# Texas Lutheran University

Consolidated Financial Statements

May 31, 2024 and 2023

## 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, 2024 and 2023, 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, 2024 and 2023, 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
February 21, 2025

# Texas Lutheran University

Consolidated Statements of Financial Position
May 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 720,736 | $ 4,302,245 |
| Receivables: | | |
| Student accounts, net of allowance for credit losses | 241,048 | 210,737 |
| Contributions, net | 1,278,022 | 1,220,045 |
| Other | 583,099 | 358,019 |
| Inventories | 327,160 | 284,210 |
| Other assets | 2,225,857 | 2,388,578 |
| Student loans receivable, net | 21,791 | 176,922 |
| Investments | 88,113,467 | 81,385,173 |
| Mineral rights and royalties | 290,370 | 399,171 |
| Funds administered by third-parties | 15,938,615 | 14,398,412 |
| Cash-restricted | 1,003,724 | 976,290 |
| Property held for sale | 750,000 | 750,000 |
| Property, plant and equipment, net | 86,010,542 | 87,093,700 |
| Right-of-use assets, finance leases | 351,443 | 526,265 |
| Right-of-use assets, operating leases | 4,140,820 | 4,793,358 |
| Total assets | $ 201,996,694 | $ 199,263,125 |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable | $ 647,167 | $ 1,257,908 |
| Payroll related liabilities | 2,820,388 | 2,676,403 |
| Deposits and other unearned revenue | 2,968,959 | 3,009,751 |
| Liabilities related to split-interest agreements | 652,725 | 670,003 |
| Other accrued liabilities | 531,857 | 518,882 |
| Lease liabilities, finance leases | 167,560 | 357,113 |
| Lease liabilities, operating leases | 5,713,662 | 6,191,113 |
| Asset retirement obligations | 1,281,326 | 1,204,166 |
| Advances from U.S. Government for student loans | 834,588 | 955,498 |
| Bonds payable, net | 20,605,289 | 21,056,008 |
| Total liabilities | 36,223,521 | 37,896,845 |
| **Net Assets** | | |
| Net assets without donor restrictions | 67,051,266 | 72,398,657 |
| Net assets with donor restrictions | 98,721,907 | 88,967,623 |
| Total net assets | 165,773,173 | 161,366,280 |
| Total liabilities and net assets | $ 201,996,694 | $ 199,263,125 |

*See notes to consolidated financial statements*

## Texas Lutheran University

Consolidated Statement of Activities
Year Ended May 31, 2024
(With Comparative Totals for 2023)

| | 2024 | | | 2023 |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| **Operating Revenues, Gains and Other Support** | | | | |
| Tuition and fees, net of scholarships of $23,509,357 and $24,209,514, respectively | $ 20,970,494 | $ - | $ 20,970,494 | $ 19,841,851 |
| Long-term investment income and gains allocated for operations | 5,409,994 | 4,648,095 | 10,058,089 | 6,929,243 |
| Investment return | 2,430,834 | 1,245 | 2,432,079 | 1,403,671 |
| Contributions | 1,754,160 | 1,067,460 | 2,821,620 | 2,153,185 |
| Government and private grants | 3,275,170 | - | 3,275,170 | 3,575,338 |
| Auxiliary enterprises | 7,713,686 | - | 7,713,686 | 7,878,960 |
| Other revenue | 1,315,305 | - | 1,315,305 | 800,449 |
| Miscellaneous | - | - | - | 1,250,000 |
| | 42,869,643 | 5,716,800 | 48,586,443 | 43,832,697 |
| 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 | 43,832,697 |
| **Operating Expenses** | | | | |
| Instruction | 15,419,577 | - | 15,419,577 | 14,541,284 |
| Academic support | 3,136,824 | - | 3,136,824 | 3,034,357 |
| Public service | 479,751 | - | 479,751 | 422,436 |
| Research | 38,314 | - | 38,314 | 64,824 |
| Student services | 11,042,649 | - | 11,042,649 | 10,024,378 |
| Institutional support | 11,948,447 | - | 11,948,447 | 10,731,501 |
| Development and fund-raising | 1,728,104 | - | 1,728,104 | 1,719,510 |
| Auxiliary enterprises | 5,873,421 | - | 5,873,421 | 5,981,436 |
| Total operating expenses | 49,667,087 | - | 49,667,087 | 46,519,726 |
| Change in net assets from operating activities | (1,759,993) | 679,349 | (1,080,644) | (2,687,029) |
| **Nonoperating Activities** | | | | |
| Investment return | 154,625 | 946,796 | 1,101,421 | 1,190,652 |
| Net gains on investments | 1,305,208 | 7,992,007 | 9,297,215 | (2,653,758) |
| Long-term investment activities | 1,459,833 | 8,938,803 | 10,398,636 | (1,463,106) |
| Less long-term investment income and gains allocated for operations | (2,918,050) | (4,648,095) | (7,566,145) | (4,942,268) |
| Long-term investment activities | (1,458,217) | 4,290,708 | 2,832,491 | (6,405,374) |
| Contributions, endowment | 1,562 | 2,664,582 | 2,666,144 | 2,941,335 |
| Capital giving activities, contributions and grants | 646 | 599,247 | 599,893 | 1,630,676 |
| Board designated funds allocated to operations | (2,491,944) | - | (2,491,944) | (1,986,975) |
| Releases from restrictions, capital | 4,495 | (4,495) | - | - |
| Change in value of split-interest agreements | 356,060 | 1,524,893 | 1,880,953 | (736,740) |
| Change in net assets from nonoperating activities | (3,587,398) | 9,074,935 | 5,487,537 | (4,557,078) |
| Change in net assets before loss on debt refunding | (5,347,391) | 9,754,284 | 4,406,893 | (7,244,107) |
| Loss on debt refunding | - | - | - | (205,069) |
| Change in net assets | (5,347,391) | 9,754,284 | 4,406,893 | (7,449,176) |
| **Net Assets, Beginning** | 72,398,657 | 88,967,623 | 161,366,280 | 168,815,456 |
| **Net Assets, Ending** | $ 67,051,266 | $ 98,721,907 | $ 165,773,173 | $ 161,366,280 |

