilities and will expand its financial statement disclosures.

In June 2016, the FASB issued “*Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*”. This guidance revises the accounting requirements related to the measurement of credit losses on financial instruments and the timing of when such losses are recorded. This standard’s adoption date was extended in November 2019 with ASU 2019-10. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2021. Early adoption is permitted for fiscal years and interim periods within those years, beginning after December 15, 2019. Accordingly, the standard is effective for the University on July 1, 2022, using a modified retrospective approach, and the University is currently evaluating the impact that the standard will have on its consolidated financial statements.

In September 2020, the FASB issued “*Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*.” This guidance increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure, including additional disclosure requirements for recognized contributed services. This standard is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. This standard should be applied on a retrospective basis. Early adoption is permitted. Accordingly, the standard is effective for the University on July 1, 2021, and the University is currently evaluating the impact that the standard will have on its consolidated financial statements.

The University has determined that no other recent accounting pronouncements apply to its operations or could otherwise have a material impact on its consolidated financial statements.

Financial Statement Presentation

Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation.

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

4. Information About Financial Assets and Liquidity

The University's financial assets, without donor or other restrictions limiting their use, available within one year of the consolidated statement of financial position date for general expenditure are as follows:

Total assets at year end	\$ 1,831,365
Less:	
Pledges receivable due in more than one year, net	1,521
Other assets, current and long-term	5,136
Intangible assets, net	101,500
Property and equipment, net	1,296,295
	<u>\$ 426,913</u>

The University has \$426,913 of financial assets that are available within one year of the consolidated statement of financial position date to meet cash needs for general expenditures consisting of cash of \$407,438, student accounts receivable of \$13,808, pledges receivable of \$1,379, and other receivables of \$4,288. The University's liquidity management policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the University has invested excess cash in money market investments. To supplement working capital commitments, the University has the ability to borrow funds from GCE for approved capital expenditures up to \$300,000. As of June 30, 2021, \$289,815 had been drawn to fund capital expenditures. Subsequent to June 30, 2021, the University has repaid \$190,000 of funds borrowed for capital expenditures as of July 31, 2021.

5. Allowance for Doubtful Accounts

	Balance at Beginning of Year	Charged to Expense	Deductions (1)	Balance at End of Year
Year ended June 30, 2021	\$ 6,621	22,525	(20,527)	\$ 8,619
Year ended June 30, 2020	\$ 7,121	22,194	(22,694)	\$ 6,621

(1) Deductions represent accounts written off, net of recoveries.

6. Property and Equipment

Property and equipment consist of the following:

	As of June 30,	
	2021	2020
Land and land improvements	\$ 147,665	\$ 144,027
Buildings and facilities	989,472	954,472
Athletic facilities	114,855	114,855
Computer equipment	33,592	30,920
Furniture, fixtures and equipment	49,412	46,787
Other	2,037	2,040
Construction in progress	97,640	26,028
	1,434,673	1,319,129
Less accumulated depreciation and amortization	(138,378)	(88,220)
Property and equipment, net	<u>\$ 1,296,295</u>	<u>\$ 1,230,909</u>

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

Depreciation and amortization expense associated with property and equipment, including assets under capital lease totaled \$50,647 and \$47,987 for the years ended June 30, 2021 and 2020, respectively.

The following additional information for property, plant and equipment is required to support the calculation of the composite score in the Supplementary Information Financial Responsibility Supplemental Schedule:

Pre-implementation property, plant and equipment:	
Property, plant & equipment as of June 30, 2020	\$ 1,046,117
Less: 2021 depreciation expense	(41,620)
Less: 2021 disposals	(139)
Pre-implementation property, plant and equipment as of June 30, 2021	<u>\$ 1,004,358</u>
Post-implementation property, plant and equipment acquired with debt:	
Property, plant & equipment acquired during the year ended June 30, 2020	\$ 74,108
Property, plant & equipment acquired during the year ended June 30, 2021	44,307
Less: 2021 depreciation expense	(4,349)
Less: 2021 disposals	(207)
Post-implementation property, plant and equipment as of June 30, 2021	<u>\$ 113,859</u>
Construction in progress at June 30, 2021	<u>\$ 97,640</u>
Post-implementation property, plant and equipment acquired without debt:	
Property, plant & equipment acquired during the year ended June 30, 2020	\$ 84,656
Property, plant & equipment acquired during the year ended June 30, 2021	637
Less: 2021 depreciation expense	(4,678)
Less: 2021 disposals	(177)
Post-implementation property, plant and equipment as of June 30, 2021	<u>\$ 80,438</u>

7. Intangible Assets

Intangible assets consist of the following:

	As of June 30, 2021		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Trade name and accreditations	\$ 88,000	\$ —	\$ 88,000
Developed curricula	18,000	(4,500)	13,500
Student relationships	39,000	(39,000)	—
Intangible assets, net	<u>\$ 145,000</u>	<u>\$ (43,500)</u>	<u>\$ 101,500</u>

Trade name and accreditations has an indefinite useful life and will not be amortized by the University. Developed curricula has an estimated useful life of 12 years. Student relationships had an estimated useful life of 3 years. Trade names are all individually renewable for each asset at varying dates ranging from April 2022 to April 2027. Amortization expense associated with intangible assets for the years ending June 30, 2021 and 2020 totaled \$14,500 and \$14,500, respectively.

