

Messiah University

Financial Statements

June 30, 2024 and 2023

Messiah University

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Independent Auditors' Report

To the Board of Trustees of
Messiah University

Opinion

We have audited the financial statements of Messiah University (the University), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities 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 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 (GAAP).

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 Auditors' 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Baker Tilly US, LLP

Allentown, Pennsylvania
October 29, 2024

Messiah University

Statements of Financial Position

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Cash and cash equivalents	\$ 5,908,844	\$ 4,877,439
Notes and accounts receivable, net	8,160,228	5,948,710
Promises to give, net	4,061,266	4,634,437
Interest receivable	138,505	123,177
Inventories	893,489	996,696
Prepaid expenses and other assets	1,510,418	917,666
Investments, endowment	132,098,420	126,358,914
Investments, gift annuities and trusts	6,888,966	6,404,397
Investments, other	14,667,927	18,311,566
Loans receivable, students	1,045,209	1,092,706
Deposits with trustee under debt agreements, restricted	7,187,862	-
Beneficial interest in perpetual trusts	4,123,431	3,920,744
Right-of-use assets, operating	3,456,965	3,596,251
Right-of-use assets, financing	133,943	-
Property and equipment, net	132,027,963	133,662,952
Total assets	<u>\$ 322,303,436</u>	<u>\$ 310,845,655</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 8,951,079	\$ 6,485,208
Student deposits	1,455,349	1,387,588
Funds held in custody for others	172,420	201,034
Deferred revenue	2,493,745	2,226,252
Annuities payable	3,527,503	3,426,502
Funds held in trust for others	309,164	285,533
Lease liabilities, operating	3,456,965	3,596,251
Lease liabilities, financing	111,347	-
Long-term debt	71,713,064	66,393,290
U.S. government grants refundable	796,121	972,445
Other liabilities	2,753,209	2,716,345
Total liabilities	<u>95,739,966</u>	<u>87,690,448</u>
Net Assets		
Without donor restrictions	<u>162,230,284</u>	<u>161,274,388</u>
With donor restrictions:		
Restricted, time and purpose	14,592,826	14,155,652
Restricted, in perpetuity	<u>49,740,360</u>	<u>47,725,167</u>
Total net assets with donor restrictions	<u>64,333,186</u>	<u>61,880,819</u>
Total net assets	<u>226,563,470</u>	<u>223,155,207</u>
Total liabilities and net assets	<u>\$ 322,303,436</u>	<u>\$ 310,845,655</u>

See notes to financial statements

Messiah UniversityStatement of Activities
Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions			Total
		Restricted, Time and Purpose	Restricted, in Perpetuity	Subtotal With Donor Restrictions	
Operating Revenues					
Net tuition and fees	\$ 60,193,220	\$ -	\$ -	\$ -	\$ 60,193,220
Government grants and appropriations	1,513,898	-	-	-	1,513,898
Gifts and grants	1,577,720	1,367,281	-	1,367,281	2,945,001
Capital gifts and grants	-	1,056,633	-	1,056,633	1,056,633
Endowment return designated for operations	4,834,600	2,652,800	-	2,652,800	7,487,400
Investment income	1,834,899	63,740	-	63,740	1,898,639
Other sources	5,052,127	(38,602)	-	(38,602)	5,013,525
Auxiliary enterprises	22,114,708	-	-	-	22,114,708
Net assets released from restrictions	4,775,033	(4,775,033)	-	(4,775,033)	-
Net assets released from restrictions, capital	1,916,974	(1,916,974)	-	(1,916,974)	-
Total operating revenues	103,813,179	(1,590,155)	-	(1,590,155)	102,223,024
Operating Expenses					
Educational program services:					
Instructional	33,634,393	-	-	-	33,634,393
Academic support	9,838,438	-	-	-	9,838,438
Student services	21,842,261	-	-	-	21,842,261
Public service	4,366,964	-	-	-	4,366,964
Auxiliary enterprises	16,933,187	-	-	-	16,933,187
Supporting services, institutional support	18,257,628	-	-	-	18,257,628
Total operating expenses	104,872,871	-	-	-	104,872,871
Changes in net assets from operating activities	(1,059,692)	(1,590,155)	-	(1,590,155)	(2,649,847)
Nonoperating Revenues, Expenses and Other Changes					
Endowment and life income gifts	(65,304)	52,222	1,638,638	1,690,860	1,625,556
Endowment investment return, net of amount designated for operations	2,011,683	1,900,485	-	1,900,485	3,912,168
Change in value of beneficial interest in perpetual trusts	-	-	202,688	202,688	202,688
Investment return for trusts and gift annuities	132,141	70,901	565,116	636,017	768,158
Change in value of split-interest agreements	(62,932)	3,721	(391,249)	(387,528)	(450,460)
Total nonoperating revenues, expenses and other changes	2,015,588	2,027,329	2,015,193	4,042,522	6,058,110
Changes in net assets	955,896	437,174	2,015,193	2,452,367	3,408,263
Net Assets, Beginning	161,274,388	14,155,652	47,725,167	61,880,819	223,155,207
Net Assets, Ending	\$ 162,230,284	\$ 14,592,826	\$ 49,740,360	\$ 64,333,186	\$ 226,563,470

