Consolidated Financial Statements
and Independent Auditor's Report

**Houston Christian University
and Subsidiary**

May 31, 2024 and 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Houston Christian University

Opinion

We have audited the accompanying consolidated financial statements of Houston Christian University and its Subsidiary (collectively, the "University"), which comprise the consolidated statements of financial position as of May 31, 2024 and 2023, and the related consolidated statements of activities, and cash flows for the fiscal years then ended, and the related notes to the consolidated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston Christian University and Subsidiary as of May 31, 2024 and 2023, 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Houston Christian University and Subsidiary 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 Houston Christian University and Subsidiary's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibility 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 auditor's 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 Houston Christian University and Subsidiary. 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 Houston Christian University and Subsidiary '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.

Other Matter - Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental consolidating balance sheets and consolidating statements of income of Beechnut Street, Inc. and subsidiaries is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2024 on our consideration of Houston Christian University and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Houston Christian University and Subsidiary's internal control over financial reporting and compliance.

Fitts, Roberts, Kolkhorst & Co., P.C.

Houston, Texas
September 30, 2024

HOUSTON CHRISTIAN UNIVERSITY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of May 31,

	2024	2023
ASSETS		
Cash and cash equivalents	$ 29,917,085	$ 32,784,366
Cash - restricted	8,145,759	7,739,118
Receivables		
Students, net of allowance for credit losses of $3,537,982 and $2,385,466, respectively	8,178,999	8,402,175
Government	340,194	382,948
Pillars sale	-	1,800,000
Other	1,079,553	1,172,874
Pledges receivable - net	22,647,313	21,701,633
Prepayments, inventories and other assets	2,144,057	2,109,213
Investments	136,327,354	124,896,517
Investment in plant assets - net	141,597,433	139,122,856
Interests in trusts held by others	5,251,216	5,013,171
Interests in funds administered by others	7,890	7,092
TOTAL ASSETS	$ 355,636,853	$ 345,131,963
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	$ 9,858,886	$ 7,719,391
Deferred income	56,896	826,123
Deposits and agency funds	24,345	186,431
Financing leases payable	227,717	409,596
Notes payable	17,110,332	18,876,645
Bonds payable	80,288,241	80,612,517
TOTAL LIABILITIES	107,566,417	108,630,703
NET ASSETS		
Without donor restrictions	115,078,771	110,176,807
With donor restrictions	132,991,665	126,324,453
TOTAL LIABILITIES AND NET ASSETS	$ 355,636,853	$ 345,131,963

HOUSTON CHRISTIAN UNIVERSITY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the year ended May 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support			
Tuition and fees	$ 115,091,595	$ -	$ 115,091,595
Funded	(11,608,328)	-	(11,608,328)
Unfunded	(53,811,872)	-	(53,811,872)
Tuition and fees, net	49,671,395	-	49,671,395
Private gifts and grants:			
Baptist General Convention of Texas	267,597	-	267,597
Government grants & contracts	5,492,829	1,212,106	6,704,935
Other	7,061,654	4,834,695	11,896,349
Investment and endowment income	2,915,020	3,196,267	6,111,287
Sales & services of auxiliary enterprises	14,283,219	181,811	14,465,030
Other	627,897	1,706,167	2,334,064
Net assets released from restriction:			
Satisfaction of program restrictions	14,153,525	(14,153,525)	-
Total operating revenues and support	94,473,136	(3,022,479)	91,450,657
Operating expenses:			
Compensation:			
Instructional salaries	14,402,931	-	14,402,931
Staff salaries	19,806,261	-	19,806,261
Benefits	6,786,257	-	6,786,257
Total compensation	40,995,449	-	40,995,449
Other:			
General operating expenses	39,076,110	-	39,076,110
Depreciation	5,578,845	-	5,578,845
Interest	4,441,389	-	4,441,389
Total other	49,096,344	-	49,096,344
Total expenses	90,091,793	-	90,091,793
EXCESS OF OPERATING REVENUES AND SUPPORT OVER EXPENSES	$ 4,381,343	$ (3,022,479)	$ 1,358,864

HOUSTON CHRISTIAN UNIVERSITY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES - continued
For the year ended May 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Non-operating activities:			
Contributions	-	1,934,692	1,934,692
Net assets released from restrictions:			
Satisfaction of capital acquisition restrictions	727,692	(727,692)	-
Change in value of split interest agreements	-	232,250	232,250
Unrealized gain on investments	739,141	8,867,224	9,606,365
Realized (loss) on sale of investments	30,091	(616,783)	(586,692)
BSI operations	(976,303)	-	(976,303)
CHANGES IN NET ASSETS FROM NON-OPERATING ACTIVITIES	$ 520,621	$ 9,689,691	$ 10,210,312
Increase (decrease) in net assets	$ 4,901,964	$ 6,667,212	$ 11,569,176
Net assets beginning balance	$ 110,176,807	$ 126,324,453	$ 236,501,260
Net assets ending balance	$ 115,078,771	$ 132,991,665	$ 248,070,436

HOUSTON CHRISTIAN UNIVERSITY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the year ended May 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support			
Tuition and fees	$ 110,188,609	$ -	$ 110,188,609
Funded	(8,289,979)	-	(8,289,979)
Unfunded	(51,145,266)	-	(51,145,266)
Tuition and fees, net	50,753,364	-	50,753,364
Private gifts and grants:			
Baptist General Convention of Texas	307,554	-	307,554
Government grants & contracts	4,898,582	3,802,117	8,700,699
Other	9,872,935	6,265,181	16,138,116
Investment and endowment income	1,726,661	2,627,420	4,354,081
Sales & services of auxiliary enterprises	12,528,384	136,240	12,664,624
Other	977,697	137,120	1,114,817
Net assets released from restriction:			
Satisfaction of program restrictions	11,685,497	(11,685,497)	-
Total operating revenues and support	92,750,674	1,282,581	94,033,255
Operating expenses:			
Compensation:			
Instructional salaries	14,862,700	-	14,862,700
Staff salaries	19,153,830	-	19,153,830
Benefits	6,602,063	-	6,602,063
Total compensation	40,618,593	-	40,618,593
Other:			
General operating expenses	39,925,622	-	39,925,622
Depreciation	5,397,434	-	5,397,434
Interest	4,246,166	-	4,246,166
Total other	49,569,222	-	49,569,222
Total expenses	90,187,815	-	90,187,815
EXCESS OF OPERATING REVENUES AND SUPPORT (UNDER) OVER EXPENSES	$ 2,562,859	$ 1,282,581	$ 3,845,440

HOUSTON CHRISTIAN UNIVERSITY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES - continued
For the year ended May 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Non-operating activities:			
Contributions	-	5,105,429	5,105,429
Net assets released from restrictions:			
Satisfaction of capital acquisition restrictions	15,470,805	(15,470,805)	-
Change in value of split interest agreements	-	(227,179)	(227,179)
Unrealized (loss) on investments	409,648	992,689	1,402,337
Realized (loss)/gain on sale of investments	(356,593)	(3,484,560)	(3,841,153)
BSI operations	(933,344)	-	(933,344)
	14,590,516	(13,084,426)	1,506,090
CHANGES IN NET ASSETS FROM NON-OPERATING ACTIVITIES	$ 14,590,516	$ (13,084,426)	$ 1,506,090
Increase (decrease) in net assets	$ 17,153,375	$ (11,801,845)	$ 5,351,530
Net assets beginning balance	$ 93,023,432	$ 138,126,298	$ 231,149,730
Net assets ending balance	$ 110,176,807	$ 126,324,453	$ 236,501,260

