

Texas Lutheran University

Consolidated Financial Statements

May 31, 2025 and 2024

Texas Lutheran University

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Independent Auditors' Report

To the Board of Regents of
Texas Lutheran University and Subsidiary

Opinion

We have audited the consolidated financial statements of Texas Lutheran University and Subsidiary (the University), which comprise the consolidated statements of financial position as of May 31, 2025 and 2024, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as of May 31, 2025 and 2024, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Baker Tilly US, LLP

Minneapolis, Minnesota
October 10, 2025

Texas Lutheran University

Consolidated Statements of Financial Position

May 31, 2025 and 2024

	2025	2024
Assets		
Cash and cash equivalents	\$ 1,146,478	\$ 720,736
Receivables:		
Student accounts, net of allowance for credit losses	315,630	241,048
Contributions, net	1,007,382	1,278,022
Other	501,662	583,099
Inventories	334,006	327,160
Other assets	2,307,987	2,225,857
Student loans receivable, net	248,739	21,791
Investments	87,359,829	88,113,467
Mineral rights and royalties	259,085	290,370
Funds administered by third-parties	16,486,301	15,938,615
Cash-restricted	2,163,668	1,003,724
Property held for sale	750,000	750,000
Property, plant and equipment, net	88,383,949	86,010,542
Right-of-use assets, finance leases	247,597	351,443
Right-of-use assets, operating leases	3,618,812	4,140,820
	<u>3,618,812</u>	<u>4,140,820</u>
Total assets	<u>\$ 205,131,125</u>	<u>\$ 201,996,694</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 2,464,928	\$ 647,167
Payroll related liabilities	2,265,594	2,820,388
Deposits and other unearned revenue	2,740,316	2,968,959
Liabilities related to split-interest agreements	634,982	652,725
Other accrued liabilities	632,255	531,857
Lease liabilities, finance leases	156,723	167,560
Lease liabilities, operating leases	5,050,878	5,713,662
Asset retirement obligations	1,363,269	1,281,326
Advances from U.S. Government for student loans	258,270	834,588
Bonds payable, net	19,579,571	20,605,289
	<u>19,579,571</u>	<u>20,605,289</u>
Total liabilities	<u>35,146,786</u>	<u>36,223,521</u>
Net Assets		
Net assets without donor restrictions	69,003,562	67,051,266
Net assets with donor restrictions	100,980,777	98,721,907
	<u>100,980,777</u>	<u>98,721,907</u>
Total net assets	<u>169,984,339</u>	<u>165,773,173</u>
Total liabilities and net assets	<u>\$ 205,131,125</u>	<u>\$ 201,996,694</u>

See notes to consolidated financial statements

Texas Lutheran University
Consolidated Statement of Activities

Year Ended May 31, 2025

(With Comparative Totals for 2024)

	2025			2024
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating Revenues, Gains and Other Support				
Tuition and fees, net of scholarships				
of \$25,633,265 and \$23,509,357, respectively	\$ 21,991,095	\$ -	\$ 21,991,095	\$ 20,970,494
Long-term investment income and gains allocated for operations	2,451,470	5,134,946	7,586,416	10,058,089
Investment return	3,730,690	412	3,731,102	2,432,079
Contributions	2,449,666	715,908	3,165,574	2,821,620
Government and private grants	3,533,921	-	3,533,921	3,275,170
Auxiliary enterprises	8,093,594	-	8,093,594	7,713,686
Other revenue	1,738,469	-	1,738,469	1,315,305
In-kind contribution	2,240,000	-	2,240,000	-
	46,228,905	5,851,266	52,080,171	48,586,443
Net assets released from restrictions, operating	6,024,963	(6,024,963)	-	-
Total operating revenues, gains and other support	52,253,868	(173,697)	52,080,171	48,586,443
Operating Expenses				
Instruction	16,327,944	-	16,327,944	15,419,577
Academic support	3,354,977	-	3,354,977	3,136,824
Public service	522,896	-	522,896	479,751
Research	32,919	-	32,919	38,314
Student services	10,432,115	-	10,432,115	11,042,649
Institutional support	10,248,475	-	10,248,475	11,948,447
Development and fund-raising	1,527,183	-	1,527,183	1,728,104
Auxiliary enterprises	6,200,777	-	6,200,777	5,873,421
Total operating expenses	48,647,286	-	48,647,286	49,667,087
Change in net assets from operating activities	3,606,582	(173,697)	3,432,885	(1,080,644)
Nonoperating Activities				
Investment return	147,404	1,029,471	1,176,875	1,101,421
Net gains on investments	512,925	3,582,255	4,095,180	9,297,215
Long-term investment activities	660,329	4,611,726	5,272,055	10,398,636
Less long-term investment income and gains allocated for operations	(720,215)	(5,134,946)	(5,855,161)	(7,566,145)
Long-term investment activities, net	(59,886)	(523,220)	(583,106)	2,832,491
Contributions, endowment	-	1,414,277	1,414,277	2,666,144
Capital giving activities, contributions and grants	650	1,121,900	1,122,550	599,893
Board designated funds allocated to operations	(1,731,255)	-	(1,731,255)	(2,491,944)
Releases from restrictions, capital	4,776	(4,776)	-	-
Change in value of split-interest agreements	131,429	424,386	555,815	1,880,953
Change in net assets from nonoperating activities	(1,654,286)	2,432,567	778,281	5,487,537
Change in net assets	1,952,296	2,258,870	4,211,166	4,406,893
Net Assets, Beginning	67,051,266	98,721,907	165,773,173	161,366,280
Net Assets, Ending	\$ 69,003,562	\$ 100,980,777	\$ 169,984,339	\$ 165,773,173

