




Kettering University

Independent Auditor's Report and Financial Statements

June 30, 2024 and 2023



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Independent Auditor's Report

Board of Directors
Kettering University
Flint, Michigan

Opinion

We have audited the financial statements of Kettering University (University), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Kettering University, as of June 30, 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). 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 the University, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Forvis Mazars, LLP

**Fort Wayne, Indiana
October 24, 2024**

Kettering University
Statements of Financial Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 8,949,962	\$ 14,063,266
Investments	119,604,686	111,295,273
Restricted cash and cash equivalents	322	1,094
Accounts receivable, net	2,224,386	1,613,392
Promises to give, net	1,691,692	1,694,800
Prepaid expenses and other assets	2,257,151	1,812,480
Beneficial interest in trusts	4,848,572	4,333,735
Land, buildings and equipment, net	<u>139,494,044</u>	<u>140,535,492</u>
Total assets	<u>\$ 279,070,815</u>	<u>\$ 275,349,532</u>
LIABILITIES		
Accounts payable	\$ 3,664,175	\$ 1,934,632
Deferred revenue	1,717,202	2,352,830
Accrued liabilities and other	1,548,321	1,284,528
Bonds payable	38,077,544	38,750,142
Note payable	133,330	177,778
Other long-term liability	<u>2,772,549</u>	<u>2,380,242</u>
Total liabilities	<u>47,913,121</u>	<u>46,880,152</u>
NET ASSETS		
Without donor restriction	115,790,372	120,648,298
With donor restriction	<u>115,367,322</u>	<u>107,821,082</u>
Total net assets	<u>231,157,694</u>	<u>228,469,380</u>
Total liabilities and net assets	<u>\$ 279,070,815</u>	<u>\$ 275,349,532</u>

Kettering University
Statement of Activities
Year Ended June 30, 2024

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Income, and Other Support			
Tuition and fees, net	\$ 34,762,345	\$ -	\$ 34,762,345
Government grants and contracts	1,983,314	-	1,983,314
Auxiliary service	3,837,111	-	3,837,111
Private sponsored research	602,832	36,000	638,832
Private gifts and foundation grants	11,367,143	3,833,347	15,200,490
Investment income	1,458,301	953,123	2,411,424
Other income	322,254	500	322,754
Net assets released from restrictions	7,260,657	(7,260,657)	-
Total revenue, income, and other support	61,593,957	(2,437,687)	59,156,270
Expenses			
Instruction	20,038,582	-	20,038,582
Community engagement	61,490	-	61,490
Academic support	4,317,173	-	4,317,173
Research	2,566,530	-	2,566,530
Student services	6,425,505	-	6,425,505
Auxiliary services	5,798,787	-	5,798,787
Total program expenses	39,208,067	-	39,208,067
Support services	22,449,460	-	22,449,460
Total expenses	61,657,527	-	61,657,527
Change in Net Assets Before Other Activities	(63,570)	(2,437,687)	(2,501,257)
Other Activities			
Net realized and unrealized gain on investments	1,185,501	9,580,567	10,766,068
Change in fair value of beneficial interest in trust	-	403,360	403,360
Depreciation and accretion expense	(5,979,857)	-	(5,979,857)
Net assets released from restriction - capital	-	-	-
Total other activities	(4,794,356)	9,983,927	5,189,571
Change in Net Assets	(4,857,926)	7,546,240	2,688,314
Net Assets, Beginning of Year	120,648,298	107,821,082	228,469,380
Net Assets, End of Year	<u>\$ 115,790,372</u>	<u>\$ 115,367,322</u>	<u>\$ 231,157,694</u>

Kettering University
Statement of Activities
Year Ended June 30, 2023

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Income, and Other Support			
Tuition and fees, net	\$ 37,581,391	\$ -	\$ 37,581,391
Government grants and contracts	831,009	-	831,009
Auxiliary service	3,893,539	1,177	3,894,716
Private sponsored research	889,632	51,123	940,755
Private gifts and foundation grants	12,608,470	3,635,038	16,243,508
Investment income	513,303	1,673,883	2,187,186
Other income	437,020	18,771	455,791
Net assets released from restrictions	4,611,114	(4,611,114)	-
Total revenue, income, and other support	61,365,478	768,878	62,134,356
Expenses			
Instruction	19,827,062	-	19,827,062
Community engagement	122,679	-	122,679
Academic support	4,869,146	-	4,869,146
Research	1,932,998	-	1,932,998
Student services	6,678,764	-	6,678,764
Auxiliary services	6,590,741	-	6,590,741
Total program expenses	40,021,390	-	40,021,390
Support services	19,587,763	-	19,587,763
Total expenses	59,609,153	-	59,609,153
Change in Net Assets Before Other Activities	1,756,325	768,878	2,525,203
Other Activities			
Net realized and unrealized gain on investments	926,200	6,456,366	7,382,566
Change in fair value of beneficial interest in trust	-	201,531	201,531
Depreciation and accretion expense	(5,872,498)	-	(5,872,498)
Net assets released from restriction - capital	37,203,671	(37,203,671)	-
Total other activities	32,257,373	(30,545,774)	1,711,599
Change in Net Assets	34,013,698	(29,776,896)	4,236,802
Net Assets, Beginning of Year	86,634,600	137,597,978	224,232,578
Net Assets, End of Year	\$ 120,648,298	\$ 107,821,082	\$ 228,469,380