HOUSTON CHRISTIAN UNIVERSITY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended May 31,

	2024	2023
Cash flows from operating activities:		
Change in net assets	$ 11,569,176	$ 5,351,530
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized loss on sale of investments	586,692	3,841,153
Unrealized (gain) loss on investments	(9,606,365)	(1,402,337)
Change in value of split-interest agreements and other trusts	(238,843)	(227,179)
Reinvested interest and dividends	(3,285,379)	(2,782,691)
Bad debt expense	2,817,709	1,495,755
Depreciation and amortization of plant assets	5,578,845	5,397,434
Amortization of debt cost and bond premiums	(77,525)	494,192
Changes in:		
Receivables	(658,461)	2,935,616
Pledges receivable, net	(945,680)	(4,117,711)
Prepayments, inventories, and other assets	(34,844)	(278,780)
Accounts payable and accrued liabilities	2,165,833	(2,072,164)
Deposits and agency funds	(162,083)	(41,101)
Deferred income	(769,227)	(503,754)
Net cash provided by operating activities	6,939,848	8,089,963
Cash flows from investing activities:		
Purchases of investments	(4,387,867)	(1,915,623)
Proceeds from sale of investments	5,262,083	221,301
Purchases of plant assets	(8,053,422)	(7,625,367)
Contractual payments on annuities	(26,339)	(35,939)
Net cash (used in) investing activities	(7,205,545)	(9,355,628)

HOUSTON CHRISTIAN UNIVERSITY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
For the year ended May 31,

	2024	2023
Cash flows from financing activities:		
Payments on debt and finance leases payable	(2,194,943)	(2,147,734)
Net cash (used in) provided by financing activities	(2,194,943)	(2,147,734)
Net (decrease) in cash, cash equivalents and restricted cash	(2,460,640)	(3,413,399)
Cash, cash equivalents and restricted cash - beginning of year	40,523,484	43,936,883
Cash, cash equivalents and restricted cash - end of year	38,062,844	$ 40,523,484

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. General

Houston Christian University (the "University") is a private, non-profit institution of higher education based in Houston, Texas. The University is affiliated with the Baptist General Convention of Texas and provides education and training services primarily for students at the undergraduate and graduate levels. The University is a non-profit organization exempt from Federal income taxes under 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. The University is primarily supported by tuition and fees from students.

Beechnut Street, Inc. ("BSI") is a wholly-owned for-profit subsidiary of the University's Quasi Endowment Fund. BSI was established to hold and operate certain real estate and other investments. Previously, BSI owned three retail buildings and two ground leases on the southeast corner of Fondren and US 59. In March 2021, BSI entered into a 30 year lease agreement to lease the entire property to a third-party. BSI continues to redevelop this property in order to provide services to students and constituents of the University as well as members of the community around the University.

The balance sheet and statement of income of BSI prior to consolidation with the University are included in the supplemental schedules to this report.

The University also owns the Husky Village apartment complex. The complex consists of 143 units designed to house students attending the University.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

2. Basis of Presentation

The consolidated financial statements include the accounts of the various academic and administrative divisions of the University and BSI. Inter-company balances and transactions are eliminated upon consolidation.

Net assets, revenues, gains, and loses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

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. Gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. 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.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the University, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity (primarily gifts for endowment and providing loans to students) and only the income be made available for program operations. Other permanently restricted items in this net asset category include annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.

Gifts, including unconditional pledges, are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Pledges receivable are stated at the estimated net present value, net of an allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

During the years ended May 31, 2024 and 2023, the University received gifts for both Capital and programmatic expenditure with donor restrictions. The following gives detail of what funds were for capital expenditure and programmatic expenditures:

	2024	2023
Capital gifts	$ 1,793,032	$ 3,529,172
Programmatic gifts	3,041,663	2,736,009
Total	$ 4,834,695	$ 6,265,181

Revenues from sources other than contributions, and expenses, are reported as increases or decreases in net assets without donor restrictions. Gains or losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Expirations of temporary restrictions recognized on net assets (e.g., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from donor restricted net assets to net assets without donor restrictions.

Student tuition and fees are recorded as revenue during the year in which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Revenue from government and private grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements.

3. Cash and Cash Equivalents

Cash equivalents include time deposits, certificates of deposit, and highly liquid debt instruments with maturities of three months or less at date of acquisition.

4. Restricted Cash

Restricted cash consists of a debt service reserve fund and undisbursed bond proceeds. As of May 31, 2024 and 2023 the debt service reserve fund was $8,125,060 and $7,716,040, respectively. Bond proceeds included in restricted cash as of May 31, 2024 and 2023 is $20,699 and $23,078, respectively.

5. Tuition Receivable and Related Allowance for Credit Losses

The University adopted Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASC 326") on June 1, 2022, which revised the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The University records tuition receivable and deferred revenue for its students upon the start of the academic term or program. Tuition receivables are not collateralized; however, credit risk is minimized as a result of the diverse nature of the University's student bases and through the participation of the majority of the students in federally funded financial aid programs. An allowance for credit losses is established based upon historical collection rates by age of receivable and adjusted for reasonable expectations of future collection performance, net of estimated recoveries. These collection rates incorporate historical performance based on a student's current enrollment status, likelihood of future enrollment, degree mix trends and changes in the overall economic environment. In the event that current collection trends differ from historical trends, an adjustment is made to the allowance for credit losses and bad debt expense.

6. Inventories

Inventories, which consist primarily of textbooks, clothing, gifts and supplies, are stated at cost and are expensed using the first in, first out method.

7. Investments

Investments in corporate stocks, bonds and mutual funds are stated at quoted market value. Oil and gas royalty interests are valued by an independent appraiser. Other investments consist of a long term certificate of deposit which is carried at cost. Real estate is stated at fair market value as determined by independent appraisers. All real estate investments are held primarily for campus expansion and to function as sources of Quasi Endowment Fund income for the University. Real estate investment income is recognized net of related direct expenses. Investments in private investment funds are carried at net asset value as a practical expedient.

Unrealized gains and losses resulting from increases and decreases in such fair market values are recognized during the period in which the change occurs.

Pooled endowment and similar funds are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. The University has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the fiscal year ended preceding the fiscal year in which the distribution is planned to support operations for general or specific purposes.

8. Concentration of Credit Risk

The University places its cash and cash equivalents with well capitalized financial institutions, which at times may exceed federally insured limits. The University has not experienced any losses of such accounts.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

9. Investment in Plant Assets

Investment in plant assets are stated at cost less accumulated depreciation and amortization. Cost is determined by the purchase price or fair value, if acquired by gift. Campus land, construction in progress, and art and historical objects are not subject to depreciation or amortization. The University capitalizes items in excess of $2,500 with a useful life of at least three years. Leasehold improvements are amortized over the shorter of the lease term or useful life of the asset. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

10. Intangible Assets

The University accounts for intangible assets in accordance with FASB ASC 350-20 *Goodwill and Other Intangible Assets*. Under ASC 350, intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives.

