Consolidated Financial Statements
and Independent Auditor's Report

# Houston Baptist University
# (d/b/a Houston Christian University)
# and Subsidiary

May 31, 2023 and 2022

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# INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Houston Baptist University
(d/b/a Houston Christian University)

## Report on the Audit of the Consolidated Financial Statements

### *Opinion*

We have audited the accompanying consolidated financial statements of Houston Baptist University (d/b/a Houston Christian University) and its Subsidiary (collectively, the "University"), which comprise the consolidated statements of financial position as of May 31, 2023 and 2022, 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of Houston Christian University as of May 31, 2023 and 2022, 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 to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the 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 Houston Christian University's ability to continue as a going concern for one year after the date that the financial statements are issued.

*Auditor's 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 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 Baptist University's internal control. Accordingly, no such opinion is expressed.

• Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

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

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2023 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.

***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 Schedules - Consolidating Balance Sheets and Consolidating Statements of Income of Beechnut Street, Inc. and Subsidiaries and Supplementary Schedule of Financial Responsibility Composite Scores, are presented for purpose of additional analysis and are 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.

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

Houston, Texas
September 15, 2023

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HOUSTON BAPTIST UNIVERSITY AND SUBSIDIARY
(d/b/a HOUSTON CHRISTIAN UNIVERSITY)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of May 31,

| | 2023 | 2022 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 32,784,366 | $ 34,726,618 |
| Cash - restricted | 7,739,118 | 9,210,265 |
| Receivables | | |
| Students, net of allowance for credit losses | 8,402,175 | 9,094,065 |
| Government | 382,948 | 2,103,174 |
| Pillars sale | 1,800,000 | 3,800,000 |
| Other | 1,172,874 | 1,192,129 |
| Pledges receivable - net | 21,701,633 | 17,583,922 |
| Prepayments, inventories and other assets | 2,109,213 | 1,830,433 |
| Investments | 124,896,517 | 127,033,825 |
| Investment in plant assets - net | 139,122,856 | 132,248,617 |
| Interests in trusts held by others | 5,013,171 | 5,238,933 |
| Interests in funds administered by others | 7,092 | 7,251 |
| License fee, net | - | 416,667 |
| TOTAL ASSETS | $ 345,131,963 | $ 344,485,899 |
| LIABILITIES AND NET ASSETS | | |
| Accounts payable and accrued liabilities | $ 7,719,391 | $ 9,791,555 |
| Deferred income | 826,123 | 1,329,877 |
| Deposits and agency funds | 186,431 | 227,532 |
| Financing leases payable | 409,596 | 478,578 |
| Notes payable | 18,876,645 | 20,581,832 |
| Bonds payable | 80,612,517 | 80,926,795 |
| TOTAL LIABILITIES | 108,630,703 | 113,336,169 |
| NET ASSETS | | |
| Without donor restrictions | 110,176,807 | 93,023,432 |
| With donor restrictions | 126,324,453 | 138,126,298 |
| TOTAL LIABILITIES AND NET ASSETS | $ 345,131,963 | $ 344,485,899 |

*The accompanying notes are an integral part of these consolidated financial statements.*

HOUSTON BAPTIST UNIVERSITY AND SUBSIDIARY
(d/b/a HOUSTON CHRISTIAN UNIVERSITY)
CONSOLIDATED STATEMENTS OF ACTIVITIES
Fiscal 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 OVER EXPENSES | $ 2,562,859 | $ 1,282,581 | $ 3,845,440 |

*The accompanying notes are an integral part of these consolidated financial statements.*

HOUSTON BAPTIST UNIVERSITY AND SUBSIDIARY
(d/b/a HOUSTON CHRISTIAN UNIVERSITY)
CONSOLIDATED STATEMENTS OF ACTIVITIES - continued
Fiscal 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 gain on investments | 409,648 | 992,689 | 1,402,337 |
| Realized (loss) on sale of investments | (356,593) | (3,484,560) | (3,841,153) |
| BSI operations | (933,344) | - | (933,344) |
| 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 |

*The accompanying notes are an integral part of these consolidated financial statements.*

HOUSTON BAPTIST UNIVERSITY AND SUBSIDIARY
(d/b/a HOUSTON CHRISTIAN UNIVERSITY)
CONSOLIDATED STATEMENTS OF ACTIVITIES
Fiscal year ended May 31, 2022