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

Amortization expense for developed curricula for the years ending June 30:

2022	\$ 1,500
2023	1,500
2024	1,500
2025	1,500
2026	1,500
Thereafter	6,000
	<u>\$ 13,500</u>

8. Notes Payable and Other Noncurrent Liabilities

The University issued to GCE a senior secured note (the “Secured Note”) that is governed by a credit agreement between the University and GCE (the “Credit Agreement”). The Credit Agreement contains standard covenants that, among other things, restrict the University’s ability to incur additional debt or make certain investments, require the University to maintain compliance with certain applicable regulatory standards, and require the University to achieve certain financial ratios and maintain certain financial conditions. The Secured Note bears interest at an annual rate of 6.0%, has a maturity date of June 30, 2025, and is secured by all the assets of the University. The Secured Note provides for the University to make interest only payments during the term, with all principal and accrued and unpaid interest due at maturity, and also provides that GCE will loan additional amounts to the University to fund approved capital expenditures during the first three years of the term on the terms set forth therein. As of June 30, 2021, the University is in compliance with its debt covenants. The University has drawn \$289,815 to fund approved capital expenditures as of June 30, 2021. Subsequent to June 30, 2021, the University has repaid \$190,000 borrowed for capital expenditures.

	As of June 30,	
	2021	2020
Notes payable and capital leases		
Note payable, monthly interest payment; (interest at 6.0% at June 30, 2021 and 2020) through June 30, 2025	\$ 870,097	\$ 870,097
Note payable 2021 capital expenditures, line of credit (interest at 6.0% June 30, 2021) through June 30, 2025	115,000	—
Note payable 2020 capital expenditures, line of credit (interest at 6.0% June 30, 2021 and 2020) through June 30, 2025	75,000	75,000
Note payable 2019 capital expenditures, line of credit (interest at 6.0% June 30, 2021 and 2020) through June 30, 2025	99,815	99,815
LURA: semi-annual payments of \$50; extending through 2024; interest at 0%	350	450
Capital leases for equipment, monthly payments totaling \$18; interest rate at 0%, through 2024	502	713
	<u>1,160,764</u>	<u>1,046,075</u>
Less: current portion	<u>(357)</u>	<u>(361)</u>
	<u>\$ 1,160,407</u>	<u>\$ 1,045,714</u>

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

Payments due under the notes payable, LURA and capital lease obligations for the years ending June 30:

2022	\$ 357
2023	299
2024	196
2025	1,159,912
2026	—
Thereafter	—
	<u>\$ 1,160,764</u>

The following additional information for long-term debt is required to support the calculation of the composite score in the Supplementary Information Financial Responsibility Supplemental Schedule:

Pre-implementation Long-term Debt:

Balance as of June 30, 2020	\$ 969,911
Balance as of June 30, 2021	\$ 969,911

Allowable Post-implementation Long-term debt:

Post-Implementation Long-Term Debt as of June 30, 2020	\$ 74,108
Post-Implementation Long-Term Debt as of June 30, 2021	\$ 113,858

Construction in progress-debt at June 30, 2021	\$ 71,246
---	------------------

Post-implementation Long-term debt not for the purpose of Property, Plant & Equipment or liability greater than asset value:

Long-term debt as of June 30, 2020	\$ 2,056
Long-term debt as of June 30, 2021	\$ 5,749

9. Net Assets

Net assets are classified as net assets with donor restrictions and net assets without donor restrictions. As of June 30, 2021 and 2020, net assets without donor restrictions consisted of \$437,442 and \$410,122, respectively, and none of these net assets contained Board designations. The net assets with donor restriction in the year ended June 30, 2021 are primarily related to grants which are deemed to be nonexchange (nonreciprocal) transactions. Under this guidance, revenue related to conditional grants is recorded when the conditions are met as specified in the grant agreement. The University reports these grants and contracts as changes in net assets without donor restrictions when restrictions are met in the same period. Restricted grants are recorded as changes in net assets with donor restrictions. When a donor restriction expires, net assets are reclassified as net assets without donor restrictions. The net assets with donor restrictions also include scholarship programs that are awarded to qualified students of the University. Included in the other category are net assets subject to donor-imposed restrictions to be maintained permanently by the University, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income be made available for program operations. A breakdown of these net assets without and with donor restrictions is as follows:

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

	As of June 30,	
	2021	2020
Net assets without donor restrictions:		
Designated by the Board	\$ —	\$ —
Undesignated	437,442	410,122
	<u>\$ 437,442</u>	<u>\$ 410,122</u>
Net assets with donor restrictions subject to expenditure for specified purposes:		
Scholarships	\$ 1,402	\$ 351
Grants	3,085	—
Other	1,224	268
	<u>\$ 5,711</u>	<u>\$ 619</u>

10. Commitments and Contingencies

Legal Matters

From time to time, the University could be party to various lawsuits, claims, and other legal proceedings that arise in the ordinary course of business, some of which may be covered by insurance. When the University becomes aware of a claim or potential claim, it will assess the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the University will record a liability for the loss. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the University will disclose the nature of the specific claim if the likelihood of a potential loss will be reasonably possible and the amount involved is material. With respect to the majority of pending litigation matters, the University's ultimate legal and financial responsibility, if any, cannot be estimated with certainty and, in most cases, any potential losses related to those matters will not be considered probable.

Except for identified liabilities assumed by the University, GCE retained responsibility for all liabilities of the business arising from pre-closing operations.

Upon resolution of any pending legal matters, the University may incur charges in excess of established reserves. Management does not believe that any such charges would, individually or in the aggregate, have a material adverse effect on the University's financial condition, results of operations or cash flows.

COVID-19 Considerations

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization, which recommended containment and mitigation measures worldwide. The outbreak and the response of governmental and public health organizations in dealing with the pandemic included restricting general activity levels within communities, the economy, and activities of our customers. While the University hasn't experienced an impact to its business operations, and financial results as a result of the COVID-19 pandemic, there may be a more far reaching impacts on many aspects of operations including the impact on customer behaviors, business operations, employees, and the market in general. The extent to which the COVID-19 pandemic ultimately impacts the Company's business, financial conditions, results of operations, cash flows, and liquidity may differ from management's current estimates due to inherent uncertainties regarding the duration and further spread of the outbreak, actions taken to contain the virus, as well as, how quickly and to what extent normal economic and operations conditions can resume.

