# 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, 2020 and 2019**

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# Part I

## Financial Statement and Schedule of Expenditures of Federal Awards

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# 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, 2020 and 2019, 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, 2020 and 2019, 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.



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**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 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 February 9, 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.

Weaver & Associates

San Diego, California
February 9, 2021

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

| | As of June 30, 2020 | 2019 |
|---|---|---|
| **ASSETS:** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 307,374 | $ 325,655 |
| Restricted cash | 229 | — |
| Student accounts receivable, net | 11,589 | 12,098 |
| Pledges receivable | 89 | 139 |
| Other receivables | 4,449 | 4,559 |
| Other current assets | 5,173 | 6,094 |
| **Total current assets** | 328,903 | 348,545 |
| Property and equipment, net | 1,230,909 | 1,168,480 |
| Intangible assets, net | 116,000 | 130,500 |
| Other assets | 392 | 117 |
| **Total assets** | $ 1,676,204 | $ 1,647,642 |
| **LIABILITIES:** | | |
| **Current liabilities** | | |
| Accounts payable | $ 8,689 | $ 10,827 |
| Accrued compensation and benefits | 23,940 | 16,397 |
| Accrued liabilities | 6,928 | 8,527 |
| Service and interest payable to GCE | 13 | — |
| Student deposits | 110,106 | 102,326 |
| Deferred revenue | 64,876 | 50,945 |
| Current portion of notes payable and capital leases | 361 | 213 |
| **Total current liabilities** | 214,913 | 189,235 |
| Other noncurrent liabilities | 4,836 | 403 |
| Notes payable and capital leases, less current portion | 1,045,714 | 1,070,333 |
| **Total liabilities** | 1,265,463 | 1,259,971 |
| **NET ASSETS:** | | |
| Without donor restrictions | 410,122 | 387,270 |
| With donor restrictions | 619 | 401 |
| **Total net assets** | 410,741 | 387,671 |
| **Total liabilities and net assets** | $ 1,676,204 | $ 1,647,642 |

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

**Grand Canyon University**
**Consolidated Statements of Activities**
**(In thousands)**

| | Year Ended June 30, 2020 | 2019 |
|---|---|---|
| **Changes in net assets without donor restrictions:** | | |
| Revenues: | | |
| Net tuition and fees | $ 1,170,391 | $ 1,091,912 |
| Contributions and grants | 14,372 | 577 |
| Auxiliary enterprises | 13,106 | 13,469 |
| Excess of fair value of net assets acquired over consideration given | — | 361,585 |
| Other income | 8,356 | 8,582 |
| Total revenues, gains and other support without donor restrictions | 1,206,225 | 1,476,125 |
| Net assets released from restrictions | 3 | — |
| Total revenues and releases | 1,206,228 | 1,476,125 |
| Expenses: | | |
| Instructional program services | 311,656 | 280,145 |
| General and administrative | 21,785 | 20,542 |
| Fundraising | 766 | 796 |
| Auxiliary enterprises | 15,256 | 14,828 |
| Educational service fee | 711,896 | 664,991 |
| Interest expense | 59,530 | 52,690 |
| Depreciation and amortization | 62,487 | 54,863 |
| Total expenses | 1,183,376 | 1,088,855 |
| Increase in net assets without donor restrictions | 22,852 | 387,270 |
| | | |
| **Changes in net assets with donor restrictions:** | | |
| Contributions | 221 | 401 |
| Investment return, net | — | — |
| Net assets released from restrictions | (3) | — |
| Increase in net assets with donor restrictions | 218 | 401 |
| | | |
| **Increase in total net assets** | 23,070 | 387,671 |
| Net assets, beginning | 387,671 | — |
| **Net assets, ending** | $ 410,741 | $ 387,671 |

