

Texas Lutheran University

Consolidated Financial Statements

May 31, 2022 and 2021

Texas Lutheran University

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Independent Auditors' Report

To the Board of Regents of
Texas Lutheran University and Subsidiary

Opinion

We have audited the consolidated financial statements of Texas Lutheran University and subsidiary (the University), which comprise the consolidated statements of financial position as of May 31, 2022 and 2021, 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, 2022 and 2021, 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 are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Baker Tilly US, LLP

Minneapolis, Minnesota
October 7, 2022

Texas Lutheran University

Consolidated Statements of Financial Position
May 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 3,341,806	\$ 1,915,628
Receivables:		
Student accounts, net of allowance for doubtful accounts	215,651	123,067
Contributions, net	142,930	228,595
Other	464,142	480,018
Inventories	271,715	280,213
Other assets	2,195,108	2,032,877
Student loans receivable, net	367,702	1,831,789
Investments	89,091,094	97,745,090
Mineral rights and royalties	473,287	433,441
Funds administered by third-parties	15,921,985	16,229,979
Cash-restricted	966,460	966,318
Property held for sale	750,000	1,555,000
Property, plant and equipment, net	85,962,833	87,821,734
Right-of-use assets, finance leases	495,618	394,964
Right-of-use assets, operating leases	5,934,814	3,229,584
	<u>206,595,145</u>	<u>215,268,297</u>
Total assets	<u>\$ 206,595,145</u>	<u>\$ 215,268,297</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 932,793	\$ 701,469
Payroll related liabilities	2,866,930	2,586,845
Deposits and other unearned revenue	2,468,626	6,328,618
Liabilities related to split-interest agreements	688,966	769,536
Other accrued liabilities	499,482	509,595
Lease liabilities, finance leases	337,247	281,677
Lease liabilities, operating leases	6,398,208	3,392,065
Asset retirement obligations	1,148,555	1,082,842
Advances from U.S. Government for student loans	1,148,165	2,261,922
Bonds payable, net	21,290,717	22,653,590
	<u>37,779,689</u>	<u>40,568,159</u>
Total liabilities	<u>37,779,689</u>	<u>40,568,159</u>
Net Assets		
Net assets without donor restrictions	76,132,409	77,372,278
Net assets with donor restrictions	92,683,047	97,327,860
	<u>168,815,456</u>	<u>174,700,138</u>
Total net assets	<u>168,815,456</u>	<u>174,700,138</u>
Total liabilities and net assets	<u>\$ 206,595,145</u>	<u>\$ 215,268,297</u>

See notes to consolidated financial statements

Texas Lutheran University

Consolidated Statement of Activities

Year Ended May 31, 2022

With Comparative Totals for 2021

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Operating Revenues, Gains and Other Support				
Tuition and fees, net of scholarships of \$24,166,072 and \$26,749,379, respectively	\$ 19,717,183	\$ -	\$ 19,717,183	\$ 18,431,611
Long-term investment income and gains allocated for operations	631,291	3,986,838	4,618,129	5,666,214
Investment return	1,830,438	69,819	1,900,257	(8,124)
Contributions	1,568,426	729,449	2,297,875	3,061,810
Government and private grants	8,800,789	-	8,800,789	6,480,377
Auxiliary enterprises	7,114,262	-	7,114,262	5,789,611
Other revenue	786,890	-	786,890	567,571
	<u>40,449,279</u>	<u>4,786,106</u>	<u>45,235,385</u>	<u>39,989,070</u>
Net assets released from restrictions - operating	<u>4,087,255</u>	<u>(4,087,255)</u>	<u>-</u>	<u>-</u>
Total operating revenues, gains and other support	<u>44,536,534</u>	<u>698,851</u>	<u>45,235,385</u>	<u>39,989,070</u>
Operating Expenses				
Instruction	15,277,152	-	15,277,152	13,635,349
Academic support	2,434,161	-	2,434,161	2,122,700
Public service	275,270	-	275,270	250,408
Research	32,005	-	32,005	40,804
Student services	9,302,417	-	9,302,417	6,904,596
Institutional support	10,319,723	-	10,319,723	8,680,625
Development and fund-raising	1,440,761	-	1,440,761	1,145,952
Auxiliary enterprises	5,629,340	-	5,629,340	4,984,457
	<u>44,710,829</u>	<u>-</u>	<u>44,710,829</u>	<u>37,764,891</u>
Change in net assets from operating activities	<u>(174,295)</u>	<u>698,851</u>	<u>524,556</u>	<u>2,224,179</u>
Nonoperating Activities				
Investment return	296,651	1,386,883	1,683,534	999,969
Net (losses) gains on investments	<u>(1,495,959)</u>	<u>(6,993,817)</u>	<u>(8,489,776)</u>	<u>21,192,085</u>
Long-term investment activities	<u>(1,199,308)</u>	<u>(5,606,934)</u>	<u>(6,806,242)</u>	<u>22,192,054</u>
Less: Long-term investment income and gains allocated for operations	<u>(39,158)</u>	<u>(3,986,838)</u>	<u>(4,025,996)</u>	<u>(5,426,214)</u>
Long-term investment activities	<u>(1,238,466)</u>	<u>(9,593,772)</u>	<u>(10,832,238)</u>	<u>16,765,840</u>
Contributions - endowment	3,564	4,095,012	4,098,576	1,974,720
Capital giving activities - contributions and grants	659,060	426,478	1,085,538	93,495
Board designated funds allocated to operations	(592,133)	-	(592,133)	(240,000)
Releases from restrictions - capital	6,724	(6,724)	-	-
Change in value of split-interest agreements	<u>95,677</u>	<u>(264,658)</u>	<u>(168,981)</u>	<u>3,142,529</u>
Change in net assets from nonoperating activities	<u>(1,065,574)</u>	<u>(5,343,664)</u>	<u>(6,409,238)</u>	<u>21,736,584</u>
Change in net assets	<u>(1,239,869)</u>	<u>(4,644,813)</u>	<u>(5,884,682)</u>	<u>23,960,763</u>
Net Assets, Beginning	<u>77,372,278</u>	<u>97,327,860</u>	<u>174,700,138</u>	<u>150,739,375</u>
Net Assets, Ending	<u>\$ 76,132,409</u>	<u>\$ 92,683,047</u>	<u>\$ 168,815,456</u>	<u>\$ 174,700,138</u>