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

11. Compensation Plans

Deferred Compensation Plan

The University has established a deferred compensation plan as of July 1, 2018 (the “Deferred Compensation Plan”). With each award, the University accrues for the payout over the vesting period including accrued interest at a rate of 5% per annum (each year). Participants vest in their accounts in accordance with the vesting schedule set forth in their participation agreements. As amounts vest, the University will make distributions equal to the vested amounts to participants within 90 days of the end of the Plan Year (July 1-June 30) in which the vesting occurred. The first distribution Plan Year will begin on July 1, 2020. A participant who terminates employment prior to becoming vested will forfeit his or her account balance. For the years ended June 30, 2021 and 2020, the University expensed \$3,669 and \$4,420, respectively, for accrued deferred compensation.

401(k) Plan

The University has established a 401(k) Defined Contribution Benefit Plan (the “401(k) Plan”). All employees who are age of 21 or older are eligible to participate in the 401(k) Plan. Eligible employees may elect to make tax-deferred contributions subject to limitations imposed under the Internal Revenue Code and the University has the right to match those contributions. Participant accounts are generally distributed to participants following their termination of employment. The University made discretionary matching contributions to the 401(k) Plan of \$1,832 and \$1,586 for the calendar years ended December 31, 2020 and 2019, respectively. The University has accrued \$925 and \$995 for its calendar year contribution to the 401(k) Plan as of June 30, 2021 and 2020, respectively.

12. Functional Expenses

The following table presents expenses by both their nature and function:

	For the Year Ended June 30, 2021				
	Instructional Program Services	Fundraising	Auxiliary Enterprises	General & Administrative	Total
Employee and faculty compensation and benefits	\$ 209,666	\$ 861	\$ 6,511	\$ 12,728	\$ 229,766
Occupancy costs	12,876	—	1,215	4,248	18,339
Bad debt expense	22,525	—	—	—	22,525
Cost of sales	47,597	—	4,745	—	52,342
Other operating expenses	35,750	463	1,376	6,884	44,473
Interest expense	53,515	59	2,778	1,314	57,666
Depreciation and amortization	60,457	66	3,139	1,485	65,147
Total University operations	<u>\$ 442,386</u>	<u>\$ 1,449</u>	<u>\$ 19,764</u>	<u>\$ 26,659</u>	<u>\$ 490,258</u>
Educational service fee	755,256				755,256
Total expenses	<u>\$ 1,197,642</u>	<u>\$ 1,449</u>	<u>\$ 19,764</u>	<u>\$ 26,659</u>	<u>\$ 1,245,514</u>

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

	For the Year Ended June 30, 2020				
	Instructional Program Services	Fundraising	Auxiliary Enterprises	General & Administrative	Total
Employee and faculty compensation and benefits	\$ 192,796	\$ 286	\$ 6,418	\$ 11,034	\$ 210,534
Occupancy costs	13,056	—	1,382	3,946	18,384
Bad debt expense	22,194	—	—	—	22,194
Cost of sales	44,907	—	5,604	—	50,511
Other operating expenses	38,519	199	1,852	7,270	47,840
Interest expense	55,263	16	2,905	1,346	59,530
Depreciation and amortization	57,976	49	3,049	1,413	62,487
Total University operations	\$ 424,711	\$ 550	\$ 21,210	\$ 25,009	\$ 471,480
Educational service fee	711,896	—	—	—	711,896
Total expenses	\$ 1,136,607	\$ 550	\$ 21,210	\$ 25,009	\$ 1,183,376

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the University. Expenses reported by functional categories include allocations of costs for depreciation and amortization, and interest on indebtedness. The University applies various methods to allocate costs among the program and support functions, the most significant of which is by specific identification for depreciation and amortization. The University's property, plant and equipment were specifically identified for instructional program services and auxiliary enterprises. The allocation methodology used for the remaining shared depreciable assets including computer equipment, furniture and fixtures, and vehicles, were allocated based on headcount to instructional program services, fundraising, and general and administrative. The allocation of interest on indebtedness was done utilizing the same total allocation percentages derived for depreciation and amortization expense. The educational service fee was allocated entirely to instructional program services. The educational service fee is calculated as 60% of total revenue, excluding fundraising (see Note 2) as defined in the Master Services Agreement. Under this agreement, GCE provides technological, counseling, marketing, financial aid processing and other support services to support the operation of the University as a whole. Therefore, it is not meaningful or practical to users of the financial statements to allocate the educational service fee to anything other than instructional program services. Since the educational service fee is significant to total operating expenses, the University provided a total for University operations, which correlates with its consolidated statement of activities presentation, and total expenses which includes the educational service fee.

13. Regulatory

The University is subject to extensive regulation by federal and state governmental agencies and accrediting bodies. In particular, the Higher Education Act of 1965, as amended (the "Higher Education Act"), and the regulations promulgated thereunder by the Department of Education (the "Department"), subject the University to significant regulatory scrutiny on the basis of numerous standards that schools must satisfy in order to participate in the various federal student financial assistance programs under Title IV of the Higher Education Act.

To participate in the Title IV programs, an institution must comply with specific requirements contained in the Higher Education Act and the regulations issued thereunder by the Department. An institution must, among other things, be licensed or authorized to offer its educational programs by the state in which it is physically located (in the University's case, Arizona) and maintain institutional accreditation by an accrediting commission recognized by the Department of Education (in the University's case, the Higher Learning Commission).