*See notes to consolidated financial statements*

## Texas Lutheran University

Consolidated Statement of Activities
Year Ended May 31, 2023

| | 2023 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| **Operating Revenues, Gains and Other Support** | | | |
| Tuition and fees, net of scholarships of $24,209,514 | $ 19,841,851 | $ - | $ 19,841,851 |
| Long-term investment income and gains allocated for operations | 2,013,537 | 4,915,706 | 6,929,243 |
| Investment return | 1,407,620 | (3,949) | 1,403,671 |
| Contributions | 1,746,589 | 406,596 | 2,153,185 |
| Government and private grants | 3,575,338 | - | 3,575,338 |
| Auxiliary enterprises | 7,878,960 | - | 7,878,960 |
| Other revenue | 800,449 | - | 800,449 |
| Miscellaneous | 1,250,000 | - | 1,250,000 |
| | 38,514,344 | 5,318,353 | 43,832,697 |
| Net assets released from restrictions, operating | 5,749,400 | (5,749,400) | - |
| Total operating revenues, gains and other support | 44,263,744 | (431,047) | 43,832,697 |
| **Operating Expenses** | | | |
| Instruction | 14,541,284 | - | 14,541,284 |
| Academic support | 3,034,357 | - | 3,034,357 |
| Public service | 422,436 | - | 422,436 |
| Research | 64,824 | - | 64,824 |
| Student services | 10,024,378 | - | 10,024,378 |
| Institutional support | 10,731,501 | - | 10,731,501 |
| Development and fund-raising | 1,719,510 | - | 1,719,510 |
| Auxiliary enterprises | 5,981,436 | - | 5,981,436 |
| Total operating expenses | 46,519,726 | - | 46,519,726 |
| Change in net assets from operating activities | (2,255,982) | (431,047) | (2,687,029) |
| **Nonoperating Activities** | | | |
| Investment return | 35,125 | 1,155,527 | 1,190,652 |
| Net losses on investments | (78,286) | (2,575,472) | (2,653,758) |
| Long-term investment activities | (43,161) | (1,419,945) | (1,463,106) |
| Less long-term investment income and gains allocated for operations | (26,562) | (4,915,706) | (4,942,268) |
| Long-term investment activities | (69,723) | (6,335,651) | (6,405,374) |
| Contributions, endowment | 428,621 | 2,512,714 | 2,941,335 |
| Capital giving activities, contributions and grants | 2,650 | 1,628,026 | 1,630,676 |
| Board designated funds allocated to operations | (1,986,975) | - | (1,986,975) |
| Change in value of split-interest agreements | 352,726 | (1,089,466) | (736,740) |
| Change in net assets from nonoperating activities | (1,272,701) | (3,284,377) | (4,557,078) |
| Change in net assets before loss on debt refunding | (3,528,683) | (3,715,424) | (7,244,107) |
| Loss on debt refunding | (205,069) | - | (205,069) |
| Change in net assets | (3,733,752) | (3,715,424) | (7,449,176) |
| **Net Assets, Beginning** | 76,132,409 | 92,683,047 | 168,815,456 |
| **Net Assets, Ending** | $ 72,398,657 | $ 88,967,623 | $ 161,366,280 |