See notes to financial statements

Messiah UniversityStatement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions			Total
		Restricted, Time and Purpose	Restricted, in Perpetuity	Subtotal With Donor Restrictions	
Operating Revenues					
Net tuition and fees	\$ 59,635,476	\$ -	\$ -	\$ -	\$ 59,635,476
Government grants and appropriations	2,341,415	10,953	-	10,953	2,352,368
Gifts and grants	1,261,356	1,498,051	-	1,498,051	2,759,407
Capital gifts and grants	-	3,210,696	-	3,210,696	3,210,696
Endowment return designated for operations	4,989,184	2,552,900	-	2,552,900	7,542,084
Investment income	1,271,099	82,393	-	82,393	1,353,492
Other sources	4,526,806	(83,315)	-	(83,315)	4,443,491
Auxiliary enterprises	21,050,642	-	-	-	21,050,642
Net assets released from restrictions	4,285,763	(4,285,763)	-	(4,285,763)	-
Net assets released from restrictions, capital	1,879,447	(1,879,447)	-	(1,879,447)	-
Total operating revenues	101,241,188	1,106,468	-	1,106,468	102,347,656
Operating Expenses					
Educational program services:					
Instructional	33,241,179	-	-	-	33,241,179
Academic support	9,762,824	-	-	-	9,762,824
Student services	21,734,421	-	-	-	21,734,421
Public service	4,119,317	-	-	-	4,119,317
Auxiliary enterprises	16,612,578	-	-	-	16,612,578
Supporting services, institutional support	18,392,031	-	-	-	18,392,031
Total operating expenses	103,862,350	-	-	-	103,862,350
Changes in net assets from operating activities	(2,621,162)	1,106,468	-	1,106,468	(1,514,694)
Nonoperating Revenues, Expenses and Other Changes					
Endowment and life income gifts	(184,040)	234,248	1,722,209	1,956,457	1,772,417
Transfer of net assets	-	(80,192)	80,192	-	-
Endowment investment return, net of amount designated for operations	(2,325,863)	(557,635)	-	(557,635)	(2,883,498)
Change in value of beneficial interest in perpetual trusts	-	-	103,663	103,663	103,663
Investment return for trusts and gift annuities	77,185	50,456	363,838	414,294	491,479
Change in value of split-interest agreements	(50,318)	(32,329)	(319,607)	(351,936)	(402,254)
Total nonoperating revenues, expenses and other changes	(2,483,036)	(385,452)	1,950,295	1,564,843	(918,193)
Changes in net assets	(5,104,198)	721,016	1,950,295	2,671,311	(2,432,887)
Net Assets, Beginning	166,378,586	13,434,636	45,774,872	59,209,508	225,588,094
Net Assets, Ending	\$ 161,274,388	\$ 14,155,652	\$ 47,725,167	\$ 61,880,819	\$ 223,155,207

See notes to financial statements

Messiah University

Statements of Cash Flows

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash Flows From Operating Activities		
Changes in net assets	\$ 3,408,263	\$ (2,432,887)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	11,195,280	11,435,627
Amortization of right-of-use assets	774,566	470,689
Accretion	36,864	38,986
Amortization of bond discount and issuance costs, net	53,510	1,804
Change in allowance for credit losses	(140,087)	50,000
Net realized and unrealized gains on beneficial interest in perpetual trusts	(202,687)	(103,663)
Net realized and unrealized gains on investments	(8,139,528)	(901,223)
Gain on sale of property and equipment	(29,564)	(1,974)
Contributions for long-term purposes	(4,102,641)	(6,730,222)
(Increase) decrease in operating assets:		
Notes and accounts receivable	(2,071,431)	(1,037,717)
Promises to give	573,171	(1,138,852)
Inventories	103,207	(170,287)
Other assets	(521,811)	120,691
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	343,877	(564,251)
Funds held in custody for others	(28,614)	26,043
Student deposits	67,761	(148,755)
Deferred revenue	267,493	437,626
Funds held in trust for others	23,631	107,296
Lease liabilities, operating	(774,566)	(470,689)
Net cash provided by (used in) operating activities	<u>836,694</u>	<u>(1,011,758)</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	126,350,460	66,086,595
Purchases of investments	(120,642,966)	(73,522,798)
Purchase of property and equipment	(7,453,806)	(4,242,381)
Student loan principal payments received	205,257	249,370
Disbursements for loans to students	(157,760)	(178,884)
Proceeds from sale of property and equipment	45,073	50,517
Net cash used in investing activities	<u>(1,653,742)</u>	<u>(11,557,581)</u>
Cash Flows From Financing Activities		
Proceeds from issuance of long-term debt, net of discount	7,187,862	-
Contributions for long-term purposes	4,016,372	6,574,106
Principal payments on long-term debt	(2,070,000)	(2,015,000)
Decrease in U.S. government grants refundable	(176,324)	(158,340)
Increase in annuities payable	101,001	58,624
Payments on finance lease liabilities	(22,596)	-
Net cash provided by financing activities	<u>9,036,315</u>	<u>4,459,390</u>
Net increase (decrease) in cash and cash equivalents and deposits with trustee under debt agreements	8,219,267	(8,109,949)
Cash and Cash Equivalents and Deposits With Trustee Under Debt Agreements, Restricted, Beginning	<u>4,877,439</u>	<u>12,987,388</u>
Cash and Cash Equivalents and Deposits With Trustee Under Debt Agreements, Restricted, Ending	<u>\$ 13,096,706</u>	<u>\$ 4,877,439</u>
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 2,195,940</u>	<u>\$ 2,178,164</u>
Supplementary Disclosure of Noncash Investing and Financing Activities		
Property and equipment in accounts payable	<u>\$ 2,976,484</u>	<u>\$ 854,490</u>
Right-of-use assets obtained through operating leases	<u>\$ 635,280</u>	<u>\$ -</u>
Right-of-use assets obtained through finance leases	<u>\$ 165,217</u>	<u>\$ -</u>
Reconciliation of Cash and Cash Equivalents and Deposits With Trustee Under Debt Agreements, Restricted to Statements of Financial Position		
Cash and cash equivalents	\$ 5,908,844	\$ 4,877,439
Deposits with trustee under debt agreements, restricted	<u>7,187,862</u>	<u>-</u>
Total cash and cash equivalents and deposits with trustee under debt agreements	<u>\$ 13,096,706</u>	<u>\$ 4,877,439</u>

See notes to financial statements

Messiah University

Notes to Financial Statements
June 30, 2024 and 2023

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Messiah University (the University) is a private Christian university of the liberal and applied arts and sciences. Founded in 1909 by the Brethren in Christ Church, the University is located in Mechanicsburg, Pennsylvania. The University is accredited by the Middle States Commission on Higher Education and has a student body of approximately 3,300 undergraduate and graduate students.

Basis of Presentation

These financial statements present financial information showing the financial position, the activities and the cash flows of the University reflecting the presence or absence of donor-imposed restrictions. Accordingly, the amounts of net assets are classified according to the nature of such restrictions, as follows:

Net Assets With Donor Restrictions, in Perpetuity - Net assets which are subject to donor-imposed restrictions that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Net Assets With Donor Restrictions, Time and Purpose - Net assets which are subject to donor-imposed restrictions that will be met when expenditures are made for the designated purposes or with the passage of time. The expiration of time or purpose restrictions on net assets is reported in the statements of activities as net assets released from restrictions. Contributions with time and purpose restrictions and endowment income whose restrictions are not met in the same period as received or earned are reported as increases in net assets with donor restrictions.