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Operating revenue and support | | | |
| Tuition and fees | $ 105,817,386 | $ - | $ 105,817,386 |
| Funded | (7,392,263) | - | (7,392,263) |
| Unfunded | (49,075,062) | - | (49,075,062) |
| Tuition and fees, net | 49,350,061 | - | 49,350,061 |
| Private gifts and grants: | | | |
| Baptist General Convention of Texas | 299,842 | - | 299,842 |
| Government grants & contracts | 8,262,810 | 6,415,331 | 14,678,141 |
| Other | 2,803,074 | 17,716,025 | 20,519,099 |
| Investment and endowment income | 1,149,168 | 1,598,550 | 2,747,718 |
| Sales & services of auxiliary enterprises | 11,832,310 | 313,966 | 12,146,276 |
| Other | 747,035 | 131,556 | 878,591 |
| Net assets released from restriction: | | | |
| Satisfaction of program restrictions | 11,638,193 | (11,638,193) | - |
| Total operating revenues and support | 86,082,493 | 14,537,235 | 100,619,728 |
| Operating expenses: | | | |
| Compensation: | | | |
| Instructional salaries | 15,512,102 | - | 15,512,102 |
| Staff salaries | 18,214,537 | - | 18,214,537 |
| Benefits | 6,806,810 | - | 6,806,810 |
| Total compensation | 40,533,449 | - | 40,533,449 |
| Other: | | | |
| General operating expenses | 37,991,935 | - | 37,991,935 |
| Depreciation | 4,498,188 | - | 4,498,188 |
| Interest | 3,549,336 | - | 3,549,336 |
| Total other | 46,039,459 | - | 46,039,459 |
| Total expenses | 86,572,908 | - | 86,572,908 |
| EXCESS OF OPERATING REVENUES AND SUPPORT (UNDER) OVER EXPENSES | $ (490,415) | $ 14,537,235 | $ 14,046,820 |

*The accompanying notes are an integral part of these consolidated financial statements.*

HOUSTON BAPTIST UNIVERSITY AND SUBSIDIARY
(d/b/a HOUSTON CHRISTIAN UNIVERSITY)
CONSOLIDATED STATEMENTS OF ACTIVITIES - continued
Fiscal year ended May 31, 2022

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Non-operating activities: | | | |
| Contributions | - | 4,816,201 | 4,816,201 |
| Net assets released from restrictions: | | | |
| Satisfaction of capital acquisition restrictions | 1,747,778 | (1,747,778) | - |
| Change in value of split interest agreements | - | (139,973) | (139,973) |
| Unrealized (loss) on investments | (622,819) | (4,862,835) | (5,485,654) |
| Realized (loss)/gain on sale of investments | 6,285 | 261,239 | 267,524 |
| BSI operations | (36,295) | - | (36,295) |
| | 1,094,949 | (1,673,146) | (578,197) |
| CHANGES IN NET ASSETS FROM NON-OPERATING ACTIVITIES | $ 1,094,949 | $ (1,673,146) | $ (578,197) |
| Increase in net assets | $ 604,534 | $ 12,864,089 | $ 13,468,623 |
| Net assets beginning balance | $ 92,418,898 | $ 125,262,209 | $ 217,681,107 |
| Net assets ending balance | $ 93,023,432 | $ 138,126,298 | $ 231,149,730 |

*The accompanying notes are an integral part of these consolidated financial statements.*

HOUSTON BAPTIST UNIVERSITY AND SUBSIDIARY
(d/b/a HOUSTON CHRISTIAN UNIVERSITY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal years ended May 31,

| | 2023 | 2022 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 5,351,530 | $ 13,468,623 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Realized loss (gain) on sale of investments | 3,841,153 | (267,524) |
| Unrealized (gain) loss on investments | (1,402,337) | 5,485,654 |
| Change in value of split-interest agreements and other tru: | (227,179) | (139,973) |
| Reinvested interest and dividends | (2,782,691) | (1,789,161) |
| Bad debt expense | 1,495,755 | 1,836,978 |
| Depreciation and amortization of plant assets | 5,397,434 | 4,498,188 |
| Amortization of intangibles, debt cost and bond premiums | 494,192 | 522,302 |
| Changes in: | | |
| Receivables | 2,935,616 | (4,326,963) |
| Pledges receivable, net | (4,117,711) | 4,082,855 |
| Prepayments, inventories, and other assets | (278,780) | 604,954 |
| Accounts payable and accrued liabilities | (2,072,164) | 3,308,533 |
| Deposits and agency funds | (41,101) | (171,662) |
| Deferred income | (503,754) | 540,677 |
| Net cash provided by operating activities | 8,089,963 | 27,653,481 |
| Cash flows from investing activities: | | |
| Purchases of investments | (1,915,623) | (16,237,195) |
| Proceeds from sale of investments | 221,301 | 278,742 |
| Purchases of plant assets | (7,625,367) | (31,885,778) |
| Contractual payments on annuities | (35,939) | (35,939) |
| Net cash (used in) investing activities | (9,355,628) | (47,880,170) |

*The accompanying notes are an integral part of these consolidated financial statements.*

HOUSTON BAPTIST UNIVERSITY AND SUBSIDIARY
(d/b/a HOUSTON CHRISTIAN UNIVERSITY)
CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
Fiscal years ended May 31,

| | 2023 | 2022 |
|---|---|---|
| Cash flows from financing activities: | | |
| Borrowings of long term debt | - | 6,000,000 |
| Payments on debt and finance leases payable | (2,147,734) | (1,697,709) |
| Net cash (used in) provided by financing activities | (2,147,734) | 4,302,291 |
| Net (decrease) in cash, cash equivalents and restricted cash | (3,413,399) | (15,924,398) |
| Cash, cash equivalents and restricted cash - beginning of year | 43,936,883 | 59,861,281 |
| Cash, cash equivalents and restricted cash - end of year | 40,523,484 | $ 43,936,883 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## 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 Christian 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. BSI owned three retail buildings and two ground leases on the southeast corner of Fondren and US 59. 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. See Note R for additional details of the agreement. BSI continues to redevelop the remainder of 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, 2023 and 2022 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:

| | 2023 | 2022 |
|---|---|---|
| Capital gifts | $ 3,529,172 | $ 14,255,943 |
| Progammatic gifts | 2,736,009 | 3,460,082 |
| Total | $ 6,265,181 | $ 17,716,025 |

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 (Note K). As of May 31, 2023 and 2022 the debt service reserve fund was $7,716,040 and $7,488,293, respectively. Bond proceeds included in restricted cash as of May 31, 2023 and 2022 is $23,078 and $1,721,972, respectively.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**5. Tuition Receivable and 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.