*See notes to consolidated financial statements*

| | 2024 | 2023 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Change in net assets | $ 4,406,893 | $ (7,449,176) |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Depreciation and amortization | 2,955,432 | 2,956,593 |
| Noncash lease expense | (255,966) | 145,918 |
| Accretion of asset retirement obligations | 77,160 | 72,655 |
| Net realized and unrealized gains on investments | (8,130,602) | (149,303) |
| Loss on debt refunding | - | 205,069 |
| Gains on sale of property | - | (1,259,791) |
| Gifts and grants restricted for long-term purposes, plant | (582,996) | (1,653,321) |
| Gifts and grants restricted for long-term purposes, endowment | (2,665,915) | (2,509,949) |
| Change in value of split interest agreements | (1,481,963) | 1,158,064 |
| Lease incentive | 241,500 | 600,000 |
| (Increases) decrease in assets: | | |
| Receivables | (252,952) | 142,395 |
| Inventories | (42,950) | (12,495) |
| Other assets | 162,721 | (193,470) |
| Increases (decrease) in liabilities: | | |
| Accounts payable | (604,920) | 444,610 |
| Payroll related liabilities | 143,985 | (190,527) |
| Deposits and other unearned revenue | (40,792) | 541,125 |
| Other accrued liabilities | 12,975 | 19,400 |
| Net cash flow from operating activities | (6,058,390) | (7,132,203) |
| **Cash Flows From Investing Activities** | | |
| Proceeds from sales and maturities of investments | 17,115,109 | 9,761,574 |
| Purchases of investments | (15,604,000) | (1,408,000) |
| Proceeds from sale of property | - | 1,269,133 |
| Proceeds from repayment of student loans | 155,131 | 190,780 |
| Purchases of property and equipment | (1,683,992) | (4,037,391) |
| Net cash flows from investing activities | (17,752) | 5,776,096 |
| **Cash Flows From Financing Activities** | | |
| Repayments of principal on bonds payable | (470,000) | (460,000) |
| Proceeds from line of credit, operating | 5,000,000 | 5,100,000 |
| Payments of line of credit, operating | (5,000,000) | (5,100,000) |
| Restricted gifts and grants proceeds for long term purposes, plant | 507,350 | 587,084 |
| Restricted gifts and grants proceeds for long term purposes, endowment | 2,681,145 | 2,466,223 |
| Bond issuance costs | - | 1,934 |
| Payments to annuitants | (75,518) | (76,198) |
| Payments to U.S. Government | (120,910) | (192,667) |
| Net cash flow from financing activities | 2,522,067 | 2,326,376 |
| Net change in cash and cash equivalents | (3,554,075) | 970,269 |
| **Cash, Cash Equivalents, and Restricted Cash, Beginning** | 5,278,535 | 4,308,266 |
| **Cash, Cash Equivalents and Restricted Cash, Ending** | $ 1,724,460 | $ 5,278,535 |
| **Supplemental Disclosures of Cash Flow Information** | | |
| Cash paid for interest | $ 798,558 | $ 626,636 |
| Property, plant and equipment additions in accounts payable | $ - | $ 5,821 |
| **Right-of-Use Assets Obtained in Exchange for New Lease Liability** | | |
| Finance leases | $ - | $ 208,309 |
| Operating leases | $ 117,159 | $ 267,591 |
| **Bond Proceeds From Series 2022 Bonds** | $ - | $ 13,215,000 |
| **Refunding Paid for With Bond Proceeds** | $ - | $ (12,940,000) |
| **Bond Issuance Costs Paid for With Bond Proceeds** | $ - | $ 143,122 |

*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 $3,436,829 that have not been recognized at May 31, 2024 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 2024-25 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 2024-25 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:

| | 2024 | 2023 |
|---|---|---|
| Balance at beginning of the year | $ 3,009,751 | $ 2,468,626 |
| Revenue recognized during the year | (3,009,751) | (2,468,626) |
| Cash received in advance of performance | 2,968,959 | 3,009,751 |
| Balance at end of the year | $ 2,968,959 | $ 3,009,751 |

### 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. At May 31, 2023, the University had an operating surplus of $1,100,000, which was reclassified from operating activity to non-operating activity within the investment return allocated 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, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Cash and cash equivalents | $ 720,736 | $ 4,302,245 |
| Cash-restricted | 1,003,724 | 976,290 |
| Balance at end of the year | $ 1,724,460 | $ 5,278,535 |

### 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 statement 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 statement 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 $290,370 and $399,171 at May 31, 2024 and 2023, 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.

