



TRANSYLVANIA
UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

TRANSYLVANIA UNIVERSITY

TABLE OF CONTENTS JUNE 30, 2024 AND 2023

	<u>Page</u>
Report of Independent Auditors	1
Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	8



Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Transylvania University
Lexington, Kentucky

Opinion

We have audited the accompanying consolidated financial statements of Transylvania University (the University, a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2024 and 2023, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (the financial statements).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2024 and 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. 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 within one year after the date that the financial statements are available to be issued.

To the Board of Trustees
Transylvania University
Lexington, Kentucky

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 generally accepted auditing standards 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 substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards:

- Exercise professional judgement 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 judgement, 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.

Blue & Co., LLC

Lexington, Kentucky
October 15, 2024

TRANSYLVANIA UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2024 AND 2023

ASSETS			
	2024		2023
Cash and cash equivalents	\$ 3,527,424	\$	1,621,060
Cash and cash equivalents, restricted	305,086		314,814
Accounts receivable, net of allowance of \$874,308 and \$661,562	1,226,040		1,065,951
Prepaid expenses and other assets	1,167,877		1,100,520
Pledges receivable, net	1,654,726		2,045,943
Federal Perkins Loans receivable	334,251		479,854
Investments, at fair market value	280,075,461		250,969,736
Restricted investments, at fair market value	0		22,505
Assets held in trust by others	1,607,725		1,496,756
Land, buildings and equipment, net	105,248,395		109,186,009
Total assets	<u>\$ 395,146,985</u>	\$	<u>368,303,148</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	\$ 1,198,581	\$	824,369
Accrued liabilities	3,534,681		3,273,429
Deferred revenues	1,047,654		1,103,483
Deposits held in custody	50,478		70,451
Advances from federal government for student loans	476,142		644,477
Annuities payable	1,493,516		1,510,466
Bonds and notes payable	53,460,606		56,447,759
Total liabilities	61,261,658		63,874,434
Net assets:			
Without donor restriction	39,973,941		42,532,214
With donor restriction	293,911,386		261,896,500
Total net assets	<u>333,885,327</u>		<u>304,428,714</u>
	<u>\$ 395,146,985</u>	\$	<u>368,303,148</u>

See accompanying notes to consolidated financial statements.

TRANSYLVANIA UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2024

	Without Donor Restriction	With Donor Restriction	Total
Operating revenues:			
Tuition and fees	\$ 44,539,079	\$	\$ 44,539,079
Auxiliary, room and board	7,581,922		7,581,922
Institutional scholarship allowance	(27,358,561)		(27,358,561)
Net tuition and fees	24,762,440	0	24,762,440
Gifts	1,406,364	846,320	2,252,684
Endowment appropriations designated for current operations	2,973,239	10,686,897	13,660,136
Auxiliary, other	415,721		415,721
Grants and contracts	256,996		256,996
Other revenues	1,063,328	21,048	1,084,376
Net assets released from restrictions	10,414,898	(10,414,898)	0
Total operating revenues	41,292,986	1,139,367	42,432,353
Operating expenses:			
Program activities:			
Instruction and research	12,118,275		12,118,275
Academic support	7,686,440		7,686,440
Student services and recruiting	10,997,681		10,997,681
Auxiliary enterprises	6,720,942		6,720,942
Total program activities expenses	37,523,338	0	37,523,338
Management and general	6,006,174		6,006,174
Fundraising	1,506,752		1,506,752
Total operating expenses	45,036,264	0	45,036,264
Change in net assets from operations	(3,743,278)	1,139,367	(2,603,911)
Nonoperating activities:			
Investment return, net	(1,622,313)	26,583,197	24,960,884
Change in assets held in trust by others		110,969	110,969
Other gains (losses)	1,484,511		1,484,511
Change in annuities payable	(4,669)	213,314	208,645
Gifts and grants	840	5,294,675	5,295,515
Net assets released from restrictions	1,326,636	(1,326,636)	0
Nonoperating activities, net	1,185,005	30,875,519	32,060,524
Total changes in net assets	(2,558,273)	32,014,886	29,456,613
Net assets, beginning of year	42,532,214	261,896,500	304,428,714
Net assets, end of year	\$ 39,973,941	\$ 293,911,386	\$ 333,885,327

See accompanying notes to consolidated financial statements.

TRANSYLVANIA UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2023

	Without Donor Restriction	With Donor Restriction	Total
Operating revenues:			
Tuition and fees	\$ 41,152,558	\$	\$ 41,152,558
Auxiliary, room and board	7,149,202		7,149,202
Institutional scholarship allowance	(24,587,088)		(24,587,088)
Net tuition and fees	23,714,672	0	23,714,672
Gifts	1,087,600	1,017,742	2,105,342
Endowment appropriations designated for current operations	1,739,519	8,130,211	9,869,730
Auxiliary, other	480,240		480,240
Grants and contracts	50,895	5,840	56,735
Other revenues	1,036,303	47,647	1,083,950
Net assets released from restrictions	9,556,226	(9,556,226)	0
Total operating revenues	37,665,455	(354,786)	37,310,669
Operating expenses:			
Program activities:			
Instruction and research	12,144,373		12,144,373
Academic support	7,348,410		7,348,410
Student services and recruiting	11,688,505		11,688,505
Auxiliary enterprises	7,176,245		7,176,245
Total program activities expenses	38,357,533	0	38,357,533
Management and general	6,639,190		6,639,190
Fundraising	1,296,341		1,296,341
Total operating expenses	46,293,064	0	46,293,064
Change in net assets from operations	(8,627,609)	(354,786)	(8,982,395)
Nonoperating activities:			
Investment return, net	664,495	22,060,702	22,725,197
Change in assets held in trust by others		73,304	73,304
Other gains (losses)	27,856		27,856
Change in annuities payable	(6,557)	(79,976)	(86,533)
Gifts and grants	2,960	2,191,034	2,193,994
Reclassification of net assets	(8,069)	8,069	0
Net assets released from restrictions	1,242,386	(1,242,386)	0
Nonoperating activities, net	1,923,071	23,010,747	24,933,818
Total changes in net assets	(6,704,538)	22,655,961	15,951,423
Net assets, beginning of year	49,236,752	239,240,539	288,477,291
Net assets, end of year	\$ 42,532,214	\$ 261,896,500	\$ 304,428,714

See accompanying notes to consolidated financial statements.