The Department will certify an institution to participate in the Title IV programs only after the institution has demonstrated compliance with the Higher Education Act and the Department's extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance to the Department on an ongoing basis. On November 6, 2019, the University received notice that the Department of Education approved the change of ownership

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

application and approved the University's continued participation in the Title IV, HEA programs as a for-profit institution. The TPPPA expired on November 30, 2019, and a new Provisional Program Participation Agreement ("PPPA") was signed on November 14, 2019 that allows the University to continue to participate in Title IV programs through September 30, 2022.

The University has been regionally accredited by the Higher Learning Commission ("HLC") and its predecessor since 1968, most recently obtaining reaccreditation in 2017 for the ten-year period through 2027. Following a comprehensive review of the institution's academic offerings, governance and administration, mission, finances and resources during 2016, the University's accreditation was reaffirmed by the HLC's Institutional Actions Council at its meeting on February 28, 2017, with no requirements for any monitoring or interim reports. The comprehensive review occurs every 10 years, along with a mid-term review in year four. As of June 30, 2021, the University believes that it is in compliance with the applicable HLC standards in all material respects.

In addition to the University's institutional accreditation with HLC, the University has specialized accreditations for certain programs, including from the National Addiction Studies Accreditation Commission (NASAC), the Accreditation Council for Business Schools and Programs (ACBSP), the Commission on Collegiate Nursing Education (CCNE), Association for Advancing Quality in Educator Preparation (AAQEP), Association of Theological Schools (ATS), the Commission on Accreditation of Athletic Training Education (CAATE) and Accreditation Board for Engineering and Technology (ABET).

The University is licensed and authorized to offer its programs by the Arizona State Board for Private Postsecondary Education, the regulatory agency governing private post-secondary educational institutions in the State of Arizona, where the University is located.

The University is an approved institutional participant in the State Authorization Reciprocity Agreement ("SARA"). SARA is an agreement among member states, districts and territories that establishes comparable national standards for interstate offering of post-secondary distance education courses and programs. It is intended to make it easier for students to take online courses offered by post-secondary institutions based in another state. SARA is overseen by a national council (NC-SARA) and administered by four regional education compacts. Arizona is a member of the western SARA compact. There is a yearly renewal for participating in NC-SARA and AZ-SARA and institutions must agree to meet certain requirements to participate. As of June 30, 2021, 49 states are members of SARA. The only state that does not participate in SARA is the State of California, but the University is exempt from registering or being approved by the Bureau for Private Post-Secondary Education. The University currently enrolls students in all 50 states and the District of Columbia.

Many states have specific requirements that an individual must satisfy in order to be licensed as a professional in specified fields, including fields such as education, healthcare, and counseling. These requirements vary by state and by field. A student's success in obtaining licensure following graduation typically depends on several factors, including the background and qualifications of the individual graduate. Many states also require that graduates pass a state test or examination as a prerequisite to becoming certified in certain fields, such as teaching and nursing. Many states will certify individuals if they have already been certified in another state. The University's College of Education is approved by the Arizona State Department of Education to offer Institutional Recommendations (credentials) for the certification of early childhood, elementary, secondary, and special education teachers and school administrators. The University's College of Nursing and Health Care Professions is approved by the Arizona State Board of Nursing for the Bachelor of Science in Nursing and advanced practice Master of Science in Nursing degrees for Family Nurse Practitioner and Acute Care Nurse Practitioner. Due to varying requirements for professional licensure and certification in states other than Arizona, the University informs students of the requirements associated with obtaining professional licensure or certification and whether, in the University's assessment of those requirements, its programs meet the various requirements through the enrollment agreement, state specific disclosures, and its website. Ultimately, since the majority of licensure is dependent on the student, each student would have to determine how their total education and or experience applies to state, local or professional licensure and certification requirements in his or her individual state.

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

Because the University operates in a highly regulated industry, it, like other industry participants, may be subject from time to time to investigations, claims of non-compliance, or lawsuits by governmental agencies or third parties, which allege statutory violations, regulatory infractions, or common law causes of action. While there can be no assurance that regulatory agencies or third parties will not undertake investigations or make claims against the University, or that such claims, if made, will not have a material adverse effect on the University's business, results of operations or financial condition, management believes the University is in compliance with applicable regulations in all material respects.

90/10 Disclosure

The University derives a substantial portion of its revenues from student financial aid received by its students under the Title IV programs administered by the Department of Education pursuant to the Higher Education Act. To continue to participate in the student financial aid programs the University must comply with the regulations promulgated under the Higher Education Act. For proprietary schools, the regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from Title IV programs (the "90/10 revenue test"). If an institution fails to satisfy the test for one year, its participation status becomes provisional for two consecutive fiscal years. If the test is not satisfied for two consecutive years, eligibility to participate in Title IV programs is lost for at least two fiscal years. Using the Department of Education's cash-basis, regulatory formula for the 90/10 Rule as in effect for its 2021 and 2020 fiscal years, the University derived 69.7% and 71.8%, respectively, of its 90/10 revenue from Title IV program funds for the fiscal years ended June 30, 2021 and 2020.

Composite Score

The Department of Education and Higher Education Act require institutions to meet standards of financial responsibility. The composite score for an institution's most recent fiscal year must be at least 1.5 for the institution to be deemed financially responsible. For the years ended June 30, 2021 and 2020, the University's composite score was 1.9 and 1.5, respectively, using the proprietary school calculation.