Kettering University
Statements of Functional Expenses
Years Ended June 30, 2024 and 2023

	Program Services						
	Educational Activities	Research	Auxiliary	Student Services	Total Program Services	Supporting Services	Total
2024							
Personnel compensation	\$ 14,746,378	\$ 1,357,897	\$ 634,394	\$ 3,234,258	\$ 19,972,927	\$ 9,152,149	\$ 29,125,076
Personnel benefits	4,363,508	218,632	131,860	877,822	5,591,822	2,762,237	8,354,059
Supplies	619,724	102,826	191,210	302,494	1,216,254	250,111	1,466,365
Utilities	1,240,928	324,036	490,801	38,077	2,093,842	486,763	2,580,605
Maintenance	1,045,671	-	56,905	8,871	1,111,447	1,960,616	3,072,063
Travel	217,818	53,579	14,932	232,753	519,082	336,968	856,050
Contracted services and other	1,149,724	483,831	3,768,902	1,714,506	7,116,963	7,374,745	14,491,708
Capital expenses	134,800	25,728	3,903	16,723	181,154	125,870	307,024
Interest expense	898,696	-	505,881	-	1,404,577	-	1,404,577
Total before depreciation and accretion	24,417,247	2,566,529	5,798,788	6,425,504	39,208,068	22,449,459	61,657,527
Depreciation and accretion	2,985,661	672,011	1,122,749	92,969	4,873,390	1,106,467	5,979,857
	<u>\$ 27,402,908</u>	<u>\$ 3,238,540</u>	<u>\$ 6,921,537</u>	<u>\$ 6,518,473</u>	<u>\$ 44,081,458</u>	<u>\$ 23,555,926</u>	<u>\$ 67,637,384</u>
	Educational Activities	Research	Auxiliary	Student Services	Total Program Services	Supporting Services	Total
2023							
Personnel compensation	\$ 14,956,685	\$ 1,085,480	\$ 623,173	\$ 3,114,229	\$ 19,779,567	\$ 8,178,984	\$ 27,958,551
Personnel benefits	4,337,261	204,048	139,038	895,316	5,575,663	2,465,716	8,041,379
Supplies	682,695	55,007	203,765	367,314	1,308,781	200,644	1,509,425
Utilities	1,241,942	328,181	488,324	37,810	2,096,257	494,146	2,590,403
Maintenance	1,025,128	-	65,095	1,079	1,091,302	1,678,901	2,770,203
Travel	246,792	46,239	7,368	218,698	519,097	273,679	792,776
Contracted services and other	963,112	214,606	4,114,617	2,044,969	7,337,304	6,278,486	13,615,790
Capital expenses	447,994	(563)	433,020	(651)	879,800	17,207	897,007
Interest expense	917,278	-	516,341	-	1,433,619	-	1,433,619
Total before depreciation and accretion	24,818,887	1,932,998	6,590,741	6,678,764	40,021,390	19,587,763	59,609,153
Depreciation and accretion	2,932,059	659,946	1,102,592	91,299	4,785,896	1,086,602	5,872,498
	<u>\$ 27,750,946</u>	<u>\$ 2,592,944</u>	<u>\$ 7,693,333</u>	<u>\$ 6,770,063</u>	<u>\$ 44,807,286</u>	<u>\$ 20,674,365</u>	<u>\$ 65,481,651</u>

See Notes to Financial Statements

Kettering University
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating Activities		
Change in net assets	\$ 2,688,314	\$ 4,236,802
Items not requiring (providing) operating activities cash flows		
Depreciation and accretion	5,888,432	5,639,091
Amortization of bond issuance costs	14,322	14,322
(Gain) loss on disposal of property and equipment	(2,735)	131,487
Realized and unrealized (gain) on investments	(10,766,068)	(7,382,566)
Change in fair value of beneficial interest in trusts	(403,360)	(201,531)
Change in annuity liability	(24,917)	16,682
Contribution of software	(1,595,512)	-
Contributions restricted for long-term investment and fixed assets	(2,967,105)	(2,528,377)
Changes in		
Accounts receivable	(610,994)	(462,327)
Promises to give	3,108	955,929
Prepaid expenses and other assets	(444,671)	(487,843)
Accounts payable	1,512,723	(2,648,736)
Accrued and other liabilities	290,516	(668,619)
Deferred income	(635,627)	938,463
Net cash used in operating activities	<u>(7,053,574)</u>	<u>(2,447,223)</u>
Investing Activities		
Purchase of property and equipment	(2,743,338)	(9,485,302)
Purchase of investments	(8,163,414)	(12,539,954)
Proceeds from sale of investments	<u>10,508,593</u>	<u>5,545,480</u>
Net cash used in investing activities	<u>(398,159)</u>	<u>(16,479,776)</u>
Financing Activities		
Contributions restricted for long-term investment	2,967,105	2,202,226
Contributions restricted for property and equipment	-	326,151
Payments on bonds payable	(585,000)	(560,000)
Payments on notes payable	<u>(44,448)</u>	<u>-</u>
Net cash provided by financing activities	<u>2,337,657</u>	<u>1,968,377</u>
Net Decrease in Cash, Cash Equivalents and Restricted Cash and Cash Equivalents	<u>(5,114,076)</u>	<u>(16,958,622)</u>
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning of Year	<u>14,064,360</u>	<u>31,022,982</u>
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, End of Year	<u><u>\$ 8,950,284</u></u>	<u><u>\$ 14,064,360</u></u>
Supplemental Cash Flows Information		
Cash paid for interest	\$ 1,381,694	\$ 1,530,550
Contribution of software	1,595,512	