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 the lower of cost or net realizable value and are expensed using the first in, first out method.

**7. 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.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**8. 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.

**9. 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.

**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.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**11. Perpetual Trusts**

The University is the beneficiary of certain perpetual trusts held and administered by others, specifically HighGround Advisors (formerly named Christian 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 $5,670,000 and $5,857,000 for fiscal years ending May 31, 2023 and 2022, 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 valuations and sales of assets.

**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 doubtful accounts, 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.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**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, 2023 and 2022, the University and its Subsidiary, did not have an asset or liability for any unrecognized tax positions. Management's determinations 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 2020. 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.

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.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

### 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 balance sheets. 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 balance sheet. The University recognizes lease expense for these leases on a straight-line basis over the lease term. The University subleases certain building space to third parties and sublease income is recognized on a straight-line basis over the lease term. See Note 8 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, 2022 have been reclassified to conform with classifications as of and for fiscal year ending May 31, 2023. The reclassifications had no effect on total net assets or changes in net assets as of and for year ending May 31, 2022.

### 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, 2023 and 2022, 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:

| | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | $ 29,635,206 | $ 33,822,046 |
| Notes and accounts receivable, net | 11,757,997 | 14,964,897 |
| Pledge payments available for operations | 1,024,952 | 20,250 |
| Investments | 2,557,297 | 3,921,316 |
| Revolving line of credit | 5,000,000 | 5,000,000 |
| Fiscal year 2023 and 2022 endowment draw | 2,960,914 | 2,964,148 |
| Total | $ 52,936,366 | $ 60,692,657 |

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 December 31, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Tuition receivable | $ 10,787,641 | $ 11,597,974 |
| Allowance for credit losses | (2,385,466) | (2,503,909) |
| Tuition receivable, net | $ 8,402,175 | $ 9,094,065 |

**NOTE C - ALLOWANCE FOR CREDIT LOSSES – continued**

The following table illustrates changes in the University's allowance for credit losses for the years ended May 31, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Allowance for credit losses - beginning of year | $ 2,503,909 | $ 2,419,698 |
| Add: provision for credit losses | 1,495,755 | 1,836,978 |
| Add: recovery of accounts written off | 27,630 | 17,455 |
| Less: accounts written off | (1,641,828) | (1,770,222) |
| Allowance for credit losses - end of year | $ 2,385,466 | $ 2,503,909 |

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

**NOTE D - PLEDGES RECEIVABLE, NET**

Pledges receivable, net, at May 31, 2023 and 2022, consists of the following

| | 2023 | 2022 |
|---|---|---|
| Unconditional promise expected to be collected in: | | |
| Less than one year | $ 4,999,730 | $ 5,105,232 |
| Two to five years | 13,684,416 | 11,516,000 |
| Greater than five years | 5,600,000 | 2,000,000 |
| | 24,284,119 | 18,621,232 |
| Less allowance for uncollectable pledges | - | (115,000) |
| Less unamortized discount | (2,582,486) | (922,310) |
| Total pledges receivable, net | $ 21,701,633 | $ 17,583,922 |

Pledges receivable were discounted using rates ranging from 3.76% to 5.15%.

**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, 2023 and 2022 totaled approximately $417,000 each year. See Note R for additional details on the agreement.

**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, 2023 and 2022 the balance on the note was $2,618,452 and $2,695,619, 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 be permanently endowed. The balance is included as investments on the May 31, 2023 and 2022 statement of financial position.

**NOTE G - INVESTMENTS**

Investments at fair value, at May 31, 2023 and 2022, consist of the following:

| | 2023 | 2022 |
|---|---|---|
| Common stocks | $ 16,699,737 | $ 15,299,649 |
| Bonds | 47,379 | 47,861 |
| Mutual funds | 49,968,741 | 52,830,371 |
| Private investment fund | 18,643,619 | 18,249,137 |
| Real estate | 35,929,661 | 35,801,119 |
| Note receivable secured by real estate | 2,618,452 | 2,695,619 |
| Oil and gas royalty interests | 923,928 | 771,556 |
| Certificates of deposit | 65,000 | 65,000 |
| Total | $ 124,896,517 | $ 127,033,825 |