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed restrictions. The Board of Trustees (Board) has several standing Board policies that affect the presentation of Board designations on net assets. Proceeds from matured gift annuities without donor restrictions and trusts without donor restrictions are designated for long-term investment in the endowment (quasi-endowment).

Government Grants and Student Aid

The government grants and student aid amounts reported do not include funds credited to students under various federal and state grant programs. These grants are similar to agency funds as the University acts only as custodian and disbursing agent.

Title IV Requirements

The University participates in Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education (DOE) for the payment of student tuition. Substantial portions of the revenue and collection of ending accounts receivable as of June 30, 2024 and 2023 are dependent upon the University's continued participation in the Title IV programs.

Institutions participating in Title IV programs are also required by DOE to demonstrate financial responsibility. DOE determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in the regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.5 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of June 30, 2024 and 2023, and for the years then ended, the University's composite score is expected to exceed 1.5.

Messiah University

Notes to Financial Statements
June 30, 2024 and 2023

The DOE revised the regulations for financial responsibility effective July 1, 2019. The regulations required the University to provide additional disclosures to assist the DOE in measuring financial responsibility through the composite score of financial ratios.

Pre-implementation property and equipment totaled \$100,470,940 and \$108,324,953 at June 30, 2024 and 2023, respectively. Post-implementation property and equipment with outstanding debt for original purchase totaled \$19,462,241 and \$14,015,717 at June 30, 2024 and 2023, respectively. Post-implementation property and equipment without outstanding debt for original purchase totaled \$15,685,690 and \$14,918,533 at June 30, 2024 and 2023, respectively.

Pre-implementation long-term debt for long-term purposes totaled \$58,349,328 and \$60,419,328 at June 30, 2024 and 2023, respectively. Post-implementation long-term debt for long-term purposes totaled \$16,932,048 and \$9,570,213 at June 30, 2024 and 2023, respectively. There was no debt associated with operations at June 30, 2024 and 2023.

Cash and Cash Equivalents

Cash and cash equivalents represent highly liquid investments with an original maturity date not exceeding 90 days.

Notes and Accounts Receivable, Net

Student accounts receivable are recorded net of allowance for credit losses. Other items included are notes receivable from employees and faculty, grants receivable from federal and state agencies and receivables from unrelated individuals, companies and organizations. The University offers Income Share agreements (ISA). Detailed in Note 3, ISAs are a 0% interest agreement different from a loan or a conventional tuition payment plan. Under an ISA, a student is required to pay a fixed percentage of their earned income each month for a fixed period of time. ISA payments are only required when the borrower's gross income exceeds certain thresholds. The total amount paid may be less than or equal to the ISA amount and will vary in proportion to future earned income.

Allowance for Credit Losses

The University recognizes an allowance for credit losses for its receivables arising from reciprocal transactions to present the net amount expected to be collected as of the statements of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and also future events. The University pools these receivables based on similar risk characteristics in estimating expected credit losses. In situations where a receivable does not share the same risk characteristics with other receivables, the University measures those receivables individually. Receivables are written off when the University determines that such receivables are deemed uncollectible.

The University utilizes the aging method in determining its lifetime expected credit losses on accounts receivable and the roll rate method in determining its lifetime expected credit losses on income share agreements. In determining its loss rates, the University evaluates information related to its historical losses, adjusted for current conditions and further adjusted for the period of time that can be reasonably forecasted. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all the following: past due receivables, payor type, and the effect of other external forces, such as economic conditions and legal and regulatory requirements, on the level of estimated credit losses in the existing receivables. The allowance for credit losses was \$1,450,000 as of June 30, 2024. As of June 30, 2023, prior to the adoption of ASU No. 2016-13, an allowance for doubtful accounts for such receivables of \$1,309,913 was recorded.

Messiah University

Notes to Financial Statements
June 30, 2024 and 2023

Loans Receivable, Students

The student loans receivable primarily represents loans to students funded by advances to the University by the federal government under the Perkins and Nursing Student Loan Programs (the Programs). Nursing funds may be re-loaned by The University after collection. The Perkins loan program expired on September 30, 2017; after June 30, 2018, no new loans were permitted. Institutions are permitted to liquidate all Perkins loans or continue to service all or some of its outstanding Perkins loans. The University is continuing to service its Perkins loans during this wind-down period. Per federal directive, the University has assessed its loan portfolio to identify loans which must be assigned to the federal government according to its criteria. Following the final wind-down of the Perkins loan program, the federal amounts provided are refundable to the federal government.

The federal government's portion of these funds at June 30, 2024 and 2023 was \$796,121 and \$972,445, respectively.

Promises to Give, Net

Unconditional promises to give (pledges) are recorded as receivables and revenues. The University distinguishes between contributions received for each net asset category in accordance with any donor-imposed restrictions. Revocable pledges are reviewed based on collectability and factors such as giving history and relationships with the donor. Pledges that rise to the level of promises to give are included with the recorded receivables.

Contributions for donor-restricted purposes (other than capital) are reported as revenues without donor restrictions when the restriction is satisfied within the same year that the contribution is received. Contributions with donor-imposed restrictions (for purposes other than capital and those to be held in perpetuity) that are not met in the same year as received are reported as revenues with donor restrictions (time and purpose restrictions) and are reclassified to net assets without donor restrictions when an expenditure is incurred that satisfies the donor-imposed restriction.

Contributions restricted for the acquisition of plant and equipment (capital) are reported as revenues with donor restrictions and are reclassified to net assets without donor restrictions when the asset acquisitions are placed in service.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at their net present value. The discount is computed using a credit-adjusted interest rate. Conditional promises to give are not recorded until such time as the conditions are substantially met.

Inventories

Inventories are valued at the lower of cost or net realizable value on a first-in, first-out basis. Inventories consist of dining services, Messiah Press, postage and facilities supplies.