14. Related Party Transactions

During the years ended June 30, 2021 and 2020, the University did not engage in transactions with companies owned by or affiliated with members of the Board of Trustees. During the year ended June 30, 2021, the University received a total of \$3 in donations from members of the Board of Trustees and a total of \$67 from officers of the University. These donations were designated as restricted for scholarships for students. During the year ended June 30, 2020, the University received a total of \$1 in donations from a member of the Board of Trustees and a total of \$10 in donations from officers of the University. These donations were designated as restricted for scholarships for students.

15. Subsequent Events

Events and transactions have been evaluated by the University for possible adjustment and/or disclosure through the date of this report. Subsequent to June 30, 2021, the University has repaid \$190,000 of funds borrowed from GCE (see Note 8).

On July 1, 2021, the University entered into a lease of land and buildings in an area adjacent to the University's campus in Phoenix, Arizona. The lease provides the University with the option to purchase the land and building after May 1, 2022 for a purchase price of \$31,500. The lease also provides the landlord the option to require the University to purchase the property in the last two years of the lease. The term of the lease is 15 years with the expiration on July 31, 2036.

Grand Canyon University
Notes to the Consolidated Financial Statements
(In thousands)

On October 28, 2021, the University notified GCE that they entered into a refinancing transaction (the “Refinancing”) the proceeds of which were used to repay \$500,000 of the outstanding balance of the Secured Note on October 29, 2021. In connection with the Refinancing and related partial repayment of the Secured Note, the University entered into a Modification of Credit Agreement with GCE (the “Modification”). The Modification provides that, in exchange for the partial repayment, (i) GCE will release its first priority lien on the University’s assets, (ii) the University will grant a first priority lien to a financial institution as master trustee under a master trust indenture (the “Master Trust Indenture”), and (iii) GCE will receive an obligation from the master trust evidencing the remaining balance of the Secured Note due to GCE (the “Trust Obligation”). The Trust Obligation continues to bear interest at an annual rate of 6.0%, has a maturity date of June 30, 2025, and is secured on an equal and proportional basis with all other obligations issued under the Master Trust Indenture by all of the assets of the University. On November 9, 2021, the University released a preliminary offering memorandum to refinance the remaining portion of the Secured Note.

SUPPLEMENTARY INFORMATION

Grand Canyon University
Supplementary Information
(Information Required by the U.S. Department of Education)
For the years ended June 30, 2021 and 2020
(In thousands)

Related-Party Transactions

Related-party transactions include transactions between the University and certain members of its Board of Trustees and its affiliates. As the University participates in the Title IV programs administered by the Department of Education pursuant to the Higher Education Act, the University must comply with the regulations promulgated under the Higher Education Act. Those regulations require that all related-party transactions be disclosed, regardless of their materiality to the financial statement. During the years ended June 30, 2021 and 2020, the University did not engage in transactions with companies owned by or affiliated with members of the Board of Trustees. During the year ended June 30, 2021, the University received a total of \$3 in donations from members of the Board of Trustees and a total of \$67 from officers of the University. These donations were designated as restricted for scholarships for students. During the year ended June 30, 2020, the University received a total of \$1 in donations from a member of the Board of Trustees and a total of \$10 in donations from officers of the University. These donations were designated as restricted for scholarships for students.

90/10 Disclosure

The University derives a substantial portion of its revenues from student financial aid received by its students under the Title IV programs administered by the Department of Education pursuant to the Higher Education Act. To continue to participate in the student financial aid programs the University must comply with the regulations promulgated under the Higher Education Act. For proprietary schools, the regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from Title IV programs (the “90/10 revenue test”). If an institution fails to satisfy the test for one year, its participation status becomes provisional for two consecutive fiscal years. If the test is not satisfied for two consecutive years, eligibility to participate in Title IV programs is lost for at least two fiscal years. Using the Department of Education’s cash-basis, regulatory formula under the 90/10 Rule as current in effect for its 2021 and 2020 fiscal years, the University derived approximately 69.7% and 71.8%, respectively, of its 90/10 revenue from Title IV program funds.

Financial Responsibility

The U.S. Department of Education issued regulations, effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV. These disclosures are not required by accounting principles generally accepted in the United States of America but are intended for use by the U.S. Department of Education and to ensure compliance with Federal Title IV regulations.

For the year ended June 30, 2021, the Company’s composite score was 1.9, as calculated on page 34.

The information presented on pages 27 through 34, is required by the U.S. Department of Education and presented for purposes of additional analysis and is not a required part of the basic financial statements.

The consolidated financial statements and accompanying notes should be read in connection with supplementary information.

Grand Canyon University
Supplementary Information, continued
(Information Required by the U.S. Department of Education)
For the year ended June 30, 2021
(In thousands)

TITLE IV 90/10 REVENUE PERCENTAGE

	<u>Amount Disbursed</u>	<u>Adjusted Amount</u>
Adjusted Student Title IV Revenue		
Subsidized loan	\$ 189,020,199	\$ 189,020,199
Unsubsidized loan	868,707,894	868,707,894
Plus loan	47,704,198	47,704,198
Federal Pell Grant	185,081,556	185,081,556
FSEOG	4,171,999	4,171,999
Other Federal Grants	12,885,083	12,885,083
Student Title IV Revenue	<u>\$ 1,307,570,929</u>	<u>\$ 1,307,570,929</u>
Revenue adjustment		(300,189,809)
Title IV funds returned for a student under 34 C.F.R. §668.22		<u>(143,842,612)</u>
Adjusted Student Title IV Revenue		863,538,508
Student Non-Title IV Revenue		
Grant funds for the students from non-Federal public agencies or private sources independent of the school	8,754,687	
Fund provided for the student under a contractual arrangement with a Federal, State, or local government agency for the purpose of providing job training to low-income individuals	—	
Student payments on current charges	<u>366,381,220</u>	
Total Student Non-Title IV Revenue	375,135,907	
Revenue From Other Sources (Totals for the Fiscal Year)		
Activities conducted by the institution that are necessary for education and training (34 C.F.R. § 668.28 (a) (3) (ii))	—	
Funds paid by a student, or on behalf of a student by a party other than the school for an education or training program that is not eligible (34 C.F.R. § 668.28 (a) (3) (iii))	—	
Total Revenue From Other Sources	<u>—</u>	
Total Non-Title IV Revenue (Student Non-Title IV Revenue + Revenue From Other Sources)		<u>375,135,907</u>
Total Revenue (Adjusted Student Title IV Revenue + Total Non Title-IV Revenue + Revenue From Other Sources)		\$ 1,238,674,415
Title IV 90/10 Revenue Percentage		69.71 %

The consolidated financial statements and accompanying notes should be read in connection with supplementary information.