The University nets investment fees against investment and endowment income. Investment fees were approximately $135,000 and $95,000 for fiscal years ended May 31, 2023 and 2022, 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 statement 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 | 2023 | 2022 |
|---|---|---|---|
| Buildings | 20 - 70 years | $ 141,721,802 | $ 117,570,104 |
| Furniture, equipment, and library books | 3 - 10 years | 33,227,516 | 28,391,022 |
| Land improvements | 10 - 20 years | 37,800,012 | 26,166,082 |
| Software | 10 years | 2,388,702 | 2,388,702 |
| Leasehold improvements | 10 - 20 years | 107,643 | 107,643 |
| Vehicles | 5 years | 2,267,757 | 2,105,133 |
| | | 217,513,432 | 176,728,686 |
| Less accumulated depreciation and amortization | | (95,503,998) | (90,106,563) |
| Campus land | | 9,160,248 | 9,160,248 |
| Art and historical objects | | 6,600,985 | 6,600,985 |
| Construction in progress | | 1,352,189 | 29,865,261 |
| Total investment in plant assets | | $ 139,122,856 | $ 132,248,617 |

**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, 2023 | | |
|---|---|---|---|
| | Instructional, Academic Support and Student Services | Institutional Support and Auxiliary Enterprises | Total |
| Salaries & wages | $ 25,543,415 | $ 8,473,115 | $ 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 |

| | Fiscal Year Ended May 31, 2022 | | |
|---|---|---|---|
| | Instructional, Academic Support and Student Services | Institutional Support and Auxiliary Enterprises | Total |
| Salaries & wages | $ 25,448,871 | $ 8,277,768 | $ 33,726,639 |
| Benefits | 5,060,809 | 1,746,001 | 6,806,810 |
| General operating | 15,524,000 | 22,467,935 | 37,991,935 |
| Depreciation | 2,878,840 | 1,619,348 | 4,498,188 |
| Interest | 2,271,575 | 1,277,761 | 3,549,336 |
| Total | $ 51,184,095 | $ 35,388,813 | $ 86,572,908 |

## NOTE K – DEBT

| | May 31, 2023 | May 31, 2022 |
|---|---|---|
| **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 maturity at October 1, 2036. 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 October 1 , 2048 through maturity at 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) | 25,680,000 | 25,900,000 |
| Total bonds payable | 78,425,000 | 78,645,000 |
| Bond issue premium | 2,839,200 | 2,964,596 |
| Debt issue costs | (651,683) | (682,801) |
| Total bonds payable, net | $ 80,612,517 | $ 80,926,795 |

(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**

| | May 31, 2023 | May 31, 2022 |
|---|---|---|
| **Notes Payable** | | |
| 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. | $ 13,825,000 | $ 15,015,000 |
| A note payable in the amount of $6,000,000 with a bank dated November 12, 2021, bearing interest at 2.99% and maturing November 12, 2031. The note requires monthly payments of $58,026 and is secured by pledges receivable. | 5,207,989 | 5,739,929 |
| Total notes payable | 19,032,989 | 20,754,929 |
| Debt cost | (156,345) | (173,097) |
| Total notes payable, net | $ 18,876,644 | $ 20,581,832 |

Effective November 12, 2021, the University executed a $5,000,000 revolving line of credit (“Revolver”) with a bank. The Revolver bears interest at Prime less .26% and is for a period of three years. As of May 31, 2023 and 2022 the Revolver had a balance of zero.

**NOTE K – DEBT – continued**

Future minimum payments under this debt are as follows.

**Bonds Payable**

| May 31, | Bonds | Bond premium | Debt cost | Total |
|---|---|---|---|---|
| 2024 | $ 230,000 | $ 125,395 | $ (31,119) | $ 324,276 |
| 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 |
| Thereafter | 76,715,000 | 2,212,225 | (496,088) | 78,431,137 |
| Total | $ 78,425,000 | $ 2,839,200 | $ (651,683) | $ 80,612,517 |

**Notes Payable**

| May 31, | Notes payable | Debt cost | Total |
|---|---|---|---|
| 2024 | $ 1,783,064 | $ (16,751) | $ 1,766,313 |
| 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 |
| Thereafter | 9,406,422 | (72,590) | 9,333,832 |
| Total | $ 19,032,989 | $ (156,345) | $ 18,876,644 |

Interest expense for fiscal years ending May 31, 2023 and 2022 was approximately $4,246,000 and $3,549,000, respectively. The interest paid on notes and bonds payable for the fiscal years ending May 31, 2023 and 2022 was approximately $4,592,000 and $4,550,000, respectively.

**NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 32,784,366 | $ 32,784,366 | $ 34,726,618 | $ 34,726,618 |
| Receivables, net | 11,757,997 | 11,757,997 | 16,189,368 | 16,189,368 |
| Pledges receivable, net | 21,701,633 | 21,701,633 | 17,583,922 | 17,583,922 |
| Investments: | | | | |
| Common stocks | 16,699,737 | 16,699,737 | 15,299,649 | 15,299,649 |
| Bonds | 47,379 | 47,379 | 47,861 | 47,861 |
| Mutual funds | 49,968,741 | 49,968,741 | 52,830,371 | 52,830,371 |
| Private investment fund | 18,643,619 | 18,643,619 | 18,249,137 | 18,249,137 |
| Real estate | 35,929,661 | 35,929,661 | 35,801,119 | 35,801,119 |
| Note receivable secured by real estate | 2,618,452 | 2,618,452 | 2,695,619 | 2,695,619 |
| Oil and gas royalty interests | 923,928 | 923,928 | 771,556 | 771,556 |
| Certificate of deposit | 65,000 | 65,000 | 65,000 | 65,000 |
| Interests in perpetual trusts held by others | 5,013,171 | 5,013,171 | 5,238,933 | 5,238,933 |
| Interests in trusts administered by others | 7,092 | 7,092 | 7,251 | 7,251 |
| Financial liabilities: | | | | |
| Accounts payable and accrued liabilities | 8,545,514 | 8,545,514 | 9,679,994 | 9,679,994 |
| Deposits and agency funds | 186,431 | 186,431 | 227,532 | 227,532 |
| Bonds payable | 80,612,517 | 72,281,106 | 80,926,795 | 76,169,492 |
| Notes payable | 18,876,645 | 17,541,926 | 20,581,184 | 20,100,998 |

**NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS - continued**

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.