11. Perpetual Trusts

The University is the beneficiary of certain perpetual trusts held and administered by others, specifically HighGround Advisors (formerly named Baptist Foundation of Texas). The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions of income from the trusts are recorded as contributions and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

12. Functional Expenses

Costs related to the operation and maintenance of physical plant, including depreciation and amortization of plant assets, are allocated to program and supporting activities based upon the percentage of total assets utilized by the applicable program or activity (see Note J).

13. Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were approximately $6,122,000 and $5,670,000 for fiscal years ending May 31, 2024 and 2023, respectively.

14. Operating Revenues and Support and Non-operating Activities

Revenues and expenses included in operating revenues and support relate primarily to the University's educational mission. Non-operating activities include contributions to endowments, BSI operations and gains and losses on valuation and sales of assets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

15. 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 judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Significant estimates made by management include the estimated fair value of investments other than marketable securities (primarily real estate), the allowance for credit losses, estimated lives of depreciable plant assets, discounts on pledge receivables, the fair value of investments in perpetual trusts held by others and the estimated payable for life annuitants. Actual results could differ from those estimates.

16. Income Taxes

Generally accepted accounting principles requires the evaluation of tax positions taken or expected to be taken in the course of preparing tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable taxing authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of May 31, 2024 and 2023, the University and its Subsidiary, did not have an asset or liability for any unrecognized tax positions. Management’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

The University is subject to routine audits of the Internal Revenue Service. The University believes it is no longer subject to audits for years prior to 2021. The University’s policy is to classify income tax related interest and penalties in interest expense and other expense, respectively.

17. Fair Value Option

FASB ASC 825 *Financial Instruments* permits entities to choose to measure certain financial instruments and other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. As permitted by the standard, management elects not to elect the fair value option for the financial assets and liabilities that had not been previously carried at fair value.

18. Revenue Recognition

Tuition revenue is recognized over the term of the semester as the University provides services to students. Revenue is reported at the amount of consideration which the University expects to be entitled in exchange for providing tuition and auxiliary services. The University determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided for scholarships and other price concessions provided to students.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue is recognized as performance obligations are satisfied, which is primarily ratably over the academic term. Generally, the University bills students prior to the beginning of the semester and student accounts receivable are due in full before classes begin.

19. Leases

The University determines if an arrangement is a lease at inception. The University analyzes each lease agreement to determine whether it should be classified as a finance lease or operating lease. Leases with an initial term longer than 12 months are included in right-of-use ("ROU") lease assets and lease liabilities on the University's consolidated statement of financial position. The University combines lease and non-lease components for all leases.

ROU lease assets represent the University's right to use an underlying asset for the lease term, and lease liabilities represent the University's obligation to make lease payments arising from the lease. ROU lease assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the implicit interest rate for most of the University's leases cannot be readily determined, the University uses its incremental borrowing rate based on information available at the commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term for operating leases.

Leases with an initial term of 12 months or less are not recorded on the statement of financial position. The University recognizes lease expense for these on a straight-line basis over the lease term. The University subleases certain building space to third parties and subleases income is recognized on a straight-line basis over the lease term. See Note Q for additional information.

20. Deferred Financing Cost

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method, which is not materially different from the effective interest method.

21. Reclassifications

Certain balances as of and for the fiscal year ending May 31, 2023 have been reclassified to conform with classifications as of and for the fiscal year ending May 31, 2024. The reclassifications had no effect on total net assets or change in net assets as of and for the year ending May 31, 2023.

22. Recently Issued Accounting Standards

Recent accounting pronouncements issued by the FASB did not or are not believed by management to have a material impact on the University's present or future consolidated financial statements.

NOTE B – LIQUIDITY AND AVAILABLITY

As of May 31, 2024 and 2023, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

	2024	2023
Cash and cash equivalents	$ 29,272,530	$ 29,635,206
Notes and accounts receivable, net	9,411,564	11,757,997
Pledge payments available for operations	1,501,342	1,024,952
Investments	4,317,178	2,557,297
Revolving line of credit	5,000,000	5,000,000
Fiscal year endowment draw	2,939,723	2,960,914
Total	$ 52,442,337	$ 52,936,366

The University has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due**.**

NOTE C - ALLOWANCE FOR CREDIT LOSSES

The University's tuition receivable and allowance for credit losses were as follows as of May 31, 2024 and 2023:

	2024	2023
Tuition receivable	$ 11,716,981	$ 10,787,641
Allowance for credit losses	(3,537,982)	(2,385,466)
Tuition receivable, net	$ 8,178,999	$ 8,402,175

The provision for credit losses is included in general operating expenses on the consolidated statements of activities.

The following table illustrates changes in the University's allowance for credit losses for the years ended of May 31, 2024 and 2023:

	2024	2023
Allowance for credit losses – beginning of year	$ 2,385,465	$ 2,503,909
Add: provision for credit losses	2,817,709	1,495,755
Add: recovery of accounts written off	68,549	27,630
Less: accounts written off	(1,733,741)	(1,641,828)
Allowance for credit losses – end of year	$ 3,537,982	$ 2,385,466

NOTE D - PLEDGES RECEIVABLE, NET

Pledges receivable, net, at May 31, 2024 and 2023, consists of the following

	2024	2023
Unconditional promise expected to be collected in:		
Less than one year	$ 6,056,848	$ 4,999,730
Two to five years	13,813,916	13,684,389
Greater than five years	5,600,000	5,600,000
	25,470,764	24,284,119
Less unamortized discount	(2,823,451)	(2,582,486)
Total pledges receivable, net	$ 22,647,313	$ 21,701,633

Pledges receivable were discounted using rates ranging from 4.55% to 5.20%.

NOTE E – INTANGIBLE ASSETS

During fiscal year 2018 the University executed a license and service agreement with a Company to develop courses for various on-line programs. The initial license fee was $2,000,000 and was being amortized over the ten year term of the agreement until the agreement was terminated by the University for non-performance during March 2019. Amortization expense for the fiscal years ending May 31, 2024 and 2023 totaled approximately $0 and $417,000, respectively.

NOTE F – NOTE RECEIVABLE

During fiscal year 2017, the University issued a note receivable in the amount of $3,000,000 as part of a real estate sale. The note calls for interest only payments of $12,500 for the first 60 months, followed by 119 monthly installments of principal and interest totaling $16,105. The note bears interest at 5.0% and matures on September 1, 2031. For years ending May 31, 2024 and 2023 the balance on the note was $2,537,056 and $2,618,452, respectively.

The real estate was previously donated to the University to be used at its discretion until being sold, at which time, the proceeds from the sale were to permanently endowed. The balance of the note receivable is included as investments on the May 31, 2024 and 2023 statement of financial position.

NOTE G - INVESTMENTS

Investments at fair value, at May 31, 2024 and 2023, consist of the following:

	2024	2023
Common stocks	$ 22,102,231	$ 21,992,934
Bonds	6,373,344	3,050,142
Mutual funds	58,973,438	50,488,755
Private investment fund	5,000,000	5,000,000
Real estate	35,441,661	35,929,661
Note receivable secured by real estate	2,537,056	2,618,452
Oil and gas royalty interests	854,990	923,928
Certificates of deposit	364,761	65,000
Other investments	4,679,873	4,827,645
Total	$ 136,327,354	$ 124,896,517

The University nets investment fees against investment and endowment income. Investment fees were approximately $170,000 and $135,000 for fiscal years ended May 31, 2024 and 2023, respectively.

