

TEXAS LUTHERAN UNIVERSITY

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended May 31, 2015 and 2014

TEXAS LUTHERAN UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Regents
Texas Lutheran University
Seguin, Texas

We have audited the accompanying financial statements of Texas Lutheran University (the "University"), which comprise the statements of financial position as of May 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Lutheran University as of May 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 28, 2015

TEXAS LUTHERAN UNIVERSITY

STATEMENTS OF FINANCIAL POSITION

As of May 31, 2015 and 2014

ASSETS		
	2015	2014
Cash and cash equivalents	\$ 6,692,126	\$ 1,215,574
Receivables		
Student accounts, net of allowance for doubtful accounts	233,070	174,164
Contributions, net	2,590,627	1,086,627
Other	354,747	109,979
Inventories	366,286	314,349
Other assets	1,733,589	1,746,045
Student loans receivable, net	3,996,952	4,145,886
Deferred charges, net	289,436	315,245
Investments	81,608,265	83,905,914
Mineral rights and royalties, net	4,777,117	4,878,092
Funds administered by third parties	11,180,736	11,232,452
Cash - restricted	3,071	1,972
Property, plant and equipment, net	53,921,062	52,109,506
TOTAL ASSETS	\$ 167,747,084	\$ 161,235,805
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 635,603	\$ 1,709,540
Payroll related liabilities	2,463,917	2,368,178
Deposits and other unearned revenue	1,552,073	1,569,358
Liabilities related to split-interest agreements	2,713,227	2,613,947
Other accrued liabilities	600,428	574,657
Asset retirement obligations	826,180	778,365
Advances from U.S. Government for student loans	2,910,026	2,819,152
Line of credit - operating	-	750,000
Line of credit - stadium project	-	3,435,000
Bonds payable, net of discount	25,720,000	26,880,000
Total Liabilities	37,421,454	43,498,197
NET ASSETS		
Unrestricted	53,206,785	43,329,061
Temporarily restricted	18,451,162	17,292,934
Permanently restricted	58,667,683	57,115,613
Total Net Assets	130,325,630	117,737,608
TOTAL LIABILITIES AND NET ASSETS	\$ 167,747,084	\$ 161,235,805

See accompanying notes to financial statements.

TEXAS LUTHERAN UNIVERSITY

STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2015
With Comparative Totals for 2014

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUES, GAINS AND OTHER SUPPORT					
Tuition and fees	\$ 32,507,975	\$ -	\$ -	\$ 32,507,975	\$ 32,604,459
Less: Scholarship allowances	(18,287,309)	-	-	(18,287,309)	(17,871,076)
Net tuition and fees	14,220,666	-	-	14,220,666	14,733,383
Investment return	17,182,647	1,253,934	84,566	18,521,147	9,892,254
Contributions	1,144,779	3,717,790	1,370,925	6,233,494	5,067,670
Government and private grants	2,146,275	-	-	2,146,275	1,877,133
Change in value of split interest agreements	(217,314)	(6,744)	96,579	(127,479)	867,124
Auxiliary enterprises	6,847,274	-	-	6,847,274	6,471,891
Other revenue	1,304,762	-	-	1,304,762	1,072,569
Gain on life insurance maturity	-	-	-	-	520,587
	42,629,089	4,964,980	1,552,070	49,146,139	40,502,611
Net assets released from restrictions	3,806,752	(3,806,752)	-	-	-
Total Revenues, Gains and Other Support	46,435,841	1,158,228	1,552,070	49,146,139	40,502,611
EXPENSES					
Instruction	11,341,486	-	-	11,341,486	10,145,041
Academic support	2,806,047	-	-	2,806,047	2,652,249
Public service	545,558	-	-	545,558	567,558
Research	43,897	-	-	43,897	35,940
Student services	6,438,930	-	-	6,438,930	6,140,431
Institutional support	8,939,268	-	-	8,939,268	8,671,975
Development and fund-raising	1,250,093	-	-	1,250,093	1,431,918
Auxiliary enterprises	5,192,838	-	-	5,192,838	4,975,993
Total Expenses	36,558,117	-	-	36,558,117	34,621,105
Change in Net Assets	9,877,724	1,158,228	1,552,070	12,588,022	5,881,506
Net Assets - Beginning of Year	43,329,061	17,292,934	57,115,613	117,737,608	111,856,102
NET ASSETS - END OF YEAR	\$ 53,206,785	\$ 18,451,162	\$ 58,667,683	\$ 130,325,630	\$ 117,737,608

See accompanying notes to financial statements.

