LANCER EDUCATIONAL HOUSING, LLC

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2024

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LANCER EDUCATIONAL HOUSING, LLC
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YEAR ENDED JUNE 30, 2024

INDEPENDENT AUDITORS' REPORT

Member
Lancer Educational Housing, LLC
Riverside, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Lancer Educational Housing, LLC (the Organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2024, 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.

Basis for Opinion

We conducted our audit 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 Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Related Party Relationships

Lancer Educational Housing, LLC is a California limited liability company that has been organized and operates as a title holding company for facilities for the benefit of California Baptist University. The Organization's sole voting member is Lancer Educational Housing Corporation, a California nonprofit organization organized and operated to provide student housing and auxiliary facilities. See Notes 1 and 6 for additional information regarding related parties and related party transactions. Our opinion is not modified with respect to this matter.

Budget Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying budget information in the statement of activities is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 Organization'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

Member
Lancer Educational Housing, LLC

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, California
September 20, 2024

LANCER EDUCATIONAL HOUSING, LLC
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	$ 25,309,201
Accounts Receivable - Related Party	3,426,377
Total Current Assets	28,735,578
LONG-TERM ASSETS	
Cash Restricted for Bond Debt Service Reserves	10,440,084
Property, Plant, and Equipment (Net of Depreciation)	139,182,653
Total Long-Term Assets	149,622,737
Total Assets	$ 178,358,315
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accrued Liabilities - Related Party	$ 11,315,372
Accrued Liabilities	582,575
Deferred Revenue	201,898
Bonds Payable - Current Portion	3,357,577
Total Current Liabilities	15,457,422
LONG-TERM LIABILITIES	
Bonds Payable - Net of Current Portion	141,781,375
Total Long-Term Liabilities	141,781,375
Total Liabilities	157,238,797
NET ASSETS	
Net Assets Without Donor Restriction	21,119,518
Total Liabilities and Net Assets	$ 178,358,315

See accompanying Notes to Financial Statements.

LANCER EDUCATIONAL HOUSING, LLC
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2024

	Actual	Budget	
OPERATING REVENUES, WITHOUT DONOR RESTRICTION			
Student Housing Fees	$ 22,153,436	$ 22,402,500	
Lease Income - Related Party	2,123,687	2,123,687	
Interest Income	1,043,635	178,000	
Total Revenues	25,320,758	24,704,187	
OPERATING EXPENSES			
Program Activities:			
Student Work Wages	766,791	1,255,671	
Contracted Services - Other	2,329,147	2,514,589	
Repair and Maintenance*	2,060,975	2,654,742	*
Depreciation Expense	5,952,373	5,794,407	
Utilities	2,184,973	2,461,862	
Interest Expense/Debt Service	7,075,524	7,278,900	
Management Fee - Related Party	1,595,981	1,076,153	
Total Program Activities	21,965,764	23,036,324	
Management and General:			
Insurance Expense	698,243	622,150	
Other Operating Expense	90,022	84,581	
Management Fee - Related Party	219,922	27,525	
Total Management and General	1,008,187	734,256	
Total Operating Expenses	22,973,951	23,770,580	
CHANGE IN OPERATING NET ASSETS WITHOUT DONOR RESTRICTION	2,346,807	$ 933,607	
NONOPERATING ACTIVITIES			
Contributions	(2,000,000)		
CHANGE IN NONOPERATING NET ASSETS WITHOUT DONOR RESTRICTION	(2,000,000)		
CHANGE IN TOTAL NET ASSETS WITHOUT DONOR RESTRICTION	346,807		
Net Assets Without Donor Restriction - Beginning of Year	20,772,711		
NET ASSETS WITHOUT DONOR RESTRICTION - END OF YEAR	$ 21,119,518		

* Repair and Maintenance line item in budget column includes Repair and Replacement reserve funding of $978,778

See accompanying Notes to Financial Statements.

LANCER EDUCATIONAL HOUSING, LLC
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2024

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets Without Donor Restriction	$ 346,807
Adjustments to Reconcile Change in Net Assets Without Donor Restriction to Net Cash Flows Provided by Operating Activities:	
Depreciation	5,952,373
Cost of Issuance Amortization	170,454
Bond Premium Amortization	(201,831)
Change in Operating Assets:	
Accounts Receivable	(2,153,922)
Change in Operating Liabilities:	
Accrued Liabilities - Related Party	4,285,150
Accrued Liabilities	(9,667)
Deferred Revenue	5,221
Net Cash Flows Provided by Operating Activities	8,394,585
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property, Plant, and Equipment	(2,809,991)
Net Cash Flows Used in Investing Activities	(2,809,991)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on Bonds Payable	(3,050,000)
Net Cash Flows Used in Financing Activities	(3,050,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,534,594
Cash and Cash Equivalents - Beginning of Year	33,214,691
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 35,749,285
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash Paid for Interest, Net of Capitalized Interest	$ 7,520,021
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Cash and Cash Equivalents	$ 25,309,201
Restricted Cash	10,440,084
Total Cash and Cash Equivalents	$ 35,749,285

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lancer Educational Housing, LLC (the Organization) is a California limited liability company that has been organized and operates as a title holding company for student housing facilities. The Organization's sole voting member is Lancer Educational Housing Corporation (the Corporation), a California nonprofit organization organized and operated to provide student housing and auxiliary facilities. The Organization was not established for any purpose other than to support the tax-exempt charitable purposes of the Corporation.