TRANSYLVANIA UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 29,456,613	\$ 15,951,423
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization expense	4,865,672	5,309,472
(Gain) loss on disposal of equipment	(1,480,217)	7,696
Amortization of bond issuance costs	51,145	57,541
Amortization of bond premiums	(298,471)	(301,414)
Net realized and unrealized (gains) losses on investments	(34,286,080)	(28,691,239)
Proceeds from sales of non-donor-restricted assets	304,385	276,542
Provision for losses on uncollectible accounts:		
Accounts receivable	195,786	99,388
Pledges receivable	111,491	0
Loans receivable	8,280	102,373
Contributions restricted for long-term investment	(5,295,515)	(2,193,994)
Decrease (increase) in assets held in trust by others	(110,969)	(73,304)
Computational adjustment of annuity liabilities	172,932	213,994
Donated securities	(2,760,049)	(915,893)
Matured annuities	0	(45,602)
Changes in assets and liabilities:		
Receivables, net	(355,875)	1,696,500
Prepaid expenses and other assets	(67,357)	457,270
Pledges receivable	279,726	251,264
Accounts payable	380,335	(541,801)
Accrued liabilities	261,252	313,184
Deferred revenues	(55,829)	(151,084)
Deposits held in custody	(19,973)	(442)
Net cash flows from operating activities	<u>(8,642,718)</u>	<u>(8,178,126)</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(2,486,764)	(1,797,260)
Proceeds from disposal of land and buildings	3,032,800	5,000
Purchases of investments	(18,573,378)	(6,748,257)
Sales and maturities of investments	23,776,238	12,052,428
Collections on student loans	137,323	146,862
Net cash flows from investing activities	<u>5,886,219</u>	<u>3,658,773</u>

See accompanying notes to consolidated financial statements.

TRANSYLVANIA UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2024 AND 2023

Cash flows from financing activities:

Proceeds from contributions restricted for long-term investment and capital purposes	5,295,515	2,193,994
Proceeds from sale of donor restricted assets	2,455,664	639,351
Proceeds from issuance of notes payable and line of credit	5,426,231	2,300,000
Change in advances from federal government for student loans	(168,335)	(261,434)
Principal payments on notes payable	(106,246)	(68,783)
Principal payments on bonds payable	(8,059,812)	(1,595,244)
Payments of annuity obligations	(189,882)	(175,238)
Net cash flows from financing activities	4,653,135	3,032,646
Net change in cash and cash equivalents	1,896,636	(1,486,707)

Cash and cash equivalents and restricted cash and cash equivalents, beginning of year

1,935,874	3,422,581
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Cash and cash equivalents and restricted cash and cash equivalents, end of year

\$ 3,832,510	\$ 1,935,874
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Supplemental disclosures of non-cash activities

Cash paid during the year for:		
Interest	\$ 1,863,638	\$ 1,846,151
Non-cash investing and financing transactions:		
Payables for property and equipment	\$ 37,151	\$ 43,274
Cash and cash equivalents	\$ 3,527,424	\$ 1,621,060
Cash and cash equivalents, restricted	305,086	314,814
Total cash and cash equivalents	\$ 3,832,510	\$ 1,935,874

See accompanying notes to consolidated financial statements.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

1. NATURE OF BUSINESS AND PRINCIPLES OF CONSOLIDATION

Transylvania University (the University) is a coeducational, four-year, liberal arts university located in the heart of Lexington, Kentucky. The University is organized and operated as a not-for-profit corporation under the laws of the Commonwealth of Kentucky.

The University was founded in 1780 by an Act of the General Assembly of Virginia (of which Kentucky was then a part) and was both the sixteenth college in the United States and the first college west of the Allegheny Mountains. Its alumni include two United States Vice Presidents, 50 United States Senators, and 36 Governors.

The University works diligently to enhance the educational experience of its students. The University, which has long been noted for its strong liberal arts curriculum, also provides academic majors in such areas as computer science and business administration, as well as pre-professional programs and career counseling in all areas. The University's pre-medical studies program has received national attention for the high rate of admittance of its students to medical schools. To better serve its students, the University has established innovative scholarship and faculty development programs.

The accompanying consolidated financial statements include the accounts of the University, the Bingham Fund for Excellence in Teaching (see Note 16), and Town Properties, LLC, a single member limited liability corporation 100% owned by the University. Intercompany transactions and balances have been eliminated in consolidating these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

The following is a summary of the significant accounting policies based on the Financial Accounting Standards Board's (FASB) Accounting Standards Codification and is consistently followed by the University in the preparation of its consolidated financial statements.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Basis of Presentation

The consolidated financial statements of the University have been prepared on the accrual basis of accounting.

The University follows GAAP as established by the FASB. Under these standards, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Net assets without donor restriction - net assets not subject to donor-imposed restrictions and are currently available for operating purposes under the direction of the Board of Trustees, designated by the board for specific use, or invested in property and equipment.

Net assets with donor restriction - net assets subject to donor-imposed stipulations for specific operating purposes or are time restricted. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for general or specific purposes.

Cash and Cash Equivalents

The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Restricted cash and cash equivalents represent the proceeds from gifts that await expenditure on capital projects and also include amounts maintained in separate accounts for advances from federal and state governments and for the Perkins Loan Program. Cash and cash equivalents which are held for endowment purposes are included as investments.

Accounts Receivable

Accounts receivable (contract receivables) include student accounts receivable and other receivables. Student accounts receivable represent amounts due for tuition, fees, and room and board from currently enrolled and former students.

The University records an allowance for credit losses for financial assets carried at amortized cost, which represents the net amount expected to be collected. The allowance for credit losses is based on losses expected to arise over the contractual term of the asset. Assets are written off when the University deems the financial assets to be uncollectible. Write-offs are recognized as a deduction from the allowance for credit losses. Expected recoveries of amounts previously written off, which do not exceed the aggregate of previous write-offs, are included in determining the allowance account.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Management estimates an allowance for credit losses based on historical experience, the current economic environment, and management's expectations of future economic conditions based on reasonable and supportable forecasts. The University also applies adjustments for specific factors and current economic conditions, as needed, at each reporting date.

Management utilizes aging schedules for estimating expected credit losses. In evaluating loss rates, accounts receivable are pooled into categories based on days past due. Significantly aged receivables are evaluated individually by credit worthiness and historical experience with the customers. Account balances are written off against the allowance when management deems the amount is uncollectible.

The following table presents an analysis of the allowance for credit losses for the years ended June 30, 2024 and 2023:

Balance as of July 1, 2022	\$	556,606
Amounts written off, fiscal year 2023		(8,899)
Amounts accrued, fiscal year 2023		113,855
Balance as of June 30, 2023		661,562
Amounts accrued, fiscal year 2024		212,746
Balance as of June 30, 2024	\$	<u>874,308</u>

The above table includes amounts for collection fees which are recorded as increases to receivables and allowance. There were no material bad debt recoveries in fiscal years 2024 or 2023.

Pledges Receivable

Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The allowances offset against pledges receivable represent management's estimate of expected losses to be realized, and are based on historical experience, current economic conditions, and other relevant factors. Amortization of the discounts is included in contribution revenue. Conditional pledges are recognized when the conditions on which they depend are substantially met.

Loans Receivable

Loans receivable consists primarily of amounts loaned to qualified students through the Federal Perkins Loan Program (Program) and administered by the University. There is no allowance for these loans as the University is acting as an agent for the

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

U.S. Department of Education (DOE). The Program provides for cancellation of loans if the borrower complies with certain Program provisions. The federal government reimburses the University for amounts canceled under these provisions. The University's practice is to write off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, or for other reasons. As the University determines that loans are uncollectible, the loans are written off and assigned to the DOE.