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Kettering University (University) is a private cooperative education-based and experimental learning-based university located in Flint, Michigan, providing education and training in the areas of engineering, science, mathematics, and business. The curriculum includes a cooperative system under which students alternate between periods of study on campus and related work experience with industry partner employers.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes all checking accounts, savings accounts, treasury bills, and money market funds of the University. The University considers all investments with an original maturity of three months or less when purchased to be cash equivalents. At June 30, 2024 and 2023, cash equivalents consisted primarily of money market accounts.

At June 30, 2024, the University's cash accounts exceeded federally insured limits by approximately \$7,629,000.

Restricted Cash and Cash Equivalents

Under the terms of the Series 2020 bonds, the University is required to use a portion of proceeds of the bonds for certain capital projects. At June 30, 2024 and 2023, \$322 and \$1,094 of cash is restricted for that purpose, respectively.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position to the amounts reported on the statements of cash flows:

	2024	2023
Cash and cash equivalents	\$ 8,949,962	\$ 14,063,266
Restricted cash	322	1,094
Total	<u>\$ 8,950,284</u>	<u>\$ 14,064,360</u>

Investments

Investments are reported at fair value. Investment return includes dividend, interest, and other investment income; and realized and unrealized gains and losses on investments carried at fair value, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Accounts Receivable

Accounts receivable are stated at the amount of consideration from students and other third parties of which the University has an unconditional right to receive. An allowance for credit losses is established for student obligations and third-party receivable balances based on management's estimate of collectability. The estimate is based on a historical analysis of write-offs compared to June 30 balances and existing economic conditions adjusted for current conditions and reasonable and supportable forecasts. All amounts deemed to be uncollectable are charged against the allowance for credit losses in the period that determination is made. The allowance for credit losses was approximately \$391,000 and \$471,000 at June 30, 2024 and 2023.

Land, Buildings, and Equipment

Property and equipment acquisitions over \$5,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Upon the sale or disposal of depreciable assets, the related cost and accumulated depreciation are removed from the accounts, with resulting gains or losses included in the statement of activities for the year. Costs of maintenance and repairs are charged to expense when incurred.

The estimated useful lives for each major depreciable classification of buildings and equipment are as follows:

	<u>Years</u>
Buildings	30 - 50
Furniture and equipment	5 - 20
Land improvements	40

Long-lived Asset Impairment

The University evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2024 and 2023.

Bond Issuance Costs

Bond issuance costs represent costs incurred in connection with the issuance of the 2020 bond offering. The University records these costs as direct deductions from the related debt. Such costs are being amortized over the term of the respective 30-year lives of the bonds using the straight-line basis, which is not materially different from using the effective interest method.

Artwork/Collections

The University has capitalized artwork with an approximate value of \$373,000 based on insured value at year-end. Collections of historical treasures and similar assets are not capitalized in as much as the items are preserved and cared for continuously. Contributions of collection items are not reported in the financial statements. Proceeds from disposal of and insurance recoveries related to collection items are reported as increases in the appropriate net asset classes.

Net Assets – Basis of Presentation

Net assets of the University are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled within the year. Net assets in this category may be expended for any purpose in performing the primary objectives of the University. The governing Board has designated from net assets without restrictions, net assets for board-designated endowments which totaled \$12,413,216 and \$11,677,325 at June 30, 2024 and 2023, respectively.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and granters. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the University or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions, unless specifically restricted by the donor or by applicable law or until appropriated for use.

Tuition and Auxiliary Services Revenue

Tuition revenue is recognized over the academic term 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.

Contributions

Contributions are provided to the University either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i> Gifts that depend on the University and/or the donor overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met

Nature of the Gift	Value Recognized
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

In addition to receiving cash contributions and grants, the University occasionally receives contributed property and equipment. For the year ended June 30, 2024, the University received donated software in the amount of \$1,595,512. The contributed software will be used for program activities and was recorded at an amount that approximates fair value based on related cost to obtain and other market data. The contribution is included in private gifts and foundation grants in the statement of activities.

Government Grants

Support funded by grants is recognized as the University meets the conditions prescribed by the grant agreement, performs the contracted services, or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. Management believes that any liabilities arising from such audits will not have a material effect on the University.

Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform to the 2024 financial statement presentation. These reclassifications had no effect on the change in net assets.

Fundraising Expenses

Fundraising costs consist of salaries, fringe benefits, and other costs incurred by the University's advancement departments. Fundraising costs are included in the statements of activities and statements of functional expenses

Kettering University
Notes to Financial Statements
June 30, 2024 and 2023

as support services. Such amounts total approximately \$2,606,000 and \$2,559,000 for the years ended June 30, 2024 and 2023, respectively.

Income Taxes

The University is a Michigan nonprofit organization and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

However, the University is subject to federal income tax on any unrelated business taxable income. The University files tax returns in the U.S. federal jurisdiction. With a few exceptions, the University is no longer subject to U.S. federal examinations by tax authorities for years before 2021.