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, 2020 | Year Ended June 30, 2019 |
|---|---|---|
| **Cash flows provided by operating activities:** | | |
| Changes in net assets | $ 23,070 | $ 387,671 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 62,487 | 54,863 |
| Provision for bad debts | 22,194 | 22,467 |
| Deferred compensation plan | 4,420 | 3,653 |
| Other, including fixed asset impairments | 38 | 295 |
| Excess of fair value of net assets acquired over consideration given | — | (361,585) |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (21,524) | (26,841) |
| Other assets | 645 | (1,105) |
| HEERF grant received for student aid | 11,176 | — |
| HEERF funds distributed to ground students | (10,947) | — |
| Accounts payable | (3,095) | 8,035 |
| Accrued liabilities and other | 6,118 | 17,412 |
| Student deposits | 7,780 | 14,316 |
| Deferred revenue | 13,773 | 4,549 |
| Deferred rent | (219) | 32 |
| **Net cash provided by operating activities** | 115,916 | 123,762 |
| **Cash flows (used in) provided by investing activities:** | | |
| Capital expenditures | (108,703) | (129,201) |
| Acquisition | — | 131,550 |
| Funding at closing in excess of required capital | — | 7,377 |
| Repayment of excess funds from closing | — | (7,377) |
| **Net cash (used in) provided by investing activities** | (108,703) | 2,349 |
| **Cash flows (used in) provided by financing activities:** | | |
| Principal payments on notes payable and capital lease obligations | (265) | (271) |
| Repayments to GCE | (100,000) | — |
| Proceeds received from GCE | 75,000 | 199,815 |
| **Net cash (used in) provided by financing activities** | (25,265) | 199,544 |
| **Net (decrease) increase in cash and cash equivalents** | (18,052) | 325,655 |
| **Cash and cash equivalents and restricted cash, beginning of year** | 325,655 | — |
| **Cash and cash equivalents and restricted cash, end of year** | $ 307,603 | $ 325,655 |
| | | |
| **Supplemental disclosure of cash flow information** | | |
| Cash paid during the year for interest | $ 58,544 | $ 50,212 |
| Cash paid during the year for unrelated business income tax | $ 194 | $ 210 |
| **Supplemental disclosure of non-cash investing and financing activities** | | |
| Purchases of property and equipment included in accounts payable | $ 3,549 | $ 2,587 |
| Acquisition of University assets through secured note financing | $ — | $ 870,097 |
| Excess of fair value of tangible and intangible assets acquired over consideration given, net of unrestricted cash contributed (see Note 2) | $ — | $ 352,017 |

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 270 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 during the first three 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 fee equal to one-hundred percent (100%) of the fees paid in the trailing twelve (12) month period. If the Master Services

**(In thousands)**

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.

The acquisition was accounted for in accordance with the acquisition method of accounting. Under this method the cost of the target is allocated to the identifiable assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The following table provides a tabular depiction of the University's allocation of the $876,555 total purchase price to each of the assets acquired and liabilities assumed based on the University's fair value estimates.

| | |
|---|---|
| *Assets acquired* | |
| Cash | $ 138,008 |
| Accounts receivable, net of allowance of $6,093 | 12,422 |
| Property and equipment | 1,077,114 |
| Intangible assets | 145,000 |
| Other assets | 5,035 |
| *Liabilities assumed* | |
| Accrued and other liabilities | (4,199) |
| Student deposits | (88,010) |
| Deferred revenue | (46,325) |
| Note payable | (905) |
| Total net asset or liability purchased and assumed | 1,238,140 |
| Purchase price | 876,555 |
| Excess of fair value of net assets acquired over consideration given | $ 361,585 |

Concurrent with the Transaction, the University received an unrestricted cash donation of $9,568 for a deferred compensation plan for University employees that were formally GCE employees that held unvested restricted stock of GCE that was forfeited upon the Transaction. Refer to Note 11 for additional information on the University's deferred compensation plan.

The amounts recorded related to the acquisition are no longer subject to adjustment as the University completed the final allocation of the purchase price by June 30, 2019.

## 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 until disbursement.

***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 restrictions or donor-imposed restrictions. Pledge receivables are expected to be received in less than one year and therefore no present value adjustment has been reflected 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 Company determined there was no allowance for uncollectible pledges as of June 30, 2020 and 2019.

***Other Receivables***

Other receivables include amounts owed to the University by the HEERF grant, GCE and the City of Phoenix under a Development Agreement. 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. 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 $774 and $950 as of June 30, 2020 and 2019, 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***

Property and equipment acquired in the Transaction as part of the Transferred Assets were recorded at fair market value on July 1, 2018. 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, 2020 and 2019. Capitalized interest for the years ended June 30, 2020 and 2019 was $973 and $2,478, 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, 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 intangible assets acquired as part of the Transaction were recorded at fair market value on July 1, 2018. 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 notes payable and capital leases approximate fair value based upon fair market valuations and assessments obtained in order to consummate the Transaction. See Note 2 for a full description of 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.

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, 2020 and 2019. The tax returns for the 2015 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, 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 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*

<u>Net tuition and fees</u>

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, 2020 and 2019, the University's net tuition and fee revenue was reduced by approximately $262,743 and $231,719, 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.

**(In thousands)**

The following table presents our revenues disaggregated by the nature of transfer of services for the years ended June 30, 2020 and 2019:

| | As of June 30, | |
|---|---|---|
| | 2020 | 2019 |
| Tuition revenues (tuition, housing, meals, and fees) | $ 1,433,134 | $ 1,323,630 |
| Contributions and grants | 14,372 | 978 |
| Auxiliary enterprises (golf, hotel, arena, Lope Shops, other) | 13,106 | 13,469 |
| Excess of fair value of net assets acquired | — | 361,585 |
| Other revenues | 8,356 | 8,583 |
| Total revenues | 1,468,968 | 1,708,245 |
| Scholarships | (262,743) | (231,719) |
| Net Revenues | $ 1,206,225 | $ 1,476,526 |