Loans are placed on nonaccrual when management believes, after considering economic conditions, business conditions, and collection efforts that the loans are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off. Interest income on nonaccrual loans is recognized only to the extent cash payment is received. Interest on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

The University also issues institutional loans to qualifying students. The loans are moral obligations only and are not legally enforceable. As such, the loans are fully allowed at inception. Recoveries have historically been immaterial and included in other revenues.

Investments

Investments are initially recorded at acquisition cost when purchased or at market value at the date of acquisition when received by gift. Investments are adjusted to market value at reporting dates, and unrealized gains and losses are then recognized. Securities not publicly traded, if any, are stated at estimated market value.

Restricted Investments

Restricted investments consist of funds on deposit with the bond trustees of the Series 2019A and 2019B bonds. These investments are restricted for the construction of the new campus center building.

Assets Held in Trust by Others

Assets held in trust by others represent resources neither in the possession nor under the control of the University, but held and administered by outside trustees, with the University deriving only income from such funds. Such investments are recorded in the consolidated statements of financial position at the fair market value of the principal amounts, and the income, including fair value adjustments, is recorded in the consolidated statements of activities.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost, or if donated, at fair value as of the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from five to 40 years. All assets costing greater than \$5,000 and with a life longer than one year are capitalized.

Works of Art and Historical Treasures

All collections of works of art, historical treasures, and similar assets are capitalized. It is the University's policy to recognize works of art as a capital asset because the items are held for public exhibition rather than financial gain. The University does not de-access items in its collection. Such assets are not subject to depreciation.

Self-Insurance

The University is primarily self-insured for health insurance costs, with losses insured in excess of a maximum amount on both a per claim and annual aggregate claim amount. The self-insurance liability is based on claims filed and an estimate of claims incurred but not yet reported.

Deferred Revenues

Tuition and fees are recorded in the applicable enrollment period. Tuition and fee payments received by the University in advance of the enrollment period are included in deferred revenues and are considered contract liabilities. Refundable advances received on grant awards are also included in deferred revenues.

Advances from Federal Government for Student Loans

Funds provided by the United States government under the Perkins Loan Program are loaned to qualified students and may be re-loaned after collections. These funds are ultimately refundable to the government and are, therefore, recorded as a liability in the accompanying consolidated financial statements. Federally funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the University.

Annuities Payable

The University pays stipulated amounts periodically to individuals (annuitants) who have given to the University certain assets and who have entered into an agreement that such payments cease at the death of the annuitant. Total annuity payments for the years ended June 30, 2024 and 2023 were approximately \$190,000 and \$175,000, respectively.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

The June 30, 2024 and 2023 annuity liabilities balances of approximately \$1,494,000 and \$1,510,000, respectively, are the present values of the periodic payments to the annuitants based on the life expectancies of the annuitants and interest rates ranging from 5% to 8.9%.

Revenue Recognition

The University recognizes tuition revenue over the applicable period of instruction. The University enters into contracts with students covering a semester or courses. Revenue recognition occurs once a student starts attending a course. The University has no costs that are capitalized to obtain or to fulfill a contract with a customer. Auxiliary revenues include room and board revenues that are recognized over the period the services are provided. For the years ended June 30, 2024 and 2023, the University's revenue is reduced by approximately \$27,359,000 and \$24,587,000, respectively as a result of scholarships that the University offered to students.

The University's receivables represent unconditional rights to consideration from its contracts with students; accordingly, the revenue recognition process commences when they start attending their courses. Students are invoiced and payment is due prior to the start of the term. Included in each invoice to the student are all educational related items including tuition, net of scholarships, room, board and fees. The University's contract liabilities are reported as deferred revenue and student deposits in the consolidated statements of financial position. Deferred revenue and student deposits in any period represent the excess of tuition, fees, and other student payments received as compared to amounts recognized as revenue on the consolidated statements of activities and are reflected as liabilities in the accompanying consolidated statements of financial position. The majority of the University's traditional students do not attend courses during the summer months (June through August).

The University identifies a performance obligation associated with the provision of its educational instruction and auxiliary services and uses the output measure for recognition as the period of time over which the services are provided to our students. The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during stated refund periods. These amounts are immaterial for the fiscal years ended June 30, 2024 and 2023. If a student withdraws at a time when only a portion, or none of the tuition is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the tuition that is not refunded pro-rata over the applicable period of instruction. The University did not record revenue on amounts that may be refunded. However, for students that take out financial aid to pay their tuition and for which a return of such money to the Department of Education under Title IV is required as a result of his or her withdrawal, the University reassesses collectability for these students.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Tuition and Fees

Tuition and fees, as set annually by the Board of Trustees, represent revenue from contracts with customers. They are recognized in the applicable enrollment period which includes revenue deferred in a prior academic year. Because the University has not incurred any additional cost in providing financial aid to students, institutional scholarship allowances are recorded as a reduction of tuition and fees rather than as an expense of the University. Tuition and fee waivers provided to University employees are recorded as tuition revenue and are offset by an employee benefit expense.

The University offers a Level Tuition Plan option to incoming first year students which allows them to lock in tuition at the current year's published rate with a stated premium for eight consecutive semesters. The premium revenue related to this plan contract is recognized over the relevant terms of the contract. After premium revenue is fully recognized, the price differential between the locked level tuition plan price and the current year's published rate is recognized as a discount. Withdrawal or suspension from the university voids this contract and any remaining premium revenue is recognized at that time.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. The University has not adopted a policy regarding time-restrictions on long-lived assets. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of fundraising activity.

Contributions with Donor Restriction

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. If donors stipulate how long the assets must be used, the contributions are recorded as contributions with donor restriction. In the absence of such stipulations, contributions of property and equipment are recorded as contributions without donor restriction. The gifts are reported as with donor restriction if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction are reclassified as net assets without donor restriction and reported in the consolidated statements of activities as net assets released from restrictions. Contributions with donor restriction where restrictions are met within the same year as received are reported as contributions with donor restriction and subsequently reported as net assets released from restrictions in the accompanying consolidated financial statements.

Operations

The consolidated statements of activities reports the change in net assets from operating and non-operating activities. Operating revenues consist of substantially all the activity of the University except for certain items specifically considered to be of a non-operating nature as described hereafter. Gifts included with non-operating activities consist of gifts restricted for the acquisition of capital assets and other purposes, and gifts restricted to endowment funds. Non-operating activities also include realized and unrealized gains and losses on investments, long-term investment income from endowment gains which are not allocated to operations, increases in interest of perpetual trusts and other significant items of an unusual or nonrecurring nature.

Interest Expense

Interest expense, net of amounts capitalized, for the years ended June 30, 2024 and 2023 was approximately \$1,789,000 and \$1,832,000, respectively, and is allocated to operating expenses by functional category.

Advertising Expense

The University expenses advertising costs as incurred. Advertising expenses were approximately \$143,000 and \$376,000 for the years ended June 30, 2024 and 2023, respectively, and are included in the management and general functional expense category as part of services and professional fees.