**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 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, 2024 and 2023, 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 6.4% to 8.0% were used.

Total assets held by the University under split-interest agreements totaled $116,520 and $147,326 at May 31, 2024 and 2023, respectively. The University received no new gifts under a split-interest agreement at May 31, 2024 and 2023.

**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, 2024 and 2023 are as follows:

| | 2024 | 2023 |
|---|---|---|
| Balance at beginning of the year | $ 1,204,166 | $ 1,148,555 |
| Accretion expense | 77,160 | 72,655 |
| Abatements | - | (17,044) |
| Balance at end of the year | $ 1,281,326 | $ 1,204,166 |

### 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 $273,000 and $129,000 for the years ended May 31, 2024 and 2023, 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, 2024 and 2023. The University and Foundation's tax returns are subject to review and examination by federal authorities.

### 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, 2024, approximately 90% 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, 2024, approximately 62% 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.

### Reclassifications

Certain amounts appearing in the 2023 financial statements have been reclassified to conform to the 2024 presentation. The reclassifications have no effect on the reported amounts of total net assets or changes in total net assets.

### New Accounting Pronouncement Adopted in the Current Year

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13*, Measurement of Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. For financial instruments included in the scope, the CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses.

The methodology replaces the multiple existing impairment methods in current accounting principles generally accepted in the United States of America, which generally require that a loss be incurred before it is recognized. On June 1, 2023, the College adopted the ASU using the modified retrospective approach. The adoption of ASU 2016-13 did not have a material impact on the financial statements for the year ended May 31, 2024.

## 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, bond and equity mutual funds, marketable hedge funds and commodities 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 2023 and 2022, 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, 2024 or 2023.

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.

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 | $ 58,826,013 | $ 107,108 | $ 16,228,985 | 75,162,106 |
| Investments measured using NAV: | | | | |
| Private equity funds | | | | 1,924,318 |
| Real asset fund | | | | 677,275 |
| Hedge funds | | | | 12,205,464 |
| Offshore funds | | | | 7,929,475 |
| Global equity funds | | | | 6,439,314 |
| Subtotal assets using NAV | | | | 29,175,846 |
| Total assets at fair value | | | | $ 104,337,952 |

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 | 4,500 |
| | $ 88,113,467 |

The following table presents financial instruments that are measured at fair value on a recurring basis as of May 31, 2023:

| | Level 1 | Level 2 | Level 3 | Total May 31, 2023 |
|---|---|---|---|---|
| Assets | | | | |
| Investments: | | | | |
| Short-term investments | $ 6,335,850 | $ - | $ - | $ 6,335,850 |
| Mutual funds, bond funds: | | | | |
| U.S. fixed income | 9,318,142 | - | - | 9,318,142 |
| Global fixed income | 49,284 | - | - | 49,284 |
| Other fixed income | 327,776 | 37,745 | - | 365,521 |
| Mutual funds, equity funds: | | | | |
| U.S. equities | 31,185,745 | 100,680 | - | 31,286,425 |
| Non-U.S. equities | 9,364,565 | - | - | 9,364,565 |
| Marketable hedge funds | 264,647 | - | - | 264,647 |
| Commodities | 59,527 | - | - | 59,527 |
| Total investments | 56,905,536 | 138,425 | - | 57,043,961 |
| Mineral rights and royalties | - | - | 399,171 | 399,171 |
| Funds administered by third parties | - | - | 14,398,412 | 14,398,412 |
| Subtotal assets included in valuation hierarchy | $ 56,905,536 | $ 138,425 | $ 14,797,583 | 71,841,544 |
| Investments measured using NAV: | | | | |
| Private equity funds | | | | 2,291,778 |
| Real asset fund | | | | 899,150 |
| Hedge funds | | | | 10,114,480 |
| Limited partnerships | | | | 4,004,613 |
| Offshore funds | | | | 7,026,691 |
| Subtotal assets using NAV | | | | 24,336,712 |
| Total assets at fair value | | | | $ 96,178,256 |

Total investments at May 31, 2023 include:

| | |
|---|---|
| Investments included in the valuation hierarchy | $ 57,043,961 |
| Investments measured using NAV | 24,336,712 |
| Investments at cost | 4,500 |
| | $ 81,385,173 |

For the years ended May 31, 2024 and 2023, there were $237,567 and $217,688, 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, 2024 and 2023, there were $489,223 and $906,131, respectively, of sales and distributions of Level 3 investments.