NOTE H - RISKS AND UNCERTAINTIES

The University invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, overall market volatility and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the University's account balances and the amounts reported in the statements of financial position.

NOTE I - INVESTMENT IN PLANT ASSETS, NET

Investment in plant assets, net, consists of the following at May 31,

	Estimated Useful Life	2024	2023
Buildings	20 - 70 years	$143,527,693	$ 141,721,802
Furniture, equipment, and library books	3 - 10 years	34,055,012	33,227,516
Land improvements	10 - 20 years	39,518,329	37,800,012
Software	10 years	2,650,726	2,388,702
Leasehold improvements	10 - 20 years	107,643	107,643
Vehicles	5 years	2,932,789	2,267,757
		222,792,192	217,513,432
Less accumulated depreciation and amortization		(101,082,843)	(95,503,998)
Campus land		9,160,248	9,160,248
Art and historical objects		6,600,985	6,600,985
Construction in progress		4,126,851	1,352,189
Total investment in plant assets		$ 141,597,433	$ 139,122,856

NOTE J – FUNCTIONAL CLASSIFICATION OF EXPENSES

The University's primary program service is instruction, academic support and student services. Expenses reported as institutional support and auxiliary enterprise are incurred in support of this primary program activity. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques. Such allocations are determined by management on an equitable basis.

	Fiscal Year Ended May 31, 2024		
	Instructional, Academic Support and Student Services	Institutional Support and Auxiliary Enterprises	Total
Salaries & wages	$ 26,335,793	$ 7,873,399	$ 34,209,192
Benefits	5,001,059	1,785,197	6,786,257
General operating	15,581,385	23,494,727	39,076,110
Depreciation	3,570,461	2,008,384	5,578,845
Interest	2,842,489	1,598,900	4,441,389
Total	$ 53,331,187	$ 36,760,607	$ 90,091,793

NOTE J – FUNCTIONAL CLASSIFICATION OF EXPENSES – continued

	Fiscal Year Ended May 31, 2023		
	Instructional, Academic Support and Student Services	Institutional Support and Auxiliary Enterprises	Total
Salaries & wages	$ 25,543,415	$ 8,743,115	$ 34,016,530
Benefits	5,273,816	1,328,247	6,602,063
General operating	15,573,459	24,352,163	39,925,622
Depreciation	3,454,357	1,943,077	5,397,434
Interest	2,717,546	1,528,620	4,246,166
Total	$ 52,562,593	$ 37,625,222	$ 90,187,815

NOTE K – DEBT

	May 31, 2024	May 31, 2023
Bonds		
Red River Education Finance Corporation bond, issued January 31, 2017 in the amount of $43,650,000 due in annual installments ranging from $2,375,000 to $4,680,000, beginning October 1, 2037 through October 1, 2045 with a final payment of $10,140,000 due at maturity on October 1, 2046. The interest rate is 5.50% and is payable on October 1 and April 1 each year beginning October 1, 2017. The bonds are secured by pledged revenues of the University. (1)	43,650,000	43,650,000
Red River Education Finance Corporation bond, issued January 31, 2017 in the amount of $9,095,000 due in annual installments ranging from $1,120,000 to $2,130,000, beginning October 1, 2032 through October 1, 2036 with a final payment of $10,140,000 due at maturity on October 1, 2046. The interest rate is 4.50% and is payable on October 1 and April 1 each year beginning October 1, 2017. The bonds are secured by pledged revenues of the University.	9,095,000	9,095,000
City of Houston Higher Education Finance Corporation Bonds, issued March 23, 2021 in the amount of $5,920,000 and $18,900,000 due in annual installments ranging from $100,000 to $585,000, beginning October 1, 2021 through October 1, 2038, then principal payments resume on October 1, 2048 through maturity on October 1, 2052, with payments ranging from $3.4 million to $4.0 million. Interest rates are 3.375% and 4.0%, respectively. Interest is payable on October 1 and April 1 each year. The bonds are secured by pledged revenues of the University. (2)	25,450,000	25,680,000
Total bonds payable	78,195,000	78,425,000
Bond issue premium	2,713,805	2,839,200
Debt issue costs	(620,564)	(651,683)
Total bonds payable, net	$ 80,288,241	$80,612,517

(1) The University may redeem the bond in whole or in part on October 1, 2026 or any date thereafter, at the par value plus accrued interest at the date of redemption.
(2) The University may redeem the bond maturing October 1, 2037 in whole or in part at any date, at the principal balance plus accrued interest at the date of redemption. The University may redeem the bond maturing October 1, 2051 in whole or in part on April 1, 2031 or any date thereafter, at the principal balance plus accrued interest at the date of redemption.

NOTE K – DEBT – continued

Notes Payable	May 31, 2024	May 31, 2023
A note payable with a bank dated January 31, 2017 of $15,050,000, requiring interest only payments on April 1 and October 1 through April 1, 2021. A principal payment of $35,000 is due on October 1, 2021, followed by interest and principal payments ranging from $1,190,000 through $1,710,000 due each October 1 thereafter through maturity at October 1, 2032. The note bears interest at 3.99% and is secured by pledged revenue.	12,590,000	13,825,000
A note payable with a bank dated November 12, 2021 in the amount of $6,000,000 bearing interest at 2.99% and maturing November 12, 2031. The note requires monthly payments of $28,026 and is secured by pledged revenue.	4,659,925	5,207,989
Total notes payable	17,249,925	19,032,989
Debt costs	(139,593)	(156,344)
Total notes payable, net	$ 17,110,332	18,876,645

Future minimum payments under this debt are as follows.

NOTE K – DEBT – continued

Bonds Payable

May 31,	Bonds	Bond premium	Debt cost	Total
2025	$ 230,000	$ 125,395	$ (31,119)	$ 324,276
2026	400,000	125,395	(31,119)	494,276
2027	420,000	125,395	(31,119)	514,276
2028	430,000	125,395	(31,119)	524,276
2029	445,000	125,395	(31,119)	539,276
Thereafter	76,270,000	2,086,830	(464,969)	77,891,861
Total	$ 78,195,000	$ 2,713,805	$ (620,564)	$ 80,288,241

Notes Payable

May 31,	Notes payable	Debt cost	Total
2025	$ 1,854,677	$ (16,751)	$ 1,837,926
2026	1,921,795	(16,751)	1,905,044
2027	1,994,431	(16,751)	1,977,680
2028	2,072,601	(16,751)	2,055,850
2029	2,151,323	(16,751)	2,134,572
Thereafter	7,255,098	(55,838)	7,199,260
Total	$ 17,249,925	$ (139,593)	17,110,332

Interest expense for fiscal years ending May 31, 2024 and 2023 was approximately $4,441,000 and $4,246,000, respectively. The interest paid on notes and bonds payable for the fiscal years ending May 31, 2024 and 2023 was approximately $4,407,000 and $4,592,000, respectively.