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.

**NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS – continued**

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.

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, 2023:

| Description | May 31, 2023 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Investments: | | | | |
| Common stocks by sector: | | | | |
| Basic material | $ 16,699,737 | $ 16,699,737 | $ - | $ - |
| Bonds: | | | | |
| US Corporate | 47,379 | - | 47,379 | - |
| Mutual funds: | | | | |
| Stocks | 34,311,074 | 34,311,074 | - | - |
| Bonds | 15,657,667 | 15,657,667 | - | - |
| Certificate of deposit | 65,000 | 65,000 | - | - |
| 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 | $111,273,161 | $ 66,733,478 | $ 5,067,642 | $ 39,472,041 |
| Private investment fund (a) measured at NAV | 18,643,619 | | | |
| 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 following table classifies the University's financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2022:

| Description | May 31, 2022 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Investments: | | | | |
| Common stocks by sector: | | | | |
| Basic material | $ 16,573,162 | $ 16,573,162 | $ - | $ - |
| Bonds: | | | | |
| US Corporate | 47,861 | - | 47,861 | - |
| Mutual funds: | | | | |
| Stocks | 50,974,712 | 50,974,712 | - | - |
| Bonds | 1,855,659 | 1,855,659 | - | - |
| Certificate of deposit | 65,000 | 65,000 | - | - |
| Real estate | 35,801,119 | - | - | 35,801,119 |
| Note receivable secured by real estate | 2,695,619 | - | - | 2,695,619 |
| Oil and gas royalty | 771,556 | - | - | 771,556 |
| Interest in perpetual trusts: | | | | |
| Held by others | 5,238,933 | - | 5,238,933 | - |
| Administered by others | 7,251 | - | 7,251 | - |
| Total investments in the fair value hierarchy | $114,030,872 | $ 69,468,533 | $ 5,294,045 | $ 39,268,294 |
| Private investment fund (a) measured at NAV | 18,249,137 | | | |
| Total | $132,280,009 | | | |

(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, 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 | $ 2,695,619 | $ 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 |

The schedule below reconciles the opening balance to the closing balance for the fiscal year ended May 31, 2022 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 | $ 35,755,913 | $ 2,769,284 | $ 385,184 |
| Additions | 45,206 | - | - |
| Payments | - | (73,665) | - |
| Included in unrealized gain/ (loss) on investments | - | - | 386,372 |
| Balance, end of year | $ 35,801,119 | $ 2,695,619 | $ 771,556 |

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 $1,332,000 and $1,311,000 for fiscal years ending May 31, 2023 and 2022, 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, 2023 and 2022, there was approximately $467,000 and $501,000, 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 Christian 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 $5,020,000 and $5,246,000 as of May 31, 2023 and 2022, respectively. Income distributions from these funds were approximately $315,000 and $236,000 for fiscal years ending May 31, 2023 and 2022, 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 $258,000 and $230,000 during fiscal years ending May 31, 2023 and 2022, 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, 2023<br>With donor restrictions | May 31, 2022<br>With donor restrictions |
|---|---|---|
| Pledges receivable principally for students, facilities and campus enhancements | $ 13,208,824 | $ 15,585,982 |
| Net cumulative income (including unrealized gains) from endowment funds – primarily for scholarships | 17,778,377 | 17,189,791 |
| Funds administered by others – life annuity funds | 7,092 | 7,251 |
| Trusts held by others | 5,013,171 | 5,239,207 |
| Student scholarships and loans | 4,107,637 | 3,914,674 |
| Student scholarships and loans - endowed | 10,777,718 | 8,329,816 |
| Equipment, renovations and operations | 14,162,959 | 29,180,865 |
| Life annuity funds | 286,008 | 292,592 |
| General endowment funds | 60,982,667 | 58,386,120 |
| Balance, end of year | $ 126,324,453 | $ 138,126,298 |

Net assets without donor restrictions are composed of the following:

| | May 31, 2023<br>Without donor restrictions | May 31, 2022<br>Without donor restrictions |
|---|---|---|
| Operating | $ 28,729,715 | $ 21,600,019 |
| Plant assets, net of debt | 39,633,694 | 30,739,990 |
| General endowment funds | 41,813,398 | 40,683,423 |
| Balance, end of year | $ 110,176,807 | $ 93,023,432 |

**NOTE P - DEVELOPMENT EXPENSES**

The University incurred expenses totaling approximately $1,314,000 and $1,262,000 for fiscal years ended May 31, 2023 and 2022, 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**

Operating Leases

The University is the lessor of operating leases with third parties expiring at various times through 2034. Minimum future rental income under non-cancelable operating leases having remaining terms in excess of one year as of May 31, 2023 are:

| | University |
|---|---|
| 2024 | $ 128,534 |
| 2025 | 344,919 |
| 2026 | 142,210 |
| 2027 | 51,101 |
| Thereafter | 29,809 |
| Total minimum future rental income | $ 695,573 |

Rental income for fiscal years ended May 31, 2023 and 2022 was approximately $791,000 and $763,000, respectively, and is included in investment and endowment income and BSI revenue on the consolidated statements of activities.