Messiah University

Notes to Financial Statements

June 30, 2024 and 2023

Investments

The majority of investments held by the University are reported at fair value. The fair values of private equity and real asset-based fund investments (alternative investments) have been estimated using the net asset value of the University's ownership interest in partner's capital. The University reports its investment in a real estate development company using the equity method. Adjustments to reflect increases or decreases in fair value, referred to as unrealized gains and losses, are reported in the statements of activities. The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized and unrealized gains and losses arising from the sale or appreciation (depreciation) in fair value of investments, and all income from investments, are reported as changes in net assets without restrictions unless their use is restricted by explicit donor-imposed stipulations, or by law.

Deposits With Trustee

Deposits with trustee under debt agreements, restricted at June 30, 2024 consist of cash and money market funds from unspent bond proceeds.

Property and Equipment, Net

Physical plant and equipment are stated at cost when purchased, and gifts of plant assets are reflected at fair value when received. The University's policy is to capitalize property and equipment costing greater than \$3,000 for a single item and \$5,000 for a bundled purchase. Land, buildings, equipment and furniture are stated at cost less accumulated depreciation which is computed on a straight-line basis over the respective estimated useful lives as follows:

Building and improvements	10 - 40 years
Leasehold improvements	5 - 12 years
Equipment	4 - 20 years
Furniture	4 - 20 years

As permitted by accounting principles generally accepted in the United States of America (GAAP), the University does not generally capitalize its museum and art collections. The University's intention is to preserve the archives and use them as a resource for students of the University.

Impairment of Long-Lived Assets

Management of the University reviews long-lived assets (including property and equipment and other assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management considers the undiscounted cash flow expected to be generated by the use of the asset and its eventual disposition to determine when, and if, an impairment has occurred. An impairment loss is recognized to the extent that the carrying value of assets exceeds their fair value. Write-downs due to impairment are charged to operations at the time a material impairment is identified. No such write-downs were required in 2024 and 2023.

Leases

The University has entered into a variety of leases for office and classroom space, copiers and other equipment. Effective July 1, 2020, the University adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* (as amended). Under the provisions of Topic 842, a lessee is required to recognize a right-of-use asset and lease liability, initially measured at the present value of the remaining lease payments, in the statements of financial position. The obligations associated with these leases have been recognized as a liability in the statements of financial position based on future lease payments, discounted by the incremental borrowing rate. The University makes certain assumptions and judgements in determining the discount rate, as most leases do not provide an implicit rate. The University uses their incremental borrowing rate for collateralized borrowing based on information available at the commencement date in determining the present value of lease payments. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the leasing activities.

The University also elected the package of practical expedients, which permits the University to not reassess prior conclusions about lease identification, classification and initial direct costs and not separating lease and nonlease components. In addition, the University elected the short-term lease recognition exemption for all leases that qualify under Topic 842.

Lease terms may include options to extend or terminate certain leases. Any such option is reflected in the valuation if it is reasonably certain an option to extend or terminate will be exercised.

The University has certain leases that are for periods of 12 months or less. Leases with an initial term of 12 months or less are not recorded on the statements of financial position since the University has elected the practical expedient to exclude these leases from right-of-use asset and lease liabilities. Short-term lease expenses are recognized on a straight-line basis over the lease term as an operating expense.

Annuity and Trust Funds

The University has entered into split-interest agreements with donors primarily consisting of charitable gift annuities and charitable trusts. Assets for which the University serves as trustee are included in assets held in trust. Contribution revenues are recognized at the date the annuities and trusts are established after recording liabilities for the present value of the estimated future annuity payments to be made to the donors and/or other beneficiaries. Such revenues are recorded as increases in net assets with donor restrictions unless the donor has given the University the right to use such assets without restriction. Changes in the value of the associated liabilities are recorded within "change in value of split-interest agreements" throughout the term of the agreements to reflect the current estimated present value of future cash outflows. Contributions arising from split interest agreements amounted to \$73,824 and \$202,510 for the years ended June 30, 2024 and 2023, respectively.

The University is also a beneficiary of certain perpetual trusts held and administered by others. Under the terms of the trust agreements, the University has the irrevocable right to receive a portion of the income earned on trust assets in perpetuity, but never receives the assets held in the trusts. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established.

Revenue Recognition

Tuition and fee revenue is recognized over time in the fiscal year in which the associated academic programs are delivered. Sales and services of auxiliary enterprises revenue, which consists of room and board and related services, is recognized when the related service is provided or performed. Tuition and fee and auxiliary enterprise contracts are considered to have a duration of less than one year.

Transaction prices for tuition, fees, room and board are determined based on applicable University pricing schedules. Institutional financial aid and discounts provided by the University are reflected as a reduction of tuition and fee revenue, with the exception of specifically identified auxiliary discounts such as room grants, which are reflected as a reduction in auxiliary revenue. The University awards grants-in-aid and scholarships to individuals who meet the University's academic standards. The amounts of such awards are based upon the financial needs and/or merit of each applicant. Scholarships and discounts applied to tuition and fee revenue amounted to \$46,320,074 and \$44,144,875 for the years ended June 30, 2024 and 2023, respectively.

Amounts are due for tuition, fees, room and board at the beginning of each semester or in full during the semester if participating in an approved payment plan which allows for multiple installments. In accordance with the University's refund policies, undergraduate students may receive a full or partial refund as specified in the undergraduate refund chart. Graduate students may receive a full or partial refund as specified in the graduate refund policy. Student accounts receivable includes amounts to which the University is unconditionally entitled; the University considers such amounts as unconditional based on the payment due date.

Student-related deferred revenue for billed services not yet performed totaled approximately \$1,018,000 at June 30, 2024, and consists primarily of amounts related to 2024 summer sessions. The University's student deposits at June 30, 2024 include amounts collected but not yet earned of approximately \$1,455,000. These amounts will be recognized as revenue in fiscal 2025 as academic services are provided.

Student-related deferred revenue for billed services not yet performed totaled approximately \$1,010,000 at June 30, 2023, and consists primarily of amounts related to 2023 summer sessions. The University's student deposits at June 30, 2023 include amounts collected but not yet earned of approximately \$1,388,000. These amounts were recognized as revenue in fiscal 2024 as academic services were provided.

Most private and government grants and appropriations received by the University are deemed to be nonexchange (nonreciprocal) transactions under the contribution accounting guidance. Under this guidance, revenue related to conditional grants and contracts is recorded when the conditions are met. Most grants and contracts are on a cost reimbursement basis and require the University incur eligible expenses prior to the release of funds. The University reports these grants and contracts as changes in net assets without donor restrictions when restrictions are met in the same period.