Tax-exempt Status

Transylvania University is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code. The accounts of Town Properties, LLC are included in the federal information return for Transylvania University as an ignored entity for tax purposes. The Bingham Fund for Excellence in Teaching is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code and files a separate tax return.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the University and recognize a tax liability if the University has taken an uncertain position that more likely than not would

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2024 and 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

The University has filed all tax returns for periods through June 30, 2023 and is subject to routine audits by taxing jurisdictions. However, as of the date the financial statements were available to be issued, there were no audits for any tax periods in progress. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the consolidated financial statements are issued.

Subsequent Events

The University evaluates events occurring subsequent to the date of the consolidated financial statements in determining the accounting for and disclosure of transactions and events that affect the consolidated financial statements. Subsequent events have been evaluated through October 15, 2024, which is the date the financial statements were issued.

3. RECEIVABLES AND RELATED CREDIT QUALITY

Student accounts and other receivables consist of the following as of June 30:

	2024	2023
Student accounts receivable	\$ 1,452,631	\$ 1,116,963
Other receivables	647,717	610,550
	2,100,348	1,727,513
Allowance for uncollectible accounts	(874,308)	(661,562)
	<u>\$ 1,226,040</u>	<u>\$ 1,065,951</u>

Student accounts and other receivables includes the contract receivables for completing the performance obligation of delivery of instruction to students. The balance of the student accounts and other receivables as of July 1, 2022 was approximately \$916,000.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Employee Retention Credit Receivable

The Coronavirus Aids, Relief, and Economic Security (CARES) Act included a provision for the Employee Retention Credit (ERC). For amounts paid between March 13, 2020, and December 31, 2020, ERC is equal to 50 percent of qualified wages up to a maximum of \$10,000 of wages per employee for the year; equaling a maximum credit of \$5,000 per employee for 2020. For amounts paid between January 1, 2021, and December 31, 2021, ERC is equal to 70 percent of qualified wages up to a maximum of \$10,000 of wages per employee, per quarter; equaling a maximum credit of \$28,000 per employee for 2021. In accordance with Accounting Standards Codification 958-605, *Not-for-Profit Entities*, the University recognized approximately \$3,873,000 of ERC as grant revenue for the year ended June 30, 2021. This amount was receivable at June 30, 2021. Approximately \$1,946,000 and \$1,927,000, respectively, was received in fiscal years 2023 and 2022 with no amounts remaining at June 30, 2023.

Loans Receivable

The majority of the University's financing receivables consist of a revolving loan fund for Federal Perkins Loan Program for which the University acts as an agent for the federal government and an institutional loan fund created by the University to assist students in funding their education. At June 30, 2024 and 2023, student loans receivable represented 0.08% and 0.13% of total assets, respectively.

The availability of funds for loans under the Federal Perkins Loan Program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds and loans receivable held in the Federal Perkins Loan Program of approximately \$476,000 and \$645,000 at June 30, 2024 and 2023, respectively, are ultimately refundable to the federal government and are classified as liabilities in the consolidated statements of financial position. Student loans under the Federal Perkins Loan Program can be assigned to the federal government when no longer collectible, and, therefore, when they are written off, they reduce the amount refundable to the federal government.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Balances of financing receivables at June 30:

	2024		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Financing receivables:			
Ending balance	\$ 334,251	\$ 923,430	\$ 1,257,681
Ending balance:			
Individually evaluated for impairment	\$ 0	\$ 0	\$ 0
Ending balance:			
Collectively evaluated for impairment	\$ 334,251	\$ 923,430	\$ 1,257,681
	2023		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Financing receivables:			
Ending balance	\$ 479,854	\$ 885,763	\$ 1,365,617
Ending balance:			
Individually evaluated for impairment	\$ 0	\$ 0	\$ 0
Ending balance:			
Collectively evaluated for impairment	\$ 479,854	\$ 885,763	\$ 1,365,617

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

For each class of financing receivable, the following table presents the recorded investment by credit quality indicator as of June 30:

	2024		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Performing	\$ 334,251	\$ 923,430	\$ 1,257,681
Non-performing			0
	<u>\$ 334,251</u>	<u>\$ 923,430</u>	<u>\$ 1,257,681</u>

	2023		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Performing	\$ 479,854	\$ 885,763	\$ 1,365,617
Non-performing			0
	<u>\$ 479,854</u>	<u>\$ 885,763</u>	<u>\$ 1,365,617</u>

For student loans, the credit quality indicator is performance determined by the delinquency status and, for the Federal Perkins Loan Program, origination and servicing of the loan.

Perkins loans that are originated and serviced properly under Department of Education regulations can be assigned to the Department of Education when deemed no longer collectible. The University is not aware of any material amount of loans not properly originated or serviced under Department of Education regulations.

Institutional loans include Bagby, Schell and Transy loan programs, all of which are moral obligation loans. As such, these loans are fully allowed.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Changes in the allowance for estimated losses on financing receivables in the aggregate for the year ended June 30:

	2024		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Allowance for credit losses:			
Beginning balance	\$	\$ 885,763	\$ 885,763
Charge-offs	8,280	40,781	49,061
Recovery	(8,280)	(3,114)	(11,394)
Ending balance	<u>\$ 0</u>	<u>\$ 923,430</u>	<u>\$ 923,430</u>
Ending balance:			
Individually evaluated for impairment	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Ending balance:			
Collectively evaluated for impairment	<u>\$ 0</u>	<u>\$ 923,430</u>	<u>\$ 923,430</u>
	2023		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Allowance for credit losses:			
Beginning balance	\$	\$ 850,511	\$ 850,511
Charge-offs	102,373	41,330	143,703
Provision/recovery	(102,373)	(6,078)	(108,451)
Ending balance	<u>\$ 0</u>	<u>\$ 885,763</u>	<u>\$ 885,763</u>
Ending balance:			
Individually evaluated for impairment	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Ending balance:			
Collectively evaluated for impairment	<u>\$ 0</u>	<u>\$ 885,763</u>	<u>\$ 885,763</u>

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

The aging of the financing receivables portfolio by classes as of June 30:

	2024				
	30-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Current	Total
Federal Perkins Loan program	\$ 19,506	\$ 0	\$ 15,895	\$ 298,850	\$ 334,251
Institutional loans				923,430	923,430
	<u>\$ 19,506</u>	<u>\$ 0</u>	<u>\$ 15,895</u>	<u>\$ 1,222,280</u>	<u>\$ 1,257,681</u>
	2023				
	30-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Current	Total
Federal Perkins Loan program	\$ 13,454	\$ 19,514	\$ 18,937	\$ 427,949	\$ 479,854
Institutional loans				885,763	885,763
	<u>\$ 13,454</u>	<u>\$ 19,514</u>	<u>\$ 18,937</u>	<u>\$ 1,313,712</u>	<u>\$ 1,365,617</u>

The impairment of the student loan portfolio as of June 30:

	2024				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Federal Perkins loan receivables	\$	\$	\$	\$	\$
Institutional loans		923,430	923,430		
	<u>\$ 0</u>	<u>\$ 923,430</u>	<u>\$ 923,430</u>	<u>\$ 0</u>	<u>\$ 0</u>
	2023				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Federal Perkins loan receivables	\$	\$	\$	\$	\$
Institutional loans		885,763	885,763		
	<u>\$ 0</u>	<u>\$ 885,763</u>	<u>\$ 885,763</u>	<u>\$ 0</u>	<u>\$ 0</u>

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

4. PLEDGES RECEIVABLE

Pledges receivable consist of the following as of June 30:

	2024	2023
Less than one year	\$ 580,110	\$ 800,068
One to five years	1,194,750	1,550,000
Greater than five years	28,509	0
	<u>1,803,369</u>	<u>2,350,068</u>
Allowance for uncollectible receivables	0	(100,750)
	<u>1,803,369</u>	<u>2,249,318</u>
Discount	(148,643)	(203,375)
	<u>\$ 1,654,726</u>	<u>\$ 2,045,943</u>

The discount rate range is 1.475% through 6.475% for 2024 and 2023.