**NOTE Q – LEASES – continued**

The right-of-use asset and corresponding liability associated with the University's finance leases as of May 31, 2023 and 2022 is shown below. The University had no material operating leases at May 31, 2023 or 2022.

| | May 31, 2023 | May 31, 2022 |
|---|---|---|
| Finance lease: | | |
| Included in equipment | $ 409,596 | $ 478,578 |
| Total | $ 409,596 | $ 478,578 |
| | | |
| Finance lease liability | | |
| Current | $ 181,879 | $ 187,777 |
| Long-term | 227,717 | 290,801 |
| Balance, end of year | $ 409,596 | $ 478,578 |

Other information related to the University's leases as of May 31, 2023 and 2022:

| | May 31, 2023 | May 31, 2022 |
|---|---|---|
| Weighted average remaining lease term (years) | | |
| Finance leases | 3 | 2.4 |
| | | |
| Weighted average discount rate | | |
| Finance leases | 4.50% | 4.60% |

Lease cost reported in general operating expenses in the consolidated statements of activities as of May 31, 2023 and 2022 is as follows:

| | May 31, 2023 | May 31, 2022 |
|---|---|---|
| Finance lease | | |
| Amortization of right-to-use assets | $ 166,256 | $ 147,255 |
| Interest on lease liability | 39,539 | 40,522 |
| Total | $ 205,795 | $ 187,777 |

**NOTE Q – LEASES - continued**

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 |
|---|---|---|---|
| 2024 | $ 215,599 | $ (33,720) | $ 181,879 |
| 2025 | 214,224 | (14,453) | 199,771 |
| 2026 | 28,237 | (291) | 27,946 |
| | $ 458,060 | $ (48,464) | $ 409,596 |

**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 terminated 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 will continue to be amortized through year 2023. 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.

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 2023 and 2022, the University expended fees of approximately $417,000 each year, representing charges for the monthly license fee net of credits for compensation and course fees.

**NOTE R - COMMITMENTS AND CONTINGENCIES – continued**

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. 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, 2023 and 2022 was $1,800,000 and $3,800,000, 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, 2023 and 2022 approximately $33,887,000 and $30,596,000 was disbursed under the loan program and students received approximately $8,696,000 and $7,655,000 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, 2023.

The University is a named defendant in 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, 2023 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 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.

**NOTE R - COMMITMENTS AND CONTINGENCIES – continued**

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 allowance for doubtful accounts) 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, 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 (expense) | (19,414) | (472,417) | (491,831) |
| Endowment net assets, end of year | $ 41,813,398 | $ 89,667,755 | $ 131,481,153 |

Endowment net assets with donor restrictions includes $74,147,613 of net assets restricted in perpetuity.

**NOTE S – ENDOWMENTS – continued**

Endowment Net Asset Composition by Type of Fund as of May 31, 2022.

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 89,444,747 | $ 89,444,747 |
| Board-designated endowment | 41,800,687 | | 41,800,687 |
| Total Funds | $ 41,800,687 | $ 89,444,747 | $ 131,245,434 |

Changes in Endowment Net Assets for the Fiscal Year Ended May 31, 2022.

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, beginning of year | $ 40,683,423 | $ 91,706,868 | $132,390,291 |
| Investment return: | | | |
| Investment income | 229,953 | 1,692,313 | 1,922,266 |
| Net appreciation (realized and unrealized) | 375,571 | (5,637,835) | (5,262,264) |
| Total investment return | 605,524 | (3,945,522) | (3,339,998) |
| Rental income | 524,872 | 130,650 | 655,522 |
| BSI revenue | 109,583 | - | 109,583 |
| Contributions | - | 4,831,794 | 4,831,794 |
| Appropriation of endowment assets for expenditure | - | (2,884,723) | (2,884,723) |
| Other changes: | | | |
| BSI expenses | (145,878) | - | (145,878) |
| Miscellaneous income/(expense) | 23,163 | (394,320) | (371,157) |
| Endowment net assets, end of year | $ 41,800,687 | $ 89,444,747 | $ 131,245,434 |

Endowment net assets with donor restrictions includes $68,992,094 of net assets restricted in perpetuity.

**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 $237,000 and $349,000 as of May 31, 2023 and 2022, respectively. The deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs was deemed prudent by the Board of Trustees of the University.

**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% |

**NOTE S – ENDOWMENTS – continued**

**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 various vendors who meet the requirements of a related party. The nature of these transactions is described below:

- The University's President is the owner of a consulting firm hired by BSI. During both fiscal years ending May 31, 2023 and 2022 the University paid consulting fees to the firm of approximately $210,000.