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 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.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. The CARES Act includes a HEERF that provides more than $14 billion in emergency funding to higher education. Of those funds, more than $6 billion must go directly to students in the form of emergency financial aid grants (HEERF-student share) for expenses related to the disruption of campus operations due to the COVID-19 crisis. The University was allotted a total of $22,351 of which $11,176 was awarded to use as HEERF-student share grants. For the year ended June 30, 2020, the University drew down these funds and distributed all but $229 which is classified as restricted cash and a corresponding deferred revenue liability. In addition, the University is authorized to draw down the second allotment of $11,176 of which $1,176 will be used for the reimbursement of costs incurred by the University as defined by the CARES Act for the benefit of students to assist with the implementation of safety measures related to the opening of campus during the Fall 2020 semester which has been recognized as grant revenue and a short-term receivable. The remaining $10,000 of the second allotment will be used as additional grants to students and will be recorded once the disbursements are made subsequent to June 30, 2020.

### *Accounting Pronouncements Adopted in 2020 and 2019*

In May 2014, the FASB issued "*Revenue from Contracts with Customers*, as amended." The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The accounting guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements and changes in judgements and assets recognized from costs incurred to obtain or fulfill a contract. The University adopted this new standard effective July 1, 2019, using the modified retrospective method applied to all contracts. The adoption of this guidance did not have a material impact on the University's financial position, statement of activities or statement of cash flows. The University elected the short-term contract exemption with respect to disclosures associated with its performance obligations as all performance obligations as of the end of any reporting period have original terms of less than a year.

In August 2016, the Financial Accounting Standards Board ("FASB") issued "Not-for-Profit Entities". The standard requires presentation on the face of the consolidated statement of financial position for two classes of net assets at the end of the period, rather than for the previously required three classes. The University reports amounts for net assets with donor restrictions, and net assets without donor restrictions, as well as the required amount for total net assets. The standard requires presentation on the face of the consolidated statement of activities the amount of the change in each of the two classes of net assets. The guidance requires presentation on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but does not require disclosure of the indirect method reconciliation, if using the direct method. The standard also requires enhanced disclosures about: amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period; and composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources. Additional disclosures are required for qualitative information on liquidity, the availability of the University to meet cash needs for general expenditures within one year of the consolidated statement of financial position date, amounts of expenses by both their natural classification and functional classification, methods used to allocate costs among program and support functions, and the policy for placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassification of any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service. The standard is effective for annual periods in fiscal years beginning after December 15, 2018. Early adoption is permitted and is applied retrospectively in the year of adoption. Accordingly, the standard is effective for the University for its annual filing for the year ended June 30, 2020. The University elected to early adopt this standard for the year ended June 30, 2019, and the consolidated financial statements and notes to the consolidated financial statements have been presented in accordance with this new guidance.

In August 2016, the FASB issued a new standard that clarifies how certain cash receipts and cash payments are presented and classified in the consolidated statement of cash flows. The University elected to early adopt this guidance in the year ended June 30, 2019 on a prospective basis. There was no impact of the adoption on the University's consolidated statement of cash flows for the year ended June 30, 2019.

In November 2016, the FASB issued a new standard that requires restricted cash and cash equivalents to be included with the amount of cash and cash equivalents that are reconciled on the consolidated statement of cash flows. The University elected to adopt this guidance early for the year ended June 30, 2019, on a prospective basis, and since the University does not have any restricted cash as of June 30, 2019, there was no impact on the University's consolidated statement of cash flows.

In January 2017, the FASB issued "*Business Combinations – Clarifying the Definition of a Business*", which assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This standard provides a screen that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the asset is not a business. If the screen is not met, the entity then evaluates whether the asset meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs and removes the evaluation of whether a market participant could replace missing elements. This standard is effective for annual periods in fiscal years beginning after December 15, 2018. The University implemented this standard concurrently with the Transaction.

***Recent Accounting Pronouncements***

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 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 is currently evaluating the impact that the future adoption of this standard will have on its consolidated financial statements.

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 standards 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 thousands)**

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 standards 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.

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.

## 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 | $ 1,676,204 |
| Less: | |
| Restricted cash | 229 |
| Other assets | 5,565 |
| Intangibles assets, net | 116,000 |
| Property and equipment, net | 1,230,909 |
| | $ 323,501 |

The University has $323,501 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 $307,374, student accounts receivable of $11,589, pledges receivable of $89, and other receivables of $4,449. 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, 2020, $174,815 had been drawn to fund capital expenditures. Subsequent to June 30, 2020, the University has repaid $75,000 of funds borrowed for capital expenditures as of July 31, 2020.