From time to time the University receives private grants and contracts that are exchange (reciprocal) transactions. The performance obligation for each grant or contract is deemed to be the research itself and revenue is recognized as the eligible grant activities are conducted. Transaction prices are based on budgets in the award agreement. Exchange contracts are not significant to the University's financial statements.

Functional Allocation of Certain Expenses

The statements of activities present expenses by functional classification. Depreciation of plant assets, interest on long-term debt and expenses incurred for the operation and maintenance of plant facilities are allocated to program and supporting activities based upon proportional occupancy of campus buildings. A summary of functional and natural classification is available at Note 14.

Fundraising Costs

The University expenses fundraising costs when incurred. Fundraising costs were approximately \$1,705,000 and \$1,712,000 for the years ended June 30, 2024 and 2023, respectively, and are included in institutional support in the statements of activities.

Use of Estimates

The preparation of the financial statements in conformity with GAAP 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 and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Subsequent Events

The University evaluated subsequent events for recognition or disclosure through October 29, 2024, the date the financial statements were issued.

Accounting Standards Adopted in the Current Year

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. For financial instruments included in the scope, the CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses.

The methodology replaces the multiple existing impairment methods in current GAAP which generally require that a loss be incurred before it is recognized. On July 1, 2023, the University adopted the ASU using the modified retrospective approach. The adoption of ASU 2016-13 had an insignificant impact on the financial statements for the year ended June 30, 2024 beyond expanded disclosures.

2. Cash and Cash Equivalents

The University maintains cash balances in high credit financial institutions in excess of the federally insured limit under the Federal Deposit Insurance Corporation (FDIC). The exposure of the University to uninsured balances as of June 30, 2024 and 2023 was approximately \$5,081,000 and \$2,729,000, respectively. Historically, the University has not experienced any losses and management believes it is not exposed to any significant credit risk.

Messiah University

Notes to Financial Statements
June 30, 2024 and 2023

3. Notes and Accounts Receivable, Net

Notes and accounts receivable consist of the following as of June 30:

	<u>2024</u>	<u>2023</u>
Student balances	\$ 2,668,652	\$ 2,280,393
Student income share agreements	4,299,405	3,094,620
Employees and faculty	139,720	144,709
University-related organizations	2,202	1,955
Federal and state agencies	1,199,530	1,149,901
Other unrelated individuals, companies and organizations	1,300,719	587,045
Subtotal	9,610,228	7,258,623
Allowance for credit losses	(1,100,000)	(1,150,000)
Income Share Agreement allowance for credit losses	(350,000)	(159,913)
Notes and accounts receivable, net	<u>\$ 8,160,228</u>	<u>\$ 5,948,710</u>

4. Promises to Give, Net

Included in promises to give are the following unconditional promises to give as of June 30:

	<u>2024</u>	<u>2023</u>
Capital campaign	\$ 3,453,716	\$ 4,242,381
Endowed scholarships	179,080	267,737
Other promises to give	726,199	459,786
Unconditional promises to give, before unamortized discount	4,358,995	4,969,904
Unamortized discount	(297,729)	(335,467)
Present value of pledges receivable	<u>\$ 4,061,266</u>	<u>\$ 4,634,437</u>
Amounts due in:		
Less than one year	\$ 2,372,648	\$ 2,936,167
One to five years	1,736,347	1,783,737
More than five years	250,000	250,000
Total	<u>\$ 4,358,995</u>	<u>\$ 4,969,904</u>

Discount rates ranged from 0.29% to 4.33% for the years ended June 30, 2024 and 2023.

All promises to give are reviewed by management and evaluated for collectability when received. Promises to give that are deemed uncollectible are not recognized. As such, the University considers the entire amount to be collectible.

Messiah University

Notes to Financial Statements
June 30, 2024 and 2023

5. Investments, Fair Value Measurements and Other Financial Instruments

Investments consist of the following as of June 30:

	2024			
	Endowment	Gift Annuities and Trusts	Other	Total
Money market accounts	\$ 4,116,156	\$ 174,061	\$ 1,767,162	\$ 6,057,379
Equity funds and common stocks	60,147,165	4,666,165	558,790	65,372,120
Fixed income	51,016,770	2,048,740	12,321,019	65,386,529
Private equity and venture capital	5,073,081	-	-	5,073,081
Accrued net income receivable	854,563	-	411	854,974
Local real estate development company, including real estate	10,877,596	-	-	10,877,596
Real asset-based funds	13,089	-	20,545	33,634
Total investments	<u>\$ 132,098,420</u>	<u>\$ 6,888,966</u>	<u>\$ 14,667,927</u>	<u>\$ 153,655,313</u>
	2023			
	Endowment	Gift Annuities and Trusts	Other	Total
Money market accounts	\$ 6,235,684	\$ 171,300	\$ 8,445,772	\$ 14,852,756
Equity funds and common stocks	42,124,142	4,737,802	453,436	47,315,380
Fixed income	60,041,292	1,495,295	9,411,162	70,947,749
Private equity and venture capital	5,705,173	-	-	5,705,173
Accrued net income receivable	761,432	-	363	761,795
Local real estate development company, including real estate	11,478,405	-	-	11,478,405
Real asset-based funds	12,786	-	833	13,619
Total investments	<u>\$ 126,358,914</u>	<u>\$ 6,404,397</u>	<u>\$ 18,311,566</u>	<u>\$ 151,074,877</u>

Fair Value Measurements

Fair value is defined as 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 is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

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Notes to Financial Statements
June 30, 2024 and 2023

The following tables present the assets measured at fair value as of June 30, 2024 and 2023 by caption on the statements of financial position by the valuation hierarchy defined above:

	2024			
	Total Fair Value	Level 1	Level 2	Level 3
Reported at fair value:				
Money market accounts	\$ 6,057,379	\$ 6,057,379	\$ -	\$ -
Equity funds and common stocks:				
Domestic	55,545,998	55,545,998	-	-
International	8,699,075	8,699,075	-	-
Emerging markets	476,713	476,713	-	-
Other	650,334	650,334	-	-
Total equity funds and common stocks	65,372,120	65,372,120	-	-
Fixed income:				
Intermediate term bond mutual funds	60,139,668	60,139,668	-	-
Global fixed income funds	1,098,822	1,098,822	-	-
Inflation-protected bond mutual funds	207,016	207,016	-	-
Fixed, high yield funds	403,676	403,676	-	-
Government and agency bonds	1,046,678	1,046,678	-	-
Municipal bonds	1,073,634	-	1,073,634	-
Bond fund (including convertibles and other)	1,417,035	1,417,035	-	-
Total fixed income	65,386,529	64,312,895	1,073,634	-
Accrued net income receivable	854,974	854,974	-	-
Subtotal	137,671,002	136,597,368	1,073,634	-
Alternative investments measured at net asset value:				
Private equity and venture capital	5,073,081	-	-	-
Real asset, based funds	33,634	-	-	-
Total investments and assets held in trust (a)	142,777,717	136,597,368	1,073,634	-
Beneficial interest in perpetual trusts	4,123,431	-	-	4,123,431
	<u>\$ 146,901,148</u>	<u>\$ 136,597,368</u>	<u>\$ 1,073,634</u>	<u>\$ 4,123,431</u>

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Notes to Financial Statements
June 30, 2024 and 2023

	2023			
	Total Fair Value	Level 1	Level 2	Level 3
Reported at fair value:				
Money market accounts	\$ 14,852,756	\$ 14,852,756	\$ -	\$ -
Equity funds and common stocks:				
Domestic	42,367,510	42,367,510	-	-
International	3,936,367	3,936,367	-	-
Emerging markets	358,721	358,721	-	-
Other	652,782	652,782	-	-
Total equity funds and common stocks	47,315,380	47,315,380	-	-
Fixed income:				
Intermediate term bond mutual funds	62,936,169	62,936,169	-	-
Global fixed income funds	1,630,935	1,630,935	-	-
Inflation-protected bond mutual funds	236,129	236,129	-	-
Fixed, high yield funds	239,442	239,442	-	-
Government and agency bonds	4,022,659	4,022,659	-	-
Municipal bonds	1,073,406	-	1,073,406	-
Bond fund (including convertibles and other)	809,009	809,009	-	-
Total fixed income	70,947,749	69,874,343	1,073,406	-
Accrued net income receivable	761,795	761,795	-	-
Subtotal	133,877,680	132,804,274	1,073,406	-
Alternative investments measured at net asset value:				
Private equity and venture capital	5,705,173	-	-	-
Real asset, based funds	13,619	-	-	-
Total investments and assets held in trust (a)	139,596,472	132,804,274	1,073,406	-
Beneficial interest in perpetual trusts	3,920,744	-	-	3,920,744
	<u>\$ 143,517,216</u>	<u>\$ 132,804,274</u>	<u>\$ 1,073,406</u>	<u>\$ 3,920,744</u>

- (a) Investments also include member interests in a local real estate development company, totaling \$10,877,596 and \$11,478,405 at June 30, 2024 and 2023, respectively, including real estate. The University is the sole member of this corporation, which has an independent board. Activity included capital contributions by the University to the real estate development company of \$125,000 and \$225,000 during the years ended June 30, 2024 and 2023, respectively. The University reports its investment in the real estate development company using the equity method. In fiscal 2019, the real estate development company obtained taxable bonds to fund its construction projects, with a guarantee from the University to make principal and interest payments, if necessary, through the final maturity of the bonds. The outstanding principal bond balance is \$57,490,000 as of June 30, 2024. Since inception, the real estate development company has met all its debt service payment requirements on this borrowing.

Valuation Methodologies

Level 1 - Fair value of money market accounts, equity funds, common stock and fixed income securities was based on quoted market prices for the identical security.

Level 2 - Municipal bonds are valued based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 - Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

Beneficial interest in perpetual trusts - The University's beneficial interest in perpetual trusts held by others is based on the fair value of the trusts' holdings as reported by the trustees as an estimate of the cash flows to be received from the trusts. This is considered a Level 3 measurement because even though the measurement is based on the underlying fair value of the trust assets as reported by the trustees, the University will never receive those assets, or have any ability to direct the trustee to redeem them. The University's proportionate share of the net asset values of funds held in trust by others as of June 30, 2024 and 2023 were \$4,123,431 and \$3,920,744, respectively.

Hedge funds, private equity and venture capital, and real asset-based funds - Fair value of these alternative investments was based upon estimated net asset values provided by investment managers. The University measures the fair value of an investment that does not have a readily determinable fair value based on the net asset value of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the net asset value. These values are determined using the audited financial statements of the investment and evaluating any cash flows or outflows post-audit. Management reviews and evaluates the values and agrees with the methods and assumptions used.

There were no changes in the valuation methodologies during the years ended June 30, 2024 and 2023.

The fair values of several of the investment instruments above have been estimated using the net asset value of the University's ownership interest in partner's capital. Those are:

Private equity and venture capital: This category includes funds that invest primarily in technology, emerging growth and real estate companies. These investments can never be redeemed at the option of the investor. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets of the various funds will be liquidated over the next two years. As of June 30, 2024, the University has committed \$14,080,000 to these funds, of which approximately \$811,500 remains unfunded.

Real asset-based funds: This category includes funds that invest primarily in commercial real estate properties and partnerships in the United States. Distributions from each fund will be received as the underlying investments of the funds are liquidated. As of June 30, 2024, the University has committed \$1,000,000 to the funds, of which \$180,000 remains unfunded.

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Notes to Financial Statements
June 30, 2024 and 2023

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30:

	2024			Total
	Without Donor Restrictions	With Donor Restrictions		
		Restricted, Time and Purpose	Restricted, in Perpetuity	
Dividends and interest, net of expense	\$ 4,114,763	\$ 1,699,293	\$ 112,782	\$ 5,926,838
Net realized and unrealized gains	4,698,560	2,988,633	655,022	8,342,215
Total return on investments	<u>\$ 8,813,323</u>	<u>\$ 4,687,926</u>	<u>\$ 767,804</u>	<u>\$ 14,269,053</u>
Operating investment income:				
Endowment return designated for operations	\$ 4,834,600	\$ 2,652,800	\$ -	\$ 7,487,400
Investment income	1,834,899	63,740	-	1,898,639
Nonoperating investment income:				
Endowment investment return, net of amount designated for operations	2,011,683	1,900,485	-	3,912,168
Change in value of beneficial interest in perpetual trusts	-	-	202,688	202,688
Investment return for trusts and gift annuities	132,141	70,901	565,116	768,158
Total return on investments	<u>\$ 8,813,323</u>	<u>\$ 4,687,926</u>	<u>\$ 767,804</u>	<u>\$ 14,269,053</u>