Note 2. Promises to Give

Contributions receivable at June 30 consisted of the following:

	2024	2023
Due within one year	\$ 587,493	\$ 675,038
Due in one to five years	498,975	900,992
Greater than five years	<u>627,502</u>	<u>137,994</u>
	1,713,970	1,714,024
Less		
Allowance	<u>(22,278)</u>	<u>(19,224)</u>
	<u><u>\$ 1,691,692</u></u>	<u><u>\$ 1,694,800</u></u>

Note 3. Beneficial Interest in Charitable Remainder and Perpetual Trusts

The University has been named as an irrevocable beneficiary of various perpetual trusts held and administered by an independent trustee. Perpetual trusts provide for the distribution of the net income of the trusts to the University; however, the University will never receive the assets of the trusts.

At the date the University receives notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the statements of activities. A beneficial interest in perpetual trust is recorded in the statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities. The estimated value of the expected future cash flows is \$4,035,332 and \$3,632,420, which represents the fair value of the trust assets at June 30, 2024 and 2023, respectively.

The University is also the beneficiary of a charitable remainder trust administered by an outside party. Under the terms of the trust, the University has the irrevocable right to receive a remainderment of trust assets at a future date. The present value of the expected future cash flows is \$813,240 and \$701,315 at June 30, 2024 and 2023, respectively. The discount rate used to calculate the present value was 6%.

Note 4. Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Kettering University
Notes to Financial Statements
June 30, 2024 and 2023

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2024 and 2023:

	2024				
	Fair Value Measurements Using				Investments Measured at NAV ^(A)
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets					
Cash equivalents					
Money market funds - unrestricted	\$ 1,057,626	\$ 1,057,626	\$ -	\$ -	\$ -
Money market funds - restricted	322	322	-	-	-
Subtotal	1,057,948	1,057,948	-	-	-
Investments					
Money market funds	108,175	108,175			
Corporate bonds	3,978,498	-	3,978,498	-	-
Equity mutual funds					
Domestic	36,317,472	36,317,472	-	-	-
Foreign	21,521,046	21,521,046	-	-	-
Fixed income mutual funds					
Domestic	7,297,989	7,297,989	-	-	-
Fixed income - fund of bonds	7,117,201	-	-	-	7,117,201
Equity - hedge fund	6,781,372	-	-	-	6,781,372
Hedged equity hedge funds	9,149,895	-	-	-	9,149,895
Private equity funds	18,051,711	-	-	-	18,051,711
Private equity energy funds	4,413,262	-	-	-	4,413,262
Private equity real estate fund	4,868,065	-	-	-	4,868,065
Subtotal	119,604,686	65,244,682	3,978,498	-	50,381,506
Beneficial interest in perpetual trusts	4,035,332	-	-	4,035,332	-
Beneficial interest in charitable remainder trusts	813,240	-	-	813,240	-
Subtotal	4,848,572	-	-	4,848,572	-
Total	<u>\$ 125,511,206</u>	<u>\$ 66,302,630</u>	<u>\$ 3,978,498</u>	<u>\$ 4,848,572</u>	<u>\$ 50,381,506</u>

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	2023				
	Fair Value Measurements Using				Investments Measured at NAV ^(A)
	Total Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets					
Cash equivalents					
Money market funds - unrestricted	\$ 735,242	\$ 735,242	\$ -	\$ -	\$ -
Money market funds - restricted	1,094	1,094	-	-	-
Subtotal	736,336	736,336	-	-	-
Investments					
Money market funds	381,320	381,320	-	-	-
Corporate bonds	5,401,005	-	5,401,005	-	-
Equity mutual funds	-	-	-	-	-
Domestic	28,727,456	28,727,456	-	-	-
Foreign	19,942,679	19,942,679	-	-	-
Fixed income mutual funds	-	-	-	-	-
Domestic	5,466,154	5,466,154	-	-	-
Fixed income - fund of bonds	4,825,143	-	-	-	4,825,143
Equity - hedge fund	7,682,432	-	-	-	7,682,432
Hedged equity hedge funds	11,258,227	-	-	-	11,258,227
Private equity funds	18,231,381	-	-	-	18,231,381
Private equity energy funds	4,441,795	-	-	-	4,441,795
Private equity real estate fund	4,937,684	-	-	-	4,937,684
Subtotal	111,295,276	54,517,609	5,401,005	-	51,376,662
Beneficial interest in perpetual trusts	3,632,420	-	-	3,632,420	-
Beneficial interest in charitable remainder trusts	701,315	-	-	701,315	-
Subtotal	4,333,735	-	-	4,333,735	-
Total	<u>\$ 116,365,347</u>	<u>\$ 55,253,945</u>	<u>\$ 5,401,005</u>	<u>\$ 4,333,735</u>	<u>\$ 51,376,662</u>

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2024.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Alternative Investments

The fair value of the alternative investments that are not publicly traded have been estimated using the net asset value per share (or its equivalent) as a practical expedient of the investment. The alternative investments that are not publicly traded, held at June 30 consist of the following:

June 30, 2024				
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Fixed Income - fund of bonds (1)	\$ 7,117,201	\$ -	Anytime	3 days
Equity - hedge fund (2)	6,781,372	-	Quarterly - Annually	45 - 90 days
Hedged equity hedge funds (3)	9,149,895	-	Monthly	5 - 30 days
Private equity funds (4)	18,051,711	5,861,022	Ineligible	Not liquid
Private equity energy funds (5)	4,413,262	1,024,471	Ineligible	Not liquid
Private equity real estate fund (6)	4,868,065	1,788,994	Ineligible	Not liquid