See notes to consolidated financial statements

Texas Lutheran University

Consolidated Statement of Activities

Year Ended May 31, 2024

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains and Other Support			
Tuition and fees, net of scholarships of \$23,509,357	\$ 20,970,494	\$ -	\$ 20,970,494
Long-term investment income and gains allocated for operations	5,409,994	4,648,095	10,058,089
Investment return	2,430,834	1,245	2,432,079
Contributions	1,754,160	1,067,460	2,821,620
Government and private grants	3,275,170	-	3,275,170
Auxiliary enterprises	7,713,686	-	7,713,686
Other revenue	1,315,305	-	1,315,305
	42,869,643	5,716,800	48,586,443
Net assets released from restrictions, operating	5,037,451	(5,037,451)	-
Total operating revenues, gains and other support	47,907,094	679,349	48,586,443
Operating Expenses			
Instruction	15,419,577	-	15,419,577
Academic support	3,136,824	-	3,136,824
Public service	479,751	-	479,751
Research	38,314	-	38,314
Student services	11,042,649	-	11,042,649
Institutional support	11,948,447	-	11,948,447
Development and fund-raising	1,728,104	-	1,728,104
Auxiliary enterprises	5,873,421	-	5,873,421
Total operating expenses	49,667,087	-	49,667,087
Change in net assets from operating activities	(1,759,993)	679,349	(1,080,644)
Nonoperating Activities			
Investment return	154,625	946,796	1,101,421
Net gains on investments	1,305,208	7,992,007	9,297,215
Long-term investment activities	1,459,833	8,938,803	10,398,636
Less long-term investment income and gains allocated for operations	(2,918,050)	(4,648,095)	(7,566,145)
Long-term investment activities, net	(1,458,217)	4,290,708	2,832,491
Contributions, endowment	1,562	2,664,582	2,666,144
Capital giving activities, contributions and grants	646	599,247	599,893
Board designated funds allocated to operations	(2,491,944)	-	(2,491,944)
Releases from restrictions, capital	4,495	(4,495)	-
Change in value of split-interest agreements	356,060	1,524,893	1,880,953
Change in net assets from nonoperating activities	(3,587,398)	9,074,935	5,487,537
Change in net assets before loss on debt refunding	(5,347,391)	9,754,284	4,406,893
Net Assets, Beginning	72,398,657	88,967,623	161,366,280
Net Assets, Ending	\$ 67,051,266	\$ 98,721,907	\$ 165,773,173

See notes to consolidated financial statements

Texas Lutheran University

Consolidated Statements of Cash Flows
Years Ended May 31, 2025 and 2024

	2025	2024
Cash Flows From Operating Activities		
Change in net assets	\$ 4,211,166	\$ 4,406,893
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	3,151,578	2,955,432
Noncash lease expense	3,726	(66,413)
Accretion of asset retirement obligations	81,943	77,160
Net realized and unrealized gains on investments	(6,656,485)	(8,130,602)
Loss on sale of property	19,234	-
Gifts and grants restricted for long-term purposes, plant	(1,121,900)	(582,996)
Gifts and grants restricted for long-term purposes, endowment	(1,414,277)	(2,665,915)
Change in value of split interest agreements	(489,911)	(1,481,963)
Perkins funds assigned-adjusted allowance	(140,688)	-
Lease incentive	-	241,500
In-kind contribution	(2,240,000)	-
(Increases) decrease in assets:		
Receivables	(189,982)	(252,952)
Inventories	(6,846)	(42,950)
Other assets	(82,130)	162,721
Increases (decrease) in liabilities:		
Accounts payable	1,204,532	(604,920)
Payroll related liabilities	(554,794)	143,985
Deposits and other unearned revenue	(228,643)	(40,792)
Other accrued liabilities	100,398	12,975
Net cash flow from operating activities	<u>(4,353,079)</u>	<u>(5,868,837)</u>
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	11,041,408	17,115,109
Purchases of investments	(3,600,000)	(15,604,000)
Proceeds from sale of property	1,650	-
Proceeds from repayment of student loans	108,609	155,131
Purchases of property and equipment	<u>(2,583,203)</u>	<u>(1,683,992)</u>
Net cash flows from investing activities	<u>4,968,464</u>	<u>(17,752)</u>
Cash Flows From Financing Activities		
Repayments of principal on bonds payable	(1,045,000)	(470,000)
Proceeds from line of credit, operating	-	5,000,000
Payments of line of credit, operating	-	(5,000,000)
Restricted gifts and grants proceeds for long term purposes, plant	1,384,506	507,350
Restricted gifts and grants proceeds for long term purposes, endowment	1,424,279	2,681,145
Payments to annuitants	(75,518)	(75,518)
Payments on financing leases	(141,648)	(189,553)
Payments to U.S. Government for student loans	<u>(576,318)</u>	<u>(120,910)</u>
Net cash flow from financing activities	<u>970,301</u>	<u>2,332,514</u>
Net change in cash and cash equivalents	1,585,686	(3,554,075)
Cash, Cash Equivalents, and Restricted Cash, Beginning	<u>1,724,460</u>	<u>5,278,535</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u><u>\$ 3,310,146</u></u>	<u><u>\$ 1,724,460</u></u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	<u>\$ 685,348</u>	<u>\$ 798,558</u>
Property, plant and equipment additions in accounts payable	<u>\$ 619,050</u>	<u>\$ -</u>
Right-of-Use Assets Obtained in Exchange for New Lease Liability		
Finance leases	<u>\$ 130,811</u>	<u>\$ -</u>
Operating leases	<u>\$ -</u>	<u>\$ 117,159</u>

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Texas Lutheran University (the University) is an independent institution providing graduate and undergraduate education in a variety of programs. The University has an enrollment averaging approximately 1,400 students. The main campus and administrative offices are located in Seguin, Texas. The University is supported primarily by tuition and fees from students.

The consolidated financial statements include the accounts of Texas Lutheran University and the Weston Ranch Foundation (the Foundation), collectively referred to as the University. The University obtained majority-voting rights on the Board of Directors for the Foundation in fiscal year 2019. The purpose of the Foundation is to conduct supporting activities for Texas Lutheran University in connection with its environmental programs, campus ministries and community relations. All transactions and balances between the entities have been eliminated in the consolidated financial statements.

The accounting policies of the University reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Net Assets

For the purposes of financial reporting, the University classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time or maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed stipulations. The Board of Regents has established policies that affect the presentation of board designations on net assets without donor restrictions. The Board approved policy states that bequests without restrictions over \$50,000 are reported to the Executive Committee of the Board of Regents for recommendation on undesignated or designated use. Bequests without restrictions under \$50,000 are distributed to current undesignated funds. (See Note 8).

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Investment income, gains and losses on investments are reported in the consolidated statements of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment income and gains received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net assets without donor restrictions. Investment income and gains earned on donor restricted funds that are classified as donor-restricted net assets are reclassified as net assets without donor restrictions when expenses are incurred for their intended purpose.