See notes to consolidated financial statements

Texas Lutheran University

Consolidated Statement of Activities

Year Ended May 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>
Operating Revenues, Gains and Other Support			
Tuition and fees, net of scholarships of \$26,749,379	\$ 18,431,611	\$ -	\$ 18,431,611
Long-term investment income and gains allocated for operations	1,510,909	4,155,305	5,666,214
Investment return	(13,370)	5,246	(8,124)
Contributions	2,526,876	534,934	3,061,810
Government and private grants	6,452,666	27,711	6,480,377
Auxiliary enterprises	5,789,611	-	5,789,611
Other revenue	567,571	-	567,571
	<u>35,265,874</u>	<u>4,723,196</u>	<u>39,989,070</u>
Net assets released from restrictions - operating	<u>4,215,607</u>	<u>(4,215,607)</u>	<u>-</u>
Total operating revenues, gains and other support	<u>39,481,481</u>	<u>507,589</u>	<u>39,989,070</u>
Operating Expenses			
Instruction	13,635,349	-	13,635,349
Academic support	2,122,700	-	2,122,700
Public service	250,408	-	250,408
Research	40,804	-	40,804
Student services	6,904,596	-	6,904,596
Institutional support	8,680,625	-	8,680,625
Development and fund-raising	1,145,952	-	1,145,952
Auxiliary enterprises	4,984,457	-	4,984,457
	<u>37,764,891</u>	<u>-</u>	<u>37,764,891</u>
Total operating expenses	<u>37,764,891</u>	<u>-</u>	<u>37,764,891</u>
Change in net assets from operating activities	<u>1,716,590</u>	<u>507,589</u>	<u>2,224,179</u>
Nonoperating Activities			
Investment return	210,502	789,467	999,969
Net gains on investments	4,461,111	16,730,974	21,192,085
Long-term investment activities	4,671,613	17,520,441	22,192,054
Less: Long-term investment income and gains allocated for operations	<u>(1,270,909)</u>	<u>(4,155,305)</u>	<u>(5,426,214)</u>
Long-term investment activities	3,400,704	13,365,136	16,765,840
Contributions - endowment	1,000	1,973,720	1,974,720
Capital giving activities - contributions and grants	73,110	20,385	93,495
Board designated funds allocated to operations	(240,000)	-	(240,000)
Releases from restrictions - capital	162,886	(162,886)	-
Change in value of split-interest agreements	<u>83,566</u>	<u>3,058,963</u>	<u>3,142,529</u>
Change in net assets from nonoperating activities	<u>3,481,266</u>	<u>18,255,318</u>	<u>21,736,584</u>
Change in net assets	<u>5,197,856</u>	<u>18,762,907</u>	<u>23,960,763</u>
Net Assets, Beginning	<u>72,174,422</u>	<u>78,564,953</u>	<u>150,739,375</u>
Net Assets, Ending	<u>\$ 77,372,278</u>	<u>\$ 97,327,860</u>	<u>\$ 174,700,138</u>

See notes to consolidated financial statements

Texas Lutheran University

Consolidated Statements of Cash Flows

May 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (5,884,682)	\$ 23,960,763
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	3,030,692	2,917,670
Accretion of asset retirement obligations	68,413	64,419
Net realized and unrealized losses (gains) in investments	7,543,721	(21,159,672)
Gains on sale of property	(814,049)	-
PPP loan forgiveness	(3,576,400)	-
Gifts and grants restricted for long-term purposes, plant	(475,721)	(92,995)
Gifts and grants restricted for long-term purposes, endowment	(4,095,012)	(1,618,667)
Change in value of split interest agreements	338,800	(3,031,059)
Perkins funds assigned-adjusted allowance	1,202,163	-
Lease expense	298,884	162,482
(Increases) decrease in assets		
Receivables	(60,520)	(83,297)
Inventories	8,498	21,440
Other assets	(162,231)	(160,728)
Increases (decrease) in liabilities		
Accounts payable	118,944	386,593
Payroll related liabilities	280,085	(87,181)
Deposits and other unearned revenue	(283,592)	740,307
Other accrued liabilities	(10,113)	(13,216)
	<u>(2,472,120)</u>	<u>2,006,859</u>
Net Cash Flow From Operating Activities		
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	4,433,683	5,806,020
Purchases of investments	(3,334,350)	(2,167,174)
Proceeds from sale of property	1,619,049	-
Proceeds from repayment of student loans	261,924	452,214
Purchases of property and equipment	(899,738)	(2,775,540)
	<u>2,080,568</u>	<u>1,315,520</u>
Net Cash Flows From Investing Activities		
Cash Flows From Financing Activities		
Repayments of principal on bonds payable	(1,390,000)	(1,340,000)
Repayments of line of credit, construction	-	(615,803)
Proceeds from line of credit, operating	7,150,000	750,000
Payments of line of credit, operating	(7,150,000)	(2,250,000)
Restricted gifts and grants proceeds for long term purposes, plant	545,197	438,010
Restricted gifts and grants proceeds for long term purposes, endowment	4,030,931	1,401,074
Payments to annuitants	(76,198)	(1,476,817)
Finance lease payments	(178,301)	(152,100)
Payments to U.S. Government	(1,113,757)	(263,522)
	<u>1,817,872</u>	<u>(3,509,158)</u>
Net Cash Flow From Financing Activities		
	<u>1,426,320</u>	<u>(186,779)</u>
Net Change in Cash and Cash Equivalents		
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>2,881,946</u>	<u>3,068,725</u>
Cash, Cash Equivalents and Restricted Cash, End of Year	<u>\$ 4,308,266</u>	<u>\$ 2,881,946</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	763,976	844,602
Property, plant and equipment additions in accounts payable	125,346	12,966
Right-of-use assets obtained in exchange for new lease liability		
Finance leases	235,901	267,201
Operating leases	3,051,816	3,265,990