There were no transfers in or out of Level 3 during the year ended May 31, 2024. For the year ended May 31, 2023, there was $424,235 transferred out of Level 3.

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, 2024 and 2023:

| Investment Type | Unfunded Commitments | May 31 2024 Fair Value | May 31 2023 Fair Value | Redemption Frequency | Redemption Notice Period | Remaining Life (Years) |
|---|---|---|---|---|---|---|
| Private equity funds (a) | $ 675,699 | $ 1,924,318 | $ 2,291,778 | Not redeemable | N/A | 1 to 2 |
| Real asset fund (b) | 408,000 | 677,275 | 899,150 | Not redeemable or quarterly | N/A | 4 |
| Hedge funds (c) | - | 12,205,464 | 10,114,480 | Last day of fiscal year or anniversary date subject to lock up period | 90 days | N/A |
| Limited partnership (d) | - | - | 4,004,613 | Last day of calendar month | 30 days | N/A |
| Offshore funds (e) | - | 7,929,475 | 7,026,691 | Last day of calendar month | 30 days | N/A |
| Global equity (f) | - | 6,439,314 | - | Last day of calendar month | 30 days | N/A |
| Total | $ 1,083,699 | $ 29,175,846 | $ 24,336,712 | | | |

(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 $677,275 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 limited partnerships, the objective of these funds is to seek long-term capital appreciation by investing primarily in equity securities of issuers located outside the United States. Funds can be redeemed on the last day of each calendar month with thirty days written notice;

(e) 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.

(f) 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, 2024 and 2023, 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.

| | 2024 | 2023 |
|---|---|---|
| Financial assets: | | |
| Cash and cash equivalents | $ 720,736 | $ 4,302,245 |
| Accounts receivable from students and other | 824,147 | 568,756 |
| Contributions receivable, net | 1,278,022 | 1,220,045 |
| Student loans receivable, net | 21,791 | 176,922 |
| Investments | 88,113,467 | 81,385,173 |
| Mineral rights and royalties | 290,370 | 399,171 |
| Funds administered by third parties | 15,938,615 | 14,398,412 |
| Cash, restricted | 1,003,724 | 976,290 |
| Financial assets at May 31 | 108,190,872 | 103,427,014 |
| Less those unavailable for general expenditure within one year: | | |
| Contributions receivable for construction projects and endowment | 1,168,783 | 1,108,374 |
| Receivables beyond one year | 48,581 | 56,570 |
| Student loans receivable, Federal Perkins Loan Program | 21,791 | 176,922 |
| Endowment net assets restricted by donors, net of appropriation for next year | 68,221,695 | 61,753,264 |
| Endowment net assets designated by the Board of Regents, net of appropriation for next year | 9,568,298 | 11,399,808 |
| Short-term investments held for plant | 4,019,555 | 3,427,895 |
| Investments held for others for split interest agreements | 116,520 | 147,326 |
| Mineral rights and royalties | 290,370 | 399,171 |
| Assets held in trust by others | 15,938,615 | 14,398,412 |
| Financial assets not available for expenditure within one year | 99,394,208 | 92,867,742 |
| Financial assets available to meet cash needs for general purposes within one year | $ 8,796,664 | $ 10,559,272 |

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.

For the years ended May 31, 2024 and 2023, the University had $9,568,298 and $11,399,808 of board designated endowment funds, net of appropriations for next year that could be used to fund operating expenses with approval from the Board, respectively.

The University has experienced several consecutive years of decreases in net assets from operations and cash flow deficits from operating activities primarily due to enrollment volatility and increased expenditures from targeted investments. These conditions in aggregate could be indicators of substantial doubt about the University’s ability to continue as a going concern. Management has evaluated the significance of these conditions in relation to the University’s ability to meet its obligations. Management has plans to alleviate any substantial doubt that may exist. Operating and capital investments have been made over the last 10 years to provide enrollment and revenue growth, including the traditional nursing program, accelerated Bachelor of Science in Nursing, direct entry Master of Science in Nursing, and multiple graduate programs (Accounting, Athletic Training, Data Analytics, Education, Business Administration, Education Doctorate). While the University is still experiencing impact from the pandemic, its fall 2024 enrollment rebounded significantly from fall 2023. Current enrollment and auxiliary trends, the investment in new programs, stability of the balance sheet and access to board designated net assets suggest that the University has sustained the enrollment shortfalls and operating deficits and is positioned for improved operations going forward.