Unconditional contributions, including promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions whose restrictions are met in the same year received, are recorded in net assets without donor restrictions. Contributions that include a measurable barrier, or those for which the University has limited discretion over how the contribution should be spent, and a right of return or release from future obligations are recorded as conditional contributions. Conditional contributions are not recognized until they become unconditional, that is, when the conditions surrounding the indications of the barrier have been met in accordance with donor restrictions.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as donor-restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

A portion of the University's revenue is derived from cost-reimbursable grants and contracts, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the University has incurred expenditures in compliance with specific grant or contract provisions and has received payment. Amounts received prior to incurring qualifying expenditures, if any, are reported as unearned revenue in the consolidated statements of financial position. Expenses incurred before cash is received are recorded as receivables. The University received cost-reimbursable grants of \$2,942,320 that have not been recognized at May 31, 2025 because qualifying expenditures have not yet been incurred.

Tuition and Fees and Auxiliary Enterprises Revenues

Tuition revenue is recognized in the fiscal year in which the academic programs are delivered, i.e., when the performance obligation is satisfied. In addition, withdrawals that occur prior to the 16th day of the academic term may receive a full or partial refund in accordance with the University's refund policy. Payments for tuition are due approximately one to two weeks prior to the start of the academic term. Generally, the University's performance obligations are satisfied equally over the academic term. The University applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining performance obligations will be satisfied in connection with the completion of the 2025-26 academic year. The University determines the transaction price based on standard charges for goods and services provided reduced by discounts of institutional scholarships in accordance with the University's policies.

Financial assistance in the form of scholarships and grants that cover a portion of tuition is reflected as a reduction of tuition and fees revenues.

The University also provides auxiliary services, such as room and board. Revenue from these services is recognized in the fiscal year in which the goods and services are provided. Students that withdraw from the University prior to the 16th day of the semester may receive a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. Payments for services are due before the beginning of each academic term. Performance obligations for certain ancillary services are satisfied when the service is performed. The University applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining performance obligations will be satisfied in connection with the completion of the 2025-26 academic year.

Unearned revenue represents payments received for tuition or room and board prior to the start of the summer and fall academic terms. The following table notes the activity within the unearned revenue accounts relating to tuition and fees:

	2025	2024
Balance at beginning of the year	\$ 2,968,959	\$ 3,009,751
Revenue recognized during the year	(2,968,959)	(3,009,751)
Cash received in advance of performance	2,740,316	2,968,959
Balance at end of the year	<u>\$ 2,740,316</u>	<u>\$ 2,968,959</u>

Operating Measure

The University's operating revenues in excess of expenses includes support for operating activities from both donor restricted net assets and net assets without donor restrictions designated for long-term investment (donor-restricted and board-designated endowment) according to the University's spending policy, which is detailed in Note 9. The measure of operations excludes endowment contributions, investment return in excess of amounts made available for operations, capital giving activities, funds designated as operating reserves, net assets released for capital projects and changes in the value of split-interest agreements.

The Board of Regents, along with management, has established a policy that affects the presentation of an operating surplus in any given year. Operating surpluses may, at managements' discretion, be designated to fund an operating reserve to be used to offset future operating deficits. At May 31, 2024, the University used an operating surplus of \$2,060,000 which was reclassified from non-operating activity to operating activity within the investment return allocation to operations in the consolidated statement of activities.

Cash and Cash Equivalents and Restricted Cash

The University considers all highly liquid investments with an initial maturity of three months or less, except for those held in the investment portfolio, to be cash and cash equivalents.

Restricted cash is cash from donors held for funding capital projects and cash held as required for grants until appropriate qualifying expenditures are incurred.

Cash and cash equivalents and restricted cash on the statements of cash flows consist of the following at May 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 1,146,478	\$ 720,736
Cash-restricted	<u>2,163,668</u>	<u>1,003,724</u>
Balance at end of the year	<u>\$ 3,310,146</u>	<u>\$ 1,724,460</u>

Student Accounts Receivable

Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for allowance for credit losses. Student accounts are charged interest and fees when past due. Recoveries of student accounts previously written off are recorded when received. Receivables are generally unsecured.

The University recognizes an allowance for credit losses for trade and other receivables to present the net amount expected to be collected as of the date of the consolidated statements of financial position. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and also future events based on our expectation as of the consolidated statements of financial position date. Receivables are written off when the University determined that such receivables are deemed uncollectible. The University pools its receivables based on similar risk characteristics in estimating its expected credit losses. In situations where a receivable does not share the same risk characteristics with other receivables, the University measures those receivables individually. The University also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change.

The University utilizes the aging method in determining its lifetime expected credit losses on its receivables. This method is used for calculating an estimate of losses based primarily on the University's historical loss experience. In determining its loss rates, the University evaluates information related to its historical losses, adjusted for current conditions and further adjusted for the period of time that can be reasonably forecasted. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all the following: past due receivables, the customer creditworthiness, changes in the terms of receivables, effect of other external forces such as competition, and legal and regulatory requirements on the level of estimated credit losses in the existing receivables. For receivables that are not expected to be collected within the normal business cycle, the University considers the current and forecasted direction of the economic and business environment. Such forecasted information includes: GDP growth, unemployment rates and interest rates amongst others.

Inventories

Bookstore inventories are valued using the retail method, which approximates cost and is not in excess of market. Other inventories consist of supplies and are carried at the lower of cost (first-in, first-out) or market.

Other Assets

The University's other assets consist of life insurance - cash surrender values, a health insurance trust, prepaid expenses and other assets.

Investments

Investments in publicly traded securities are stated at fair value based on quoted market prices from national security exchanges. Other investments, for which quoted prices are not available, are stated at fair value as estimated by management using values provided by external investment managers or general partners. Land held for investment is recorded at the fair value on the date of the contribution. Certificates of deposit are recorded at cost. Cash held in transition for investments are included in investments and are recorded at fair value, which approximates cost.

Mineral Rights and Royalties

Mineral rights and royalties are valued at estimated fair value. The University of Texas has estimated the value of certain oil and gas assets for which Texas Lutheran University holds 5% of this interest and the University of Texas holds the remaining 95%. The University follows the valuation methodology used by the University of Texas, and valued the 5% interest in these oil and gas assets at \$259,085 and \$290,370 at May 31, 2025 and 2024, respectively.