See notes to consolidated financial statements

Texas Lutheran University

Notes to Consolidated Financial Statements

May 31, 2022 and 2021

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 during 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 9).

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.

Texas Lutheran University

Notes to Consolidated Financial Statements

May 31, 2022 and 2021

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 \$3,163,752 that have not been recognized at May 31, 2022 because qualifying expenditures have not yet been incurred.

On April 20, 2020, the University entered into a new loan facility under the recent government enacted Paycheck Protection Program (PPP) (part of the Coronavirus Aid, Relief and Economic Stability Act) administered by the Small Business Administration. The University borrowed \$3,576,400 under the loan facility. The loan carried a fixed interest rate of 1% and was scheduled to mature on April 20, 2022. No payments were required for the first six months. Borrowings under this facility was unsecured. Loans under the PPP have a loan forgiveness feature based on the level of payroll, rent and utilities costs over a twenty-four week period commencing on the date of the loan. The PPP loan is recorded as deferred revenue in the May 31, 2021 consolidated statement of financial position. The loan was forgiven by the Small Business Administration on September 9, 2021 and recorded as government grant revenue in the consolidated statement of activities for the year ended May 31, 2022.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

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 2022-23 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 2022-23 academic year.

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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:

	<u>2022</u>	<u>2021</u>
Balance at beginning of the year	\$ 2,752,218	\$ 2,011,911
Revenue recognized during the year	(2,752,218)	(2,011,911)
Cash received in advance of performance	<u>2,468,626</u>	<u>2,752,218</u>
Balance at end of the year	<u>\$ 2,468,626</u>	<u>\$ 2,752,218</u>

Operating Measure

The University's operating revenues in excess of expenses includes support for operating activities from both donor restricted net assets and net assets without donor restrictions designated for long-term investment (donor-restricted and board-designated endowment) according to the University's spending policy, which is detailed in Note 10. The measure of operations excludes endowment contributions, investment return in excess of amounts made available for operations, capital giving activities, board designated funds allocated to operations, 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, 2022, the University had an operating surplus of \$960,000, 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 3,341,806	\$ 1,915,628
Cash-restricted	<u>966,460</u>	<u>966,318</u>
Balance at end of the year	<u>\$ 4,308,266</u>	<u>\$ 2,881,946</u>

Texas Lutheran University

Notes to Consolidated Financial Statements

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Student Accounts Receivable

The University's student accounts receivable are due from students. Credit is extended to students for tuition, room and board 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, 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 percent of this interest and the University of Texas holds the remaining 95 percent. The University follows the valuation methodology used by the University of Texas, and valued the 5 percent interest in these oil and gas assets at \$473,287 and \$433,441 at May 31, 2022 and 2021, respectively.

Funds Administered by Third Parties

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

Property, Plant and Equipment, Net

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

Texas Lutheran University

Notes to Consolidated Financial Statements

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Property Held for Sale

The University classified to property held for sale 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, 2022 and 2021, 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 6.2 percent to 8.0 percent were used.

Total assets held by the University under split-interest agreements totaled \$207,241 and \$289,013 at May 31, 2022 and 2021, respectively. The University received no new gifts under a split-interest agreement at May 31, 2022 and 2021.

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, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of the year	\$ 1,082,842	\$ 1,018,423
Accretion expense	68,413	64,419
Abatements	<u>(2,700)</u>	<u>-</u>
Balance at end of the year	<u>\$ 1,148,555</u>	<u>\$ 1,082,842</u>

Advances From U.S. Government for Student Loans

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

Advertising Expenses

Advertising expenses approximated \$164,000 and \$101,000 for the years ended May 31, 2022 and 2021, 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, 2022 and 2021. 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, 2022, approximately 52 percent 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, 2022, approximately 65 percent 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.

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 and marketable hedge funds for which quoted prices are readily available.

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

Level 3 assets include:

- Mineral rights and royalties, for which quoted prices are not readily available. The University of Texas has valued certain oil and gas assets, of which Texas Lutheran University holds 5 percent interest, based on current production through June 2021 and 2020, 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 change in fair value methods or assumptions during the year ended May 31, 2022 or 2021.