**NOTE U – 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, 2023 | May 31, 2022 |
|---|---|---|
| Net assets without donor restriction | $ 110,176,807 | $ 93,023,432 |
| Less: Bond proceeds held for capital expenditure | - | (1,722,000) |
| Less: Investment in campus plant | (139,122,856) | (132,248,617) |
| Less: Debt service reserve fund | (7,716,040) | (7,488,293) |
| Add: Debt related to campus plant | 99,898,758 | 101,987,205 |
| Without donor restriction, exclusive of plant and related debt | $ 63,236,669 | $ 52,948,266 |

**NOTE V – CORONAVIRUS AID, RELIEF AND ECONOMIC SECURITY ("CARES") ACT**

On April 28, 2020 the University was granted a note payable (the "PPP Note Payable") in the amount of $6,800,000, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The PPP Note Payable, which was dated April 23, 2020 and issued by a bank, matures on April 23, 2022 and bears interest at a rate of 1% per annum. The Paycheck Protection Program Flexibility Act of 2020 (Flexibility Act) which was enacted June 5, 2020, extended the deferral period for borrower payments of principal, interest and fees on all PPP notes payable to the date that the Small Business Administration remits the borrower's note payable forgiveness, provided the borrower submitted the application for forgiveness within ten months after the end of the borrower's note payable forgiveness covered period.

Under the terms of the PPP, certain amounts of the PPP Note Payable may be forgiven if they are used for qualifying expenses as described in the CARES Act. Qualifying expenses include payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred before February 15, 2020.

The University has submitted documentation to the bank to attain forgiveness from repayment of the PPP Note Payable. In Accordance with FASB ASC 958-605, the timing of the recognition from a debt obligation to income depends on whether the terms are conditional or not. If conditional, the income is not recognized until the conditions are substantially met or explicitly waived. In the opinion of Management, the expenses incurred, and related documentation submitted are adequate to achieve forgiveness of the debt obligation. As a result, for the year ended May 31, 2021, the University has recorded as government grant income, $6,003,000 from the forgiveness and extinguishment of the PPP Note Payable Obligation. During fiscal year 2022 the University received additional PPP funds of approximately $437,000 which has been recorded as government grant income. The University received complete forgiveness of both amounts during fiscal year 2022.

The CARES Act created a Higher Education Emergency Relief Fund (HEERF) to provide financial relief to students and institutions who were impacted by the COVID-19 pandemic. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan (ARP) provided additional rounds of HEERF (II and III). The HEERF funds contained three components, an institutional award, an award for institutions serving minority students and a student aid award. The student aid portion must be distributed to students in the form of emergency financial aid grants to generally cover any component of the cost of attendance for the distribution of education or emergency costs that arose due to COVID-19. The institutional portion and the award for institutions serving minority students both can be used for multiple items, but largely to cover lost revenue, defray and pay for expenses related to the disruption of campus operations due to COVID-19, and reimburse for costs associated with a transition to distance education environment, among other items.

**NOTE W – SUBSEQUENT EVENTS**

The University has evaluated all events that occurred between May 31, 2023 and September 15, 2023, the date the consolidated financial statements were available to be issued. The University is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

# SUPPLEMENTAL SCHEDULES

HOUSTON BAPTIST UNIVERSITY
(d/b/a HOUSTON CHRISTIAN UNIVERSITY)
CONSOLIDATING BALANCE SHEETS
(Beechnut Street, Inc. and Subsidiaries)
May 31, 2023

| | Beechnut Street, Inc. | | | | |
|---|---|---|---|---|---|
| | **BSI** | **Fondren I** | **Pillars** | **Eliminations** | **Consolidated** |
| **Assets** | | | | | |
| Cash and cash equivalents | $ 455,286 | $ 46,191 | $ 4,201,880 | $ - | $ 4,703,357 |
| Accounts receivables | - | 2,440 | 1,797,715 | - | 1,800,155 |
| Prepaids and other assets | 37,042 | - | - | - | 37,042 |
| Investment in subsidiary | 707,827 | - | - | (707,827) | - |
| Plant, property, and equipment | - | 563,985 | - | - | 563,985 |
| Intercompany receivable | 1,624,671 | - | 2,929,182 | (4,553,853) | - |
| TOTAL ASSETS | $ 2,824,826 | $ 612,616 | $ 8,928,777 | $ (5,261,680) | $ 7,104,539 |
| **Liabilities and Net Assets** | | | | | |
| Accounts payable and accrued expenses | $ 2,850 | $ 205,242 | $ 12,741 | $ - | $ 220,833 |
| Payable to University | 6,450,893 | 4,614,463 | 640,436 | (2,990,775) | 8,715,017 |
| Intercompany payable | - | 1,563,078 | - | (1,563,078) | - |
| Total liabilities | 6,453,743 | 6,382,783 | 653,177 | (4,553,853) | 8,935,850 |
| Shareholders' equity (deficit) | (3,628,917) | (5,770,167) | 8,275,600 | (707,827) | (1,831,311) |
| Total liabilities and shareholders' equity (deficit) | $ 2,824,826 | $ 612,616 | $ 8,928,777 | $ (5,261,680) | $ 7,104,539 |