Funds Administered by Third Parties

The University receives assets that will be divided between the University and other beneficiaries upon the death of the donor. Investments held in these split-interest agreements are stated at fair value. The net realized and unrealized gains (losses) in market value of investments are reflected as change in value of split-interest agreements in the consolidated statements of activities.

Property, Plant and Equipment, Net

Property, plant and equipment are stated at cost or fair value at the date of gift if donated, less accumulated depreciation. The University capitalizes items in excess of \$5,000 with a useful life of at least three years. Depreciation is provided on the straight-line method over estimated useful lives as follows: buildings 10-80 years, improvements other than building 10-20 years, software 3-10 years and equipment 3-20 years.

Texas Lutheran University

Notes to Consolidated Financial Statements

May 31, 2025 and 2024

Property Held for Sale

The University classified property held for sale at the net book value of land held by the Weston Ranch Foundation.

Impairment of Long-Lived Assets

The University reviews long-lived assets, including property and equipment, right-of-use assets and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. As of May 31, 2025 and 2024, there have been no such losses.

Assets and Liabilities Related to Split-Interest Agreements

Under charitable gift annuity and charitable remainder trust agreements, the University agrees to pay a donor an annuity in consideration for a specific gift. For these types of agreements, assets are generally recorded at fair value when received with a liability recognized equal to the present value of amounts, which the University expects to pay to annuity beneficiaries. Changes in the calculated liability due to increases or decreases in the actuarially determined life expectancy of annuity beneficiaries are reflected as changes in value of split-interest agreements in the consolidated statements of activities. To calculate the present value of the gift annuities, life expectancy tables with discount rates ranging from 3.8% to 8.0% were used.

Total assets held by the University under split-interest agreements totaled \$65,269 and \$116,520 at May 31, 2025 and 2024, respectively. The University received no new gifts under a split-interest agreement at May 31, 2025 and 2024.

Asset Retirement Obligations

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. The University reviews its estimates annually and adjusts the recorded liability as needed.

Substantially all of the University's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

Changes in the accrual for asset retirement obligations during the years ended May 31, 2025 and 2024 are as follows:

	2025	2024
Balance at beginning of the year	\$ 1,281,326	\$ 1,204,166
Accretion expense	81,943	77,160
Balance at end of the year	<u>\$ 1,363,269</u>	<u>\$ 1,281,326</u>

Advances From U.S. Government for Student Loans

Funds provided by the United States Government under the Federal Perkins Loan Program were loaned to qualified students. These funds are ultimately refundable to the government and are included as liabilities in the consolidated statements of financial position.

Advertising Expenses

Advertising expenses approximated \$176,000 and \$273,000 for the years ended May 31, 2025 and 2024, respectively. Advertising costs are expensed when incurred.

Income Taxes

The University and Foundation are exempt from state and federal income tax under Section 501(c)(3) and 501(a), respectively, of the Internal Revenue Code according to their Internal Revenue Service determination letters. Accordingly, the University and Foundation are not subject to federal income taxes except to the extent they derive income from certain activities not substantially related to their tax-exempt purposes (unrelated trade or business activities). Neither the University nor the Foundation had material unrelated business income during the year.

The University and Foundation follow 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 or Foundation for uncertain tax positions as of May 31, 2025 and 2024. The University and Foundation's tax returns are subject to review and examination by federal authorities.

In-Kind Contributions

During the fiscal year, Western Ranch Foundation received an in-kind donation of real property consisting of approximately 52.963 acres of land to be used in support of the Foundation's mission-related activities. The donated property includes land and improvements, with a total appraised value of \$2,240,000. The contribution is included in the change in net assets for the year, and is reflected in both the revenues, gains, and other support and expenses sections of the statement of activities. Unless otherwise noted, the in-kind contributions do not have donor-imposed restrictions.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, receivables and investments. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. At May 31, 2025, approximately 96% of the University's cash and cash equivalents are on deposit with two banks. Investments are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. At May 31, 2025, approximately 66% of the University's investments are held by one custodian. Other receivables are due from a variety of sources concentrated primarily in the Southern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs, which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

Reclassification

Certain amounts appearing in the 2024 financial statements have been reclassified to conform to the 2025 presentation. The reclassifications have no effect on the reported amounts of total net assets or changes in total net assets.

2. Fair Value Measurements and Investments**Fair Value Hierarchy**

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements, which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

Valuation Techniques and Inputs

Level 1 assets include short-term investments, consisting primarily of money market funds and bond and equity mutual funds, for which quoted prices are readily available.

Level 2 assets include investments in bond and equity mutual funds for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Level 3 assets include:

- Mineral rights and royalties, for which quoted prices are not readily available. The University of Texas has valued certain oil and gas assets, of which Texas Lutheran University holds 5% interest, based on current production through June 2024 and 2023, respectively, future production with a decline curve to July 2045, effective fair market oil and gas prices and an annual discount factor to arrive at the net present value of the geological estimates over the decline period.
- Funds administered by third parties for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

There were no changes in fair value methods or assumptions during the year ended May 31, 2025 or 2024.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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May 31, 2025 and 2024

The following table presents financial instruments that are measured at fair value on a recurring basis as of May 31, 2025:

	Level 1	Level 2	Level 3	Total May 31, 2025
Assets				
Investments:				
Short-term investments	\$ 2,859,502	\$ -	\$ -	\$ 2,859,502
Mutual funds, bond funds:				
U.S. fixed income	13,103,057	-	-	13,103,057
Other fixed income	1,409	14,833	-	16,242
Mutual funds, equity funds:				
U.S. equities	35,091,126	42,256	-	35,133,382
Non-U.S. equities	8,631,602	-	-	8,631,602
Total investments	59,686,696	57,089	-	59,743,785
Mineral rights and royalties	-	-	259,085	259,085
Funds administered by third parties	-	-	16,486,301	16,486,301
Subtotal assets included in valuation hierarchy	<u>\$ 59,686,696</u>	<u>\$ 57,089</u>	<u>\$ 16,745,386</u>	<u>76,489,171</u>
Subtotal assets measured using NAV				<u>27,611,544</u>
Total assets at fair value				<u>\$ 104,100,715</u>

Total investments at May 31, 2025 include:

Investments included in the valuation hierarchy	\$ 59,743,785
Investments measured using NAV	27,611,544
Investments at cost	<u>4,500</u>
	<u>\$ 87,359,829</u>