TEXAS LUTHERAN UNIVERSITY

STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	\$ 32,604,459	\$ -	\$ -	\$ 32,604,459
Less: Scholarship allowances	<u>(17,871,076)</u>	-	-	<u>(17,871,076)</u>
Net tuition and fees	14,733,383	-	-	14,733,383
Investment return	2,951,955	6,841,761	98,538	9,892,254
Contributions	1,769,622	830,797	2,467,251	5,067,670
Government and private grants	1,877,133	-	-	1,877,133
Change in value of split interest agreements	(94,774)	(7,180)	969,078	867,124
Auxiliary enterprises	6,471,891	-	-	6,471,891
Other revenue	1,072,569	-	-	1,072,569
Gain on life insurance maturity	-	-	520,587	520,587
	<u>28,781,779</u>	<u>7,665,378</u>	<u>4,055,454</u>	<u>40,502,611</u>
Net assets released from restrictions	5,913,567	(5,913,567)	-	-
Net assets reclassified due to change in donor restriction	-	300,000	(300,000)	-
Reclassification of net assets	<u>(558,565)</u>	-	<u>558,565</u>	-
 Total Revenues, Gains and Other Support	 <u>34,136,781</u>	 <u>2,051,811</u>	 <u>4,314,019</u>	 <u>40,502,611</u>
EXPENSES				
Instruction	10,145,041	-	-	10,145,041
Academic support	2,652,249	-	-	2,652,249
Public service	567,558	-	-	567,558
Research	35,940	-	-	35,940
Student services	6,140,431	-	-	6,140,431
Institutional support	8,671,975	-	-	8,671,975
Development and fund-raising	1,431,918	-	-	1,431,918
Auxiliary enterprises	<u>4,975,993</u>	-	-	<u>4,975,993</u>
Total Expenses	<u>34,621,105</u>	-	-	<u>34,621,105</u>
 Change in Net Assets	 (484,324)	 2,051,811	 4,314,019	 5,881,506
Net Assets - Beginning of Year	<u>43,813,385</u>	<u>15,241,123</u>	<u>52,801,594</u>	<u>111,856,102</u>
 NET ASSETS - END OF YEAR	 <u>\$ 43,329,061</u>	 <u>\$ 17,292,934</u>	 <u>\$ 57,115,613</u>	 <u>\$ 117,737,608</u>

See accompanying notes to financial statements.

TEXAS LUTHERAN UNIVERSITY

STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,588,022	\$ 5,881,506
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	3,040,878	2,654,273
Accretion of asset retirement obligations	47,815	45,022
Net realized and unrealized gains on investments	(15,718,650)	(7,449,524)
Gifts and grants restricted for long-term purposes - plant	(2,164,708)	(506,115)
Gifts and grants restricted for long-term purposes - endowment	(1,368,781)	(2,658,756)
Change in value of split-interest agreements	506,633	(542,896)
(Increase) decrease in assets		
Receivables	(844,338)	111,936
Inventories	(51,937)	61,778
Other assets	12,456	(328,575)
Increase (decrease) in liabilities		
Accounts payable	147,868	233,467
Payroll related liabilities	95,739	203,829
Deposits and other unearned revenue	(17,285)	1,059,029
Other accrued liabilities	25,771	25,990
Net Cash Flows From Operating Activities	<u>(3,700,517)</u>	<u>(1,209,036)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	25,423,142	12,097,441
Purchases of investments	(7,395,980)	(11,188,959)
Disbursement of student loans	(530,903)	(594,721)
Proceeds from repayment of student loans	679,837	473,863
Purchases of property and equipment	(6,048,430)	(6,860,340)
Change in cash - restricted	(1,099)	984,367
Net Cash Flows From Investing Activities	<u>12,126,567</u>	<u>(5,088,349)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of principal on bonds payable	(1,160,000)	(1,165,000)
Proceeds on long-term line of credit	2,290,000	3,435,000
Repayments of principal on long-term line of credit	(5,725,000)	-
Proceeds from short-term borrowings	8,225,000	7,425,000
Payments of short-term borrowings	(8,975,000)	(6,675,000)
Restricted gifts and grants proceeds for long-term purposes - plant	1,214,887	724,014
Restricted gifts and grants proceeds for long-term purposes - endowment	1,355,266	2,736,582
Increase in annuities payable from new gifts	-	108,456
Payments to annuitants	(265,525)	(258,809)
Advances from U.S. Government	90,874	85,545
Net Cash Flows From Financing Activities	<u>(2,949,498)</u>	<u>6,415,788</u>
Net Change in Cash and Cash Equivalents	5,476,552	118,403
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,215,574</u>	<u>1,097,171</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,692,126</u>	<u>\$ 1,215,574</u>
Supplemental disclosures of cash flow information		
Cash paid for interest, net of capitalized interest of \$39,458 and \$15,005 in 2015 and 2014, respectively	\$ 1,071,479	\$ 1,012,563
Property, plant, and equipment additions in accounts payable	\$ 52,061	\$ 1,273,866

See accompanying notes to financial statements.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2015 and 2014

NOTE 1 - 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 1,300 students. The main campus and administrative offices are located in Seguin, Texas. The University is supported primarily by tuition and fees from students.