Grand Canyon University
Supplementary Information, continued
(Information Required by the U.S. Department of Education)
For the year ended June 30, 2021
(In thousands)

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

Lines		Primary Reserve Ratio:		
		<u>Adjusted Equity</u>		
31	Balance Sheet - Total Equity	Total equity		443,153
5, 6, 11	Balance Sheet - All Related party receivable, net and Receivable from affiliate, net and Related party note	Secure and Unsecured related party receivables and/or other related party assets	-	
5, 11	Balance Sheet - Related party receivable, net and Receivable from affiliate, net and Related party note	Unsecured related party receivables and/or other related party assets		-
9	Balance Sheet - Property, Plant and Equipment, net	Property, plant and equipment, net - including construction in progress	1,296,295	
FS Note line 9A	Note of the Financial Statements - Balance Sheet - Property, Plant and Equipment, net - pre-implementation	Property, plant and equipment, net - pre-implementation less any construction in progress		1,004,358
FS Note line 9B	Note of the Financial Statements Balance Sheet - Property, Plant and Equipment, net - pre-implementation with outstanding debt for original purchase	Property, plant and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase with debt		113,858
FS Note line 9D	Note of the Financial Statements Balance sheet - Property, Plant and Equipment, net post-implementation without outstanding debt for original purchase	Property, plant and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase without debt		80,439
FS Note line 9C	Note of the Financial Statements Balance Sheet - Property, Plant, and Equipment - Construction in process	Construction in progress		97,640
10	Balance Sheet - Lease right-of-use asset	Lease right-of-use asset	-	
Excluded 10 Note Leases	Note of Financial Statements - Balance Sheet - Lease right-of-use asset pre-implementation	Lease right-of-use asset - pre-implementation		-
M10 Note Leases	Note of Financial Statements - Balance Sheet - Lease right-of-use asset pre-implementation	Lease right-of-use asset - post-implementation		-
12	Balance Sheet - Goodwill	Intangible assets		101,500
28	Balance Sheet - Post-employment and pension liability	Post-employment and defined pension plan liabilities		3,618
16, 20, 21, 24, 25	Balance Sheet - Notes payable and Line of Credit (both current and long-term) and Line of Credit for Construction in process	Long-term debt - for long-term purposes and Construction in process debt	1,160,764	
M16, 20, 21, 24, 25 Note Debt A	Balance Sheet - Notes payable and Line of Credit (both current and long-term) and Line of Credit for Construction in process	Long-term debt for long-term purposes pre-implementation		969,911
Debt Note B	Balance Sheet - Notes payable and Line of Credit (both current and long-term) for purchase of Property, Plant and Equipment	Qualified Long-term debt for long-term purposes post-implementation for purchase of Property, Plant and Equipment		113,858

The consolidated financial statements and accompanying notes should be read in connection with supplementary information.

Debt Note C	Balance Sheet - Notes payable and Line of Credit for Construction in process	Line of Credit for Construction in process		71,246
18, 26	Balance Sheet - Lease right-of-use assets liability (both current and long-term)	Lease right-of-use asset liability	-	
Excluded 18, 26 Leases	Balance Sheet - Lease right-of-use assets liability (both current and long-term)	Pre-Implementation right-of-use leases		-
M18, 26 FS Note	Balance Sheet - Lease right-of-use assets liability (both current and long-term)	Post-Implementation right-of-use leases		-
41, 45, 46, 47	Statement of (Loss) Income - Total Operating Expenses, Interest Expense, Loss on Impairment of Assets and Loss on Disposal of Assets	Total Expenses and Losses:		1,245,514

Lines		Equity Ratio		
		Modified Equity		
31	Balance Sheet - Total Equity	Total equity		443,153
Excluded 18, 26 Leases	Balance Sheet - Lease right-of-use assets liability (both current and long-term)	Pre-Implementation right-of-use leases		-
Excluded 10 Note Leases	Note of Financial Statements - Balance Sheet - Lease right-of-use asset pre-implementation	Lease right-of-use asset - pre-implementation		-
12	Balance Sheet - Goodwill	Intangible assets		101,500
5, 6, 11	Balance Sheet - All Related party receivable, net and Receivable from affiliate, net and Related party note	Secure and Unsecured related party receivables and/or other related party assets	-	
5, 11	Balance Sheet - Related party receivable, net and Receivable from affiliate, net and Related party note	Unsecured related party receivables and/or other related party assets		-
		Modified Assets:		
14	Balance Sheet - Total assets	Total assets		1,831,365
Excluded 10 Note Leases	Note of Financial Statements - Balance Sheet - Lease right-of-use asset pre-implementation	Lease right-of-use asset - pre-implementation		-
12	Balance Sheet - Goodwill	Intangible assets		101,500
5, 6, 11	Balance Sheet - All Related party receivable, net and Receivable from affiliate, net and Related party note	Secure and Unsecured related party receivables and/or other related party assets	-	
5, 11	Balance Sheet - Related party receivable, net and Receivable from affiliate, net and Related party note	Unsecured related party receivables and/or other related party assets		-

Lines		Net Income Ratio:		
		Income Before Taxes		
49	Statement of (Loss) Income - Net Income Before Income Taxes	Income Before Taxes		32,412
35, 43, 44	Statement of (Loss) Income - Total Revenue, Interest income and Other miscellaneous income	Total Revenues and Gains		1,277,926

The consolidated financial statements and accompanying notes should be read in connection with supplementary information.