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A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents financial instruments that are measured at fair value on a recurring basis as of May 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total May 31, 2022</u>
Assets				
Investments:				
Short-term investments	\$ 5,097,760	\$ -	\$ -	\$ 5,097,760
Mutual funds, bond funds:				
U.S. fixed income	9,044,424	-	-	9,044,424
Global fixed income	110,060	-	-	110,060
Other fixed income	260,084	53,293	-	313,377
Mutual funds, equity funds:				
U.S. equities	34,229,963	142,794	-	34,372,757
Non-U.S. equities	11,708,725	-	-	11,708,725
Marketable hedge funds	248,920	-	-	248,920
	<u>60,699,936</u>	<u>196,087</u>	<u>-</u>	<u>60,896,023</u>
Mineral rights and royalties	-	-	473,287	473,287
Funds administered by third parties	-	-	15,921,985	15,921,985
	<u>-</u>	<u>-</u>	<u>15,921,985</u>	<u>15,921,985</u>
Subtotal assets included in valuation hierarchy	<u>\$ 60,699,936</u>	<u>\$ 196,087</u>	<u>\$ 16,395,272</u>	<u>77,291,295</u>
Investments measured using NAV:				
Private equity funds				2,969,288
Real asset funds				1,010,648
Hedge funds				13,085,251
Limited partnerships				4,084,516
Offshore funds				7,040,868
				<u>28,190,571</u>
Subtotal assets using NAV				<u>28,190,571</u>
Total assets at fair value				<u>\$ 105,481,866</u>
Total investments at May 31, 2022 include:				
Investments included in the valuation hierarchy				\$ 60,896,023
Investments measured using NAV				28,190,571
Investments at cost				4,500
				<u>\$ 89,091,094</u>

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The following table presents financial instruments that are measured at fair value on a recurring basis as of May 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total May 31, 2021</u>
Assets				
Investments:				
Short-term investments	\$ 5,716,078	\$ -	\$ -	\$ 5,716,078
Mutual funds, bond funds:				
U.S. fixed income	10,689,389	-	-	10,689,389
Global fixed income	63,723	-	-	63,723
Other fixed income	433,518	73,460	-	506,978
Mutual funds, equity funds:				
U.S. equities	35,194,044	201,133	-	35,395,177
Non-U.S. equities	16,600,040	-	-	16,600,040
Marketable hedge funds	263,777	-	-	263,777
Total investments	68,960,569	274,593	-	69,235,162
Mineral rights and royalties	-	-	433,441	433,441
Funds administered by third parties	-	-	16,229,979	16,229,979
Subtotal assets included in valuation hierarchy	\$ 68,960,569	\$ 274,593	\$ 16,663,420	85,898,582
Investments measured using NAV:				
Private equity funds				3,242,912
Real asset funds				1,314,579
Hedge funds				13,430,552
Limited partnership				5,080,287
Offshore fund				5,437,098
Subtotal assets using NAV				28,505,428
Total assets at fair value				\$ 114,404,010
Total investments at May 31, 2021 include:				
Investments included in the valuation hierarchy				\$ 69,235,162
Investments measured using NAV				28,505,428
Investments at cost				4,500
				\$ 97,745,090

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For the years ended May 31, 2022 and 2021, there were \$201,165 and \$186,628, 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, 2022 and 2021, there were \$230,069 and \$218,867, respectively, of sales and distributions of Level 3 investments.

There were no transfers in or out of Level 3 during the years ended May 31, 2022 and 2021.

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.

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.

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.

Texas Lutheran University

Notes to Consolidated Financial Statements

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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, 2022 and 2021:

Investment Type	Unfunded Commitments	May 31 2022 Fair Value	May 31 2021 Fair Value	Redemption Frequency	Redemption Notice Period	Remaining Life (Years)
Private equity funds (a)	\$ 719,824	\$ 2,969,288	\$ 3,242,912	Not redeemable	N/A	1 year
Real asset funds (b)	412,000	1,010,648	1,314,579	Not redeemable or quarterly	N/A	1 to 6
Hedge funds (c)	-	13,085,251	13,430,552	Last day of fiscal year or anniversary date subject to lock up period	90 days	N/A
Limited partnership (d)	-	4,084,516	5,080,287	Last day of calendar month	30 days	N/A
Offshore fund (e)	-	7,040,868	5,437,098	Last day of calendar month	30 days	N/A
Total	\$ 1,131,824	\$ 28,190,571	\$ 28,505,428			

- (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 \$1,010,648 is nonredeemable on a quarterly basis;
- (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 a limited partnership, the objective of this fund 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 an offshore fund, which invests 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.

The net investment return on nonmarketable investments was \$(2,291,430) and \$6,422,021 for the years ended May 31, 2022 and 2021, respectively.

Texas Lutheran University

Notes to Consolidated Financial Statements

May 31, 2022 and 2021

3. Liquidity and Availability

The following table reflects the University's financial assets as May 31, 2022 and 2021, 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.