Basis of Accounting

The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and other liabilities.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board.

Donor-Imposed Restrictions

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization had no donor restricted net assets as of June 30, 2024.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition and Disaggregation of Revenue

Student housing fees are recognized in the fiscal year in which the services are provided. Student housing is available during the three academic semesters of California Baptist University: Fall (early September – late December), Spring (early January – late April), and Summer (early May – late August). Payments of student housing fees for the summer semester are recognized as performance obligations are met. Because the summer semester spans two reporting periods, a portion of the payments is included in deferred revenue as of June 30, 2024 (see deferred revenue below). Students that withdraw from the University may be refunded or credited on a prorated basis upon approval of a written appeal. Refunds are issued two weeks from approval and reduce the amount of revenue recognized. Payments for housing fees are due approximately one week prior to the start of the academic term.

Deferred Revenue

Deferred revenue represents payments for student housing fees prior to satisfaction of the performance obligation. The following table depicts activities for deferred revenue:

Balance at 6/30/2023	Revenue Recognized, Deposits Applied/Forfeited	Cash Received in Advance of Performance	Balance at 6/30/2024
$ 196,677	$ (196,677)	$ 201,898	$ 201,898

The balance of deferred revenue at June 30, 2024, less any refunds issued will be recognized as revenue over the summer semester as services are rendered. The Organization applies the practical expedient in ASC 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Income Taxes

The Organization is a disregarded entity for federal and state income tax purposes. It also qualifies as a tax exempt title holding company under California Revenue and Taxation Code Section 23701x. Accordingly, no provision for income taxes has been made in these financial statements. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The Organization files informational returns in the state of California.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost and depreciated on the straight-line method. Useful lives used in the calculation of accumulated depreciation by major category of assets are as follows:

Buildings and Improvements (Considering the Date Originally Constructed or Purchased and Remaining Useful Life)	15 to 40 Years
Equipment and Fixtures	10 Years

Property, plant, and equipment balances as of June 30, 2024 are as follows:

Construction in Progress	$ 438,304
Building and Improvements	170,611,080
Equipment	10,460,557
Vehicles	26,333
Accumulated Depreciation	(42,353,621)
Property, Plant, and Equipment, Net	$ 139,182,653

No interest expense was capitalized for the year ended June 30, 2024.

Leases – Organization as Lessee

The Organization determines if an arrangement is a lease at inception. The Organization has no significant operating leases and only one financing lease (see Notes 6 and 7).

Functional Expenses

The Organization reports its expenses on a functional basis in the statement of activities. Natural categories of expenses are directly allocated to a function based on the program or supporting function benefiting from the activity. The management fee is allocated between program and support based on the ratio of program and supporting expenses excluding the management fee.

Subsequent Events

All events subsequent to the statement of financial position date through September 20, 2024, which is the date these financial statements were available to be issued, have been evaluated in accordance with accounting principles generally accepted in the United States of America.

NOTE 2 CONCENTRATION OF CREDIT RISK

The Organization maintains several cash accounts with financial institutions. Because of the need to periodically maintain high cash balances in its accounts for operational purposes, a portion of its deposits exceeded the $250,000 insured by the Federal Deposit Insurance Corporation (FDIC) as of June 30, 2024.

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure are those that do not have donor or other restrictions limiting their use and are available to meet general expenditures within one year of the statement of financial position date.

As of June 30, 2024, financial assets available for general expenditures are as follows:

Cash and Cash Equivalents	$ 25,309,201
Accounts Receivable - Related Party	3,426,377
Financial Assets Available for General Expenditure	$ 28,735,578

As part of its liquidity management, the Organization maintains excess cash and cash equivalents on hand to ensure general expenditures can be met. Housing and lease income is set to ensure adequate cash flow to meet debt service and operating needs.

NOTE 4 CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents represent investments in highly liquid accounts or debt instruments with an original maturity of three months or less and deposits with trustee that are being held to satisfy current debt service requirements.

NOTE 5 BONDS PAYABLE

In November 2016, LEH LLC obtained $113,555,000 in financing through the CSCDA to be used to refinance existing bond debt and to acquire certain student housing facilities owned by California Baptist University. The bonds are considered limited obligations of the Organization, secured by a pledge of certain gross revenues and a deed of trust on the leasehold interest of the student housing facilities acquired. The loan agreement requires the Organization to comply with various covenants, conditions and restrictions, including maintaining certain financial ratios. The bonds bear interest rates ranging from 4% to 5% and mature on June 1, 2046. The balance outstanding as of June 30, 2024 is $96,345,000.