Grand Canyon University
Supplementary Information, continued
(Information Required by the U.S. Department of Education)
For the year ended June 30, 2021
(In thousands)

BALANCE SHEET

Line

	Current Assets	
1	Cash and cash equivalents	\$ 407,438
2	Accounts receivable, net	19,475
3	Inventory	1,398
4	Prepaid expenses	3,419
5	Related party receivable	-
6	Related party receivable, secured	-
7	Student loans receivable, net	-
8	Total Current Assets	431,730
9	Property, plant and equipment, net	1,296,295
10	Lease right-of-use assets, net	-
11	Receivable from affiliate, net	-
12	Goodwill and intangibles	101,500
13	Deposits and other	1,840
14	Total Assets	\$ 1,831,365
	Current Liabilities	
15	Accounts payable and accrued expenses	\$ 54,471
16	Line of credit - short term CIP	-
17	Deferred revenue and student deposits	169,229
18	Leases right-of-use asset liability	-
19	Line of credit - operation	-
20	Line of credit - for long term purposes	-
21	Current portion of debt	357
22	Total Current Liabilities	224,057
23	Line of credit - operating	-
24	Line of credit - for long term purposes	-
25	Debt	1,160,407
26	Lease right-of-use asset liabilities	-
27	Other liabilities	130
28	Post-employment and pension liability	3,618
29	Total Liabilities	1,388,212
	Equity	
30	Equity	443,153
31	Total Equity	443,153
32	Total Liabilities and Equity	\$ 1,831,365

The consolidated financial statements and accompanying notes should be read in connection with supplementary information.

Grand Canyon University
Supplementary Information, continued
(Information Required by the U.S. Department of Education)
For the year ended June 30, 2021
(In thousands)

STATEMENT OF INCOME

Line		
	Revenue	
33	Tuition and fees, net	\$ 1,267,419
34	Auxiliary enterprises revenue	10,077
35	Total Revenue	<u>1,277,496</u>
	Operating Expenses	
36	Instructional	1,083,670
37	Auxiliary enterprises	13,847
38	Fundraising	1,324
39	General and administrative	23,860
40	Depreciation and amortization	65,147
41	Total Operating Expenses	<u>1,187,848</u>
42	Operating Income (Loss)	<u>89,648</u>
	Other Income (expense)	
43	Interest income	430
44	Other income	-
45	Loss on impairment of assets	-
46	Loss on disposal of assets	-
47	Interest expense	(57,666)
48	Total Other Income (Expense)	<u>(57,236)</u>
49	Net Income Before Income Taxes	<u>32,412</u>
50	Income taxes	-
51	Net Income (Loss)	<u><u>\$ 32,412</u></u>

Note for Line 10 - Lease right of use assets

A.	Lease right-of-use assets - pre-implementation	\$ -	Removed from assets
B.	Lease right-of-use assets - post implementation	-	-
	Total	\$ -	-

The consolidated financial statements and accompanying notes should be read in connection with supplementary information.

Grand Canyon University
Supplementary Information, continued
(Information Required by the U.S. Department of Education)
For the year ended June 30, 2021
(In thousands)

Note for Line 9 - Net Property, Plant and Equipment

A.	Pre-Implementation Property, Plant and Equipment		\$ 1,004,358
B.	Post-Implementation Property, Plant and Equipment		113,858
	Buildings & Improvements	72,378	
	Capital Leases	489	
	Computers	3,301	
	Furniture, Equipment, and Other	3,556	
	Land & Improvements	33,862	
	Vehicles	272	
C.	Construction in progress		97,640
D.	Post-Implementation Property, Plant and Equipment		80,439
	Total		\$ 1,296,295

- A. This is the ending balance on the last financial statement submission prior to the implementation of the regulations -- Less any depreciation or disposals
- B. This is the balance of assets purchased after the implementation of the regulations that was purchased by obtaining debt.
- C. Asset value of the Construction in progress
- D. Post-Implementation Property, Plant and Equipment with no outstanding debt.

Notes for Line 16, 20, 21, 24, 25 - Long-term debt for long term purposes

A.	Pre-Implementation Long-term Debt		\$ 969,911
B.	Allowable Post-Implementation Long-term Debt		113,858
	Buildings & Improvements	76,175	
	Capital Leases	502	
	Computers	4,223	
	Furniture, Equipment, and Other	4,072	
	Land & Improvements	33,976	
	Vehicles	308	
C.	Construction in progress - debt		71,246
D.	Long-term debt not for the purchase of Property, Plant and Equipment or liability greater than assets value		5,749
	Total		\$ 1,160,764

- A. This is the ending balance of the last financial statement submission prior to the implementation of the regulations - - Less in repayments
- B. This is the lessor of actual outstanding debt of each assets or the value of the asset.
- C. All debt associated with Construction in progress up to the asset value for construction on progress is included
- D. Long-term debt not for the purchase of Property, Plant and Equipment.

Note for Lines 18 and 26 - Lease right-of-use asset liability

A	Lease right-of-use assets liability - pre-implementation	\$ -	Removed from liabilities
B	Lease right-of-use assets liability - post-implementation	-	-
	Total	\$ -	-

The consolidated financial statements and accompanying notes should be read in connection with supplementary information.