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of the University's financial instruments are as follows:

	2024		2023	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:				
Cash and cash equivalents	$ 29,917,085	$ 29,917,085	$ 32,784,366	$ 32,784,366
Receivables, net	9,598,746	9,598,746	11,757,997	11,757,997
Pledges receivable, net	22,647,313	22,647,313	21,701,633	21,701,633
Investments:				
Common stocks	22,102,231	22,102,231	21,992,934	21,992,934
Bonds	6,373,344	6,373,344	3,050,142	3,050,142
Mutual funds	58,973,438	58,973,438	50,488,755	50,488,755
Private investment fund	5,000,000	5,000,000	5,000,000	5,000,000
Real estate	35,441,661	35,441,661	35,929,661	35,929,661
Note receivable secured by real estate	2,537,056	2,537,056	2,618,452	2,618,452
Oil and gas royalty interests	854,990	854,990	923,928	923,928
Certificate of deposit	364,761	364,761	65,000	65,000
Other investments	4,679,873	4,679,873	4,827,645	4,827,645
Interests in perpetual trusts held by others	5,251,217	5,251,217	5,013,171	5,013,171
Interests in trusts administered by others	7,890	7,890	7,092	7,092
Financial liabilities:				
Accounts payable and accrued liabilities	9,915,782	9,915,782	8,545,514	8,545,514
Deposits and agency funds	24,345	24,345	186,431	186,431
Bonds payable	80,288,241	72,069,124	80,612,517	72,281,106
Notes payable	17,110,332	15,898,549	18,876,645	17,541,926

The methods and assumptions used to estimate the fair value of each class of financial instruments are as follows:

Cash and cash equivalents

The carrying amount approximates fair value due to the short maturity of those instruments.

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS - continued

Receivables- principally from students - net

The carrying amount approximates fair value based on the short maturities of accounts receivable.

Pledges receivable - net

The fair value of pledges receivable is based on the discounted value of expected future cash flows.

Investments

Corporate stocks, bonds, mutual funds and real estate are carried at market value; therefore, the carrying value approximates fair value. Other investments consist of a long-term certificate of deposit and a note receivable carried at amortized cost, which approximates fair value.

Interests in perpetual trusts held by others

The interests in trusts held by others are carried at fair value which is determined using the net asset value of shares held by the trusts.

Interests in trusts administered by others

The interests in trusts administered by others are carried at fair value which is determined using the net asset value of shares held by the trusts.

Private investment funds

Funds are measured at net asset value as a practical expedient for determining fair values.

Accounts payable, accrued liabilities, deposits and agency funds

The carrying amount approximates fair value because of the short maturity of the financial instruments.

Bonds payable

The estimated fair value of bonds payable is based on discounting future cash flows using current interest rates at which similar debt could be obtained for the same maturities.

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS – continued

Notes payable

The estimated fair value of notes payable is based on discounting future cash flows using current interest rates at which similar loans could be obtained for the same remaining maturities.

The University follows the fair value guidance for its financial assets and liabilities. The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs that may be used to measure fair value:

Level 1: Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instruments valuation.

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS – continued

The following table classifies the University's financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2024:

Description	May 31, 2024	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Common stocks by sector:				
Basic material	$ 22,102,231	$ 22,102,231	$ -	$ -
Bonds:				
US Corporate	976,779	-	976,779	-
US Government	5,396,564		5,396,564	
Mutual funds:				
Stocks	40,473,910	40,473,910	-	-
Bonds	18,499,528	18,499,528	-	-
Certificate of deposit	364,761	-	364,761	-
Other Investments	4,679,873	83,396	4,596,477	-
Real estate	35,441,661	-	-	35,441,661
Note receivable secured by real estate	2,537,056	-	-	2,537,056
Oil and gas royalty	854,990	-	-	854,990
Interest in perpetual trusts:				
Held by others	5,251,217	-	5,251,217	-
Administered by others	7,890	-	7,890	-
Total investments in the fair value hierarchy	$136,586,460	$ 81,159,065	$ 16,593,688	$ 38,833,707
Private investment fund (a) measured at NAV	5,000,000			
Total	$141,586,460			

(a) These funds represent investments in emerging global markets, with long/short equity credit and multi-strategy mandates. The redemption period for these investments range from monthly to quarterly with notice ranging from 6 to 95 days. There are no unfunded commitments related to these investments.

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS – continued

The following table classifies the University's financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2023:

Description	May 31, 2023	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Common stocks by sector:				
Basic material	$ 21,992,934	$ 21,992,934	$ -	$ -
Bonds:				
US Corporate	875,394	-	875,394	-
US Government	2,174,748	-	2,174,748	
Mutual funds:				
Stocks	34,783,942	34,783,942	-	-
Bonds	15,704,813	15,704,813	-	-
Certificate of deposit	65,000	-	65,000	-
Other investments	4,827,645	88,268	4,739,377	
Real estate	35,929,661	-	-	35,929,661
Note receivable secured by real estate	2,618,452	-	-	2,618,452
Oil and gas royalty	923,928	-	-	923,928
Interest in perpetual trusts:				
Held by others	5,013,171		5,013,171	
Administered by others	7,092	-	7,092	-
Total investments in the fair value hierarchy	$ 124,916,780	$ 72,569,957	$ 12,874,782	$ 39,472,041
Private investment fund (a) measured at NAV	5,000,000			
Total	$ 129,916,780			

(a) These funds represent investments in emerging global markets, with long/short equity credit and multi-strategy mandates. The redemption period for these investments range from monthly to quarterly with notice ranging from 6 to 95 days. There are no unfunded commitments related to these investments.

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS – continued

The schedule below reconciles the opening balance to the closing balance for the fiscal year ended May 31, 2024 for the items on the previous table which have been classified as Level 3:

	Real estate	Note receivable secured by real estate	Oil and gas royalty interests
Balance, beginning of year	$ 35,929,661	$ 2,618,452	$ 923,928
Payments	(488,000)	(81,395)	-
Included in unrealized gain/ (loss) on investments	-	-	(68,938)
Balance, end of year	$ 35,441,661	$ 2,537,056	$ 854,990

The schedule below reconciles the opening balance to the closing balance for the fiscal year ended May 31, 2023 for the items on the previous table which have been classified as Level 3:

	Real estate	Note receivable secured by real estate	Oil and gas royalty interests
Balance, beginning of year	$35,801,119	$ 2,769,284	$ 771,556
Payments	-	(77,167)	-
Included in unrealized gain/			-
(loss) on investments	128,542	-	152,372
Balance, end of year	$35,929,661	$ 2,618,452	$ 923,928

Total Level 3 gains or losses above are all included in the consolidated statements of activities, and all relate to financial assets and liabilities still held at year end.

NOTE M – RETIREMENT PLAN AND TUITION REIMBURSEMENT

In 1963, the University established a retirement plan for all regular full-time faculty members and administrative staff. In compliance with the Tax Reform Act of 1986, the plan (a defined contribution plan) was amended in January 1989. Employees who complete one year of service and who work a total of 1,000 hours during a calendar year are eligible to participate. Upon an employee reaching eligibility, contributions are made to the plan by the University in an amount equal to 4% of the employee's compensation, with an additional 2% match available if the employee contributes 4% of their compensation. Contributions to the Plan by the University were approximately $1,366,000 and $1,332,000 for fiscal years ending May 31, 2024 and 2023, respectively.