5. INVESTMENTS

Investment return consists of the following for the years ended June 30:

	2024	2023
Dividends and interest income	\$ 4,604,306	\$ 4,140,524
Net unrealized gains and losses	27,816,459	17,924,506
Net realized gains	6,469,621	10,766,733
Investment fees	(269,366)	(236,836)
Total return on investments	<u>38,621,020</u>	<u>32,594,927</u>
Endowment appropriations designated for current operations	(13,660,136)	(9,869,730)
Investment return reinvested	<u>\$ 24,960,884</u>	<u>\$ 22,725,197</u>

Restricted Investments

Restricted investments, as reflected in the accompanying statements of financial position, are comprised of money market funds.

Endowment Investments

The University's endowment consists of approximately 300 individual funds established for a variety of purposes. The University's endowment funds support current operations, scholarships, the William T. Young Scholarship program, the

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Bingham Program for Excellence in Teaching, and the David and Betty Jones Fund for Faculty Development. The endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by 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. Donor-restricted endowments are classified as net assets with donor restriction and board-designated endowments are classified as net assets without donor restriction.

Interpretation of Relevant Law

The University follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the gift of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gifts donated to the endowment, and (b) accumulations to the endowment that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift. The University has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measure required under the law. In accordance with UPMIFA, the University considers the following factors in determining whether to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the University, and (7) the University's investment policies.

Underwater Endowment Funds

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, deficiencies of this nature are reported in net assets with donor restriction for the fiscal year ending June 30, 2024 and 2023, respectively. Deficiencies of this nature exist in 11 donor-restricted endowment funds, which together have an original gift value of \$2,434,590, a current fair value of \$2,340,431 and a deficiency of \$94,159 as of June 30, 2024. Deficiencies of this nature exist in 36 donor-restricted endowment funds, which together have an original gift value of \$11,334,483, a current fair value of \$10,572,201 and a deficiency of \$762,282 as of June 30, 2023. These deficiencies result from unfavorable market value fluctuations that occurred after the investment of new endowment funds or continued appropriation to support programs in accordance with donor intent.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

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 for programs supported by the endowment, while seeking to maintain the purchasing power of these endowment assets over the long-term. The University's spending and investment policies work together to achieve these objectives. The investment policy charges the Board of Trustees' investment committee to consider such asset management strategies as asset allocation, preservation of principal, long-term growth, liquidity, amount and stability of income, diversification, professional management and transactions fees. The investment committee may direct liquidation or purchase of investments and may retain investment advisory services for any account or fund comprising the University's endowment.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the University utilizes a "total return" concept for endowment and similar funds. This concept recognizes dividends and interest, plus or minus realized and unrealized gains or losses, in determining the total return earned during any particular period. The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

The Board of Trustees authorizes an annual maximum spending rate of endowment funds earnings for current use (spending rate). The spending rate calculates the amount of money distributed annually from the University's various endowed funds for support of University programs. The current spending policy is to distribute up to 5% of the average market value of the endowment over the preceding 36 months. Distributions in excess of the 5% spending policy must be approved by the Board of Trustees. The actual spending rate in 2024 and 2023 was 5.80% and 4.54%, respectively. Total returns of \$13,660,136 and \$9,869,730 from the endowment and similar funds were allocated for operations for the years ended June 30, 2024 and 2023, respectively.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Endowment net asset composition by type of fund as of June 30:

	2024		
	Without Donor Restriction	With Donor Restriction	Total
Donor restricted endowment funds	\$	\$ 267,121,592	\$ 267,121,592
Board designated endowment funds	6,425,683		6,425,683
	<u>\$ 6,425,683</u>	<u>\$ 267,121,592</u>	<u>\$ 273,547,275</u>
	2023		
	Without Donor Restriction	With Donor Restriction	Total
Donor restricted endowment funds	\$	\$ 236,641,241	\$ 236,641,241
Board designated endowment funds	8,128,102		8,128,102
	<u>\$ 8,128,102</u>	<u>\$ 236,641,241</u>	<u>\$ 244,769,343</u>

Changes in endowment net assets for the year ended June 30:

	2024		
	Without Donor Restriction	With Donor Restriction	Total
Balance, beginning of year	\$ 8,128,102	\$ 236,641,241	\$ 244,769,343
Investment return, net	1,269,980	37,261,483	38,531,463
Contributions	840	3,887,465	3,888,305
Transfers	0	18,300	18,300
Amount appropriated for expenditure	(2,973,239)	(10,686,897)	(13,660,136)
Endowment net assets, end of year	<u>\$ 6,425,683</u>	<u>\$ 267,121,592</u>	<u>\$ 273,547,275</u>
	2023		
	Without Donor Restriction	With Donor Restriction	Total
Balance, beginning of year	\$ 8,680,524	\$ 212,031,724	\$ 220,712,248
Investment return, net	1,184,137	31,139,433	32,323,570
Contributions	2,960	910,264	913,224
Transfers	0	690,031	690,031
Amount appropriated for expenditure	(1,739,519)	(8,130,211)	(9,869,730)
Endowment net assets, end of year	<u>\$ 8,128,102</u>	<u>\$ 236,641,241</u>	<u>\$ 244,769,343</u>

6. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2024 and 2023.