NOTE 5 BONDS PAYABLE (CONTINUED)

In May 2019, LEH LLC obtained $47,735,000 in additional financing through the CSCDA to be used to acquire, construct, improve, renovate, furnish, and equip certain housing facilities for faculty, staff, and students of California Baptist University. The bonds are considered limited obligations of the Organization, secured by a pledge of certain gross revenues and a deed of trust on the leasehold interest of the student housing facilities acquired. The loan agreement requires the Organization to comply with various covenants, conditions and restrictions, including maintaining certain financial ratios. The bonds bear interest rates ranging from 3% to 5% and mature on June 1, 2051. The balance outstanding as of June 30, 2024 is $46,295,000.

Bonds payable are reported on the statement of financial position including a premium of $4,942,695. The premium is being amortized over the life of the bonds.

LEH LLC is required to maintain in bond reserve cash accounts amounts equal to the total bond reserve requirement, which is currently $10,440,084, which represents an amount equal to the greatest amount of bond debt service in any fiscal year during the period commencing the fiscal year the determination is being made and terminating with the last fiscal year in which any bond is due. LEH LLC must deposit for credit to the bond fund account an amount sufficient to pay principal and interest payable on the next ensuing payment date. A portion of the bonds are subject to early redemption at the option of the Borrower on any date after June 1, 2026.

Debt Issue Costs

Costs associated with the issuance of bonds payable are reported as a reduction of the bonds payable on the statement of financial position. These costs are amortized over the term of the bonds. Additionally, costs associated with the issuance of bonds that were refinanced have been written off and included in the loss on extinguishment of debt. Amortization of the issuance costs for the year ended June 30, 2024 was $170,454.

Future maturities under bonds payable are as follows:

Year Ending June 30,	Amount
2025	$ 3,250,000
2026	3,450,000
2027	3,655,000
2028	3,895,000
2029	4,095,000
Thereafter	124,295,000
Total Future Maturities	142,640,000
Unamortized Issue Costs	(2,443,743)
Unamortized Premium	4,942,695
Net Bonds Payable	$ 145,138,952

NOTE 6 RELATED PARTY

Lancer Educational Housing Corporation's board is comprised of two employees of California Baptist University (the University) and three other unrelated persons. The University is a private institution of higher education, offering both undergraduate and graduate courses to students. The University is located in Riverside, California.

The facilities owned by the Organization are managed by the University under management agreements. Management fees charged to the Organization under these agreements for the year ended June 30, 2024 amounted to $1,815,903. The University also has a contingent operating expense agreement by which the expenses related to the facilities are paid for by the University and reimbursed by each LLC. At June 30, 2024, the Organization had accounts receivable from the University in the amount $3,426,377 and an amount owed to the University of $10,088,367 relating to these agreements.

In November 2016, the Organization purchased the Colony Student Housing LLC buildings and equipment and the Point from the University for $48,535,584. The University retained title to the land. In April 2017, the Organization purchased the College Park Apartments from the University for $6,545,496.

Although the Organization purchased the buildings as described above, all interest in the buildings and any improvements revert back to the University at the expiration of the ground lease term described previously in this footnote. Therefore, these two purchases have been reported as a capital lease. All amounts under the lease have been prepaid and therefore there are no future minimum future lease payments. The cost and book value of capital leased assets as of June 30, 2024 was $55,081,080 and $43,277,993, respectively.

As of June 30, 2024 the Organization owed $1,227,005 to Lancer Plaza, LLC (an entity under common control).

Ground Lease

LEH LLC does not own the fee title to the land upon which its facilities are located; LEH LLC has a ground leasehold interest, pursuant to a Ground Lease between LEH LLC and the University. The term of the Ground Lease ends on November 15, 2051, except as to the portion of the premises identified as Magnolia Crossings, which ends on June 1, 2056. The title to the facilities and any other improvements that may be constructed by LEH LLC during the lease term are vested in LEH LLC, until the expiration of the lease term. Pursuant to the Ground Lease, the University has an option to terminate the Ground Lease early, by paying to LEH LLC an amount equal to the greater of: (i) fair market value for such leasehold interest, or (ii) the amount of all outstanding bonds. At the expiration of the lease term, the title to the facilities and other improvements on the land revert to the fee owner (i.e. the University).

NOTE 6 RELATED PARTY (CONTINUED)

Operating Lease

The Organization leases a portion of its facilities to the University under a month-to-month arrangement for which the University pays the equivalent of what the student housing fees would have been had the units been available for students. For the year ended June 30, 2024, the Organization had $2,123,687 in revenue from the University under this lease.

NOTE 7 ADDITIONAL LEASE DISCLOSURES UNDER ASC 842

All of the Organization's leases are with California Baptist University (a related party) and are described in Note 6. Additional disclosures relating to these leases are as follows:

Organization as Lessee LEH LLC – Financing Lease

The financing lease right of use asset is $43,277,993 and is included with Property, Plant, and Equipment in the statement of financial position. Total amortization on the right of use asset was $1,573,744 for the year ended June 30, 2024 and the remaining lease term is 27.4 years. As the amounts for this lease were prepaid, there is no discount rate applicable and there is no lease liability or future payments.