June 30, 2023				
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Fixed Income - fund of bonds (1)	\$ 4,825,143	\$ -	Anytime	3 days
Equity - hedge fund (2)	7,682,432	-	Quarterly - Annually	45 - 90 days
Hedged equity hedge funds (3)	11,258,227	-	Monthly	5 - 30 days
Private equity funds (4)	18,231,381	4,888,355	Ineligible	Not liquid
Private equity energy funds (5)	4,441,795	1,425,923	Ineligible	Not liquid
Private equity real estate fund (6)	4,937,684	2,704,789	Ineligible	Not liquid

- (1) This category includes investments in actively managed funds that invest primarily in asset-backed securities, mortgage-backed securities, corporate bonds, and U.S. Treasury obligations
- (2) This category includes investments in actively managed funds that invest primarily in long-and short-term equity, credit-distressed debt, fixed income, and event-driven funds

- (3) This category includes investments in actively managed funds that invest primarily in both U.S. and global long-and short-term equity
- (4) This category includes investments in a private equity specifically focused on growth equity within communications, media, and technology industries
- (5) This category includes investment in private equity specifically focused on North American energy infrastructure assets, mainly midstream, power, and production
- (6) This category includes investments in private equity real estate that focuses on various property types, including distressed properties in the U.S., Canada, and western Europe

Beneficial Interest in Perpetual and Charitable Remainder Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Beneficial Interest in Perpetual Trusts	Beneficial Interest in Charitable Remainder Trusts
Balance, July 1, 2022	\$ 3,431,657	\$ 562,132
Sales	-	-
Additions	-	-
Total unrealized gains included in change in net assets	200,763	139,183
Balance, June 30, 2023	3,632,420	701,315
Sales	-	-
Additions	-	-
Total unrealized gains included in change in net assets	402,912	111,925
Balance, June 30, 2024	<u>\$ 4,035,332</u>	<u>\$ 813,240</u>

The unrealized gains and losses noted above relate to assets still held at the reporting date.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2024 and 2023:

	Fair Value at June 30, 2024	Valuation Technique	Unobservable Inputs	Range
Beneficial interest in perpetual trusts	\$ 4,035,332	Discounted cash flows	Discount rates Market return rates	3% - 7%
Beneficial interest in charitable remainder trusts	813,240	Discounted cash flows	Mortality assumptions Market return rates	4% - 8%
	Fair Value at June 30, 2023	Valuation Technique	Unobservable Inputs	Range
Beneficial interest in perpetual trusts	\$ 3,632,420	Discounted cash flows	Discount rates Market return rates	3% - 7%
Beneficial interest in charitable remainder trusts	701,315	Discounted cash flows	Mortality assumptions Market return rates	4% - 8%

Uncertainty of Fair Value Measurements

The following is a discussion of the uncertainty of the fair value measurements at the reporting date from the use of significant unobservable inputs, if those inputs reasonably could have been different at the reporting date, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Beneficial Interest in Perpetual and Charitable Remainder Trusts

The significant unobservable inputs used in the fair value measurement of the University's beneficial interest in perpetual and charitable remainder trusts are discount rates and market return rates. The discount rate of the trust is the interest rate utilized to discount future cash flows in a present value cash flow calculation. The discount rate used often represents the return market participants' would demand on similar assets. Therefore, significant increases (decreases) in the discount rate used would result in (lower) higher fair value measurement.

Note 5. Land, Buildings, and Equipment

Property and equipment at June 30, 2024 and 2023, consist of the following:

	2024	2023
Land	\$ 7,351,908	\$ 7,158,728
Land improvements	15,431,246	15,336,295
Buildings	198,791,414	197,463,643
Furniture and equipment	38,487,955	38,024,693
Construction in progress	2,064,593	1,989,561
	<u>262,127,116</u>	<u>259,972,920</u>
Less accumulated depreciation	<u>(122,633,072)</u>	<u>(119,437,428)</u>
	<u><u>\$ 139,494,044</u></u>	<u><u>\$ 140,535,492</u></u>

Note 6. Annuities Payable

The University has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The University has recorded a liability at June 30, 2024 and 2023, of \$307,000 and \$332,000, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate ranging from 4% – 8%.

Note 7. Line of Credit

The University had a \$1,500,000 unsecured revolving line of credit that expired on January 15, 2024. At June 30, 2023, there were no borrowings against the line. Interest varied with the bank's prime rate plus 0.5 (effective rate of 8.75% at June 30, 2023).

During 2024, the University obtained a \$5,000,000 unsecured revolving line of credit that expires on January 31, 2025. At June 30, 2024, there were no borrowings against the line. Interest varies with SOFR rate plus 1.75% (effective rate of 7.31% at June 30, 2024).