## 5. Allowance for Doubtful Accounts

| | Balance at Beginning of Year | Charged to Expense | Deductions [1] | Balance at End of Year |
|---|---|---|---|---|
| Year ended June 30, 2020 | $ 7,121 | 22,194 | (22,694) | $ 6,621 |
| Year ended June 30, 2019 | $ 6,093 | 22,467 | (21,439) | $ 7,121 |

**(In thousands)**

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

## 6. Property and Equipment

Property and equipment consist of the following:

| | As of June 30, 2020 | As of June 30, 2019 |
|---|---|---|
| Land and land improvements | $ 144,027 | $ 112,599 |
| Buildings and facilities | 954,472 | 834,148 |
| Athletic facilities | 114,855 | 114,669 |
| Computer equipment | 30,920 | 25,494 |
| Furniture, fixtures and equipment | 46,787 | 41,163 |
| Other | 2,040 | 1,171 |
| Construction in progress | 26,028 | 79,599 |
| | 1,319,129 | 1,208,843 |
| Less accumulated depreciation and amortization | (88,220) | (40,363) |
| Property and equipment, net | $ 1,230,909 | $ 1,168,480 |

Depreciation and amortization expense associated with property and equipment, including assets under capital lease totaled $47,987 and $40,363 for the years ended June 30, 2020 and 2019, 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, 2019 | $ 1,088,662 |
| Less: 2020 depreciation expense | (42,545) |
| Pre-implementation property, plant and equipment as of June 30, 2020 | $ 1,046,117 |
| | |
| Post-implementation property, plant and equipment acquired with debt: | |
| Property, plant & equipment acquired during the year ended June 30, 2020 | $ 75,795 |
| Less: 2020 depreciation expense | (1,687) |
| Post-implementation property, plant and equipment as of June 30, 2020 | $ 74,108 |
| | |
| Construction in progress at June 30, 2020 | $ 26,028 |
| | |
| Post-implementation property, plant and equipment acquired without debt: | |
| Property, plant & equipment acquired during the year ended June 30, 2020 | $ 88,382 |
| Less: 2020 depreciation expense | (3,726) |
| Post-implementation property, plant and equipment as of June 30, 2020 | $ 84,656 |

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

### 7. Intangible Assets

Intangible assets consist of the following:

| | As of June 30, 2020 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net |
| Trade Name and Accreditations | $ 88,000 | $ — | $ 88,000 |
| Developed Curricula | 18,000 | (3,000) | 15,000 |
| Student Relationships | 39,000 | (26,000) | 13,000 |
| Intangible assets, net | $ 145,000 | $ (29,000) | $ 116,000 |

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 has an estimated useful life of 3 years. Trade names are all individually renewable for each asset at varying dates ranging from April 2021 to January 2026. Amortization expense associated with intangible assets for the years ending June 30, 2020 and 2019 totaled $14,500 and $14,500, respectively.

Amortization expense for developed curricula and student relationships for the years ending June 30:

| | |
|---|---|
| 2021 | $ 14,500 |
| 2022 | 1,500 |
| 2023 | 1,500 |
| 2024 | 1,500 |
| 2025 | 1,500 |
| Thereafter | 7,500 |
| | $ 28,000 |

### 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, 2020, the University is in compliance with its debt covenants. The University has drawn $174,815 to fund approved capital expenditures as of June 30, 2020. Subsequent to June 30, 2020, the University has repaid $75,000 borrowed for capital expenditures.

| | As of June 30, | |
|---|---|---|
| | 2020 | 2019 |
| **Notes payable and capital leases** | | |
| Note payable, monthly interest payment; (interest at 6.0% at June 30, 2020 and 2019) through June 30, 2025 | $ 1,044,912 | $ 1,069,912 |
| Annuities: quarterly payments of $3; extending through 2019; interest at 10% | — | 3 |
| LURA: semi-annual payments of $50; extending through 2024; interest at 0% | 450 | 550 |

**(In thousands)**

| | | |
|---|---|---|
| Capital leases for equipment, monthly payments totaling $18; interest rate at 0%, through 2024 | 713 | 81 |
| | 1,046,075 | 1,070,546 |
| Less: current portion | (361) | (213) |
| | $ 1,045,714 | $ 1,070,333 |

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

| | |
|---|---|
| 2021 | $ 361 |
| 2022 | 307 |
| 2023 | 299 |
| 2024 | 196 |
| 2025 | 1,044,912 |
| Thereafter | — |
| | $ 1,046,075 |

## 9. Net Assets

Net assets are classified as net assets with donor restrictions and net assets without donor restrictions. As of June 30, 2020 and 2019, net assets without donor restrictions consisted of $410,122 and $387,270, respectively, and none of these net assets contained Board designations. The net assets with donor restrictions are primarily related to scholarship programs that are awarded to qualified students of the University. A breakdown of these net assets without and with donor restrictions is as follows:

| | As of June 30, | |
|---|---|---|
| | **2020** | **2019** |
| Net assets without donor restrictions: | | |
| Designated by the Board | $ — | $ — |
| Undesignated | 410,122 | 387,270 |
| | $ 410,122 | $ 387,270 |
| Net assets with donor restrictions subject to expenditure for specified purposes: | | |
| Scholarships | $ 351 | $ 354 |
| Other | 268 | 47 |
| | $ 619 | $ 401 |

## 10. 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.

**(In thousands)**

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.