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May 31, 2025 and 2024

The following table presents financial instruments that are measured at fair value on a recurring basis as of May 31, 2024:

	Level 1	Level 2	Level 3	Total May 31, 2024
Assets				
Investments:				
Short-term investments	\$ 4,025,814	\$ -	\$ -	\$ 4,025,814
Mutual funds, bond funds:				
U.S. fixed income	10,155,167	-	-	10,155,167
Other fixed income	51,061	28,855	-	79,916
Mutual funds, equity funds:				
U.S. equities	34,415,490	78,253	-	34,493,743
Non-U.S. equities	10,178,481	-	-	10,178,481
Total investments	58,826,013	107,108	-	58,933,121
Mineral rights and royalties	-	-	290,370	290,370
Funds administered by third parties	-	-	15,938,615	15,938,615
Subtotal assets included in valuation hierarchy	<u>\$ 58,826,013</u>	<u>\$ 107,108</u>	<u>\$ 16,228,985</u>	<u>75,162,106</u>
Subtotal assets measured using NAV				<u>29,175,846</u>
Total assets at fair value				<u>\$ 104,337,952</u>

Total investments at May 31, 2024 include:

Investments included in the valuation hierarchy	\$ 58,933,121
Investments measured using NAV	29,175,846
Investments at cost	<u>4,500</u>
	<u>\$ 88,113,467</u>

For the years ended May 31, 2025 and 2024, there were \$241,062 and \$237,567, respectively, in purchases of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3). For the years ended May 31, 2025 and 2024, there were \$293,663 and \$489,223, respectively, of sales and distributions of Level 3 investments.

There were no transfers in or out of Level 3 during the years ended May 31, 2025 and 2024.

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Notes to Consolidated Financial Statements

May 31, 2025 and 2024

The University uses the net asset value (NAV) as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value; and (b) are in investment companies or similar entities that report their investment assets at fair values. If not determined as of the University's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the University sold all or a portion of its alternative investment, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of May 31, 2025 and 2024:

Investment Type	Unfunded Commitments	May 31 2025 Fair Value	May 31 2024 Fair Value	Redemption Frequency	Redemption Notice Period	Remaining Life (Years)
Private equity funds (a)	\$ 675,699	\$ 1,338,186	\$ 1,924,318	Not redeemable	N/A	1
Real asset fund (b)	408,000	512,271	677,275	Not redeemable	N/A	3
				Last day of fiscal year or anniversary date subject to lock up period	90 days	N/A
Hedge funds (c)	-	12,956,797	12,205,464	Last day of calendar month	30 days	N/A
Offshore funds (d)	-	5,629,565	7,929,475	Last day of calendar month	30 days	N/A
Global equity funds(e)	-	7,174,725	6,439,314			
Total	<u>\$ 1,083,699</u>	<u>\$ 27,611,544</u>	<u>\$ 29,175,846</u>			

- (a) Comprised of various private equity funds, the primary objectives of these funds are to achieve long-term returns and capital appreciation through investments in a diversified portfolio of private equity limited partnerships and closed-end private funds focused on investment partnerships. The investments are not redeemable. Instead, distributions are received through the liquidation of the underlying assets of the fund;
- (b) Comprised of various real asset funds, which invest in real estate, infrastructure, natural resources or income producing timberlands. Real asset strategies generally seek to capitalize on transitional real estate assets and build/maintain exposures to hard assets expected to protect against long-term inflation. The total fair value of \$512,271 is nonredeemable;
- (c) Comprised of various hedge funds which seek to protect capital in down markets and produce high return in the context of reasonable volatility. Hedge fund investments primarily consist of long/short equity and absolute return strategies. Funds can be redeemed on the last day of the fiscal year or anniversary date, subject to a lock up period, with 100 days written notice;
- (d) Comprised of offshore funds, which invest in equity securities. The primary objective of this fund is to achieve maximum total return. Funds can be redeemed on the last day of each calendar month with thirty days written notice.

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Notes to Consolidated Financial Statements

May 31, 2025 and 2024

- (e) Comprised of limited liability companies which seek to achieve total return that exceeds total return of the MSCI World Index through investing primarily in equity and equity-related securities globally. Funds can be redeemed on the last day of each calendar month with thirty days written notice.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated financial statements.

3. Liquidity and Availability

The following table reflects the University's financial assets as May 31, 2025 and 2024, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other financial assets that are excluded from this measure of liquidity include endowments and accumulated earnings restricted by donors or the University's Board of Regents net of appropriations within one year, assets held for or by others and annuity reserves.

	2025	2024
Financial assets:		
Cash and cash equivalents	\$ 1,146,478	\$ 720,736
Accounts receivable from students and other	817,292	824,147
Contributions receivable, net	1,007,382	1,278,022
Student loans receivable, net	248,739	21,791
Investments	87,359,829	88,113,467
Mineral rights and royalties	259,085	290,370
Funds administered by third parties	16,486,301	15,938,615
Cash, restricted	2,163,668	1,003,724
Financial assets at May 31	109,488,774	108,190,872
Less those unavailable for general expenditure within one year:		
Contributions receivable for construction projects and endowment	909,152	1,168,783
Receivables beyond one year	54,000	48,581
Student loans receivable, Federal Perkins Loan Program	248,739	21,791
Endowment net assets restricted by donors, net of appropriation for next year	69,097,204	68,221,695
Endowment net assets designated by the Board of Regents, net of appropriation for next year	7,907,909	9,568,298
Short-term investments held for plant	5,235,803	4,019,555
Investments held for others for split interest agreements	65,269	116,520
Mineral rights and royalties	259,085	290,370
Assets held in trust by others	16,486,301	15,938,615
Cash, restricted	2,163,668	1,003,724
Financial assets not available for expenditure within one year	102,427,130	100,397,932
Financial assets available to meet cash needs for general purposes within one year	\$ 7,061,644	\$ 7,792,940

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Notes to Consolidated Financial Statements

May 31, 2025 and 2024

The University's practice is to structure its financial assets to be available as its general expenses, liabilities and obligations come due and targets a minimum of 60 days of operating expense coverage at any point in time.

The University has an unsecured \$5,000,000 line of credit for operating purposes (Note 7) with available funds of \$5,000,000 as of May 31, 2025, which it could draw upon in the event of an anticipated liquidity need.