Employees may make voluntary contributions up to the limit allowed by law. Effective January 1, 2018, retirement benefits for new employees vest 100% after three years of employment. Prior to January 1, 2018, retirement benefits for new employees vested 100% after five years of employment. Participants can elect to retire at various ages under the plan with the earliest being at age 55.

Faculty or staff members who have completed six months of continuous fulltime employment at the University prior to the first day of the academic semester are eligible for tuition benefits for themselves as well as eligible spouses and children. For the fiscal years ended May 31, 2024 and 2023, there was approximately $559,000 and $467,000, respectively, of tuition benefits expensed for faculty, staff, and their spouses or children.

NOTE N - TRUST FUNDS HELD BY OTHERS

The University is the beneficiary of several trust funds administered primarily by HighGround Advisors (formerly named Baptist Foundation of Texas). No provision has been made for releasing trust principal to the University, except for the payment of specific capital improvements authorized under specified conditions of each trust. The amount of original trust principal has a fair value of approximately $5,259,000 and $5,020,000 as of May 31, 2024 and 2023, respectively. Income distributions from these funds were approximately $372,000 and $315,000 for fiscal years ending May 31, 2024 and 2023, respectively.

The University is also the beneficiary of trust funds from various estates. Substantially all distributions from such trust funds are royalty income and totaled approximately $228,000 and $258,000 during fiscal years ending May 31, 2024 and 2023, respectively, and are recorded in investment and endowment income.

NOTE O – NET ASSETS

Net assets with donor restrictions are restricted for the following purpose.

	May 31, 2024 With donor restrictions	May 31, 2023 With donor restrictions
Pledges receivable principally for students, facilities and campus enhancements	$ 12,138,149	$ 13,208,824
Net cumulative income (including unrealized gains) from endowment funds – primarily for scholarships	19,262,131	17,778,377
Funds administered by others – life annuity funds	7,890	7,092
Trusts held by others	5,251,217	5,013,171
Student scholarships and loans	2,777,350	4,107,637
Student scholarships and loans - endowed	10,982,718	10,777,718
Equipment, renovations and operations	19,695,738	14,162,959
Life annuity funds	324,197	286,008
General endowment funds	62,552,275	60,982,667
Balance, end of year	$ 132,991,665	$ 126,324,453

Net assets without donor restrictions are composed of the following:

	May 31, 2024 Without donor restrictions	May 31, 2023 Without donor restrictions
Operating	$ 30,145,322	$ 28,729,715
Plant assets, net of debt	43,384,440	39,633,694
General endowment funds	41,549,009	41,813,398
Balance, end of year	$ 115,078,771	$ 110,176,807

NOTE P - DEVELOPMENT EXPENSES

The University incurred expenses totaling approximately $1,275,000 and $1,314,000 for fiscal years ended May 31, 2024 and 2023, respectively, related to development and fund-raising. Such amounts are included in general operating expenses in the accompanying consolidated statements of activities.

NOTE Q - LEASES

The University is the lessor of operating leases with third parties expiring at various times through fiscal year 2029. Minimum future rental income under non-cancelable operating leases having remaining terms in excess of one year as of May 31, 2024 are:

2025	$ 472,575
2026	206,413
2027	181,420
2028	141,725
Thereafter	82,673
Total minimum future rental income	$ 1,084,806

Rental income for fiscal years ended May 31, 2024 and 2023 was approximately $803,000 and $791,000, respectively, and is included in investment and endowment income and BSI revenue on the consolidated statements of activities.

The right-of-use asset and corresponding liability associated with the University's finance leases as of May 31, 2024 and 2023 is shown below. The University had no material operating leases at May 31, 2024 and 2023.

	May 31, 2024	May 31, 2023
Finance lease		
Included in equipment	$ 227,717	$ 409,596
Balance, end of year	$ 227,717	$ 409,596

	May 31, 2024	May 31, 2023
Finance lease liability		
Current	$ 199,771	$ 181,879
Long-term	27,946	227,717
Balance, end of year	$ 227,717	$ 409,596

Other information related to the University's leases as of May 31, 2024 and 2023:

	May 31, 2024	May 31, 2023
Weighted average remaining lease term (years)		
Finance leases	1	3
Weighted average discount rate		
Finance leases	4.51%	4.50%

NOTE Q – LEASES – continued

Lease cost reported in general operating expenses in the consolidated statements of activities as of May 31, 2024 and 2023 is as follows:

	May 31, 2024	May 31, 2023
Finance lease		
Amortization of right-to-use assets	$ 181,967	$ 166 256
Interest on lease liability	33,720	39,539
Total	$ 215,687	$ 205,795

The following finance lease payments are expected to be paid for each of the following fiscal years ending May 31:

Fiscal year	Payments	Interest	Lease liability
2025	$ 214,224	(14,453)	$ 199,771
2026	28,237	(291)	27,946
Total	$ 242,461	(14,744)	$ 227,717

NOTE R – COMMITMENTS AND CONTINGENCIES

During fiscal year 2018 the University executed a ten year contract with a company to create and provide course material for various online programs. Effective March 14, 2019, the agreement was terminated for nonperformance. Although both parties agreed to terminate the contract, a formal termination agreement was not executed. However, based on discussions with legal counsel, the University does not expect to incur any contingent liabilities related to the contract's termination. Capitalized payments resulting in productive assets from inception of the contract through termination continued to be amortized through fiscal year 2024. Terms of the initial contract are set forth below.

Upon execution of the aforementioned contract, the University was required to pay a nonrefundable initial license fee of $2,000,000. The fee was payable in various installments and the entire balance had been paid as of May 31, 2019. Under the original agreement, during the first two years the University was required to pay an annual license fee of $1,200,000. The annual fee was to be paid in twelve monthly installments of $66,667 and any remaining fees were to be paid within forty-five days after the current contract year. From years three to ten, the annual fee was to be $1,575,000 and was to be paid in monthly installments of $97,917 with any remaining balance due within forty-five days after the current contract year. The University was also required to pay $12,000 for each course and it was required to pay the compensation of consultants hired by the company to oversee the program. As per the contract, the course fees and compensation were allowed to be used as credits against the monthly license fees.

NOTE R – COMMITMENTS AND CONTINGENCIES - continued

The initial license fee of $2,000,000 has been capitalized and is being amortized over the contract term as set forth in Note E. For fiscal years 2024 and 2023, the University expended fees of approximately $417,000 each year, respectively, representing charges for the monthly license fee net of credits for compensation and course fees.

Effective March 12, 2021, the University entered into an agreement to lease the buildings and improvements of the "Pillars" shopping center to a partnership where BSI is a limited partner. Under the partnership agreement, BSI has no voting or management rights and only has access to the partnership's books and records.

The University maintains ownership of the land but no longer has control over the buildings and improvements. The transaction has been recorded as a sale resulting in a gain of approximately $7,047,000 recorded in 2021. The purchase price for the transaction was $15,500,000, of which, $5,800,000 was deposited to an escrow account to be disbursed to the University over an approximate three year period. The amount held in escrow as of May 31, 2024 and 2023 was $0 and $1,800,000, respectively.

In accordance with the agreement, the University has a right of first offer to purchase the buildings and improvements should the lessee decide to sell the property. In addition, the University has the ability to purchase the building and improvements should it decide to exercise purchase options occurring in 2031, 2040, and 2055.