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 3,341,806	\$ 1,915,628
Accounts receivable from students and other	679,793	603,085
Contributions receivable, net	142,930	228,595
Student loans receivable, net	367,702	1,831,789
Investments	89,091,094	97,745,090
Mineral rights and royalties	473,287	433,441
Funds administered by third parties	15,921,985	16,229,979
Cash, restricted	966,460	966,318
	<u>110,985,057</u>	<u>119,953,925</u>
Financial assets at May 31	110,985,057	119,953,925
Less those unavailable for general expenditure within one year:		
Contributions receivable for construction projects and endowment	2,011	72,191
Receivables beyond one year	-	60,000
Student loans receivable, Federal Perkins Loan Program	367,702	1,831,789
Endowment net assets restricted by donors, net of appropriation for next year	65,308,591	71,736,218
Endowment net assets designated by the Board of Regents, net of appropriation for next year	14,967,253	17,977,823
Short-term investments held for plant	1,657,069	1,237,314
Investments held for others for split interest agreements	207,241	289,013
Mineral rights and royalties	473,287	433,441
Assets held in trust by others	15,921,985	16,229,979
	<u>98,905,139</u>	<u>109,867,768</u>
Financial assets not available for expenditure within one year	98,905,139	109,867,768
Financial assets available to meet cash needs for general purposes within one year	<u>\$ 12,079,918</u>	<u>\$ 10,086,157</u>

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

The University has an unsecured \$4,000,000 line of credit for operating purposes (Note 8) with available funds of \$4,000,000 as of May 31, 2022, which it could draw upon in the event of an anticipated liquidity need.

As of May 31, 2022, the University has \$14,967,253 of board designated endowment funds, net of appropriations for next year that could be used to fund operating expenses with approval from the Board.

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Notes to Consolidated Financial Statements

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4. Student Accounts Receivable, Net

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

	<u>2022</u>	<u>2021</u>
Student accounts receivable, gross	\$ 1,584,552	\$ 1,467,527
Less allowance for doubtful accounts:		
Beginning of year	(1,344,460)	(1,314,891)
Increases	(24,441)	(29,569)
End of year	<u>(1,368,901)</u>	<u>(1,344,460)</u>
Student accounts receivable, net	<u>\$ 215,651</u>	<u>\$ 123,067</u>

5. Contributions Receivable, Net

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

	<u>2022</u>	<u>2021</u>
Contributions receivable, gross	\$ 154,663	\$ 241,517
Less unamortized discount	(4,000)	(846)
Less allowance for doubtful accounts	<u>(7,733)</u>	<u>(12,076)</u>
Contributions receivable, net	<u>\$ 142,930</u>	<u>\$ 228,595</u>

The maturity of contributions receivable at May 31, 2022 is as follows:

Less than one year	\$ 92,605
One to five years	<u>62,058</u>
Total contributions receivable, gross	<u>\$ 154,663</u>

At May 31, 2022 and 2021, promises due in one to five years were discounted using interest rates ranging between 1.00 percent and 2.20 percent. Promises due in less than one year were not discounted. At May 31, 2022, 42 percent of the outstanding balance was due from one donor.

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May 31, 2022 and 2021

6. Credit Quality of Student Loans Receivable

The University issues uncollateralized loans to students based on financial need. Student loans were 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, 2022 and 2021, student loans represented 0.2 percent and 0.9 percent of total assets, respectively.

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

	<u>2022</u>	<u>2021</u>
Federal government programs	\$ 1,780,865	\$ 2,042,789
Less allowance for doubtful accounts:		
Beginning of year	(211,000)	(211,000)
Change	<u>(1,202,163)</u>	<u>-</u>
End of year	<u>(1,413,163)</u>	<u>(211,000)</u>
Student loans receivable, net	<u>\$ 367,702</u>	<u>\$ 1,831,789</u>

Perkins Loan funds advanced by the Federal government totaled \$1,148,165 and \$2,261,922 at May 31, 2022 and 2021, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

The Extension Act amended section 461 of the Higher Education Act to end the University's authority to make new Perkins Loans after June 30, 2018. The University is not required to assign the outstanding Perkins Loans to the Department of Education or liquidate their Perkins Loan Funds due to the wind-down of the Perkins Loan Program. However, the University may choose to liquidate at any time in the future. As of May 31, 2022, the University continues to service the Perkins Loan Program. During the year ended May 31, 2022, the University returned to the government \$366,938 in excess cash and recognized \$3,038 in reimbursement for cancellations, which equally reduced the receivable for Perkins cancellations and the government grants refundable.

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. 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, 2022 and 2021, the following amounts were past due under student loan programs:

	<u>Amounts Past Due</u>			
	<u>1-60 days</u>	<u>60-90 days</u>	<u>90+ days</u>	<u>Total</u>
May 31:				
2022	\$ 2,200	\$ 371	\$ 103,261	\$ 105,832
2021	2,343	98	813,383	815,824

Texas Lutheran University

Notes to Consolidated Financial Statements
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7. Property, Plant and Equipment, Net

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

	<u>2022</u>	<u>2021</u>
Buildings	\$ 77,643,652	\$ 77,643,652
Improvements other than buildings	28,396,346	27,933,835
Software	1,556,981	1,556,981
Equipment	18,175,982	17,823,165
Total property, plant and equipment	125,772,961	124,957,633
Less accumulated depreciation	(69,947,051)	(67,153,839)
Total depreciable property, plant and equipment, net	55,825,910	57,803,794
Construction in progress	271,998	153,013
Land	29,864,925	29,864,927
Total property, plant and equipment, net	<u>\$ 85,962,833</u>	<u>\$ 87,821,734</u>

8. Bonds Payable, Net and Lines of Credit

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

	<u>2022</u>	<u>2021</u>
City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue Bonds (Texas Lutheran University Project), Series 2011	\$ 6,390,000	\$ 6,835,000
City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue Bonds (Texas Lutheran University Project), Series 2013	6,550,000	7,145,000
City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue and Refunding Bonds (Texas Lutheran University Project), Series 2016	8,540,000	8,890,000
Total bonds payable	21,480,000	22,870,000
Debt issuance costs, net of accumulated amortization	(189,283)	(216,410)
Total bonds payable, net	<u>\$ 21,290,717</u>	<u>\$ 22,653,590</u>

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Notes to Consolidated Financial Statements

May 31, 2022 and 2021

The University has the following bonds outstanding:

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 percent due each March 1 and September 1. Annual principal payments ranging from \$470,000 to \$845,000 are due September 2022 through September 2031. Subsequent to year-end, the bonds were refunded on June 7, 2022. (See Note 16)

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 percent due each March 1 and September 1. Annual principal payment of \$610,000 is due September 2022, with a \$5,940,000 balloon payment due September 2023. Subsequent to year-end, the bonds were refunded on June 7, 2022. (See Note 16).