## 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, 2020 and 2019, the University expensed $4,420 and $3,653, 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 received $715 as of July 1, 2018 as an assumed liability that was used to make a matching contribution to the Plan. The University made discretionary matching contributions to the 401(k) Plan of $1,586 and $1,388 for the calendar years ended December 31, 2019 and 2018, respectively. The University has accrued $995 for its 2020 calendar year contribution to the 401(k) Plan as of June 30, 2020.

## 12. Functional Expenses

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

| | For the Year Ended June 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Instructional Program Services | Fundraising | Auxiliary Enterprises | General & Administrative | Total |
| Employee and faculty compensation and benefits | $ 192,767 | $ 314 | $ 6,418 | $ 11,035 | $ 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 | 38,732 | 452 | 1,852 | 6,804 | 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 | $ 424,895 | $ 831 | $ 21,210 | $ 24,544 | $ 471,480 |
| Educational service fee | 711,896 | | | | 711,896 |
| Total expenses | $ 1,136,791 | $ 831 | $ 21,210 | $ 24,544 | $ 1,183,376 |

(In thousands)

| | For the Year Ended June 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Instructional Program Services | Fundraising | Auxiliary Enterprises | General & Administrative | Total |
| Employee and faculty compensation and benefits | $ 173,826 | $ 229 | $ 6,384 | $ 10,054 | $ 190,493 |
| Occupancy costs | 11,954 | — | 1,558 | 3,985 | 17,497 |
| Bad debt expense | 22,467 | — | — | — | 22,467 |
| Cost of sales | 44,573 | — | 5,419 | — | 49,992 |
| Other operating expenses | 27,325 | 567 | 1,467 | 6,503 | 35,862 |
| Interest expense | 48,817 | 34 | 2,773 | 1,066 | 52,690 |
| Depreciation and amortization | 50,830 | 36 | 2,887 | 1,110 | 54,863 |
| Total University operations | $ 379,792 | $ 866 | $ 20,488 | $ 22,718 | $ 423,864 |
| Educational service fee | 664,991 | — | — | — | 664,991 |
| Total expenses | $ 1,044,783 | $ 866 | $ 20,488 | $ 22,718 | $ 1,088,855 |

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. In accordance with the Department's rules and regulations, in connection with the Transaction, on July 2, 2018, the

University filed a change of ownership notice with the Department to supplement its pre-acquisition review application filed on January 18, 2018. On July 3, 2018, the Department acknowledged that the University had undergone a change of ownership resulting in a change of control on July 1, 2018 and set forth the next steps that the University must take to continue its participation in federal student aid programs on a provisional basis through a temporary provisional program participation agreement. On July 10, 2018, the University provided what it believed were all documents necessary for the Department to issue a temporary provisional program participation agreement and further indicated that the University would submit the additional documentation requested by the Department in its July 3, 2018 letter, no later than August 31, 2018, in accordance with the deadline described in the Department's rules and regulations.

On August 17, 2018, the University received notice that the Department of Education determined that the University's application for approval of the Transaction was materially complete and that the Department of Education issued to the University a Temporary Provisional Program Participation Agreement ("TPPPA"). The TPPPA, which contains substantially similar terms and conditions as the Program Participation Agreement under which the University participated immediately prior to the Transaction, granted to the University temporary provisional certification to participate in Title IV federal student aid programs for a period ending on August 31, 2018. Based on the University's submission by August 31, 2018 of a same-day balance sheet (statement of financial position) as of July 1, 2018, prepared in accordance with Generally Accepted Accounting Principles and audited in accordance with Generally Accepted Government Auditing Standards which shows the financial condition of the University immediately after the change in ownership, and other required state and accrediting agency approvals, among other things, the Department of Education extended the expiration date of the TPPPA on a month-to-month basis until the Department of Education made a final determination regarding the University's application for approval of the Transaction.

On November 6, 2019, the University received notice that the Department of Education approved the change of ownership 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. In connection with the Transaction, the University submitted a change of control application to HLC in December 2017, and, on March 5, 2018, the HLC notified the University that it had approved its change of control application. As of June 30, 2020, 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. On April 26, 2018, the Arizona State Board for Private Postsecondary Education approved the University's supplemental license application for a change of ownership and control that became effective upon the closing of the Transaction on July 1, 2018.

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

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, 2019, 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 assessments of those requirements whether our programs meet 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.

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 2020 and 2019 fiscal years, the University derived 72% and 73%, respectively, of its 90/10 revenue from Title IV program funds for the fiscal years ended June 30, 2020 and 2019.

*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, 2020 and 2019, the University's composite score was 1.5 and 2.2, respectively, using the proprietary school calculation.

## 14. Related party transactions

During the years ended June 30, 2020 and 2019, 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, 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. During the year ended June 30, 2019, the University received a total of $5 in donations designated as restricted for scholarships from an officer of the University.

## 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, 2020, the University has repaid $75,000 of funds borrowed from GCE (see Note 8).