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 Asset Classifications - For the purposes of financial reporting, the University classifies resources into three 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:

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be 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.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Investment income and gains and losses on investments are reported in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently 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 unrestricted net asset class. Investment income and gains earned on donor restricted funds that are classified as temporarily restricted net assets are reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.

Contributions, including unconditional 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. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class. Expirations of temporary 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. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

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

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants received from the Department of Education and the State of Texas in which the agency has placed limitations on the use of the resources are reported as unrestricted revenues when grants are awarded to students because the limitations are not considered donor-imposed restrictions.

Tuition and Fees and Auxiliary Enterprises Revenues - Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

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 equivalents.

Restricted cash is cash from donors held for funding capital projects and cash held as required for certain grants until appropriate expenditures occur.

Student Accounts Receivable - The University's student accounts receivable are due from students. Credit is extended to students and collateral is not required. Student accounts receivable are due at the end of the semester and are stated at amounts due from students net of an allowance for doubtful accounts. Accounts inactive (no payments have been received) for more than six months are considered past due. The University does not charge interest on past due accounts. The University determines its allowance based on accounts that have been inactive for over 360 days. The University writes off student accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in classes.

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, other prepaids and other assets.

Deferred Charges - Deferred charges consist of costs incurred in connection with bond financing and are amortized using the straight-line method which approximates the effective interest rate over the term of the loans. Amortization expense was approximately \$25,800 and \$26,000 for the years ended May 31, 2015 and 2014, respectively.

Investments - Investments in publically 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 and privately held stock 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.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 is following the valuation methodology used by the University of Texas, and valued the 5% interest in these oil and gas assets at \$4,777,117 and \$4,878,092 at May 31, 2015 and 2014, respectively.

Beneficial Interest in Trusts - 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 statement 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 10-50 years, improvements other than building 10-20 years, software 3-10 years and equipment 3-20 years.

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, 2015 and 2014, there have been no such losses.

Unearned Revenue - Unearned revenue, primarily tuition and fees, consists of payments received before services or products are provided to the payer. Tuition and fees are normally recognized as revenues at the beginning of each semester. The portion of payments received relating to future services or products are recorded as unearned revenue. Unearned revenue also includes financial commitments by a third party that is being recognized as revenue over the life of the contract.

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 change in value of split-interest agreements in the statement of activities. To calculate the present value of the gift annuities, life expectancy tables with discount rates ranging from 1.2% to 7.4% were used.

Total assets held by the University under split interest agreements totaled \$1,105,683 and \$1,453,087 at May 31, 2015 and 2014, respectively. The University received new gifts under split interest agreements totaling \$91,544 for the year ended May 31, 2014. There were no new gifts received for the year ended May 31, 2015.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015 and 2014 are as follows:

	2015	2014
Balance, Beginning of the year	\$ 778,365	\$ 733,343
Accretion expense	47,815	45,022
Balance, End of the year	\$ 826,180	\$ 778,365

Advances from U. S. Government for Student Loans - Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

Advertising Expenses - Advertising expenses approximated \$370,000 and \$365,000 for the years ended May 31, 2015 and 2014, respectively. Advertising costs are expensed when incurred.

Income Taxes - The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code according to an Internal Revenue Service determination letter dated November 1961. Accordingly, the University is not subject to federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt purposes (unrelated trade or business activities). The University had no material unrelated business income during the year.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of May 31, 2015 and 2014. The University's tax returns are subject to review and examination by federal authorities. The tax returns for fiscal years 2012 and thereafter are open to examination by federal authorities.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Use of Estimates - The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk - 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, 2015, approximately 82% of the University's cash and cash equivalents are on deposit with one bank. Investments are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. At May 31, 2015, approximately 76% 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.

New Accounting Pronouncement Not Yet Effective - In May 2014, new accounting guidance was issued that outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. This guidance is effective for the University's fiscal year ending May 31, 2019. The University is assessing the impact this guidance will have on its financial statements.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2015 and 2014

NOTE 2 - FAIR VALUE MEASUREMENTS

Financial Instruments - The carrying amounts of cash and cash equivalents, restricted cash, student accounts receivable, other receivables, accounts payable and deposits approximate fair value because of the short term maturity of these financial instruments.

The fair value of contributions receivable (pledges) is based on a discounted cash flow methodology using discount rates consistent with the expected maturities of the pledges, adjusted for the consideration of the donor's credit. The fair value of the contributions receivable approximates the carrying value and would be considered Level 3 in the fair value hierarchy.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee.

The estimated fair value of University's bonds payable approximates \$26,400,000 and \$27,700,000 at May 31, 2015 and 2014, respectively. The estimated fair value of the bonds payable is based on discounting future cash flows using current interest rates at which similar borrowings could be obtained for the same remaining maturities, and would be classified as a level 2 liability.