- Money market funds: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund. (Level 2 inputs)
- Equity securities: Valued at the closing price reported on the active market on which the individual securities are traded. (Level 1 inputs)
- Mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded. (Level 1 inputs)
- Cash surrender value of life insurance: Valued as reported by the respectively life insurance companies. Represents the cash payout if the University elects to liquidate the policies. (Level 2 inputs)
- Assets held in trust by others: Valued at fair value as reported by the trustee, which represents the University's pro rata interest in the net assets of the trust, substantially all of which are valued on a mark-to-market basis. (Level 3 inputs)

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

- Other investments: Valued using pricing models maximizing the use of observable inputs for similar securities. (Level 2 inputs)
- Annuities payable: Valued using contractual payment rate percentages and life expectancy tables. (Level 2 inputs)

The following table sets forth by level, within the hierarchy, the University's assets and liabilities measured at fair value on a recurring basis as of June 30:

	2024			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Money market funds	\$ 15,991,582	\$	\$ 15,991,582	\$
Fixed income mutual funds	1,215,603	1,215,603		
Large-cap U.S. equity securities	250,034,319	250,034,319		
Non large-cap U.S. equity securities	0	0		
Non-U.S. equity securities	9,577,904	9,577,904		
Cash surrender value of life insurance policies	2,027,940		2,027,940	
Other investments	1,228,113		1,228,113	
Assets held in trust by others	1,607,725			1,607,725
Total assets at fair value	<u>\$ 281,683,186</u>	<u>\$ 260,827,826</u>	<u>\$ 19,247,635</u>	<u>\$ 1,607,725</u>
Liabilities				
Annuities payable	<u>\$ 1,493,516</u>	<u>\$ 0</u>	<u>\$ 1,493,516</u>	<u>\$ 0</u>
Investments, at fair market value	\$ 280,075,461			
Restricted investments, at fair market value	0			
Assets held in trust by others	1,607,725			
	<u>\$ 281,683,186</u>			

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

	2023			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Money market funds	\$ 12,665,208	\$	\$ 12,665,208	\$
Fixed income mutual funds	1,182,375	1,182,375		
Large-cap U.S. equity securities	223,877,930	223,877,930		
Non large-cap U.S. equity securities	314,685	314,685		
Non-U.S. equity securities	10,094,851	10,094,851		
Cash surrender value of life insurance policies	1,969,552		1,969,552	
Other investments	887,640		887,640	
Assets held in trust by others	1,496,756			1,496,756
Total assets at fair value	<u>\$ 252,488,997</u>	<u>\$ 235,469,841</u>	<u>\$ 15,522,400</u>	<u>\$ 1,496,756</u>
Liabilities				
Annuities payable	<u>\$ 1,510,466</u>	<u>\$ 0</u>	<u>\$ 1,510,466</u>	<u>\$ 0</u>
Investments,				
at fair market value	\$ 250,969,736			
Restricted investments,				
at fair market value	22,505			
Assets held in trust by others	1,496,756			
	<u>\$ 252,488,997</u>			

For financial assets valued using Level 3 inputs, the fair value of assets held in trust by others is valued based on the fair value of the assets held in the perpetual trust. There have been no changes in valuation methodologies used as of June 30, 2024 and 2023. The fair value of the assets is sensitive to changes in unobservable inputs used in the valuation.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

The following table provides a summary of changes in fair value of the University's Level 3 assets at June 30:

	2024 Assets held in trust	2023 Assets held in trust
Balance, beginning of year	\$ 1,496,756	\$ 1,423,452
Realized and unrealized gains (losses)	110,969	73,304
Balance, end of year	<u>\$ 1,607,725</u>	<u>\$ 1,496,756</u>

7. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following as of June 30:

	2024	2023
Land	\$ 14,914,360	\$ 15,776,959
Land improvements	11,003,744	12,917,750
Buildings	144,960,569	142,269,208
Equipment and vehicles	7,610,933	7,445,192
Technology	4,412,432	4,351,587
Works of art and historical treasures	2,865,919	2,865,919
Library collection	1,121,737	1,621,504
Construction in progress	1,242,966	1,723,367
	<u>188,132,660</u>	<u>188,971,486</u>
Accumulated depreciation	<u>(82,884,265)</u>	<u>(79,785,477)</u>
	<u>\$ 105,248,395</u>	<u>\$ 109,186,009</u>

Depreciation and amortization expense totaled approximately \$4,866,000 and \$5,309,000 for 2024 and 2023, respectively, and has been allocated to operating expenses by functional classification.

8. EMPLOYEE BENEFIT PLANS

The University has a defined contribution retirement plan covering eligible employees. Each year the University makes contributions to individually owned Internal Revenue Service Section 403(b) accounts on behalf of each eligible employee. Contributions to the plan were approximately \$1,513,000 and \$1,506,000 in 2024 and 2023, respectively.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

The University also established a 457(b) plan which allows eligible employees to defer compensation in excess of the amount allowed under the 403(b) plan. The University makes no contributions under this plan on behalf of employees.

9. SELF-INSURANCE PROGRAM

The University has a self-funded employee benefit plan to provide health care insurance coverage for its employees and their dependents. The University limits losses through the use of a stop-loss policy from a reinsurer. Specific individual losses for claims were limited to \$75,000 for 2024 and 2023. The University's aggregate annual loss limitation was approximately \$3.00 million and \$2.89 million for calendar years 2024 and 2023, respectively, based on a formula that considers, among other things, the total number of employees.

Insurance expense is recorded on an accrual basis. The liability at year end estimates the University's liability for claims filed and not paid, as well as any incurred but not reported claims. The University's share of health insurance expense was approximately \$2.21 million and \$2.42 million, respectively, for the years ended June 30, 2024 and 2023. At June 30, 2024 and 2023, the liability for incurred but unreported claims total approximately \$300,000 and \$182,000, respectively. These amounts are included in the accompanying consolidated statements of financial position in accrued liabilities.

10. DEFERRED REVENUES

Deferred revenues consist of the following as of June 30:

	2024	2023
Tuition and fees	\$ 453,441	\$ 540,447
Student-related deposits	475,597	413,851
Private grants	59,118	83,047
Auxiliary and other deferred revenues	59,498	66,138
	<u>\$ 1,047,654</u>	<u>\$ 1,103,483</u>

Tuition and fees includes the contract liability for the performance obligation of delivery of instruction to students. This obligation is satisfied in the subsequent fiscal year. The balance of deferred tuition and fees revenue at June 30, 2022 was approximately \$1,255,000, all of which was recognized as revenue in fiscal year 2023.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Student-related deposits consist of deposits of security against any potential University fines. A portion of the University's revenue is derived from private grants, which are conditioned upon certain performance requirements. Amounts received are recognized as revenue when the University has met the performance requirements. Amounts received prior to meeting the performance requirements are accounted for as refundable advances and reported as deferred revenue in the statement of financial position.

11. BONDS AND NOTES PAYABLE

Bonds and notes payable, consist of the following as of June 30:

	2024	2023
KBDC Industrial Revenue Bonds, City of Midway, Series 2019A	\$ 0	\$ 4,779,812
KBDC Industrial Revenue Bonds, City of Stamping Ground, Series 2019B	13,765,000	13,765,000
KBDC Educational Facilities Refunding Bonds, City of Stamping Ground, Series 2021A	30,220,000	31,200,000
Line of credit, \$4,000,000 limit, matures November 30, 2024, interest-only payments through maturity	2,000,000	2,300,000
Note payable, January 2022, original amount, \$520,525. Interest rate of 2.95%, monthly payments of \$6,876 through January 2029. Matures January 2029. Unsecured.	351,661	422,473
Note payable, March 2024, original amount, \$3,426,231. Interest rate of 6.60%, monthly payments of \$35,119 through February 2029. Matures March 2029. Secured by real a pledge of future receipts and real property with a net book value of \$27,496,255. at June 30, 2024.	3,390,797	0
	49,727,458	52,467,285
Plus premiums	4,234,380	4,532,851
Less issuance costs	(501,232)	(552,377)
	<u>\$ 53,460,606</u>	<u>\$ 56,447,759</u>

The \$9,950,000 Kentucky Bond Development Corporation Industrial Revenue Bonds, City of Midway, Series 2019A were issued on March 29, 2019 to provide partial funding for the construction of the new campus center on the Transylvania campus. The bonds were paid in full in fiscal year 2024.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

The \$13,765,000 Kentucky Bond Development Corporation Industrial Revenue Bonds, City of Stamping Ground, Series 2019B were issued on June 20, 2019 to provide partial funding for the construction of the new campus center on the Transylvania campus. The bonds bear interest at predetermined rates ranging from 3.125% to 4.00%. Annual principal payments range from \$585,000 to \$1,085,000 payable beginning on March 1, 2033 to the year 2049. The bonds are collateralized by future revenues of the University.