Note 8. Bonds Payable

At June 30, 2024 and 2023, bonds payable consisted of the following:

	<u>2024</u>	<u>2023</u>
2020 Michigan Higher Education Facilities Authority Limited Obligation Refunding Bonds (A)	\$ 35,800,000	\$ 36,385,000
Add: unamortized bond premium	2,649,922	2,751,842
Less: unamortized bond issuance costs	<u>(372,378)</u>	<u>(386,700)</u>
	<u><u>\$ 38,077,544</u></u>	<u><u>\$ 38,750,142</u></u>

On June 30, 2020, the University issued Michigan Higher Education Facilities Authority Limited Obligation Revenue Refunding Bonds, Series 2020 in the amount of \$36,945,000. The bonds sold at a premium of \$3,057,602 and included bond issuance costs of \$429,667. The result of this transaction was a legal defeasance of the Series 2001 bonds, which was accomplished by the release of collateral on the Series 2001 bonds along with the proceeds from the Series 2020 bonds being placed in escrow for an amount to fully fund the principal and interest due to the bondholders at a date subsequent to the 2020 fiscal year-end. The bond proceeds were used to retire the remaining Series 2001 bonds in the amount of \$16,554,822 in fiscal 2021. The balance of the 2020 proceeds is to be used for various capital projects. The bonds bear interest based on a set schedule. The effective rate of interest at June 30, 2024 and 2023 is 5.0%.

The future maturities of bonds payable excluding any amortization of debt issuance costs are as follows:

Year ending June 30	
2025	\$ 615,000
2026	650,000
2027	680,000
2028	830,000
2029	875,000
Thereafter	<u>32,150,000</u>
	<u><u>\$ 35,800,000</u></u>

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred each year was:

	<u>2024</u>	<u>2023</u>
Interest costs capitalized	\$ -	\$ -
Interest costs charged to expense	<u>1,404,577</u>	<u>1,433,619</u>
Total interest incurred	<u><u>\$ 1,404,577</u></u>	<u><u>\$ 1,433,619</u></u>

Note 9. Net Assets

Net assets with donor restrictions are available for the following purposes:

	2024	2023
Subject to expenditure for specified purpose		
Plant	\$ 1,646,454	\$ 1,462,270
Other restricted activities	5,420,231	7,965,257
	<u>7,066,685</u>	<u>9,427,527</u>
Endowments		
Subject to appropriation and expenditure when specified event occurs		
Restricted by donors for scholarships and educational programs	41,623,791	34,554,767
Subject to University spending policy and appropriation	<u>66,676,846</u>	<u>63,838,788</u>
Total endowments	<u>108,300,637</u>	<u>98,393,555</u>
Total net assets with donor restrictions	<u><u>\$ 115,367,322</u></u>	<u><u>\$ 107,821,082</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2024	2023
Purpose restrictions accomplished		
General institutional and student services	\$ 2,860,234	\$ 1,377,474
Student aid and scholarships	4,400,423	3,233,640
Capital - Learning Commons	<u>-</u>	<u>37,203,671</u>
Total net assets released from restrictions	<u><u>\$ 7,260,657</u></u>	<u><u>\$ 41,814,785</u></u>

Note 10. Endowment

The University's endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's governing body has interpreted the State of Michigan Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-

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restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as donor restricted net assets (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as donor restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the University and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the University
7. Investment policies of the University

The composition of net assets by type of endowment fund at June 30, 2024 and 2023, were:

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 12,413,216	\$ -	\$ 12,413,216
Donor-restricted endowment funds			
Amounts maintained in perpetuity	-	66,676,846	66,676,846
Accumulated earnings	-	41,623,791	41,623,791
Total endowment funds	<u>\$ 12,413,216</u>	<u>\$ 108,300,637</u>	<u>\$ 120,713,853</u>

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 11,677,325	\$ -	\$ 11,677,325
Donor-restricted endowment funds			
Amounts maintained in perpetuity	-	63,838,787	63,838,787
Accumulated earnings	-	34,554,766	34,554,766
Total endowment funds	<u>\$ 11,677,325</u>	<u>\$ 98,393,553</u>	<u>\$ 110,070,878</u>

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Changes in endowment net assets were as follows for the fiscal years ended June 30, 2024 and 2023:

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 11,677,325	\$ 98,393,553	\$ 110,070,878
Investment return			
Investment income	1,024,721	953,123	1,977,844
Net realized and unrealized gains on investments	208,270	10,027,962	10,236,232
Change in value of perpetual trust	-	515,285	515,285
Total investment return	1,232,991	11,496,370	12,729,361
Contributions	-	2,322,774	2,322,774
Appropriation of endowment assets for expenditure	(497,100)	(3,912,060)	(4,409,160)
Endowment net assets, end of year	<u>\$ 12,413,216</u>	<u>\$ 108,300,637</u>	<u>\$ 120,713,853</u>

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 11,093,139	\$ 91,095,926	\$ 102,189,065
Investment return			
Investment income	189,476	1,673,884	1,863,360
Net realized and unrealized gains on investments	873,422	7,338,425	8,211,847
Change in value of perpetual trust	-	340,714	340,714
Total investment return	1,062,898	9,353,023	10,415,921
Contributions	-	1,356,027	1,356,027
Appropriation of endowment assets for expenditure	(478,712)	(3,411,423)	(3,890,135)
Endowment net assets, end of year	<u>\$ 11,677,325</u>	<u>\$ 98,393,553</u>	<u>\$ 110,070,878</u>

Investment and Spending Policies

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted endowment funds the University must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the University's policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that achieve a long-term total return that outpaces spending and inflation and achieve market returns using a diversified investment portfolio. The University's spending policy determines the amount of endowment income to be distributed for spending purposes during the year. Any excess or deficit is designated as a quasi-endowment. Actual returns in a given year may vary depending on the fluctuations in the market.