The operating budget for fiscal year 2025 and beyond is expected to be balanced, but the University is currently tracking behind based on initial spring 2025 results. While the University continues to achieve revenue growth and reduction in expenses, the University will utilize the approximately $10,000,000 board designated endowment, of which $500,000 has been approved as of February 21, 2025. Management is working closely with the administration and the Board on a budget alignment plan for fiscal year 2025 and budget stability plan for fiscal years 2026 and beyond to grow revenue, reduce / stabilize expenses, and increase cash flow. The University concludes that management's plans alleviate the substantial doubt about the University’s ability to continue as a going concern.

## 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:

| | 2024 | 2023 |
|---|---|---|
| Student accounts receivable, gross | $ 1,798,462 | $ 1,657,343 |
| Less allowance for credit losses: | | |
| Beginning of year | (1,446,606) | (1,368,901) |
| Increases | (110,808) | (77,705) |
| End of year | (1,557,414) | (1,446,606) |
| Student accounts receivable, net | $ 241,048 | $ 210,737 |

## 5. Contributions Receivable, Net

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

| | 2024 | 2023 |
|---|---|---|
| Contributions receivable, gross | $ 1,356,255 | $ 1,311,882 |
| Less unamortized discount | (10,420) | (26,243) |
| Less allowance for doubtful accounts | (67,813) | (65,594) |
| Contributions receivable, net | $ 1,278,022 | $ 1,220,045 |

The maturity of contributions receivable at May 31, 2024 is as follows:

| | |
|---|---|
| Less than one year | $ 1,172,007 |
| One to five years | 184,248 |
| Total contributions receivable, gross | $ 1,356,255 |

At May 31, 2024 and 2023, 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, 2024, 78% 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:

| | 2024 | 2023 |
|---|---|---|
| Buildings | $ 77,586,691 | $ 77,586,690 |
| Improvements other than buildings | 30,778,602 | 28,867,132 |
| Software | 1,556,981 | 1,556,981 |
| Equipment | 19,836,990 | 18,402,500 |
| Total property, plant and equipment | 129,759,264 | 126,413,303 |
| Less accumulated depreciation | (75,101,138) | (72,520,455) |
| Total depreciable property, plant and equipment, net | 54,658,126 | 53,892,848 |
| Construction in progress | 1,496,832 | 3,345,268 |
| Land | 29,855,584 | 29,855,584 |
| Total property, plant and equipment, net | $ 86,010,542 | $ 87,093,700 |

## 7. Bonds Payable, Net and Lines of Credit

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

| | 2024 | 2023 |
|---|---|---|
| City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue and Refunding Bonds (Texas Lutheran University Project), Series 2016 | $ 7,810,000 | $ 8,180,000 |
| City of Seguin Higher Education Facilities Corporation Higher Education Revenue Refunding Bonds (Texas Lutheran University Project), Series 2022 | 13,015,000 | 13,115,000 |
| Total bonds payable | 20,825,000 | 21,295,000 |
| Debt issuance costs, net of accumulated amortization | (219,711) | (238,992) |
| Total bonds payable, net | $ 20,605,289 | $ 21,056,008 |

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 2024 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 $100,000 to $2,190,000 are due September 2024 through September 2034.

The bond agreements include certain nonfinancial covenants. At May 31, 2024 and 2023, the University was in compliance with those covenants.

Aggregate maturities of bonds and notes payable at May 31:

| | |
|---|---|
| 2025 | $ 1,045,000 |
| 2026 | 1,080,000 |
| 2027 | 1,105,000 |
| 2028 | 1,140,000 |
| 2029 | 2,265,000 |
| Thereafter | 14,190,000 |
| | $ 20,825,000 |

Interest expense was approximately $795,000 and $642,000 for the years ended May 31, 2024 and 2023, respectively. There was no interest expense capitalized for the years ended May 31, 2024 and 2023.

## 8. Net Assets

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

| | 2024 | 2023 |
|---|---|---|
| Operating | $ (8,111,166) | $ (5,442,726) |
| Invested in property, plant and equipment | 64,873,927 | 65,583,525 |
| Board-designated endowment | 10,288,505 | 12,257,858 |
| | $ 67,051,266 | $ 72,398,657 |

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

| | 2024 | 2023 |
|---|---|---|
| Gifts and other unexpended revenues and gains available for: | | |
| Scholarships, instruction and other support, operating | $ 4,754,383 | $ 4,093,100 |
| Scholarships, instruction and other support, endowment | 8,033,063 | 3,742,355 |
| Acquisition of buildings and equipment | 4,019,555 | 3,427,895 |
| Contributions receivable, operating and restricted | 109,238 | 89,096 |
| Split-interest agreements | 156,789 | 161,569 |
| Donor restricted net assets subject to time or purpose restrictions | 17,073,028 | 11,514,015 |
| Pooled endowment | 65,323,586 | 62,659,004 |
| Split-interest agreements | 15,781,826 | 14,236,843 |
| Annuity contracts, contributions receivable and other assets held for endowment | 543,467 | 557,761 |
| Donor restricted net assets held in perpetuity | 81,648,879 | 77,453,608 |
| Total donor restricted net assets | $ 98,721,907 | $ 88,967,623 |