The fair value of annuities payable related to split interest agreements is based on a discounted cash flow methodology using assumptions about estimated return on invested assets during the term of the agreement, the contractual payment of obligations of the agreement, discount rates that are commensurate with the risks involved, and life expectancies published in the mortality tables. The fair value of the annuities payable approximates carrying value. The fair value for annuities payable related to gift annuities would be considered Level 2 in the fair value hierarchy. The fair value of annuities payable related to unitrusts would be considered Level 3 in the fair value hierarchy.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

Investments in privately held stock, land held for investment and certificates of deposit are carried at cost if purchased or if received as a gift, at its fair value at the date of gift.

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 inputs.
- 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.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2015 and 2014

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation Techniques and Inputs

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

Level 2 - Level 2 assets include:

- > Investments in short-term investments held by others under annuity contracts, bond and equity mutual funds and a natural resource fund 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.
- > Hedge funds for which quoted prices are not readily available, but where the University has the ability to redeem its interest at or near the statement of financial position date. The University has estimated the fair value of hedge funds by using the net asset value ("NAV") provided by the investee as of December 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31.

Level 3 - Level 3 assets include:

- > Investments in private equity funds and real asset funds for which quoted prices are not readily available and the funds cannot be redeemed within a short time. The University has estimated the fair value of these funds by using the net asset value ("NAV") provided by the investee as of December 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31.
- > Mineral rights and royalties, net, 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 2014 and 2013, respectively, future production with a decline curve to December 2044, 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 a third party 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 have been no changes in the techniques and inputs used as of May 31, 2015 and 2014. Transfers between levels of the fair value hierarchy are considered to be made as of the beginning of the fiscal year. There were no such transfers during the years ended May 31, 2015 and 2014.

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.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

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 tables present information about the University's assets measured at fair value on a recurring basis as of May 31, 2015 based upon the three-tier hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total May 31, 2015</u>
ASSETS				
Investments				
Short-term investments	\$ 12,939,482	\$ 8,491	\$ -	\$ 12,947,973
Mutual funds - bond funds				
U.S. fixed income	7,567,233	-	-	7,567,233
Global fixed income	3,692,762	-	-	3,692,762
Other fixed income	9,533	230,958	-	240,491
Mutual funds - equity funds				
U.S. equities	25,929,228	526,830	-	26,456,058
Non-U.S. equities	12,426,135	-	-	12,426,135
Alternative investments				
Private equity funds	-	-	3,745,314	3,745,314
Real asset funds	-	-	2,733,031	2,733,031
Hedge funds	-	9,585,974	-	9,585,974
Natural resource fund	-	2,208,794	-	2,208,794
Total investments	<u>62,564,373</u>	<u>12,561,047</u>	<u>6,478,345</u>	<u>81,603,765</u>
Mineral rights and royalties, net	-	-	4,777,117	4,777,117
Funds administered by third parties	-	-	<u>11,180,736</u>	<u>11,180,736</u>
	<u>\$ 62,564,373</u>	<u>\$ 12,561,047</u>	<u>\$ 22,436,198</u>	<u>\$ 97,561,618</u>

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables present information about the University's assets measured at fair value on a recurring basis as of May 31, 2014 based upon the three-tier hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total May 31, 2014</u>
ASSETS				
Investments				
Short-term investments	\$ 627,200	\$ 9,543	\$ -	\$ 636,743
Mutual funds - bond funds				
U.S. fixed income	7,467,216	-	-	7,467,216
U.S. high yield fixed income	1,595,579	-	-	1,595,579
Global fixed income	3,863,602	-	-	3,863,602
Other fixed income	11,991	254,642	-	266,633
Mutual funds - equity funds				
U.S. equities	21,011,672	1,529,564	-	22,541,236
Non-U.S. equities	27,897,121	-	-	27,897,121
Alternative investments				
Private equity funds	-	-	3,606,220	3,606,220
Real asset funds	-	-	2,304,565	2,304,565
Hedge funds	-	9,210,177	-	9,210,177
Natural resource fund	-	3,039,826	-	3,039,826
Total investments	<u>62,474,381</u>	<u>14,043,752</u>	<u>5,910,785</u>	<u>82,428,918</u>
Mineral rights and royalties, net	-	-	4,878,092	4,878,092
Funds administered by third parties	-	-	<u>11,232,452</u>	<u>11,232,452</u>
	<u>\$ 62,474,381</u>	<u>\$ 14,043,752</u>	<u>\$ 22,021,329</u>	<u>\$ 98,539,462</u>

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended May 31, 2015:

	<u>Balance May 31, 2014</u>	<u>Transfers in (out)</u>	<u>Purchases</u>	<u>Sales/ Distributions</u>	<u>Realized gains</u>	<u>Unrealized gains (losses)</u>	<u>Balance May 31, 2015</u>
Assets							
Alternative investments							
Private equity funds	\$ 3,606,220	\$ -	\$ 541,583	\$ (797,108)	\$ -	\$ 394,619	\$ 3,745,314
Real asset funds	2,304,565	-	220,000	(52,291)	-	260,757	2,733,031
Mineral rights and royalties, net	4,878,092	-	-	-	-	(100,975)	4,777,117
Funds administered by third parties	<u>11,232,452</u>	<u>-</u>	<u>317,880</u>	<u>(227,769)</u>	<u>99,924</u>	<u>(241,751)</u>	<u>11,180,736</u>
	<u>\$ 22,021,329</u>	<u>\$ -</u>	<u>\$ 1,079,463</u>	<u>\$ (1,077,168)</u>	<u>\$ 99,924</u>	<u>\$ 312,650</u>	<u>\$ 22,436,198</u>

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at May 31, 2015

\$ 312,650

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended May 31, 2014:

	Balance May 31, 2013	Transfers in (out)	Purchases	Sales/ Distributions	Realized gains	Unrealized gains (losses)	Balance May 31, 2014
Assets							
Alternative investments							
Private equity funds	\$ 3,042,345	\$ -	\$ 505,850	\$ (608,543)	\$ -	\$ 666,568	\$ 3,606,220
Real asset funds	1,950,362	-	180,000	(12,508)	-	186,711	2,304,565
Mineral rights and royalties, net	4,980,411	-	-	-	-	(102,319)	4,878,092
Funds administered by third parties	10,477,794	-	289,355	(237,358)	121,258	581,403	11,232,452
	<u>\$ 20,450,912</u>	<u>\$ -</u>	<u>\$ 975,205</u>	<u>\$ (858,409)</u>	<u>\$ 121,258</u>	<u>\$ 1,332,363</u>	<u>\$ 22,021,329</u>

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at May 31, 2014 \$ 1,332,363

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.

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, 2015:

Investment Type	Unfunded Commitments	Fair Value	Redemption Frequency	Redemption Notice Period	Remaining Life (Years)
Alternative Investments					
Private equity funds (a)	\$ 2,176,210	\$ 3,745,314	Not redeemable	N/A	1 to 10
Real asset funds (b)	1,600,000	2,733,031	Not redeemable/ Quarterly	N/A	1 to 12
Hedge funds (c)	-	9,585,974	Last day of fiscal year or anniversary date subject to lock up period	100 days	N/A

- (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 investment is 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 publicly-owned real estate securities (REIT's), privately-owned 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 \$2,733,031 consists of \$855,232 that is non-redeemable and \$1,877,799 that is redeemable on a quarterly basis.
- (c) Comprised of various hedge funds which seek to protect capital in down markets and produce a 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.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 3 - STUDENT ACCOUNTS RECEIVABLE

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

	2015	2014
Student accounts receivable - gross	\$ 1,366,587	\$ 1,227,224
Less allowance for doubtful accounts		
Beginning of year	(1,053,060)	(1,003,188)
Increases	(80,457)	(49,872)
End of year	(1,133,517)	(1,053,060)
Student accounts receivable, net	\$ 233,070	\$ 174,164

NOTE 4 - CONTRIBUTIONS RECEIVABLE

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

	2015	2014
Contributions receivable - gross	\$ 2,748,129	\$ 1,169,568
Less unamortized discount	(20,096)	(24,463)
	2,728,033	1,145,105
Less allowance for doubtful accounts	(137,406)	(58,478)
Contributions receivable, net	\$ 2,590,627	\$ 1,086,627

The maturity of contributions receivable at May 31, 2015 is as follows:

Less than one year	\$ 1,535,803
One to five years	1,212,326
Total contributions receivable - gross	\$ 2,748,129

At May 31, 2015, promises due in one to five years were discounted using interest rates ranging between 1.2% and 2.4%. At May 31, 2014, promises due in one to five years were discounted using interest rates ranging between 1.0% and 2.8%. Promises due in less than one year were not discounted. At May 31, 2015, 39% of the outstanding balance was due from one donor.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 5 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE

The University issues uncollateralized loans to students based on financial need. Student loans are funded through a Federal government loan program. Student notes receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2015 and 2014, student loans represented 2.4% and 2.6% of total assets, respectively.