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious outbreak and the related adverse public health developments, including orders to shelter-in-place, travel restrictions and mandated non-essential business closures, have adversely affected our business, primarily through reduced auxiliary enterprise revenue. At this time there remains considerable uncertainty around the duration of the COVID-19 pandemic. The University announced its plans for the traditional campus Fall 2020 semester on July 17, 2020. Those plans included moving back the start of instruction for all students, providing for residential students to move in during the week of September 21, 2020, beginning face-to-face instruction on September 28, 2020, eliminating some holiday breaks, and adding an additional week of instruction in December. The change in the move in date reduced the Fall 2020 semester room and board revenue for the University by three weeks. The schedule for the Spring 2021 semester was altered slightly, but the University does not expect any adverse impacts related to the COVID-19 pandemic. However, given the continued uncertainty related to the COVID-19 pandemic, the related future financial impact and duration of the COVID-19 pandemic cannot be reasonably estimated at this time.

In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. Management is currently evaluating the recent introduction of the COVID-19 virus and its impact on the education industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the fair value of the Company's results of operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In October and November 2020, the University completed the second drawdown of the HEERF funds of $11,176. The University disbursed $8,120 to eligible students as additional emergency grants. The remaining $3,056 was retained by the University to offset room credits given to residential students in the Spring 2020 semester.

# SUPPLEMENTARY INFORMATION

**Grand Canyon University**
**Supplementary Information**
**(Information Required by the U.S. Department of Education)**
**For the years ended June 30, 2020 and 2019**

### Related-Party Transactions

Related-party transaction 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, 2020 and 2019, 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, 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. During the year ended June 30, 2019, the University received a total of $5,000 in donations designated as restricted for scholarships from an officer of the University.

### 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 2020 and 2019 fiscal years, the University derived approximately 72% and 73%, 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, 2020, the Company's composite score was 1.5, 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.

**Grand Canyon University**
**Supplementary Information, continued**
**(Information Required by the U.S. Department of Education)**
**For the year ended June 30, 2020**

## TITLE IV 90/10 REVENUE PERCENTAGE

| | As of June 30, 2020 | |
|---|---|---|
| | Amount Disbursed | Adjusted Amount |
| **Adjusted Student Title IV Revenue** | | |
| Subsidized loan | $ 186,421,155 | $ 186,421,155 |
| Unsubsidized loan | 877,460,426 | 877,460,426 |
| Plus loan | 49,757,541 | 49,757,541 |
| Federal Pell Grant | 177,373,642 | 177,373,642 |
| FSEOG | 2,594,508 | 2,594,508 |
| Other Federal Grants | 12,407,336 | 12,407,336 |
| **Student Title IV Revenue** | $ 1,306,014,608 | $ 1,306,014,608 |
| Revenue adjustment | | (317,857,584) |
| Title IV funds returned for a student under 34 C.F.R. §668.22 | | (139,570,938) |
| **Adjusted Student Title IV Revenue** | | 848,586,086 |
| **Student Non-Title IV Revenue** | | |
| Grant funds for the students from non-Federal public agencies or private sources independent of the school | 7,618,545 | |
| 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 | 325,146,994 | |
| **Total Student Non-Title IV Revenue** | 332,765,539 | |
| **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** | — | |
| Total Non-Title IV Revenue (Student Non-Title IV Revenue +Revenue From Other Sources) | | 332,765,539 |
| Total Revenue (Adjusted Student Title IV Revenue + Total Non Title-IV Revenue + Revenue From Other Sources) | | $ 1,181,351,625 |
| Title IV 90/10 Revenue Percentage | | 71.83 % |

## Grand Canyon University
## Supplementary Information, continued
## (Information Required by the U.S. Department of Education)
## For the year ended June 30, 2020

### FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

| Lines | | **Primary Reserve Ratio:** | | |
|---|---|---|---|---|
| | | **Adjusted Equity** | | |
| 31 | Balance Sheet - Total Equity | Total equity | | 410,741 |
| 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 | 1,230,909 | |
| 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 | | 1,046,117 |
| 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 | | 74,108 |
| FS Note line 9D | Note of the Financial Statements Balance sheet - Property, Plant and Equipment, net - post-implementation without outstanding dept for original purchase | Property, plant and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase without debt | | 85,656 |
| FS Note line 9C | Note of the Financial Statements Balance Sheet - Property, Plant, and Equipment - Construction in process | Construction in progress | | 26,028 |
| 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 | | 116,000 |
| 28 | Balance Sheet - Post-employment and pension liability | Post-employment and defined pension plan liabilities | | 4,653 |
| 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 | 1,046,075 | |
| 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 | | 74,108 |
| Debt Note C | Balance Sheet - Notes payable and Line of Credit for Construction in process | Line of Credit for Construction in process | | - |

| | | | | |
|---|---|---|---|---|
| 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:** | | 1,183,376 |