Grand Canyon University
Supplementary Information, continued
(Information Required by the U.S. Department of Education)
For the year ended June 30, 2021
(In thousands)

Calculating the Composite Score	Lines		
*Primary Reserve Ratio = Adjusted Equity	31 - 12 - (5 + 11) - (9 + M10) + 28 + (M16 + M18 + M20 + M21 + M24 + M25 + M26)	203,991	0.1638
/Total Expenses and Losses	41 + 45 + 46 + 47	1,245,514	
*Equity Ratio = Modified Equity	31 - (5 + 11) - 12	341,653	0.1975
/Modified assets	14 - (5 + 11) - 12	1,729,865	
Net Income Ratio = Income Before Taxes	49	32,412	0.0254
/Total Revenue and Gains	35 + 43 + 44	1,277,926	

***All pre-implementation right-of-use assets and liabilities are removed from total assets and total liabilities M# - Modified for the right-of-use liabilities pre-implementation and post implementation debt not directly related to purchase of assets.**

Step 1: Calculate the strength factor score for each ratio by using the following algorithms

Primary Reserve strength factor score = 20 x the primary reserve ratio result

Equity strength factor score = 6 x the equity ratio result

Net Income strength factor score = 1 + (33.3 x net income ratio result)

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for the ratio is 3

If the strength factor score for any ratio is less than or equal to -1, the strength factor score for that ratio is -1

Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores

Primary Reserve weighted score = 30% x the primary reserve strength factor

Equity weighted score = 40% x the equity strength factor score

Net income weighted score = 30% x the net income strength factor score

Composite Score = the sum of all weighted scores

Round the composite score to one digit after the decimal point to determine the final score

RATIO	Ratio	Strength Factor	Weight	Composite Score
Primary Reserve Ratio	0.1638	3.0000	30%	0.9000
Equity Ratio	0.1975	1.1850	40%	0.4740
Net Income Ratio	0.0254	1.8446	30%	0.5534
				1.9274
TOTAL Composite Score - Rounded				1.9

The consolidated financial statements and accompanying notes should be read in connection with supplementary information.

Grand Canyon University
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

<u>Federal Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor and Number</u>	<u>Federal Expenditures (\$)</u>
<u>U.S. Department of Education</u>			
<i>Student Financial Assistance (SFA) Cluster</i>			
Federal Supplemental Educational Opportunity Grant Program	84.007		\$ 2,949,854
Federal Work-Study Program	84.033		2,577,248
Federal Pell Grant Program	84.063		176,685,081
Federal Direct Student Loans	84.268		972,015,963
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		12,802,142
<i>Total SFA Cluster</i>			1,167,030,288
<i>Other Programs</i>			
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	Arizona Department of Education	6,365
<i>Total Special Education - Personnel Development to Improve Services and Results for Children with Disabilities</i>			6,365
NSA: GenCyber	12.903		8,509
<i>Total NSA: GenCyber</i>			8,509
COVID-19 - Higher Education Emergency Relief Fund (HEERF) Student	84.425 E		8,180,330
COVID-19 - Higher Education Emergency Relief Fund (HEERF) Institutional	84.425 F		3,272,807
<i>Total COVID-19 - Higher Education Emergency Relief Fund (HEERF) Student and Institutional</i>			11,453,137
<i>Total U.S. Department of Education</i>			1,178,498,299
<u>U.S. Department of Veterans Affairs</u>			
Post-9/11 Veterans Educational Assistance	64.028		30,077,198
Vocational Rehabilitation for Disabled Veterans	64.116		4,316,633
<i>Total Department of Veterans Affairs</i>			34,393,831
<i>Total Expenditures of Federal Awards</i>			\$ 1,212,892,130

The consolidated financial statements and accompanying notes should be read in connection with supplementary information.

Grand Canyon University
Notes to the Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the University under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

2. Summary of Significant Accounts Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The University has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance for the following Federal Grant Program:

<u>CFDA Number</u>	<u>Program Name</u>
12.903	NSA: GenCyber

Part II

Reports on Internal Control and Compliance

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
GRAND CANYON UNIVERSITY
Phoenix, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Grand Canyon University and subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020 and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Wesley H. ...". The signature is written in a cursive style with a long, sweeping flourish extending to the right.

San Diego, California
November 18, 2021

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees
GRAND CANYON UNIVERSITY
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

We have audited Grand Canyon University's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2021. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of *Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and

material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



San Diego, California
November 18, 2021

Part III

Audit Findings and Questioned Costs

Grand Canyon University
Summary Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

Section I - Summary of Independent Auditors' Results

Financial Statements

Type of auditor's report issued Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ Yes ___X___ No

Significant deficiency(ies) identified
not considered to be material weaknesses? _____ Yes ___X___ None Reported

Noncompliance material to financial statements
noted: _____ Yes ___X___ No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ Yes ___X___ No

Significant deficiency(ies) identified
not considered to be material weaknesses? _____ Yes ___X___ None Reported

Type of auditor's report issued on compliance
for major programs: Unmodified

Any audit findings disclosed that are required
to be reported in accordance with section 2 CFR
200.516(a)? _____ Yes ___X___ No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
84.425	Higher Education Emergency Relief Fund

Dollar threshold used to distinguish between
Type A and Type B programs: \$ 3,638,676

Auditee qualified as low-risk auditee? ___X___ Yes _____ No

Grand Canyon University
Summary Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

Section II – Financial Statement Audit Findings

None noted.

Section III – Federal Awards Findings and Question Costs

None noted.

**Grand Canyon University
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2021**

Prior Year Findings and Questioned Costs for Federal Awards

There are no findings from the prior years that require an update in this report.