At May 31, student loans receivable consisted of the following:

	2015	2014
Federal government programs	\$ 4,207,952	\$ 4,356,886
Less allowance for doubtful accounts:		
Beginning of year	(211,000)	(211,000)
Change	-	-
End of year	(211,000)	(211,000)
Student loans receivable, net	\$ 3,996,952	\$ 4,145,886

Perkins Loan funds advanced by the Federal government totaled \$2,910,026 and \$2,819,152 at May 31, 2015 and 2014, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At May 31, 2015 and 2014, the following amounts were past due under student loan programs:

	Amounts Past Due			
	1-60 days	60-90 days	90+ days	Total
May 31,				
2015	\$ 9,651	\$ 1,531	\$ 721,604	\$ 732,786
2014	10,978	3,637	689,472	704,087

The Federal Perkins Loan Program (the "Program") expired September 30, 2015. The Department of Education (ED) issued guidance in January 2015 (Dear Colleague Letter GEN-15-03) which addressed the grandfathering of Perkins loans for students who received loans prior to June 30, 2015. According to the guidance issued by ED, if these students meet certain conditions, they will still be able to receive Perkins loans until 2020 to allow them to "continue or complete their courses of study". However, Perkins loans may not be made to "new borrowers" for whom the first disbursement of a Federal Perkins loan will occur on or after October 1, 2015. Other issues, including the settlement of school revolving funds and outstanding loan portfolios, still need to be addressed. We encourage the University to continue to monitor this issue to ensure compliance with the provisions for winding-down the Program.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 6 - INVESTMENTS

Investments consist of the following as of May 31:

	2015	2014
Investment - at fair value		
Short-term investments	\$ 12,947,973	\$ 636,743
Mutual funds - bond funds	11,500,486	13,193,030
Mutual funds - equity funds	38,882,193	50,438,357
Alternative investments	16,064,319	15,120,962
Natural resource fund	2,208,794	3,039,826
	81,603,765	82,428,918
Investments - at cost or original gift value		
Privately held stock	-	1,000,000
Land held for investment	4,500	376,996
Certificates of deposit	-	100,000
	4,500	1,476,996
 Total investments	 \$ 81,608,265	 \$ 83,905,914

The following summarizes total investment return for the year ended May 31:

Dividend, interest and royalty income, net of fees of \$151,000 and \$93,000 for 2015 and 2014, respectively	\$ 2,802,497	\$ 2,442,730
Net realized gains on sales of investments	22,610,858	476,764
Net unrealized (losses) gains on investments	(6,892,208)	6,972,760
	\$ 18,521,147	\$ 9,892,254

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 financial statements.

The net investment return on alternative investments and the natural resource fund was \$600,337 and \$1,945,724 for the years ended May 31, 2015 and 2014, respectively.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT, NET

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

	2015	2014
Buildings	\$ 61,359,318	\$ 59,623,132
Improvements other than buildings	21,062,104	15,712,304
Software	1,403,571	1,243,711
Equipment	14,215,331	13,833,255
	98,040,324	90,412,402
Less accumulated depreciation	(48,751,220)	(46,051,483)
	49,289,104	44,360,919
Construction in progress	143,729	3,564,753
Land	4,488,229	4,183,834
Total property, plant and equipment, net	\$ 53,921,062	\$ 52,109,506

NOTE 8 - BONDS PAYABLE, NET AND LINES OF CREDIT

Bonds payable consist of the following as of May 31:

	2015	2014
City of Seguin Higher Education Facilities Corporation Higher Education Revenue and Refunding Bonds (Texas Lutheran University Project), Series 2004	\$ 745,000	\$ 1,095,000
The City of Terrell Hills, Texas Higher Education Facilities Corporation Higher Education Revenue Bonds (Texas Lutheran University Project), Series 2007	6,230,000	6,580,000
City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue Bonds (Texas Lutheran University Project), Series 2011	9,070,000	9,390,000
City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue Bonds (Texas Lutheran University Project), Series 2013	9,675,000	9,815,000
Total bonds payable	\$ 25,720,000	\$ 26,880,000

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 8 - BONDS PAYABLE, NET AND LINES OF CREDIT (CONTINUED)

The University has the following bonds outstanding:

City of Seguin Higher Education Facilities Corporation Higher Education Revenue and Refunding Bonds (Texas Lutheran University Project), Series 2004 - Tax-exempt bonds used for renovation of residence halls and student apartments, parking facilities and student activity building, with semi-annual interest payments ranging from 4.25% to 4.50% due each March 1st and September 1st. Principal payments of \$365,000 and \$380,000 are due September 2015 and 2016, respectively.

City of Terrell Hills, Texas Higher Education Facilities Corporation Higher Education Revenue Bonds (Texas Lutheran University Project), Series 2007 - Tax-exempt bonds used for renovation of the University HVAC system with semi-annual interest payments ranging from 4.07% to 4.81% due each March 1st and September 1st. Annual principal payments ranging from \$365,000 to \$625,000 are due September 2015 through September 2027.

City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue Bonds (Texas Lutheran University Project), Series 2011 - Tax-exempt bonds used for construction of new residence hall, with semi-annual interest payments of 4.34% due each March 1st and September 1st. Annual principal payments ranging from \$330,000 to \$845,000 are due September 2015 through September 2031.