Lines **Equity Ratio**

| | | | | |
|---|---|---|---|---|
| | | **Modified Equity** | | |
| 31 | Balance Sheet - Total Equity | Total equity | | 410,741 |
| 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 | | 116,000 |
| 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 | | 1,676,204 |
| 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 | | 116,000 |
| 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:**

| | | | | |
|---|---|---|---|---|
| 49 | Statement of (Loss) Income - Net Income Before Income Taxes | **Income Before Taxes** | | 23,070 |
| 35, 43, 44 | Statement of (Loss) Income - Total Revenue, Interest income and Other miscellaneous income | **Total Revenues and Gains** | | 1,206,446 |

**Grand Canyon University**
**Supplementary Information, continued**
**(Information Required by the U.S. Department of Education)**
**For the year ended June 30, 2020**

## BALANCE SHEET

| Line | | | |
|---|---|---|---|
| | **Current Assets** | | |
| 1 | Cash and cash equivalents | | $ 307,603 |
| 2 | Accounts receivable, net | | 16,127 |
| 3 | Inventory | | 2,111 |
| 4 | Prepaid expenses | | 3,062 |
| 5 | Related party receivable | | - |
| 6 | Related party receivable, secured | | - |
| 7 | Student loans receivable, net | | - |
| 8 | | **Total Current Assets** | 328,903 |
| 9 | Property, plant and equipment, net | | 1,230,909 |
| 10 | Lease right-of-use assets, net | | - |
| 11 | Receivable from affiliate, net | | - |
| 12 | Goodwill and intangibles | | 116,000 |
| 13 | Deposits | | 392 |
| 14 | | **Total Assets** | $ 1,676,204 |
| | **Current Liabilities** | | |
| 15 | Accounts payable and accrued expenses | | $ 39,570 |
| 16 | Line of credit - short term CIP | | - |
| 17 | Deferred revenue and student deposits | | 174,982 |
| 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 | | 361 |
| 22 | | **Total Current Liabilities** | 214,913 |
| 23 | Line of credit - operating | | - |
| 24 | Line of credit - for long term purposes | | - |
| 25 | Debt | | 1,045,714 |
| 26 | Lease right-of-use asset liabilities | | - |
| 27 | Other liabilities | | 183 |
| 28 | Post-employment and pension liability | | 4,653 |
| 29 | | **Total Liabilities** | 1,265,463 |
| | **Equity** | | |
| 30 | Equity | | 410,741 |
| 31 | | **Total Equity** | 410,741 |
| 32 | **Total Liabilities and Equity** | | $ 1,676,204 |

## Grand Canyon University
## Supplementary Information, continued
## (Information Required by the U.S. Department of Education)
## For the year ended June 30, 2020

### STATEMENT OF INCOME

| Line | | |
|---|---|---|
| | **Revenue** | |
| 33 | Tuition and fees, net | $ 1,188,842 |
| 34 | Auxiliary enterprises revenue | 13,106 |
| 35 | **Total Revenue** | 1,201,948 |
| | **Operating Expenses** | |
| 36 | Instructional | 1,023,552 |
| 37 | Auxiliary enterprises | 15,256 |
| 38 | Fundraising | 766 |
| 39 | General and administrative | 21,785 |
| 40 | Depreciation and amortization | 62,487 |
| 41 | **Total Operating Expenses** | 1,123,846 |
| 42 | **Operating Income (Loss)** | 78,102 |
| | **Other Income (expense)** | |
| 43 | Interest income | 4,498 |
| 44 | Other income | - |
| 45 | Loss on impairment of assets | - |
| 46 | Loss on disposal of assets | - |
| 47 | Interest expense | (59,530) |
| 48 | **Total Other Income (Expense)** | (55,032) |
| 49 | **Net Income Before Income Taxes** | 23,070 |
| 50 | Income taxes | - |
| 51 | **Net Income (Loss)** | $ 23,070 |

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 | $ - | - |

**Grand Canyon University**
**Supplementary Information, continued**
**(Information Required by the U.S. Department of Education)**
**For the year ended June 30, 2020**

Note for Line 9 - Net Property, Plant and Equipment

| | | | |
|---|---|---|---|
| A. | Pre-Implementation Property, Plant and Equipment | | $ 1,046,117 |
| B. | Post-Implementation Property, Plant and Equipment | | 74,108 |
| | Buildings & Improvements | 40,385 | |
| | Capital Leases | 686 | |
| | Computers | 991 | |
| | Furniture, Equipment, and Other | 1,644 | |
| | Land & Improvements | 30,402 | |
| | Vehicles | - | |
| C. | Construction in progress | | 26,028 |
| D. | Post-Implementation Property, Plant and Equipment | | 84,656 |
| | Total | | $ 1,230,909 |

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 | | 74,108 |
| | Buildings & Improvements | 41,277 | |
| | Capital Leases | 686 | |
| | Computers | 991 | |
| | Furniture, Equipment, and Other | 1,644 | |
| | Land & Improvements | 30,402 | |
| | Vehicles | - | |
| C. | Construction in progress - debt | | - |
| D. | Long-term debt not for the purchase of Property, Plant and Equipment or liability greater than assets value | | 2,056 |
| | Total | | $ 1,046,075 |