Messiah University

Notes to Financial Statements
June 30, 2024 and 2023

	2023			
	Without Donor Restrictions	With Donor Restrictions		Total
		Restricted, Time and Purpose	Restricted, in Perpetuity	
Dividends and interest, net of expense	\$ 3,751,192	\$ 1,757,410	\$ 93,732	\$ 5,602,334
Net realized and unrealized gains	260,413	370,704	373,769	1,004,886
Total return on investments	\$ 4,011,605	\$ 2,128,114	\$ 467,501	\$ 6,607,220
Operating investment income:				
Endowment return designated for operations	\$ 4,989,184	\$ 2,552,900	\$ -	\$ 7,542,084
Investment income	1,271,099	82,393	-	1,353,492
Nonoperating investment income:				
Endowment investment return, net of amount designated for operations	(2,325,863)	(557,635)	-	(2,883,498)
Change in value of beneficial interest in perpetual trusts	-	-	103,663	103,663
Investment return for trusts and gift annuities	77,185	50,456	363,838	491,479
Total return on investments	\$ 4,011,605	\$ 2,128,114	\$ 467,501	\$ 6,607,220

6. Property and Equipment, Net

Property and equipment consist of the following as of June 30:

	2024			
	Useful Lives	Acquired Value	Less Accumulated Depreciation	Net Book Value
Land		\$ 2,724,531	\$ -	\$ 2,724,531
Improvements	20 years	20,013,433	16,498,721	3,514,712
Buildings	10 - 40 years	274,812,729	163,291,364	111,521,365
Leasehold improvements	5 - 12 years	2,871,191	1,699,169	1,172,022
Equipment	4 - 20 years	88,417,919	81,124,283	7,293,636
Construction in progress		5,801,697	-	5,801,697
		\$ 394,641,500	\$ 262,613,537	\$ 132,027,963

Messiah University

Notes to Financial Statements
June 30, 2024 and 2023

2023				
	Useful Lives	Acquired Value	Less Accumulated Depreciation	Net Book Value
Land		\$ 2,726,640	\$ -	\$ 2,726,640
Improvements	20 years	19,984,724	15,962,056	4,022,668
Buildings	10 - 40 years	270,486,505	155,084,581	115,401,924
Leasehold improvements	5 - 12 years	2,871,191	1,456,882	1,414,309
Equipment	4 - 20 years	86,487,155	79,020,965	7,466,190
Construction in progress		2,631,221	-	2,631,221
		<u>\$ 385,187,436</u>	<u>\$ 251,524,484</u>	<u>\$ 133,662,952</u>

Depreciation expense totaled \$11,195,280 and \$11,435,627 for the years ended June 30, 2024 and 2023, respectively.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at June 30:

	2024	2023
Accounts payable	\$ 1,602,978	\$ 1,633,101
Construction payable	2,859,361	854,490
Accrued salaries and benefits	3,723,455	3,346,217
Other	765,285	651,400
Total	<u>\$ 8,951,079</u>	<u>\$ 6,485,208</u>

8. Lines of Credit

The University has an unsecured line of credit with a national bank that renews annually in the amount of \$10,000,000 during the years ending June 30, 2024 and 2023. A regional bank line of credit in the amount of \$15,000,000 was closed by the University on July 12, 2023. The line of credit for 2024 bears interest at 1.76% above one-month term Secured Overnight Financing Rate (SOFR) with an interest period duration of one day (5.334% at June 30, 2024). There were no amounts outstanding under either line of credit as of June 30, 2024 or 2023.

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Notes to Financial Statements
June 30, 2024 and 2023

9. Long-Term Debt

Long-term debt consists of the following as of June 30:

	<u>2024</u>	<u>2023</u>
2014 Messiah University Multi-Mode Revenue Bonds	\$ -	\$ 4,500,000
2015 Messiah University Revenue Bonds	11,385,000	11,385,000
2016 Messiah University Revenue Bonds	16,655,000	16,655,000
2018 Messiah University Revenue Bonds	5,500,000	5,500,000
2020 SS2 Messiah University Revenue Bonds	7,415,000	7,415,000
2020 SS3 Messiah University Revenue Bonds	20,010,000	22,080,000
2024 Messiah University Revenue Bonds	12,735,000	-
Total	73,700,000	67,535,000
Unamortized discount and issuance costs on bonds payable, net	<u>(1,986,936)</u>	<u>(1,141,710)</u>
	<u>\$ 71,713,064</u>	<u>\$ 66,393,290</u>

2014 Messiah University Multi-Mode Revenue Bonds

A refunding of the 2014 Multi-Mode Revenue Bonds took place in April 2024 in conjunction with the issuance of the 2024 Revenue Bonds. The 2014 Multi-Mode Revenue Bonds were initially issued with a coupon rate of 3.00% for a three-year period at an original issue premium. On April 26, 2022, the bonds were remarketed at a two-year term mode with an interest rate of 3.15% through April 30, 2024. The University recognized a gain on refunding of bonds of \$89,112 for the year ended June 30, 2024. The bonds were secured by a lien on the University's revenues without donor restrictions and the loan agreement between the University and the issuer of the bonds contained a rate covenant.

Bond premiums and issuance costs relating to the 2014 Revenue Bonds were amortized over the term of the bonds on a straight-line basis. The unamortized net premium amounted to \$0 and \$93,605 as of June 30, 2024 and 2023, respectively.

2015 Messiah University Revenue Bonds

The 2015 Revenue Bonds have interest rates ranging from 3.375% to 4.00% with principal maturing in various amounts from November 1, 2029 through November 1, 2046. The bonds are secured by a lien on the University's revenues without donor restrictions and the loan agreement between the University and the issuer of the bonds contains a rate covenant.

Bond discount and issuance costs relating to the 2015 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net discount amounted to \$288,224 and \$301,949 as of June 30, 2024 and 2023, respectively.

2016 Messiah University Revenue Bonds

The 2016 Revenue Bonds have interest rates ranging from 3.00% to 3.25% with principal maturing in various amounts from November 1, 2032 through November 1, 2046. The bonds are secured by a lien on the University's revenues without donor restrictions and the loan agreement between the University and the issuer of the bonds contains a rate covenant.