The \$32,160,000 Kentucky Bond Development Corporation Educational Facilities Refunding Revenue Bonds, City of Stamping Ground, Series 2021A were issued on February 18, 2021 to fully refund the Series 2012, Series 2016A, Series 2016B, Series 2016C, and Series 2016D bonds. The bonds bear interest at predetermined rates ranging from 2.00% - 5.00%. Annual principal payments range from \$890,000 to \$1,625,000 beginning March 1, 2023 to the year 2049. The bonds are collateralized by future revenues of the University. The net present value of the savings provided by the refunding was approximately \$179,000.

The University has lines of credit totaling \$5,000,000 with two financial institutions. Fifth Third Bank provides a \$4,000,000 unsecured line of credit, maturing in December 2024, at an index rate of one-month Secured Overnight Financing Rate rounded up to the nearest one-sixteenth of one percent plus 1.35% (6.68% and 6.55% at June 30, 2024 and 2023, respectively). Borrowings under this line of credit totaled \$2,000,000 and \$2,300,000, respectively, at June 30, 2024 and 2023.

Central Bank provides a \$1,000,000 line of credit, maturing on December 26, 2024, at 8.25% and 8.25% at June 30, 2024 and 2023, respectively. Borrowings under this line of credit totaled \$0 and \$0, respectively, at June 30, 2024 and 2023.

Certain covenants were made by the University in conjunction with issuance of each series bonds. As of June 30, 2024 and 2023, the University is in compliance with these covenants.

Following is a schedule of the required future principal payments on all outstanding debt as of June 30:

2025	\$	3,053,147
2026		1,085,335
2027		1,127,588
2028		1,184,908
2029		4,596,480
Thereafter		38,680,000
	\$	<u>49,727,458</u>

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

12. NET ASSETS

Net assets consist of the following as of June 30:

	2024	2023
Net assets without donor restriction:		
Undesignated	\$ 33,548,258	\$ 34,404,112
Board-designated endowment	6,425,683	8,128,102
Total net assets without donor restriction:	39,973,941	42,532,214
Net assets with donor restriction:		
<i>Subject to expenditure for specific purpose:</i>		
Academic programs, student services	7,826,322	7,250,535
Scholarships	9,401,919	8,863,924
Capital projects	2,487,186	2,635,890
Other restricted purposes	600,466	363,904
	20,315,893	19,114,253
<i>Subject to the passage of time:</i>		
Annuity and life income funds	2,838,236	2,674,698
Life insurance policies	2,027,940	1,969,552
	4,866,176	4,644,250
<i>Subject to the University's spending policy and appropriation:</i>		
Gains on endowment funds	185,577,866	159,003,280
<i>Subject to restriction in perpetuity:</i>		
Endowment funds restricted in perpetuity	81,543,726	77,637,961
Perpetual trusts held by others	1,607,725	1,496,756
	83,151,451	79,134,717
Total net assets with donor restriction:	293,911,386	261,896,500
	<u>\$ 333,885,327</u>	<u>\$ 304,428,714</u>

As of June 30, 2024 and 2023, all amounts for net pledges receivable were restricted as to purpose and are included in the applicable lines in the above table.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

13. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by the donors.

The purpose of the restricted contributions released for the years ended June 30:

	2024	2023
Financial aid	\$ 6,818,335	\$ 6,060,051
Instructional	2,974,616	2,550,341
Capital gifts	1,349,650	1,230,970
Academic support and student services	577,549	754,517
Institutional support	21,384	202,733
	<u>\$ 11,741,534</u>	<u>\$ 10,798,612</u>

14. LIQUIDITY

The University is substantially supported by tuition and auxiliary revenues, investment return designated for current operations, and contributions. The University depends on these revenues to meet its ongoing obligations. As part of the University's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The University invests cash in excess of daily requirements in short-term investments.

The following reflects the University's financial assets as of the consolidated statement of financial position dates, reduced by amounts not available for general use within one year of the consolidated statement of financial position dates because of contractual or donor-imposed restrictions or internal designations. Amounts available include donor-restricted amounts that are available for general expenditure in the following year.

	2024	2023
Cash and cash equivalents	\$ 3,527,424	\$ 1,621,060
Accounts receivable, net	1,226,040	1,065,951
Pledges receivable, net	1,654,726	2,045,943
Less pledges collectible beyond one year	(1,223,259)	(1,550,000)
Endowment spending	13,660,136	9,869,730
	<u>\$ 18,845,067</u>	<u>\$ 13,052,684</u>

The University may also draw upon its net available unsecured lines of credit of \$3,000,000 at June 30, 2024, in the event of an anticipated liquidity need.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

15. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the University's various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities. Expenses that can be identified with a specific program or support service are charged directly to the program or support service. Expenses which apply to more than one functional program or support service have been allocated based on estimates by management. Accordingly, certain costs, including facilities services, depreciation and amortization, and interest expenses, have been allocated among the programs and supporting services benefited. Facilities services and depreciation and amortization are allocated on a square footage basis. Interest expenses are allocated based on the functional usage of the financing.