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, 2024 and 2023 by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donor as follows:

| | 2024 | 2023 |
|---|---|---|
| Scholarships, instruction and other support | $ 5,037,451 | $ 5,749,400 |
| Property, plant and equipment acquired and placed into service | 4,495 | - |
| | $ 5,041,946 | $ 5,749,400 |

## 9. Endowment

The University's endowment consists of approximately 700 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. 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, 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 | $ 10,288,505 | $ 65,323,586 | $ 8,033,063 | $ 73,356,649 | $ 83,645,154 |

Endowment net asset composition by type of fund consists of the following as of May 31, 2023:

| | Without Donor Restrictions | With Donor Restriction | | | Total Funds May 31, 2023 |
|---|---|---|---|---|---|
| | | Original Gift | Accumulated (Losses)/Gains | Total | |
| Board-designated endowment funds | $ 12,257,858 | $ - | $ - | $ - | $ 12,257,858 |
| Donor-restricted endowment funds | | | | | |
| Underwater funds | - | 13,250,077 | (1,222,405) | 12,027,672 | 12,027,672 |
| Other funds | - | 49,408,927 | 4,964,760 | 54,373,687 | 54,373,687 |
| Total endowment net assets | $ 12,257,858 | $ 62,659,004 | $ 3,742,355 | $ 66,401,359 | $ 78,659,217 |

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 | $ 10,288,505 | $ 65,323,586 | $ 8,033,063 | $ 73,356,649 | $ 83,645,154 |

Changes in endowment net assets for the year ended May 31, 2023 are as follows:

| | Without Donor Restrictions | With Donor Restriction | | | Total Funds May 31, 2023 |
|---|---|---|---|---|---|
| | | Original Gift | Accumulated Gains | Total | |
| Endowment net assets, May 31, 2022 | $ 16,093,815 | $ 60,146,290 | $ 10,078,006 | $ 70,224,296 | $ 86,318,111 |
| Investment return: | | | | | |
| Investment income | 35,125 | - | 1,155,527 | 1,155,527 | 1,190,652 |
| Net depreciation - realized and unrealized | (78,286) | - | (2,575,472) | (2,575,472) | (2,653,758) |
| Total investment return | (43,161) | - | (1,419,945) | (1,419,945) | (1,463,106) |
| Additions to endowment | 428,621 | 2,512,714 | - | 2,512,714 | 2,941,335 |
| Appropriation of endowment assets for expenditure | (1,126,562) | - | (4,915,706) | (4,915,706) | (6,042,268) |
| Additional appropriation of endowment assets for expenditure - operating | (1,986,975) | - | - | - | (1,986,975) |
| Appropriation of endowment assets for expenditure - capital | (1,107,880) | - | - | - | (1,107,880) |
| Endowment net assets, May 31, 2023 | $ 12,257,858 | $ 62,659,004 | $ 3,742,355 | $ 66,401,359 | $ 78,659,217 |

### 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 78 and 102 funds with deficiencies with original gift amounts of $10,807,656 and $13,250,077 during the years ended May 31, 2024 and 2023, respectively. The fair market value of funds with deficiencies were $10,238,319 and $12,027,672 during the years ended May 31, 2024 and 2023, 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 2024 and 2023 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 $2,491,944 and $1,986,974 was drawn during the years ended May 31, 2024 and 2023, 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, of which $80,754 and $1,107,880 was drawn during the years ended May 31, 2024 and 2023, respectively. As of May 31, 2024, the amounts remaining to be spent of the board designated funds for operating purposes is $133,252.

## 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 $747,000 and $716,000 for the years ended May 31, 2024 and 2023, 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, 2024 and 2023 was $323,000 and $275,000, respectively. The University has an aggregate stop-loss limit of $2,526,000.

## 11. Leases

The University leases certain equipment under noncancelable operating leases expiring through July 2033 and noncancelable finance leases expiring through December 2025. Total rental expenses approximated $855,000 and $859,000 for the years ended May 31, 2024 and 2023, respectively.