The University participates in various federal Title IV financial aid programs including the Federal Direct Loan Program and the Pell Grant program. For fiscal years ending May 31, 2024 and 2023, approximately $35,283,000 and $33,887,000 was disbursed under the loan program and students received approximately $9,823,000 and $8,696,000 from the Federal Pell Grant program, respectively.

As a participant in these programs, the Department of Education requires private nonprofit institutions to demonstrate financial responsibility by meeting certain ratio requirements. The University was in compliance with these requirements at May 31, 2024.

The University is a named defendant in a suit brought by a former student claiming the University is vicariously liable for the alleged misconduct by a former employee. The plaintiff is claiming the maximum damages allowed by law, however, the case is still in the discovery phase as of the May 31, 2024 audit report date and the outcome of this matter is currently not determinable. The University believes it has meritorious defenses to the claims asserted in this matter, and intends to defend them vigorously. Should the plaintiff prevail, the University is unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the reasonably possible loss or range of loss, such as precise information about the amount of damages or other remedies being asserted, the defenses to the claims being asserted, discovery from other parties and investigation of factual allegations, rulings by courts or arbitrators on motions or appeals, analyses by experts, or the status or terms of any settlement negotiations. Should the plaintiff prevail, the University's exposure is limited to amounts

NOTE R – COMMITMENTS AND CONTINGENCIES - continued

in excess of the limits of its insurance policy, which the University currently believes would likely not have a material adverse effect on its financial position.

In addition, the University and its subsidiary are subject to legal actions arising in the ordinary course of business. Management does not believe that the outcome of any legal actions would have a material adverse affect on the University's consolidated financial position or changes in its net assets.

NOTE S – ENDOWMENTS

The University's endowment consists of approximately 384 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and credit losses) donated to the Endowment and (b) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation 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
(7) The investment policy of the University

NOTE S – ENDOWMENTS – continued

Endowment Net Asset Composition by Type of Fund as of May 31, 2024.

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 96,434,682	$ 96,434,682
Board-designated endowment	41,549,010		41,549,010
Total Funds	$ 41,549,010	$ 96,434,682	$ 137,983,692

Changes in Endowment Net Assets for the Fiscal Year Ended May 31, 2024.

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 41,813,398	$ 89,667,755	$131,481,153
Investment return:			
Investment income	231,776	2,556,198	2,787,974
Net appreciation (realized and unrealized)	(67,306)	8,390,613	8,323,307
Total investment return	164,470	10,946,811	11,111,281
Rental income	532,278	164,479	696,757
BSI revenue	177,914	-	177,914
Contributions	-	1,934,692	1,934,692
Appropriation of endowment assets for expenditure	-	(5,912,665)	(5,912,665)
Other changes:			
BSI expenses	(1,154,217)	-	(1,154,217)
Miscellaneous income/(expense)	15,167	(366,390)	(351,223)
Endowment net assets, end of year	$ 41,549,010	$ 96,434,682	$ 137,983,692

NOTE S – ENDOWMENTS – continued

Endowment Net Asset Composition by Type of Fund as of May 31, 2023.

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 89,667,755	$ 89,667,755
Board-designated endowment	41,813,398	-	41,813,398
Total Funds	$ 41,813,398	$ 89,667,755	$131,481,153

Changes in Endowment Net Assets for the Fiscal Year Ended May 31, 2023.

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 41,800,687	$ 89,444,747	$ 131,245,434
Investment return:			
Investment income	259,778	2,150,568	2,410,346
Net appreciation (realized and unrealized)	200,315	(2,823,761)	(2,623,446)
Total investment return	460,093	(673,193)	(213,100)
Rental income	505,376	129,774	635,150
BSI revenue	213,839	-	213,839
Contributions	-	5,105,429	5,105,429
Appropriation of endowment assets for expenditure	-	(3,866,585)	(3,866,585)
Other changes:			
BSI expenses	(1,147,183)	-	(1,147,183)
Miscellaneous income/(expense)	(19,414)	(472,417)	(491,831)
Endowment net assets, end of year	$ 41,813,398	$ 89,667,755	$131,481,153

NOTE S – ENDOWMENTS – continued

1. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted 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, a deficiency of this nature totaled approximately $151,000 and $237,000 as of May 31, 2024 and 2023, respectively. The deficiencies resulted from unfavorable market fluctuations.

2. 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 real 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 Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that earn an average rate of return at least equal to the nominal spending rate policy plus the rate of inflation plus an additional return of 1%, net of all fees, including management advisory fees and custody charges, over the long term (defined as rolling 5 year periods).

3. Strategies Employed for Achieving Objectives

To achieve its investment objective, the Fund’s assets are considered to be divided into two major components: Drivers of Return and Risk Reducing assets. The Investment Committee will determine the classification of alternative or market neutral investments. The Fund’s long-term commitment to these classes shall be:

	Range	Long-term Target
Drivers of return	55%-75%	65%
Risk reducing assets	25%-45%	35%

4. Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy of appropriating for distribution each year 5 percent of its endowment fund’s average fair value over the prior 12 quarters through the fiscal year ended 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. This is consistent with the University’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE T - RELATED PARTY TRANSACTIONS

During the year, the University made payments to vendors who meet the requirements of a related party. The nature of these transactions, which took place in Houston, TX, are described below:

- The University's President is the owner of a consulting firm hired by BSI. During each of the fiscal years ending May 31, 2024 and 2023, BSI paid the consulting firm $210,000.
- One of the University's Trustees, Tadd Tellepsen, is the CEO of a company that has constructed buildings for the University. During the fiscal years ending May 31, 2024 and 2023, the University paid the construction company $141,698 and $7,018,491, respectively.

NOTE U – LITIGATION

The University and its subsidiary are subject to legal actions arising in the ordinary course of business. Management does not believe that the outcome of any legal actions would have a material adverse effect on the University's consolidated financial position or changes in its net assets.

NOTE V – SACS CORE REQUIREMENT 13.1

The University is a member of the Southern Association of Colleges and Schools ("SACS"). As part of the reaffirmation process with SACS, the University must comply with core requirements, as outlined in The Principles of Accreditation: Foundations for Quality Enhancement. Core requirement 13.1 requires a separate financial schedule calculating unrestricted net assets, exclusive of plant assets and plant related debt, as follows:

	May 31, 2024	May 31, 2023
Net assets without donor restriction	$ 115,078,771	$ 110,176,807
Less: Investment in campus plant	(140,783,013)	(139,122,856)
Less: Debt service reserve fund	(8,125,060)	(7,716,040)
Add: Debt related to campus plant	97,626,290	99,898,758
Without donor restriction, exclusive of plant and related debt	$ 63,796,988	$ $ 63,236,669

NOTE W – SUBSEQUENT EVENTS

The University has evaluated all events that occurred between May 31, 2024 and September 30, 2024, the date the consolidated financial statements were available to be issued.

As of August 1, 2024, the University has outsourced textbooks sales to Follett Higher Education. The University will retain a University Store to provide school supplies, gifts, clothing and snacks.