City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue Refunding Bonds (Texas Lutheran University Project), Series 2013 - Tax-exempt bonds with semi-annual interest payments of 2.70% due each March 1st and September 1st. Annual principal payments ranging from \$145,000 to \$610,000 are due September 2015 through September 2022, with a \$5,940,000 balloon payment due September 2023.

The bond agreements include certain nonfinancial covenants. At May 31, 2015 and 2014, the University was in compliance with those covenants.

Aggregate maturities of bonds and notes payable at May 31:

2016	\$ 1,205,000
2017	1,250,000
2018	1,295,000
2019	1,345,000
2020	1,395,000
Thereafter	<u>19,230,000</u>
	<u>\$ 25,720,000</u>

The University has the following lines of credit available:

At May 31, 2015, the University has a \$4,000,000 operating line of credit agreement with a bank. The bank has a right of setoff in all the University's accounts with the bank, and may charge or setoff all sums owing on the debt against any and all such accounts. The interest rate is at the floating prime rate plus 0.25% and was 3.50% at May 31, 2015. Interest only payments are due monthly. The line of credit matures on February 17, 2016. There was no outstanding balance as of May 31, 2015. The outstanding balance at May 31, 2014 was \$750,000.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 8 - BONDS PAYABLE, NET AND LINES OF CREDIT (CONTINUED)

At May 31, 2015, the University has a \$5,725,000 secured line of credit agreement with a bank to finance the construction cost of an athletic facility construction project. The line of credit is secured by board-designated endowment funds totaling approximately \$9,110,000. The interest rate is at the three month London Interbank Offered Rate plus 2.50% and was 2.78% at May 31, 2015. Interest only payments are due monthly. The line of credit matures on October 25, 2018. There was no outstanding balance as of May 31, 2015. The outstanding balance at May 31, 2014 was \$3,435,000.

Interest expense was approximately \$1,060,000 and \$1,046,000 for the years ended May 31, 2015 and 2014, respectively. Interest of approximately \$39,000 and \$15,000 was capitalized for the years ended May 31, 2015 and 2014, respectively.

NOTE 9 - NET ASSETS

Permanently restricted net assets consist of the following categories as of May 31:

	2015	2014
Pooled endowment	\$ 45,230,518	\$ 42,788,447
Split-interest agreements	10,963,201	11,008,173
Annuity contracts and other assets held for endowment	2,473,964	3,318,993
	\$ 58,667,683	\$ 57,115,613

The income generated from permanently restricted net assets is used for scholarships and University operations.

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

	2015	2014
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support - operating	\$ 1,939,473	\$ 1,061,185
Scholarships, instruction and other support - endowment	13,666,913	15,766,837
Acquisition of buildings and equipment	2,028,203	239,081
Contributions receivable - operating and restricted	599,039	1,553
Split-interest agreements	217,534	224,278
	\$ 18,451,162	\$ 17,292,934

Net assets were released from temporary donor restrictions during the years ended May 31, 2015 and 2014 by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donor as follows:

	2015	2014
Scholarships, instruction and other support	\$ 3,491,627	\$ 3,228,482
Property, plant and equipment acquired and placed into service	315,125	2,685,085
	\$ 3,806,752	\$ 5,913,567

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 10 - ENDOWMENT

The University's endowment consists of approximately 630 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 the 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 remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets 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, funds administered by others, privately held stock and annuities.

Endowment net asset composition by type of fund consists of the following as of May 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 13,666,913	\$ 45,230,518	\$ 58,897,431
Board-designated endowment funds	<u>21,542,824</u>	<u>-</u>	<u>-</u>	<u>21,542,824</u>
Total endowment net assets	<u>\$ 21,542,824</u>	<u>\$ 13,666,913</u>	<u>\$ 45,230,518</u>	<u>\$ 80,440,255</u>

Endowment net asset composition by type of fund consists of the following as of May 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 15,766,837	\$ 42,788,447	\$ 58,555,284
Board-designated endowment funds	<u>22,511,716</u>	<u>-</u>	<u>-</u>	<u>22,511,716</u>
Total endowment net assets	<u>\$ 22,511,716</u>	<u>\$ 15,766,837</u>	<u>\$ 42,788,447</u>	<u>\$ 81,067,000</u>

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 10 - ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended May 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2014	\$ 22,511,716	\$ 15,766,837	\$ 42,788,447	\$ 81,067,000
Investment return:				
Investment income	370,200	2,047,424	-	2,417,624
Net depreciation - realized and unrealized	<u>(143,473)</u>	<u>(793,490)</u>	<u>-</u>	<u>(936,963)</u>
Total investment return	226,727	1,253,934	-	1,480,661
Additions to endowment	93,780	-	1,442,071	1,535,851
Transfer to endowment	-	-	1,000,000	1,000,000
Appropriation of endowment assets for expenditure	<u>(1,289,399)</u>	<u>(3,353,858)</u>	<u>-</u>	<u>(4,643,257)</u>
Endowment net assets, May 31, 2015	<u>\$ 21,542,824</u>	<u>\$ 13,666,913</u>	<u>\$ 45,230,518</u>	<u>\$ 80,440,255</u>