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 | $ - | - |

**Grand Canyon University**
**Supplementary Information, continued**
**(Information Required by the U.S. Department of Education)**
**For the year ended June 30, 2020**

| Calculating the Composite Score | Lines | | |
|---|---|---|---|
| *Primary Reserve Ratio = Adjusted Equity | 31 - 12 - (5 + 11) - (9 + M10) + 28 + (M16 + M18 + M20 + M21 + M24 + M25 + M26) | 112,504 | **0.0951** |
| /Total Expenses and Losses | 41 + 45 + 46 + 47 | 1,183,376 | |
| *Equity Ratio = Modified Equity | 31 - (5 + 11) - 12 | 294,741 | **0.1889** |
| /Modified assets | 14 - (5 + 11) - 12 | 1,560,204 | |
| Net Income Ratio = Income Before Taxes | 49 | 23,070 | **0.0191** |
| /Total Revenue and Gains | 35 + 43 + 44 | 1,206,446 | |

***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** | 0.0951 | 1.9014 | 30% | 0.5704 |
| **Equity Ratio** | 0.1889 | 1.1335 | 40% | 0.4534 |
| **Net Income Ratio** | 0.0191 | 1.6368 | 30% | 0.4910 |
| | | | | 1.5148 |
| **TOTAL Composite Score - Rounded** | | | | **1.5** |

**Grand Canyon University**
**Schedule of Expenditures of Federal Awards**
**For the year ended June 30, 2020**

| *Federal Grantor/Program or Cluster Title* | *Federal CFDA Number* | *Pass-Through Grantor and Number* | *Federal Expenditures ($)* |
|---|---|---|---|
| **U.S. Department of Education** | | | |
| ***Student Financial Assistance (SFA) Cluster*** | | | |
| Federal Supplemental Educational Opportunity Grant Program | 84.007 | | $ 2,550,146 |
| Federal Work-Study Program | 84.033 | | 1,970,388 |
| Federal Pell Grant Program | 84.063 | | 169,760,376 |
| Federal Direct Student Loans | 84.268 | | 979,642,379 |
| Teacher Education Assistance for College and Higher Education Grants (TEACH Grants) | 84.379 | | 12,004,121 |
| *Total SFA Cluster* | | | 1,165,927,410 |
| ***Other Programs*** | | | |
| Special Education - Personnel Development to Improve Services and Results for Children with Disabilities | 84.325 | Arizona Department of Education | 5,333 |
| *Total Special Education - Personnel Development to Improve Services and Results for Children with Disabilities* | | | 5,333 |
| COVID-19 - Higher Education Emergency Relief Fund (HEERF) Student | 84.425 E | | 10,898,260 |
| *Total COVID-19 - Higher Education Emergency Relief Fund (HEERF) Student* | | | 10,898,260 |
| *Total U.S. Department of Education* | | | 1,176,831,003 |
| **National Endowment for the Humanities** | | | |
| Grants to States | 45.310 | | 52,000 |
| *Total National Endowment for the Humanities* | | | 52,000 |
| **U.S. Department of Veterans Affairs** | | | |
| Post-9/11 Veterans Educational Assistance | 64.028 | | 32,882,987 |
| Vocational Rehabilitation for Disabled Veterans | 64.116 | | 3,889,885 |
| *Total Department of Veterans Affairs* | | | 36,772,872 |
| ***Total Expenditures of Federal Awards*** | | | $ 1,213,655,875 |

The accompanying notes are an integral part of this schedule.

**Grand Canyon University**
**Notes to the Schedule of Expenditures of Federal Awards**
**For the year ended June 30, 2020**

## 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2020, 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 Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

## 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 Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

## 4. Federal Student Loan Programs

The Federal Student Loan Program listed subsequently is administered directly by the Organization, and balances and transactions relating to this program are included in the Organization's basic financial statements. The balance of loans outstanding at June 30, 2020 consists of:

| CFDA Number | Program Name | Outstanding Balance at June 30, 2020 |
|---|---|---|
| 84.038 | Federal Perkins Loan | $ 1,181,325 |

# Part II

# Reports on Internal Control and Compliance

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERSBASED 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, 2020 and 2019 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 February 9, 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*.



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**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.

Wenaski & Associates

San Diego, California
February 9, 2021

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& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

## 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, 2020. 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, 2020.

**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



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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.

Wernstè & Associates

San Diego, California
February 9, 2021

# Part III

# Audit Findings and Questioned Costs

**Grand Canyon University**
**Summary Schedule of Findings and Questioned Costs**
**For the Year Ended June 30, 2020**

**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:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 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: | $ 3,640,968 | |
| Auditee qualified as low-risk auditee? | _____ Yes | __X__ No |

**Grand Canyon University**
**Summary Schedule of Findings and Questioned Costs**
**For the Year Ended June 30, 2020**

## 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, 2020**

**Prior Year Findings and Questioned Costs for Federal Awards**

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