The University is not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTAL SCHEDULES

HOUSTON CHRISTIAN UNIVERSITY
CONSOLIDATING BALANCE SHEETS
(Beechnut Street, Inc. and Subsidiaries)
May 31, 2024

	Beechnut Street, Inc.				
	BSI	Fondren I	Pillars	Eliminations	Consolidated
Assets					
Cash and cash equivalents	3,261,546	53,144	3,887	$ -	3,318,577
Accounts receivables	-	47,900	-	-	47,900
Prepaids and other assets	998,540	-	-	-	998,540
Investment in subsidiary	707,827	-	-	(707,827)	-
Intercompany Receivable	1,624,671	-	8,259,369	(9,884,040)	-
TOTAL ASSETS	$ 6,592,584	$ 101,044	$ 8,263,256	$ (10,591,867)	$ 4,365,017
Liabilities and Net Assets					
Accounts payable and accrued expenses	5,915	43,334	-	-	49,249
Payable to University	10,402,162	4,938,770	-	(8,320,962)	7,019,970
Intercompany payable	-	1,563,078	-	(1,563,078)	-
Total liabilities	10,408,077	6,545,182	-	(9,884,040)	7,069,219
Shareholders' equity (deficit)	(3,815,493)	(6,444,138)	8,263,256	(707,827)	(2,704,202)
Total liabilities and shareholders' equity	$ 6,592,584	$ 101,044	$ 8,263,256	$ (10,591,867)	$ 4,365,017

See independent auditor's report

HOUSTON CHRISTIAN UNIVERSITY
CONSOLIDATING STATEMENTS OF INCOME
(Beechnut Street, Inc. and Subsidiaries)
Fiscal year ending May 31, 2024

	Beechnut Street, Inc.				
	BSI	Fondren I	Pillars	Eliminations	Consolidated
Operating Revenues and Support					
Rental revenue	$ -	$ 106,015	$ -	$ -	$ 106,015
Investment income	103,411	-	-	-	103,411
Other	71,899	-	-	-	71,899
Total operating revenues and support	175,310	106,015	-	-	281,325
Operating expenses:					
Selling, general, and administrative	211,174	590,792	12,344	-	814,310
Plant	-	7,498	-	-	7,498
Depreciation expense	-	-	-	-	-
Taxes	150,712	224,787	-	-	375,499
Other	-	(43,091)	-	-	(43,091)
Total operating expenses	361,886	779,986	12,344	-	1,154,216
Operating income (loss)	(186,576)	(673,971)	(12,344)	-	(872,891)
Beginning equity (deficit)	(3,628,917)	(5,770,167)	8,275,600	(707,827)	(1,831,311)
Ending equity (deficit)	$ (3,815,493)	$ (6,444,138)	$ 8,263,256	$ (707,827)	$ (2,704,202)

See independent auditor's report

HOUSTON CHRISTIAN UNIVERSITY
FINANCIAL RESPONSIBILITY COMPOSITE SCORES
Fiscal year ending May 31, 2024

Ratio Element	Reference to Financial Statements or Notes	2024
Primary Reserve Ratio		
Expendable Net Assets		
1 + Net assets without donor restrictions	Statement of Financial Position	$ 115,078,771
2 + Net assets with donor restrictions	Statement of Financial Position	132,991,665
3 - Net assets with donor restrictions - restricted in perpetuity	Note S	(76,082,305)
4 - Annuities with donor restrictions	Note O	(324,197)
5 - Term endowments with donor restrictions	Not applicable to the University	-
6 - Life income funds with donor restrictions	Not applicable to the University	-
7 - Unsecured related party receivables	Not applicable to the University	-
8 - Intangible assets	Statement of Financial Position	-
9 - Property plant and equipment, net of accum. depr.	Statement of Financial Position	(141,597,433)
10 + Long-term debt obtained for long-term purposes	Note K	97,398,573
11 + Lease right of use liability	Statement of Financial Position	227,717
		$ 127,692,791
Total Expenses and Losses		
12 Total expenses without donor restrictions	Statement of Activities	$ 90,091,793
Equity Ratio		
Modified Net Assets		
13 + Net assets without donor restrictions	Statement of Financial Position	115,078,771
14 + Net assets with donor restrictions	Statement of Financial Position	132,991,665
15 - Intangible assets	Statement of Financial Position	-
16 - Unsecured related party receivables	Not applicable to the University	-
		$ 248,070,436
Modified Assets		
17 + Total assets	Statement of Financial Position	355,636,853
18 - Intangible assets	Statement of Financial Position	-
19 - Unsecured related party receivables	Not applicable to the University	-
		$ 355,636,853
Net Income Ratio		
Change in net assets without donor restrictions	Statement of Activities	$ 4,901,964
Total revenue and gains without donor restrictions	Statement of Activities	$ 94,473,136

	Note for Line 9 - Property plant and equipment, net		
A	Pre-implementation Property, plant and equipment		$89,945,700
B	Post-implementation Property, plant and equipment		39,682,295
	Vehicles	-	
	Furniture and equipment	-	
	Building improvements	39,682,295	
C	Construction in progress		4,126,851
D	Post-implementation Property, plant and equipment without debt		7,842,587
Total			$141,597,433

	Note for Line 10 - Long-term debt obtained for long term purposes		
A	Pre-implementation long-term debt		$66,591,298
B	Allowable post-implementation long-term debt		26,680,424
	Vehicles	-	
	Furniture and equipment	-	
	Building improvements	26,680,424	
C	Construction in progress - debt		4,126,851
D	Long-term debt not used for the purchase of property, plant and eqiupment or liability greater than value of assets		-
Total			$97,398,573

	Note for Line 11 - Lease right-of-use asset liability	
A	Lease right-of-use asset liability - pre-implementation	$153,404
B	Lease right-of-use asset liability - post-implementation	74,313
Total		$227,717

HOUSTON CHRISTIAN UNIVERSITY
FINANCIAL RESPONSIBILITY COMPOSITE SCORES
Fiscal year ending May 31, 2024

Calculation of the Composite Score

Primary Reserve Ratio

Expendable Net Assets /	127,692,791	=	1.4174
Total Expenses Without Donor Restrictions	90,091,793		

Equity Ratio

Modified Net Assets /	248,070,436	=	0.6975
Modified Assets	355,636,853		

Net Income Ratio

Change in Net Assets Without Donor Restrictions /	4,901,964	=	0.0519
Total Revenue and Gains Without donor Restrictions	94,473,136		

Step 1: Calculate the strength factor score for each ratio by using the following algorithms:

Primary reserve strength factor = 10 x the primary reserve ratio result
Equity strength factor = 6 x the equity ratio result
Positive net income ratio result: Net income strength factor = 1 + (50 x net income ratio result)
Negative net income ratio result: Net income strength factor = 1 + (25 x net income ratio result)

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for the ratio is 3.
If the strength factor score for any ratio is less than or equal to -1, the strength factor score for the ratio is -1.

Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores:

Primary reserve weighted score = 40% x the primary reserve strength factor score
Equity weighted score = 40% x the equity strength factor score
Net income weighted score = 20% x the net income strength factor score
Composite score = the sum of all weighted scores
Round the composite score to one digit after the decimal point to determine the final score

Ratio Element	Ratio	Calculated Strength Factor	Manual Strength Factor	Weight	Composite Score
Primary Reserve Ratio	1.4174	14.1736	3.00	0.40	1.20
Equity Ratio	0.6975	4.1852	3.00	0.40	1.20
Net Income Ratio	0.0519	3.5944	3.00	0.20	0.60
					3.00