To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University has a current spending policy of appropriating for expenditure each year 4.50% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment to grow annually. This is consistent with the University's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. In 2009, the State of Michigan enacted UPMIFA which permits spending from underwater endowment funds, but only in light of temporary market fluctuations, and in congruence with providing generational equality over the long term of the fund; unless otherwise precluded by donor intent or relevant laws and regulations.

Underwater Endowments

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 SPMIFA requires the University to retain as a fund of perpetual duration. At June 30, 2024 and 2023, there were no such deficiencies.

Note 11. Employee Retirement Benefit Plan

The University participates in a defined contribution retirement plan covering substantially all employees. All eligible participants who make pretax contributions of 3% of eligible compensation will receive university matching contributions of 9% of eligible compensation. Plan contribution expense was \$2,257,504 and \$2,209,025 for the years ended June 30, 2024 and 2023, respectively.

Note 12. Revenue From Contracts With Customers

Tuition, Residential Services, Meal Plan Services, Private Sponsored Research, and Other Revenue

The University has four primary revenue streams that constitute revenue from contracts with customers:

Tuition and Fees Revenue

The University has contracts with students to provide educational classes in exchange for a fixed cash amount. All students are required to sign the contract and register prior to classes being provided. The contract is signed only once, at the onset of the student's first registration of classes.

For tuition revenue, the University has the performance obligation for educational services provided throughout the fiscal year. There are four 11-week terms in each fiscal year, with the summer term ending before the fiscal year end. Revenue for tuition is generally recognized ratably over the applicable academic quarter as the performance obligation is met. The amount of consideration to which the University will be entitled is variable as long as a student can withdraw from classes and receive a refund, which is based on dates set by the University prior to the term beginning. The nature, amount, timing, and uncertainty of the University's tuition revenue vary depending on the following factors:

- Enrollment status (*i.e.*, part time vs full time)
- Program of study
- Courses selected
- Tuition discounts

Transaction price is based on an annual tuition rate schedule approved by the Board of Trustees. The University awards tuition discounts in the form of scholarships, which are netted against tuition revenue.

The University assumes sufficient collectability from the student, based on the student agreeing to make tuition payment via an online contract. Outstanding balances are reviewed as part of the allowance for doubtful accounts analysis. Historical experience demonstrates an insignificant amount of uncollectible accounts.

Prior to each term, the University invoices students and collects cash prior to the satisfaction of the performance obligation, which results in the University recognizing a contract liability. At year end, these amounts are recorded as a liability, and any payments received for future tuition revenue are recorded as deferred revenue. The refundable enrollment deposit from an accepted student to secure a spot for enrollment is recognized as a contract liability until the related term has begun. There was a liability from deferred student tuition of \$1,717,202 and \$2,352,830 included in deferred revenue for the fiscal years ended June 30, 2024 and 2023, respectively.

Room and Board Revenue

The University has contracts with students to provide housing in exchange for a fixed cash payment. All students are required to sign the contract prior to services being provided.

For room and board revenue, the University has the performance obligation of providing housing and meals to the students. Revenue for room and board is generally recognized ratably over the applicable academic term. The nature, amount, timing, and uncertainty of the University's room and board revenue vary depending on the housing assignment and meal plan options selected.

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The transaction price is based on an annual room/board contact rate that is approved annually by the Board of Trustees. No discounts are awarded for room or board. The University assumes sufficient collectability from the student based on the student's agreement to make payment via the room/board contract. Outstanding balances are reviewed as part of the allowance for doubtful accounts analysis. Historical experience demonstrates an insignificant amount of collectible accounts.

The University recognized room and board revenue from students of \$3,050,827 and \$3,293,352 included in auxiliary services for the fiscal years ended June 30, 2024 and 2023, respectively.

Private Sponsored Research

The University contracts with third parties to perform research and testing based on the customer's specifications. Although there is variation within each contract, the primary terms are similar, and, therefore, the portfolio approach was used for this revenue stream.

For private sponsored research contracts, the University is obligated to provide the research over time, with interim reporting and updates to the customer at various intervals, including a final report. The customer typically will receive benefit throughout the contract period from the reports and updates, and, therefore, revenue is recognized over time.

Under the typical payment terms, the transaction price is specifically identified within the contract. The total contract amount is allocated to the sole performance obligation of issuing the final report. Typically, these contracts are short term (under 12 months); therefore, the University implements a practical expedient allowed under generally accepted accounting principles (GAAP) that recognizes the related revenue and expenditures as they are incurred.

Camps and Programs

The University has contracts to host camps and programs for non-student customers. In these programs, the University facilitates room and board and education. For short-term camps and programs, the University has the performance obligation to provide participants with classroom education, provide room and board, and provide transportation. The transaction price for these contracts is identified in each contract. The University recognizes revenue for these contracts upon completion of each program.

The University recognized other program revenue of approximately \$168,161 and \$118,000 included in auxiliary enterprises for the fiscal years ended June 30, 2024 and 2023, respectively.