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 percent due each March 1 and September 1. Annual principal payments ranging from \$305,000 to \$1,140,000 are due September 2022 through September 2037.

The bond agreements include certain nonfinancial covenants. At May 31, 2022 and 2021, the University was in compliance with those covenants.

See Note 16 for aggregate maturities of bonds payable.

Debt issuance costs 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 bonds. Amortization expense was approximately \$27,100 for the years ended May 31, 2022 and 2021.

The University has the following lines of credit available:

A \$4,000,000 unsecured operating line of credit agreement with a bank. The interest rate is at the floating prime rate plus 0.25 percent and was 4.25 percent at May 31, 2022. Interest only payments are due monthly. The line of credit matures on March 22, 2023. There was no outstanding balance for the year ended May 31, 2022 and 2021.

Interest expense was approximately \$770,000 and \$865,000 for the years ended May 31, 2022 and 2021, respectively. There was no interest expense capitalized for the years ended May 31, 2022 and 2021.

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9. Net Assets

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

	<u>2022</u>	<u>2021</u>
Operating	\$ (4,234,967)	\$ (7,245,005)
Invested in property, plant and equipment	64,273,561	65,640,302
Board-designated endowment	16,093,815	18,976,981
	<u>\$ 76,132,409</u>	<u>\$ 77,372,278</u>

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

	<u>2022</u>	<u>2021</u>
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support, operating	\$ 4,244,176	\$ 3,538,957
Scholarships, instruction and other support, endowment	10,078,006	19,671,778
Acquisition of buildings and equipment	1,657,069	1,237,314
Contributions receivable, operating and restricted	80,920	157,108
Split-interest agreements	175,817	223,791
	<u>16,235,988</u>	<u>24,828,948</u>
Donor restricted net assets subject to time or purpose restrictions		
	<u>16,235,988</u>	<u>24,828,948</u>
Pooled endowment	60,146,290	56,051,278
Split-interest agreements	15,746,168	16,006,189
Annuity contracts, contributions receivable and other assets held for endowment	554,601	441,445
	<u>76,447,059</u>	<u>72,498,912</u>
Donor restricted net assets held in perpetuity		
	<u>76,447,059</u>	<u>72,498,912</u>
Total donor restricted net assets	<u>\$ 92,683,047</u>	<u>\$ 97,327,860</u>

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, 2022 and 2021 by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donor as follows:

	<u>2022</u>	<u>2021</u>
Scholarships, instruction and other support	\$ 4,087,255	\$ 4,215,607
Property, plant and equipment acquired and placed into service	6,724	162,886
	<u>\$ 4,093,979</u>	<u>\$ 4,378,493</u>

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10. 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, 2022:

	Without Donor Restrictions	With Donor Restriction			Total Funds May 31, 2022
		Original Gift	Accumulated (Losses)/Gains	Total	
Board-designated endowment funds	\$ 16,093,815	\$ -	\$ -	\$ -	\$ 16,093,815
Donor-restricted endowment funds					
Underwater funds	-	4,726,972	(305,026)	4,421,946	4,421,946
Other funds	-	55,419,318	10,383,032	65,802,350	65,802,350
Total endowment net assets	<u>\$ 16,093,815</u>	<u>\$ 60,146,290</u>	<u>\$ 10,078,006</u>	<u>\$ 70,224,296</u>	<u>\$ 86,318,111</u>

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Endowment net asset composition by type of fund consists of the following as of May 31, 2021:

	Without Donor Restrictions	With Donor Restriction			Total Funds May 31, 2021
		Original Gift	Accumulated Gains	Total	
Board-designated endowment funds	\$ 18,976,981	\$ -	\$ -	\$ -	\$ 18,976,981
Donor-restricted endowment funds	-	56,051,278	19,671,778	75,723,056	75,723,056
Total endowment net assets	\$ 18,976,981	\$ 56,051,278	\$ 19,671,778	\$ 75,723,056	\$ 94,700,037

Changes in endowment net assets for the year ended May 31, 2022 are as follows:

	Without Donor Restrictions	With Donor Restriction			Total Funds May 31, 2022
		Original Gift	Accumulated Gains	Total	
Endowment net assets, May 31, 2021	\$ 18,976,981	\$ 56,051,278	\$ 19,671,778	\$ 75,723,056	\$ 94,700,037
Investment return:					
Investment income	296,651	-	1,386,883	1,386,883	1,683,534
Net depreciation - realized and unrealized	(1,495,959)	-	(6,993,817)	(6,993,817)	(8,489,776)
Total investment return	(1,199,308)	-	(5,606,934)	(5,606,934)	(6,806,242)
Additions to endowment	3,564	4,095,012	-	4,095,012	4,098,576
Appropriation of endowment assets for expenditure	(999,158)	-	(3,986,838)	(3,986,838)	(4,985,996)
Additional appropriation of endowment assets for expenditure - operating	(592,133)	-	-	-	(592,133)
Appropriation of endowment assets for expenditure - capital	(96,131)	-	-	-	(96,131)
Endowment net assets, May 31, 2022	\$ 16,093,815	\$ 60,146,290	\$ 10,078,006	\$ 70,224,296	\$ 86,318,111