The University continues to execute their strategic plan focused on revenue growth, stabilization of expenses and increased cash flow, despite continued operating challenges. In addition to the available line of credit, the University has board designated endowment funds and accumulated earnings on the endowment that could be used to support operations. As of May 31, 2025 and 2024, the University had \$7,907,909 and \$9,568,298, respectively, of board designated endowment funds, net of appropriations for next year available to fund operating expenses with approval from the Board. The University also had \$2,359,341 and \$2,898,109 of accumulated earnings on donor designated endowment, net of appropriations for next year available to fund operating expenses with Board approval at May 31, 2025 and 2024, respectively.

4. Student Accounts Receivable, Net

The University's student accounts receivable relate to tuition and fees, as well as room and board charges. At May 31, student accounts receivable consisted of the following:

	<u>2025</u>	<u>2024</u>
Student accounts receivable, gross	\$ 1,989,795	\$ 1,798,462
Less allowance for credit losses:		
Beginning of year	(1,557,414)	(1,446,606)
Increases	<u>(116,751)</u>	<u>(110,808)</u>
End of year	<u>(1,674,165)</u>	<u>(1,557,414)</u>
Student accounts receivable, net	<u>\$ 315,630</u>	<u>\$ 241,048</u>

5. Contributions Receivable, Net

Contributions receivable consist of the following unconditional promises to give as of May 31:

	<u>2025</u>	<u>2024</u>
Contributions receivable, gross	\$ 1,082,842	\$ 1,356,255
Less unamortized discount	(21,318)	(10,420)
Less allowance for doubtful accounts	<u>(54,142)</u>	<u>(67,813)</u>
Contributions receivable, net	<u>\$ 1,007,382</u>	<u>\$ 1,278,022</u>

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Notes to Consolidated Financial Statements

May 31, 2025 and 2024

The maturity of contributions receivable at May 31, 2025 is as follows:

Less than one year	\$ 688,009
One to five years	394,833
Total contributions receivable, gross	\$ 1,082,842

At May 31, 2025 and 2024, promises due in one to five years were discounted using interest rates ranging between 1.00% and 5.80%. Promises due in less than one year were not discounted. At May 31, 2025, 71% of the outstanding balance was due from two donors.

6. Property, Plant and Equipment, Net

Property, plant and equipment, net consist of the following at May 31:

	2025	2024
Buildings	\$ 77,419,614	\$ 77,586,691
Improvements other than buildings	31,548,504	30,778,602
Software	1,556,981	1,556,981
Equipment	20,090,092	19,836,990
Total property, plant and equipment	130,615,191	129,759,264
Less accumulated depreciation	(77,741,345)	(75,101,138)
Total depreciable property, plant and equipment, net	52,873,846	54,658,126
Construction in progress	3,414,519	1,496,832
Land	32,095,584	29,855,584
Total property, plant and equipment, net	\$ 88,383,949	\$ 86,010,542

The University has outstanding contracts related to the projects in construction in progress of \$3,464,041.

7. Bonds Payable, Net and Lines of Credit

Bonds and notes payable consist of the following as of May 31:

	2025	2024
City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue and Refunding Bonds (Texas Lutheran University Project), Series 2016	\$ 6,765,000	\$ 7,810,000
City of Seguin Higher Education Facilities Corporation Higher Education Revenue Refunding Bonds (Texas Lutheran University Project), Series 2022	13,015,000	13,015,000
Total bonds payable	19,780,000	20,825,000
Debt issuance costs, net of accumulated amortization	(200,429)	(219,711)
Total bonds payable, net	\$ 19,579,571	\$ 20,605,289

Texas Lutheran University

Notes to Consolidated Financial Statements

May 31, 2025 and 2024

The University has the following bonds outstanding:

City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue and Refunding Bonds (Texas Lutheran University Project), Series 2016 - Tax-exempt bonds with semi-annual interest payments of 2.75% due each March 1 and September 1. Annual principal payments ranging from \$305,000 to \$1,140,000 are due September 2025 through September 2037.

City of Seguin Higher Education Facilities Corporation Higher Education Revenue Refunding Bonds (Texas Lutheran University Project), Series 2022 - Tax-exempt bonds with semi-annual interest payments of 3.65% due each March 1 and September 1. Annual principal payments ranging from \$1,520,000 to \$2,190,000 are due September 2029 through September 2034.

The bond agreements include certain nonfinancial covenants. At May 31, 2025 and 2024, the University was in compliance with those covenants.

Aggregate maturities of bonds and notes payable at May 31:

2026	\$ 1,080,000
2027	1,105,000
2028	1,140,000
2029	2,265,000
2030	2,345,000
Thereafter	<u>11,845,000</u>
	<u>\$ 19,780,000</u>

The University has the following lines of credit available:

A \$5,000,000 unsecured operating line of credit agreement with a bank. The interest rate is at the floating prime rate plus 0.50% and was 8.0% at May 31, 2025. Interest only payments are due monthly. The line of credit matures on April 8, 2026. There was no outstanding balance for the year ended May 31, 2025.

Interest expense was approximately \$678,000 and \$795,000 for the years ended May 31, 2025 and 2024, respectively. There was no interest expense capitalized for the years ended May 31, 2025 and 2024.

8. Net Assets

Net assets without donor restrictions consist of the following as of May 31:

	<u>2025</u>	<u>2024</u>
Operating	\$ (7,684,911)	\$ (8,111,166)
Invested in property, plant and equipment	68,191,109	64,873,927
Board-designated endowment	<u>8,497,364</u>	<u>10,288,505</u>
	<u>\$ 69,003,562</u>	<u>\$ 67,051,266</u>

Texas Lutheran University

Notes to Consolidated Financial Statements

May 31, 2025 and 2024

Donor restricted net assets consist of the following as of May 31:

	2025	2024
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support, operating	\$ 4,502,893	\$ 4,754,383
Scholarships, instruction and other support, endowment	7,509,843	8,033,063
Acquisition of buildings and equipment	5,235,803	4,019,555
Contributions receivable, operating and restricted	86,231	109,238
Split-interest agreements	234,224	156,789
Donor restricted net assets subject to time or purpose restrictions	17,568,994	17,073,028
Pooled endowment	66,737,863	65,323,586
Split-interest agreements	16,252,077	15,781,826
Annuity contracts, contributions receivable and other assets held for endowment	421,843	543,467
Donor restricted net assets held in perpetuity	83,411,783	81,648,879
Total donor restricted net assets	\$ 100,980,777	\$ 98,721,907

The income generated from donor restricted net assets held in perpetuity is used for scholarships and University operations.