The following table provides information about the University's receivables from contracts with customers:

	2024	2023
Accounts receivable, beginning of year	\$ 1,613,392	\$ 1,151,065
Accounts receivable, end of year	2,224,386	1,613,392

Deferred revenue from contracts with students represents payments received in advance for which services had not yet been performed. A summary of changes in contract liabilities is as follows:

Balance at July 1, 2023	Revenue Recognized	Additions	Balance at June 30, 2024
\$ 2,352,830	\$ (2,352,830)	\$ 1,717,202	\$ 1,717,202

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Balance at July 1, 2022	Revenue Recognized	Additions	Balance at June 30, 2023
\$ 1,414,367	\$ (1,414,367)	\$ 2,352,830	\$ 2,352,830

Note 13. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2024 and 2023:

	Total Financial Assets	Donor-Restricted and Board Designated Endowments	Amounts (Not) Available within One Year	Total Financial Assets Available Within One Year for General Expenditures
2024				
Cash and cash equivalents	\$ 8,949,962	\$ -	\$ (45,527)	\$ 8,904,435
Cash equivalents - restricted	322	-	(322)	-
Other long-term investments	119,604,686	(119,604,686)	4,000,000	4,000,000
Accounts receivable - net	2,224,386	-	-	2,224,386
Promises to give - net	1,691,692	-	(1,126,477)	565,215
	<u>132,471,048</u>	<u>(119,604,686)</u>	<u>2,827,674</u>	<u>15,694,036</u>
Financial assets available within one year	132,471,048	(119,604,686)	2,827,674	15,694,036
Less amounts restricted by donors for use in capital projects and other specified purposes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 132,471,048</u>	<u>\$ (119,604,686)</u>	<u>\$ 2,827,674</u>	<u>\$ 15,694,036</u>

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Notes to Financial Statements
June 30, 2024 and 2023

	Total Financial Assets	Donor-Restricted and Board Designated Endowments	Amounts Not Available within One Year	Total Financial Assets Available Within One Year for General Expenditures
2023				
Cash and cash equivalents	\$ 14,063,266	\$ -	\$ (52,017)	\$ 14,011,249
Cash equivalents - restricted	1,094	-	(1,094)	-
Other long-term investments	111,295,273	(111,295,273)	3,900,000	3,900,000
Accounts receivable - net	1,613,392	-	-	1,613,392
Promises to give - net	1,694,800	-	-	1,694,800
Financial assets available within one year	128,667,825	(111,295,273)	3,846,889	21,219,441
Less amounts restricted by donors for use in capital projects and other specified purposes	-	-	-	-
Total	\$ 128,667,825	\$ (111,295,273)	\$ 3,846,889	\$ 21,219,441

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing mission-related activities, as well as the conduct of service undertaken to support those activities, to be general expenditures.

The University's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The University has a board-designated endowment of \$12,413,216 as of June 30, 2024. Although the University does not intend to spend from board-designated endowments (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available, if necessary, for liquidity needs.

The University has a \$5.0 million line of credit at its disposal, of which all was available to be drawn on at June 30, 2024.

Note 14. Commitments and Contingencies

Investments

The University invests in various investment securities through a diversified portfolio. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Therefore, it is possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

Contributions

Approximately 58% of the outstanding promises to give balance are from three donors at June 30, 2024. Approximately 61% of the outstanding promises to give balance are from three donors at June 30, 2023. For the year-ended June 30, 2024 and 2023, approximately 72% and 72% of private gifts and grants, respectively, were from two donors and one donor.

General Litigation

The University is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets, and cash flows of the University.

Note 15. U.S Department of Education Financial Responsibility Ratio Information

The following information is required by the U.S. Department of Education for the year ended June 30, 2024:

	<u>2024</u>
Property, plant, and equipment, net of accumulated depreciation pre-implementation	\$ 61,548,985
Property, plant, and equipment, net of accumulated depreciation post-implementation without outstanding debt for purchase	75,880,466
Construction in progress	<u>2,064,593</u>
Total property, plant and equipment, net	<u><u>\$ 139,494,044</u></u>

Note 16. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. The functional categories are as follows:

Educational activities include expenses for all activities that are part of the University's instructional program, such as expenses for academic and technical instruction, tutorial instruction, community engagement, and academic support.

Research includes all expenses for activities organized to produce research, whether commissioned by an agency external to the University or separately budgeted by an organizational unit within the University.

Auxiliary services include all expenses related to the operation of the University's auxiliary activities, such as housing, food service, and so forth.

Student services are considered programmatic and include activities that, as their primary purpose, contribute to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program. This category also includes expenses incurred for office of admission, student financial services and the registrar.

Support activities includes centralized expenses incurred to provide support services for the University's primary missions and program functions. This category includes the University's fundraising activities, as well as executive management, fiscal operations, general administration, and central technology.

Costs have been allocated between the various programs and support services based on estimates determined by management. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Significant costs are allocated as described below.

Salaries and related benefits are allocated based on departmental assignments of direct program staff and tDirect costs are also allocated based on departmental assignments and include such costs as contracted services and supplies.

Direct costs are also allocated based on departmental assignments and include such costs as contracted services and supplies.

Expenses for the administration, supervision, operation, maintenance, preservation, and protection of the University's physical plant are allocated on a pro rata basis by department expense for that functional area to total expense.

Depreciation is allocated based on the specific asset's location and functional use.

Utilities are allocated based on location of capital assets, as larger buildings and equipment are the driver of utility usage.

Interest expense on capital debt is allocated based on the usage of debt-financed space.

Note 17. Subsequent Events

Subsequent events have been evaluated through October 24, 2024, which is the date the financial statements were issued.