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Changes in endowment net assets for the year ended May 31, 2021 are as follows:

	Without Donor Restrictions	With Donor Restriction			Total Funds May 31, 2021
		Original Gift	Accumulated Gains (Losses)	Total	
Endowment net assets, May 31, 2020	\$ 18,115,277	\$ 53,095,418	\$ 6,306,642	\$ 59,402,060	\$ 77,517,337
Investment return:					
Investment income	210,502	-	789,467	789,467	999,969
Net appreciation - realized and unrealized	4,461,111	-	16,730,974	16,730,974	21,192,085
Total investment return	4,671,613	-	17,520,441	17,520,441	22,192,054
Additions to endowment	1,000	1,973,720	-	1,973,720	1,974,720
Transfer to endowment	-	982,140	-	982,140	982,140
Appropriation of endowment assets for expenditure	(1,270,909)	-	(4,155,305)	(4,155,305)	(5,426,214)
Additional appropriation of endowment assets for expenditure - operating	(240,000)	-	-	-	(240,000)
Appropriation of endowment assets for expenditure - capital	(2,300,000)	-	-	-	(2,300,000)
Endowment net assets, May 31, 2021	\$ 18,976,981	\$ 56,051,278	\$ 19,671,778	\$ 75,723,056	\$ 94,700,037

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. During the year ending May 31, 2022, there were 50 funds with deficiencies with a total amount of \$4,726,972. During the year ended May 31, 2021, there were no funds with deficiencies.

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 percent and 8 percent 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 6.00 percent and 7.00 percent for each of the years ending in 2022 and 2021, respectively, 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 percent to 2 percent 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. The Board appropriated from board designated funds \$1,800,000 for completion of the York Centre leasehold improvements, of which \$96,131 was drawn during the year ended May 31, 2022. The Board also appropriated \$5,140,000 of designated funds for operating purposes, of which \$592,133 was drawn during the year ended May 31, 2022.

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 \$538,000 and \$377,000 for the years ended May 31, 2022 and 2021, 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, 2022 and 2021 was \$271,000 and \$249,000, respectively. The University has an aggregate stop-loss limit of \$2,113,000.

12. Leases

The University leases certain equipment under noncancelable operating leases expiring through July 2033 and noncancelable finance leases expiring through August 2025. The weighted-average discount rate used for the year ending May 31, 2022 was 4 percent. Total rental expenses approximated \$613,000 and \$351,000 for the years ended May 31, 2022 and 2021, respectively.

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

	<u>Operating Lease</u>	<u>Finance Lease</u>
Years ending May 31:		
2023	\$ 410,152	\$ 169,295
2024	576,936	128,356
2025	592,639	48,503
2026	614,004	6,099
2027	652,458	-
Thereafter	3,576,788	-
Total	6,422,977	352,253
Less present value discount	(24,769)	(15,006)
Lease liability	<u>\$ 6,398,208</u>	<u>\$ 337,247</u>

Below is a summary of expenses incurred pertaining to leases during the year ended May 31, 2022:

Finance lease expense:	
Amortization of right-of-use assets	\$ 135,246
Interest on lease liabilities	19,393
Operating lease expense	500,507
Short-term lease expense	(119,176)
Variable lease expense	77,455
Total lease expense	<u>\$ 613,425</u>

Weighted average remaining lease term (in years):

Operating leases	7.06
Finance leases	1.22

Weighted average discount rate:

Operating leases	3.90 %
Finance leases	4.00 %

The following table includes supplemental cash flow and noncash information related to the leases for the year ended May 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 300,913
Operating cash flows from finance leases	133,217
Financing cash flows from finance leases	(178,301)
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	235,901
Finance leases	3,051,816

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Notes to Consolidated Financial Statements

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13. 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 base 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, 2022:

	Program Services		Supporting Activities			Total Expenses
	Instruction, Academic Support & Research	Student Services & Auxiliary Enterprises	Institutional Support	Public Service	Development and Fund-raising	
Expenses:						
Salaries and wages	\$ 9,699,980	\$ 3,965,697	\$ 3,477,122	\$ 149,543	\$ 744,246	\$ 18,036,588
Employee benefits	2,242,055	893,400	1,089,664	17,339	211,503	4,453,961
Services, supplies and other	3,397,179	7,891,527	3,710,573	82,530	460,905	15,542,714
Occupancy, utilities and maintenance	1,233,390	868,126	751,578	13,070	10,299	2,876,463
Depreciation and amortization	1,163,923	1,305,390	534,937	12,714	13,728	3,030,692
Interest	6,791	7,617	755,849	74	80	770,411
Total expenses	<u>\$ 17,743,318</u>	<u>\$ 14,931,757</u>	<u>\$ 10,319,723</u>	<u>\$ 275,270</u>	<u>\$ 1,440,761</u>	<u>\$ 44,710,829</u>

The following table presents expenses as of May 31, 2021:

	Program Services		Supporting Activities			Total Expenses
	Instruction, Academic Support & Research	Student Services & Auxiliary Enterprises	Institutional Support	Public Service	Development and Fund-raising	
Expenses:						
Salaries and wages	\$ 8,962,583	\$ 3,588,757	\$ 3,070,278	\$ 149,089	\$ 640,531	\$ 16,411,238
Employee benefits	2,020,722	834,692	1,211,436	20,079	173,388	4,260,317
Services, supplies and other	2,679,778	5,430,347	2,317,959	57,132	311,401	10,796,617
Occupancy, utilities and maintenance	960,269	795,431	739,091	12,033	7,594	2,514,418
Depreciation and amortization	1,163,206	1,226,858	502,755	11,949	12,902	2,917,670
Interest	12,295	12,968	839,106	126	136	864,631
Total expenses	<u>\$ 15,798,853</u>	<u>\$ 11,889,053</u>	<u>\$ 8,680,625</u>	<u>\$ 250,408</u>	<u>\$ 1,145,952</u>	<u>\$ 37,764,891</u>

14. 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, 2022 and 2021.

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.

15. Higher Education Emergency Relief Funding

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided budgetary relief to higher education institutions. Congress set aside approximately \$14.25 billion of the \$30.75 billion allotted to the Education Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF I). In the Spring of 2020 each institution received one grant comprised of two parts. Under the legislation, no less than 50 percent of the full grant was to be used for direct emergency aid to students. The remaining portion of the full grant was to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Institutions were given one calendar year from the date of award in their HEERF I Grant Award Notification to complete the performance of their HEERF I grant. The College was awarded \$1,511,400 of HEERF I funding. As of May 31, 2020, \$257,323 of the student relief portion of the grant was expended and recognized as federal grants and student aid expense in fiscal year 2020. The institutional portion of the HEERF I Grant award (\$704,097) was received and recognized during the year ended May 31, 2020 as the barriers to recognition were met during the fiscal year. As of May 31, 2021, the remaining student relief portion (\$446,774) of the grant was expended and recognized as federal grants and student aid expense in fiscal year 2021. The institutional MSI portion of the HEERF I Grant award (\$103,206) was received and recognized during the year ended May 31, 2021.

On December 27, 2020 the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) was signed into law which authorized the Higher Education Emergency Relief Fund II (HEERF II). In total, the CRRSAA authorizes \$81.88 billion in support for education, in addition to the \$30.75 billion expeditiously provided last spring through the CARES Act. Congress expanded the allowable uses for supplemental awards and new awards made under the CRRSAA and for unspent CARES Act funds, subject to certain limitations. In addition, the CRRSAA requires that an institution receiving funding provide the "same amount" in financial aid grants to students from the new CRRSAA funds that it was required or which it would have been required to provide under its original CARES Act Student Aid Portion award. The University was awarded \$2,380,800 of HEERF II funding. As of May 31, 2021, of the student relief portion of the grant (\$704,097) was expended and recognized as federal grants and student aid expense in fiscal year 2021. The institutional and institutional MSI portion of the HEERF II Grant award (\$1,676,703) was received and recognized during the year ended May 31, 2021 as the barriers to recognition were met during the fiscal year.

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 percent 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. As of May 31, 2021, of the student relief portion of the grant (\$322,500) was expended and recognized as federal grants and student aid expense in fiscal year 2021. The institutional portion of the HEERF II Grant award (\$322,500) was received and recognized during the year ended May 31, 2021 as the barriers to recognition were met during the fiscal year. As of May 31, 2022, of the student relief portion of the grant (\$1,646,604) was expended and recognized as federal grants and student aid expense in fiscal year 2022. The institutional and institutional MSI portion of the HEERF II Grant award (\$1,003,931) was received and recognized during the year ended May 31, 2022 as the barriers to recognition were met during the fiscal year.

For the portion of the HEERF funds recognized in both fiscal year 2021 (\$3,575,780) and 2022 (\$2,650,535), these grants were reported as government grants revenue without donor restrictions in the consolidated statements of activities.

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16. Subsequent Events

On May 12, 2022, the University authorized the issuance of obligations designated as “City of Seguin Higher Education Facilities Corporation Higher Education Revenue Refunding Bonds (Texas Lutheran University Project), Series 2022” (the Bonds) by the City of Seguin Higher Education Facilities Corporation, with a dated date of June 1, 2022, subsequent to the fiscal year end. The University also authorized an indenture of trust and security agreement between the Issuer and U.S. Bank trust Company, National Association (the trustees). The bonds were sold for a par value of \$13,215,000, with semi-annual interest payments of 3.65 percent due each March 1 and September 1. Annual principal payments ranging from \$100,000 to \$2,190,000 are due September 2023 through September 2034. These bonds were used to extinguish the City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue Bonds (Texas Lutheran University Project), Series 2011, with a principal balance of \$6,390,000, and the City of Olmos Park, Texas Higher Education Facilities Corporation Higher Education Revenue Refunding Bonds (Texas Lutheran University Project), Series 2013 with a principal balance of \$6,550,000. The refunding of these obligations resulted in a net present value benefit of \$70,816 and increase in total bonds payable of \$275,000. The following table reflects the University's future debt obligations resulting from this issuance.

Years ending May 31:	
2023	\$ 460,000
2024	470,000
2025	1,045,000
2026	1,080,000
2027	1,105,000
Thereafter	<u>17,595,000</u>
	<u>\$ 21,755,000</u>

The University has evaluated its consolidated financial statements for subsequent events through October 7, 2022 which is the date the consolidated financial statements were issued.