Net assets were released from donor restrictions during the years ended May 31, 2025 and 2024 by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donor as follows:

	2025	2024
Scholarships, instruction and other support	\$ 6,024,963	\$ 5,037,451
Property, plant and equipment acquired and placed into service	4,776	4,495
	\$ 6,029,739	\$ 5,041,946

9. Endowment

The University's endowment consists of approximately 720 individual funds established for a variety of purposes. Its endowment includes both donor restricted endowment funds and funds designated by the governing board to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The University's governing board has interpreted the Texas enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor restricted assets until appropriated for expenditure by the Board of Regents. See Note 1 for further information on net asset classifications.

Texas Lutheran University

Notes to Consolidated Financial Statements

May 31, 2025 and 2024

The donor restricted endowment funds are recorded as net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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

The University's endowment net assets include funds invested in the University's investment pool and excludes net assets related to contributions receivable, annuity contracts and other assets held for endowments.

Endowment net asset composition by type of fund consists of the following as of May 31, 2025:

	Without Donor Restrictions	With Donor Restriction			Total Funds May 31, 2025
		Original Gift	Accumulated (Losses)/Gains	Total	
Board-designated endowment funds	\$ 8,497,364	\$ -	\$ -	\$ -	\$ 8,497,364
Donor-restricted endowment funds					
Underwater funds	-	11,842,083	(647,751)	11,194,332	11,194,332
Other funds	-	54,895,780	8,157,594	63,053,374	63,053,374
Total endowment net assets	<u>\$ 8,497,364</u>	<u>\$ 66,737,863</u>	<u>\$ 7,509,843</u>	<u>\$ 74,247,706</u>	<u>\$ 82,745,070</u>

Endowment net asset composition by type of fund consists of the following as of May 31, 2024:

	Without Donor Restrictions	With Donor Restriction			Total Funds May 31, 2024
		Original Gift	Accumulated (Losses)/Gains	Total	
Board-designated endowment funds	\$ 10,288,505	\$ -	\$ -	\$ -	\$ 10,288,505
Donor-restricted endowment funds					
Underwater funds	-	10,807,656	(569,337)	10,238,319	10,238,319
Other funds	-	54,515,930	8,602,400	63,118,330	63,118,330
Total endowment net assets	<u>\$ 10,288,505</u>	<u>\$ 65,323,586</u>	<u>\$ 8,033,063</u>	<u>\$ 73,356,649</u>	<u>\$ 83,645,154</u>

Texas Lutheran University

Notes to Consolidated Financial Statements May 31, 2025 and 2024

Changes in endowment net assets for the year ended May 31, 2025 are as follows:

	Without Donor Restrictions	With Donor Restriction			Total Funds May 31, 2025
		Original Gift	Accumulated Gains	Total	
Endowment net assets, May 31, 2024	\$ 10,288,505	\$ 65,323,586	\$ 8,033,063	\$ 73,356,649	\$ 83,645,154
Investment return:					
Investment income	147,404	-	1,029,471	1,029,471	1,176,875
Net appreciation, realized and unrealized	512,925	-	3,582,255	3,582,255	4,095,180
Total investment return	660,329	-	4,611,726	4,611,726	5,272,055
Additions to endowment	-	1,414,277	-	1,414,277	1,414,277
Appropriation of endowment assets for expenditure	(720,215)	-	(5,134,946)	(5,134,946)	(5,855,161)
Additional appropriation of endowment assets for expenditure, operating	(1,731,255)	-	-	-	(1,731,255)
Endowment net assets, May 31, 2025	<u>\$ 8,497,364</u>	<u>\$ 66,737,863</u>	<u>\$ 7,509,843</u>	<u>\$ 74,247,706</u>	<u>\$ 82,745,070</u>

Changes in endowment net assets for the year ended May 31, 2024 are as follows:

	Without Donor Restrictions	With Donor Restriction			Total Funds May 31, 2024
		Original Gift	Accumulated Gains	Total	
Endowment net assets, May 31, 2023	\$ 12,257,858	\$ 62,659,004	\$ 3,742,355	\$ 66,401,359	\$ 78,659,217
Investment return:					
Investment income	154,625	-	946,796	946,796	1,101,421
Net appreciation, realized and unrealized	1,305,208	-	7,992,007	7,992,007	9,297,215
Total investment return	1,459,833	-	8,938,803	8,938,803	10,398,636
Additions to endowment	1,562	2,664,582	-	2,664,582	2,666,144
Appropriation of endowment assets for expenditure	(858,050)	-	(4,648,095)	(4,648,095)	(5,506,145)
Additional appropriation of endowment assets for expenditure, operating	(2,491,944)	-	-	-	(2,491,944)
Appropriation of endowment assets for expenditure, capital	(80,754)	-	-	-	(80,754)
Endowment net assets, May 31, 2024	<u>\$ 10,288,505</u>	<u>\$ 65,323,586</u>	<u>\$ 8,033,063</u>	<u>\$ 73,356,649</u>	<u>\$ 83,645,154</u>

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted pooled endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new donor restricted contributions and continued appropriation programs that were deemed prudent by the governing board. There were 89 and 78 funds with deficiencies with original gift amounts of \$11,842,083 and \$10,807,656 during the years ended May 31, 2025 and 2024, respectively. The fair market value of funds with deficiencies were \$11,194,332 and \$10,238,319 during the years ended May 31, 2025 and 2024, respectively.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets follow the asset allocation policy that diversifies investments among several asset provide an average annual rate between 7% and 8% annually. Actual returns in any year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy of appropriating for distribution of 7.00% for each of the years ending in 2025 and 2024 of its endowment fund's average fair value over the prior 12-quarters moving average of the market value of the pooled endowment through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 1% to 2% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. In 2021, the Board also appropriated \$5,140,000 of designated funds for operating purposes to be used over multiple years, of which \$133,255 and \$2,491,944 was drawn during the years ended May 31, 2025 and 2024, respectively. In 2022, the Board appropriated from board designated funds \$1,800,000 for completion of the York Centre leasehold improvements to be used over multiple years. In 2024, the final amount of \$80,754 was drawn. In 2025, the Board appropriated \$1,598,000 of designated funds for operating purposes to be used during the year ended May 31, 2025. Of this amount, \$1,098,000 is to be repaid to the endowment over the near term.