Instructional and research expenses include professors conducting classroom instruction and research. Academic support includes expenses of the library, academic dean, academic computing, and administrative support. Student services and recruiting expenses include student life, registrar, financial aid administration, athletics, and admissions. Auxiliary enterprises is primarily comprised of residence halls, dining facilities and sports camps. Management and general includes expenses of the president, finance and business, human resources, public safety, and marketing and communications. Fundraising includes expenses of university advancement, development and alumni relations.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Expenses summarized by functional classifications for the years ended June 30:

	2024							
	Program Activities					Management and General	Fundraising	Total
	Instruction and Research	Academic Support	Student Services and Recruiting	Auxiliary Enterprises	Total Program Activities			
Salaries and wages	\$ 7,738,357	\$ 3,675,106	\$ 4,128,319	\$ 928,309	\$ 16,470,091	\$ 2,166,829	\$ 819,968	\$ 19,456,888
Employee benefits	1,932,427	1,045,918	1,075,359	75,311	4,129,015	1,483,403	203,924	5,816,342
Services and professional fees	400	1,113,926	1,398,900	34,293	2,547,519	1,458,109	180,127	4,185,755
Operating expenses	220,156	521,179	509,939	2,511,826	3,763,100	38,387	33,633	3,835,120
Travel and professional development	366,849	360,141	1,121,334	3,953	1,852,277	139,032	37,608	2,028,917
Special events	3,254	273,050	181,819	13,210	471,333	55,948	109,223	636,504
Depreciation and amortization	1,224,349	459,214	1,208,490	1,461,059	4,353,112	430,699	81,861	4,865,672
Occupancy, utilities, maintenance	604,356	237,906	599,271	733,601	2,175,134	206,300	40,408	2,421,842
Interest	28,127	0	774,250	959,380	1,761,757	27,467	0	1,789,224
	<u>\$ 12,118,275</u>	<u>\$ 7,686,440</u>	<u>\$ 10,997,681</u>	<u>\$ 6,720,942</u>	<u>\$ 37,523,338</u>	<u>\$ 6,006,174</u>	<u>\$ 1,506,752</u>	<u>\$ 45,036,264</u>
	2023							
	Program Activities					Management and General	Fundraising	Total
	Instruction and Research	Academic Support	Student Services and Recruiting	Auxiliary Enterprises	Total Program Activities			
Salaries and wages	\$ 7,813,014	\$ 3,570,451	\$ 4,320,536	\$ 908,185	\$ 16,612,186	\$ 2,530,061	\$ 763,151	\$ 19,905,398
Employee benefits	2,021,647	1,089,982	1,196,441	94,875	4,402,945	1,401,630	171,554	5,976,129
Services and professional fees	0	1,082,298	1,488,161	43,893	2,614,352	1,621,442	104,444	4,340,238
Operating expenses	219,881	258,543	484,121	2,769,281	3,731,826	92,867	32,915	3,857,608
Travel and professional development	77,375	348,990	1,159,310	3,765	1,589,440	201,260	25,930	1,816,630
Special events	7,951	243,430	300,267	15,536	567,184	98,264	66,291	731,739
Depreciation and amortization	1,336,022	501,099	1,318,717	1,594,323	4,750,161	469,983	89,328	5,309,472
Occupancy, utilities, maintenance	639,056	253,617	630,907	762,654	2,286,234	194,946	42,728	2,523,908
Interest	29,427	0	790,045	983,733	1,803,205	28,737	0	1,831,942
	<u>\$ 12,144,373</u>	<u>\$ 7,348,410</u>	<u>\$ 11,688,505</u>	<u>\$ 7,176,245</u>	<u>\$ 38,357,533</u>	<u>\$ 6,639,190</u>	<u>\$ 1,296,341</u>	<u>\$ 46,293,064</u>

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

16. BINGHAM FUND

In October 1987, the Bingham Fund for Excellence in Teaching at Transylvania University (the Trust) was established. The purpose of the Trust is to fund and promote a faculty financial incentive award program to enhance the professional distinction and excellence of the faculty of the University. The Trust provides income to pay awards to certain faculty members and supports the Trust administration and selection process. A tax-exempt status has been granted by the IRS. The Trust document requires that at least 50% of the Bingham trustees also be members of the University's Board of Trustees on succession of an initial board of Bingham trustees. The Trust is a supporting organization with the University named as primary beneficiary. The Trust is perpetual and deemed irrevocable.

Additional contributions with donor restriction and its initial corpus have been reported in net assets with donor restriction as of June 30, 2024 and 2023. The initial corpus and related appreciation are included in investments on the University's consolidated statements of financial position. The statements of financial position and statements of activities of the Trust follow:

BINGHAM FUND (TRUST) STATEMENTS OF FINANCIAL POSITION JUNE 30, 2024 AND 2023

ASSETS

	2024	2023
Investments, at fair market value	\$ 131,124,778	\$ 116,364,068
Prepaid expenses	0	8,270
Accrued income receivable	89,187	85,614
	<u>\$ 131,213,965</u>	<u>\$ 116,457,952</u>

LIABILITIES AND NET ASSETS

Due to Transylvania University	\$ 582,531	\$ 805,708
Net assets with donor restriction	<u>130,631,434</u>	<u>115,652,244</u>
Total liabilities and net assets	<u>\$ 131,213,965</u>	<u>\$ 116,457,952</u>

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

BINGHAM FUND (TRUST) STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2024 and 2023

	2024	2023
Revenues and additions:		
Net realized and unrealized gain on investments	\$ 15,592,041	\$ 12,561,678
Investment income	2,201,283	2,060,376
	<u>17,793,324</u>	<u>14,622,054</u>
Expenses and deductions:		
Faculty awards	1,891,694	1,723,507
Center for Teaching Excellence	171,079	0
Faculty development	69,739	118,104
Student development	23,095	13,537
Diversity initiatives	7,024	11,127
Digital initiatives	266,606	112,061
Administration expense	384,897	285,823
	<u>2,814,134</u>	<u>2,264,159</u>
Change in net assets	<u>\$ 14,979,190</u>	<u>\$ 12,357,895</u>

17. CONCENTRATIONS RISKS

Concentration of Credit Risk

The University has a concentration of credit risk in that it periodically maintains cash deposits in financial institutions in excess of amounts insured by the FDIC. Cash deposits in excess of the federally insured limits totaled approximately \$3,560,000 and \$1,470,000 as of June 30, 2024 and 2023, respectively.

Student Financial Aid

The University's students receive a substantial amount of support from state and federal student financial assistance programs. A reduction in the level of this support, if it were to occur, could adversely affect on the University's programs and activities.

Major Donors

For fiscal years 2024 and 2023, the top seven and top five donors comprise approximately 60% and 36%, respectively, of total donations to the University.

TRANSYLVANIA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

18. RELATED PARTY TRANSACTIONS

The University conducts some of its banking, investment, and legal services transactions with entities represented or owned by persons affiliated with the University. Such relationships are disclosed to and approved by the Board of Trustees. The University believes these transactions are conducted on an arm's length basis.

19. COMMITMENTS AND CONTINGENCIES

The University is subject to various claims, legal proceedings, and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance and, if not so covered, are without merit or are of such kind, or involve such amounts as would not have a significant effect on the financial position or results of operations of the University if disposed of unfavorably.

The University had outstanding contractual commitments related to construction projects expected to be expended within the next fiscal year totaling approximately \$111,000 and \$720,000 at June 30, 2024 and 2023, respectively.

The University entered into an employee contract which began on July 1, 2020, through June 30, 2023. The contract has been renewed in through June 2026. As part of this agreement, the University agreed to pay a severance package if the employee is terminated without cause as defined by the agreement.

20. CHANGE IN ACCOUNTING PRINCIPLE

On July 1, 2023, the University adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, utilizing the modified retrospective approach. This ASU replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The new guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The University applied the guidance to financial assets measured at amortized cost (primarily accounts and contracts receivable) that existed as of July 1, 2023 (the date of initial application). The adoption of this ASU did not have a material impact on the University's financial statements.