*See independent auditor's report*

HOUSTON BAPTIST UNIVERSITY
(d/b/a HOUSTON CHRISTIAN UNIVERSITY)
CONSOLIDATING STATEMENTS OF INCOME
(Beechnut Street, Inc. and Subsidiaries)
Fiscal year ending May 31, 2023

| | Beechnut Street, Inc. | | | | |
|---|---|---|---|---|---|
| | **BSI** | **Fondren I** | **Pillars** | **Eliminations** | **Consolidated** |
| Operating Revenues and Support | | | | | |
| Rental revenue | $ - | $ 141,784 | $ - | $ - | $ 141,784 |
| Other | 72,055 | - | - | - | 72,055 |
| Total operating revenues and support | 72,055 | 141,784 | - | - | 213,839 |
| Operating expenses: | | | | | |
| Selling, general, and administrative | 6,602 | - | 15,110 | - | 21,712 |
| Plant | 210,000 | 8,143 | - | - | 218,143 |
| Depreciation expense | - | - | - | - | - |
| Taxes | 639,195 | 268,133 | - | - | 907,328 |
| Other | - | - | - | - | - |
| Loss on disposal of assets and other | - | | - | - | - |
| Total operating expenses | 855,797 | 276,276 | 15,110 | - | 1,147,183 |
| Operating income (loss) | (783,742) | (134,492) | (15,110) | - | (933,344) |
| Beginning equity (deficit) | (2,845,175) | (5,635,675) | 8,290,710 | (707,827) | (897,967) |
| Ending equity (deficit) | $ (3,628,917) | $ (5,770,167) | $ 8,275,600 | $ (707,827) | $ (1,831,311) |

*See independent auditor's report*

HOUSTON BAPTIST UNIVERSITY
(d/b/a HOUSTON CHRISTIAN UNIVERSITY)
SUPPLEMENTAL SCHEDULE – FINANCIAL RESPONSIBILITY COMPOSITE SCORE
Fiscal year ending May 31, 2023

| Ratio Element | Reference to Financial Statements or Notes | 2023 |
|---|---|---|
| **Primary Reserve Ratio** | | |
| **Expendable Net Assets** | | |
| + Net assets without donor restrictions | Statement of Financial Position | $ 126,324,453 |
| + Net assets with donor restrictions | Statement of Financial Position | 110,176,807 |
| - Net assets with donor restrictions - restricted in perpetuity | Note S | (74,147,613) |
| - Annuities with donor restrictions | Note O | (286,008) |
| - Term endowments with donor restrictions | Not applicable to the University | - |
| - Life income funds with donor restrictions | Not applicable to the University | - |
| - Unsecured related party receivables | Not applicable to the University | - |
| - Intangible assets | Statement of Financial Position | - |
| - Property plant and equipment, net of accum. depr. | Statement of Financial Position | (132,248,617) |
| + Long-term debt obtained for long-term purposes | Note K | 97,398,572 |
| | | $ 127,217,594 |
| **Total Expenses and Losses** | | |
| Total expenses without donor restrictions | Statement of Activities | $ 90,187,815 |
| **Equity Ratio** | | |
| **Modified Net Assets** | | |
| + Net assets without donor restrictions | Statement of Financial Position | 126,324,453 |
| + Net assets with donor restrictions | Statement of Financial Position | 110,176,807 |
| - Intangible assets | Statement of Financial Position | - |
| - Unsecured related party receivables | Not applicable to the University | - |
| | | $ 236,501,260 |
| **Modified Assets** | | |
| + Total assets | Statement of Financial Position | 345,131,963 |
| - Intangible assets | Statement of Financial Position | - |
| - Unsecured related party receivables | Not applicable to the University | - |
| | | $ 345,131,963 |
| **Net Income Ratio** | | |
| Change in net assets without donor restrictions | Statement of Activities | $ 17,153,375 |
| Total revenue and gains without donor restrictions | Statement of Activities | $ 92,750,674 |

*See independent auditor's report*

HOUSTON BAPTIST UNIVERSITY
(d/b/a HOUSTON CHRISTIAN UNIVERSITY)
SUPPLEMENTAL SCHEDULE – FINANCIAL RESPONSIBILITY COMPOSITE SCORE
Fiscal year ending May 31, 2023

**Calculation of the Composite Score**

**Primary Reserve Ratio**

| | | | |
|---|---|---|---|
| Expendable Net Assets / | 127,217,594 | = | 1.4106 |
| Total Expenses Without Donor Restrictions | 90,187,815 | | |

**Equity Ratio**

| | | | |
|---|---|---|---|
| Modified Net Assets / | 236,501,260 | = | 0.6852 |
| Modified Assets | 345,131,963 | | |

**Net Income Ratio**

| | | | |
|---|---|---|---|
| Change in Net Assets Without Donor Restrictions / | 17,153,375 | = | 0.1849 |
| Total Revenue and Gains Without donor Restrictions | 92,750,674 | | |

**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 | 1.4106 | 14.1059 | 3.00 | 0.40 | 1.20 |
| Equity Ratio | 0.6852 | 4.1115 | 3.00 | 0.40 | 1.20 |
| Net Income Ratio | 0.1849 | 10.2470 | 3.00 | 0.20 | 0.60 |
| | | | | | 3.00 |

*See independent auditor’s report*