Changes in endowment net assets for the year ended May 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2013	\$ 21,160,477	\$ 12,045,239	\$ 39,747,315	\$ 72,953,031
Investment return:				
Investment income	461,067	1,306,134	-	1,767,201
Net appreciation - realized and unrealized	<u>1,954,082</u>	<u>5,535,627</u>	<u>-</u>	<u>7,489,709</u>
Total investment return	2,415,149	6,841,761	-	9,256,910
Additions to endowment	210,871	-	2,610,804	2,821,675
Appropriation of endowment assets for expenditure	<u>(1,274,781)</u>	<u>(3,120,163)</u>	<u>-</u>	<u>(4,394,944)</u>
Gain on life insurance maturity	-	-	520,587	520,587
Net assets reclassified due to change in donor restriction	-	-	(300,000)	(300,000)
Cash value of life insurance maturity	<u>-</u>	<u>-</u>	<u>209,741</u>	<u>209,741</u>
Endowment net assets, May 31, 2014	<u>\$ 22,511,716</u>	<u>\$ 15,766,837</u>	<u>\$ 42,788,447</u>	<u>\$ 81,067,000</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. There were no deficiencies of this nature that are reported in unrestricted net assets as of May 31, 2015 and 2014, respectively.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2015 and 2014

NOTE 10 - ENDOWMENT (CONTINUED)

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 classes to provide the portfolio with an opportunity to compound returns while reducing the probability of incurring a large loss in the aggregate portfolio. The University expects its endowment funds, over time, to 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 6.5% for each of the years ending in 2015 and 2014 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.

NOTE 11 - 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 \$703,000 and \$649,000 for the years ended May 31, 2015 and 2014, 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 provided 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, 2015 and 2014 was \$282,000 and \$288,000, respectively, and is included in other accrued liabilities on the statements of financial position.

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 12 - OPERATING LEASES

The University leases certain equipment under non-cancelable operating leases expiring through July 2018. Total rental expenses approximated \$207,000 and \$167,000 for the years ended May 31, 2015 and 2014, respectively. Future minimum rentals under non-cancelable operating leases with terms of more than one year are as follows:

2016	\$	134,200
2017		134,200
2018		39,000
2019		4,200
		4,200
	\$	311,600

NOTE 13 - SUPPLEMENTAL SCHEDULE OF EXPENSES

The following table presents the allocation of operations and maintenance to the functional expenses as of May 31, 2015:

	Functional Expenses	Allocations	Total
EXPENSES			
Instruction	\$ 8,758,235	\$ 2,583,251	\$ 11,341,486
Academic support	2,185,434	620,613	2,806,047
Public service	512,541	33,017	545,558
Research	25,548	18,349	43,897
Student services	6,058,001	380,929	6,438,930
Institutional support	7,464,902	1,474,366	8,939,268
Development and fund-raising	1,214,438	35,655	1,250,093
Auxiliary enterprises	2,781,808	2,411,030	5,192,838
Total Expenses	\$ 29,000,907	\$ 7,557,210	\$ 36,558,117

The following table presents the allocation of operations and maintenance to the functional expenses as of May 31, 2014:

	Functional Expenses	Allocations	Total
EXPENSES			
Instruction	\$ 7,920,882	\$ 2,224,159	\$ 10,145,041
Academic support	2,092,047	560,202	2,652,249
Public service	537,749	29,809	567,558
Research	19,379	16,561	35,940
Student services	5,809,000	331,431	6,140,431
Institutional support	7,393,286	1,278,689	8,671,975
Development and fund-raising	1,399,737	32,181	1,431,918
Auxiliary enterprises	2,727,785	2,248,208	4,975,993
Total Expenses	\$ 27,899,865	\$ 6,721,240	\$ 34,621,105

TEXAS LUTHERAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The University participates in various federal loan programs. The amount of loans disbursed under the Federal Direct Loan Program for each of the years ending May 31, 2015 and 2014 approximated \$7,500,000 and \$8,000,000, respectively. The amount of loans disbursed under the Federal Perkins Loan Program for the years ended May 31, 2015 and 2014 was approximately \$531,000 and \$595,000, respectively. Amounts questioned as a result of audits, if any, may result in the University purchasing the loan(s) from the lender as the loan(s) may have lost its (their) guaranteed status. Management believes that such amounts, if any, would be immaterial to the financial statements.

Activity of the Federal Pell Grant program is not reflected in the statement of activities as the transactions are considered to be agency transactions. Students received approximately \$2,200,000 and \$2,300,000 from the Federal Pell Grant program for the years ended May 31, 2015 and 2014, respectively.

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, 2015 and 2014.

NOTE 15 - SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 28, 2015 which is the date that the financial statements were issued.