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10. Employee Benefit Plans

The University has a contributory defined contribution retirement plan covering academic and nonacademic personnel who have one year of service and are employed at least half-time. Contributions for employees are based on a percentage of compensation. Contributions to the retirement plan amounted to approximately \$835,000 and \$747,000 for the years ended May 31, 2025 and 2024, respectively.

The University also provides medical benefits through a self-funded health plan. Specific and aggregate stop loss coverage on the health plan is provided to limit the ultimate exposure of the University. A liability is recorded in the consolidated statement of financial position for claims incurred but not reported. Management reviews this accrual on an on-going basis and believes it is adequate to cover such claims. The balance of the accrual at May 31, 2025 and 2024 was \$444,000 and \$323,000, respectively. The University has an aggregate stop-loss limit of \$3,333,000.

11. Leases

The University leases certain equipment under noncancelable operating leases expiring through July 2033 and noncancelable finance leases expiring through October 2027. Total rental expenses approximated \$868,000 and \$855,000 for the years ended May 31, 2025 and 2024, respectively.

Future payments for the years ended May 31, as follows:

	Operating Lease	Finance Lease
Years ending May 31:		
2026	\$ 706,970	\$ 98,219
2027	745,425	48,694
2028	740,704	20,290
2029	736,402	-
2030	777,567	-
Thereafter	1,372,549	-
Total	5,079,617	167,203
Less present value discount	(28,739)	(10,480)
Lease liability	<u>\$ 5,050,878</u>	<u>\$ 156,723</u>

Below is a summary of expenses incurred pertaining to leases during the years ended May 31, 2025 and 2024:

	2025	2024
Finance lease expense:		
Amortization of right-of-use assets	\$ 90,155	\$ 174,822
Interest on lease liabilities	9,894	26,134
Operating lease expense	685,605	558,814
Short-term lease expense	61,251	69,308
Variable lease expense	20,682	26,870
Total lease cost	<u>\$ 867,587</u>	<u>\$ 855,948</u>

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	2025	2024
Weighted average remaining lease term (in years):		
Finance leases	7.76	7.72
Operating leases	2.70	1.87
Weighted-average discount rate:		
Finance leases	4.17%	4.13%
Operating leases	5.17%	4.21%

The following table includes supplemental cash flow and noncash information related to the leases for the years ended May 31, 2025 and 2024:

	2025	2024
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ (662,783)	\$ (594,610)
Financing cash flows from finance leases	(141,648)	(189,553)

12. Expenses by Nature and Function

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the University. These expenses include depreciation and amortization, interest, central or administration, communications, media production, information technology and facilities operations and maintenance. Depreciation is allocated based on square footage and interest is allocated based on usage of space. Costs of other categories were allocated on estimates of time and effort.

The following table presents expenses as of May 31, 2025:

	Program Services		Supporting Activities			
	Instruction, Academic Support & Research	Student Services & Auxiliary Enterprises	Institutional Support	Public Service	Development and Fundraising	Total Expenses
Expenses:						
Salaries and wages	\$ 11,802,287	\$ 4,359,830	\$ 3,152,650	\$ 190,081	\$ 834,370	\$ 20,339,218
Employee benefits	3,033,791	1,450,140	1,142,926	24,073	276,183	5,927,113
Services, supplies and other	2,075,242	8,612,862	4,075,451	269,668	391,459	15,424,682
Occupancy, utilities and maintenance	1,563,760	872,474	661,047	18,147	11,104	3,126,532
Depreciation and amortization	1,236,877	1,333,400	546,416	20,862	14,023	3,151,578
Interest	3,883	4,186	669,985	65	44	678,163
Total expenses	<u>\$ 19,715,840</u>	<u>\$ 16,632,892</u>	<u>\$ 10,248,475</u>	<u>\$ 522,896</u>	<u>\$ 1,527,183</u>	<u>\$ 48,647,286</u>

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The following table presents expenses as of May 31, 2024:

	Program Services		Supporting Activities			
	Instruction, Academic Support & Research	Student Services & Auxiliary Enterprises	Institutional Support	Public Service	Development and Fundraising	Total Expenses
Expenses:						
Salaries and wages	\$ 11,026,132	\$ 4,317,930	\$ 3,874,773	\$ 184,717	\$ 900,945	\$ 20,304,497
Employee benefits	2,658,368	1,191,291	1,617,647	23,233	293,977	5,784,516
Services, supplies and other	2,215,085	9,277,262	4,420,333	241,105	502,319	16,656,104
Occupancy, utilities and maintenance	1,527,839	871,204	736,324	18,440	17,629	3,171,436
Depreciation and amortization	1,162,803	1,253,545	513,692	12,209	13,183	2,955,432
Interest	4,488	4,838	785,678	47	51	795,102
Total expenses	<u>\$ 18,594,715</u>	<u>\$ 16,916,070</u>	<u>\$ 11,948,447</u>	<u>\$ 479,751</u>	<u>\$ 1,728,104</u>	<u>\$ 49,667,087</u>

13. Commitments and Contingencies

In order to participate in the various Federal Title IV financial aid programs, the U.S. Department of Education requires private nonprofit institutions to demonstrate financial responsibility by meeting certain ratio requirements. The University was in compliance with these requirements at May 31, 2025 and 2024.

The University is contingently liable in connection with claims and contracts, including those currently in litigation arising in the normal course of its activities. In the opinion of management, the results of these matters will not have a significant impact on the consolidated financial statements.

14. Related-Party Transactions

The Board of Regents and key members of management complete conflict of interest statements, which are reviewed annually to ensure any related-party transactions are identified and reported timely. Contributions made by non-compensated members of the Board of Regents and officers of the University totaled approximately \$1,011,000 and \$1,024,000 for the years ended May 31, 2025 and 2024, respectively.

Outstanding contribution receivables from members of the Board of Regents or officers of the University total \$765,744 and \$1,059,850 at May 31, 2025 and 2024, respectively. There are no other unsecured or secured related-party receivables at May 31, 2025 and 2024.

15. Subsequent Events

The University has evaluated its consolidated financial statements for subsequent events through October 10, 2025, which is the date the consolidated financial statements were issued or available to be issued.