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

| | Operating Lease | Finance Lease |
|---|---|---|
| Years ending May 31: | | |
| 2025 | $ 685,605 | $ 123,138 |
| 2026 | 706,970 | 49,525 |
| 2027 | 741,511 | - |
| 2028 | 736,790 | - |
| 2029 | 736,402 | - |
| Thereafter | 2,150,117 | - |
| Total | 5,757,395 | 172,663 |
| Less present value discount | (43,733) | (5,103) |
| Lease liability | $ 5,713,662 | $ 167,560 |

Below is a summary of expenses incurred pertaining to leases during the year ended May 31, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Finance lease expense: | | |
| Amortization of right-of-use assets | $ 174,822 | $ 177,662 |
| Interest on lease liabilities | 26,134 | 12,069 |
| Operating lease expense | 558,814 | 399,789 |
| Short-term lease expense | 69,308 | 177,619 |
| Variable lease expense | 26,870 | 91,777 |
| Total lease cost | $ 855,948 | $ 858,916 |

| | 2024 | 2023 |
|---|---|---|
| Weighted average remaining lease term (in years): | | |
| Finance leases | 7.72 | 6.51 |
| Operating leases | 1.87 | 1.36 |
| Weighted-average discount rate: | | |
| Finance leases | 4.13% | 4.14% |
| Operating leases | 4.21% | 3.95% |

The following table includes supplemental cash flow and noncash information related to the leases for the year ended May 31, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ 411,038 | $ 334,361 |
| Financing cash flows from finance leases | (189,553) | (188,443) |

## 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, 2024:

| | Program Services | | Supporting Activities | | | |
|---|---|---|---|---|---|---|
| | Instruction, Academic Support & Research | Student Services & Auxiliary Enterprises | Institutional Support | Public Service | Development and Fund-raising | 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 | $ 18,594,715 | $ 16,916,070 | $ 11,948,447 | $ 479,751 | $ 1,728,104 | $ 49,667,087 |

The following table presents expenses as of May 31, 2023:

| | Program Services | | Supporting Activities | | | |
|---|---|---|---|---|---|---|
| | Instruction, Academic Support & Research | Student Services & Auxiliary Enterprises | Institutional Support | Public Service | Development and Fund-raising | Total Expenses |
| Expenses: | | | | | | |
| Salaries and wages | $ 10,256,679 | $ 4,108,741 | $ 3,733,443 | $ 175,322 | $ 918,586 | $ 19,192,771 |
| Employee benefits | 2,488,974 | 1,005,335 | 1,340,866 | 19,415 | 265,677 | 5,120,267 |
| Services, supplies and other | 2,185,145 | 8,616,979 | 3,756,997 | 205,892 | 510,317 | 15,275,330 |
| Occupancy, utilities and maintenance | 1,541,660 | 1,015,602 | 753,911 | 9,543 | 11,688 | 3,332,404 |
| Depreciation and amortization | 1,163,259 | 1,254,038 | 513,894 | 12,214 | 13,188 | 2,956,593 |
| Interest | 4,748 | 5,119 | 632,390 | 50 | 54 | 642,361 |
| Total expenses | $ 17,640,465 | $ 16,005,814 | $ 10,731,501 | $ 422,436 | $ 1,719,510 | $ 46,519,726 |

## 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, 2024 and 2023.

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 $1,024,000 and $1,568,000 for the years ended May 31, 2024 and 2023, respectively.

Outstanding contribution receivables from members of the Board of Regents or officers of the University total $1,059,850 and $1,024,300 at May 31, 2024 and 2023, respectively. There are no other unsecured or secured related party receivables at May 31, 2024 and 2023.

## 15. Higher Education Emergency Relief Funding

On March 11, 2021, the American Rescue Plan (ARP) provided an additional $39.6 billion in Higher Education Emergency Relief Funds (HEERF III) to support institutions as they serve students and ensure learning continues during the COVID-19 pandemic. Institution received one grant comprised of two parts. Under the legislation, no less than 50% of the full grant is to be used for direct emergency aid to students. The remaining portion of the full grant is to be used to defray expenses associated with coronavirus, implement evidence-based practices to monitor and suppress coronavirus, and conduct direct outreach to financial aid applications about the opportunity to receive a financial aid adjustment due to a change in circumstance. The University was awarded $4,182,139.

The final portion of the HEERF funds was recognized in fiscal year 2023 ($886,604), these grant funds were reported as government grants revenue without donor restrictions in the consolidated statements of activities.

## 16. Subsequent Events

In August 2024, the University entered agreements for the design and renovation of the Lundquist Athletic Center. Total commitments related to this project are $4,761,639. The project is planned to commence in April 2025.

The University has evaluated its consolidated financial statements for subsequent events through February 21, 2025, which is the date the consolidated financial statements were issued or available to be issued.