Bond discount and issuance costs relating to the 2016 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net discount amounted to \$469,208 and \$491,551 as of June 30, 2024 and 2023, respectively.

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Notes to Financial Statements
June 30, 2024 and 2023

2018 Messiah University Revenue Bonds

The 2018 Revenue Bonds have interest rates ranging from 5.00% to 5.25% with principal maturing in 2048. The bonds are subject to a mandatory sinking fund redemption prior to maturity beginning in 2033. The bonds are secured by a lien on the University's revenues without donor restrictions and the loan agreement between the University and the issuer of the bonds contains a rate covenant.

Bond premiums and issuance costs relating to the 2018 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net premium amounted to \$351,212 and \$365,845 as of June 30, 2024 and 2023, respectively.

2020 Messiah University Revenue Bonds

The 2020 SS2 Revenue Bonds have an interest rate of 3.25%, with the principal maturing in various amounts from November 1, 2048 through November 1, 2050. The 2020 SS3 Revenue Bonds have interest rates ranging from 1.575% to 3.00%, with principal maturing in various amounts from November 1, 2022 through November 1, 2034. The bonds are secured by a lien on the University's revenues without donor restrictions and the loan agreement between the University and the issuer of the bonds contains a rate covenant.

Bond discounts and issuance costs relating to the 2020 SS2 and SS3 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net discount amounted to \$777,746 and \$807,660 as of June 30, 2024 and 2023, respectively.

2024 Messiah University Revenue Bonds

In April 2024, the University issued its \$12,735,000 Revenue Bonds (AICUP Financing Program - Messiah University Project), Series 2024, through the Cumberland County Municipal Authority. The bonds have interest rates ranging from 4.00% to 4.375%, with principal maturing in various amounts from May 1, 2033 through May 1, 2044. Proceeds from the bond issuance were used to pay off the 2014 Multi-Mode Revenue Bonds and fund various construction projects on campus. The bonds are secured by a lien on the University's revenues without donor restrictions and the loan agreement between the University and the issuer of the bonds contains a rate covenant.

Bond discounts and issuance costs relating to the 2024 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net discount amounted to \$802,970 as of June 30, 2024.

The approximate aggregate amount of principal maturities of debt outstanding as of June 30, 2024 for the five subsequent fiscal years follows:

2025	\$ 2,105,000
2026	2,150,000
2027	2,195,000
2028	2,245,000
2029	2,300,000
Thereafter	<u>62,705,000</u>
Total	<u>\$ 73,700,000</u>

Interest expense on long-term debt was \$2,057,665 in 2024 and \$2,165,740 in 2023, net of capitalized interest of \$125,979 and \$0, respectively.

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June 30, 2024 and 2023

10. Retirement Plan

The University provides retirement benefits to eligible employees through a defined contribution plan. The University made retirement contributions of \$2,410,306 and \$2,388,993 for the years ended June 30, 2024 and 2023, respectively.

11. Liquidity and Availability of Resources

The following reflects the University's financial assets as of the statements of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statements of financial position date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the statements of financial position date have not been subtracted as unavailable. In addition, the University invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the University has committed lines of credit, which it could have drawn upon at \$10,000,000 through June 30, 2024 and \$25,000,000 at June 30, 2023.

	<u>2024</u>	<u>2023</u>
Total assets	\$ 322,303,436	\$ 310,845,655
Less nonfinancial assets	<u>(138,022,778)</u>	<u>(139,173,565)</u>
Financial assets, year-end	<u>\$ 184,280,658</u>	<u>\$ 171,672,090</u>

Nonfinancial assets include inventories, prepaid expenses and other assets, property and equipment, and right-of-use assets.

Financial assets available to meet general expenditures over the next 12 months:

	<u>2024</u>	<u>2023</u>
Cash and equivalents	\$ 5,908,844	\$ 4,877,439
Notes and accounts receivable, net	8,160,228	5,948,710
Promises to give, net without restriction and due in one year or less	572,175	58,216
Investments other (without donor or Board restrictions)	<u>14,667,927</u>	<u>18,311,566</u>
	29,309,174	29,195,931
Less restricted or designated resources	<u>(12,067,816)</u>	<u>(12,604,536)</u>
Total financial assets available to meet general expenditures over the next 12 months	17,241,358	16,591,395
Bank lines of credit	<u>10,000,000</u>	<u>25,000,000</u>
Total financial assets and liquidity resources	<u>\$ 27,241,358</u>	<u>\$ 41,591,395</u>

The University's practice is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

The University is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the University must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

In addition, the University invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the University has a committed line of credit which it could draw upon. Additionally, the University has a quasi-endowment of approximately \$81.4 million and \$79.0 million at June 30, 2024 and 2023, respectively. Although the University does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary. However, both the quasi-endowment and donor-restricted endowments contain investments with provisions that would reduce the total investments that could be made available (see Note 12 for disclosures about the endowment). The University has unsecured lines of credit with national and regional banks in the amount of \$10 million and \$25 million as of June 30, 2024 and 2023, respectively.

12. Endowment and Net Assets Released From Restrictions

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

The Board of the University has developed a policy requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation of Pennsylvania law, the University classifies as net assets with donor restrictions, restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 the donor-restricted endowment fund that is not classified in net assets with donor restrictions, restricted in perpetuity is classified as either net assets with donor restrictions, restricted by time or purpose or without donor restrictions based on the existence of donor restrictions or by law. Board-designated investment funds are balances functioning as an endowment that are established by the University from either donor or institutional monies and are usually to be retained and invested rather than expended. Since Board-designated investment funds are established by the University rather than an external source, the principal may be expended, as directed by the Board.

The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the University and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the University
- (7) The investment policies of the University

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The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the sum of the endowment's spending rate, anticipated inflation, all fees and administrative costs, and any portfolio growth factor that the Committee on Finance recommends to the Board, while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average rate of return of approximately 7.5% annually. Actual returns in any given year may vary from this amount.

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 capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

Commonwealth of Pennsylvania law permits the University to allocate to income each year a portion of its endowment. Pennsylvania legislation was enacted which limited the amount that may be spent to a minimum of 2.0%, and a maximum of 7.0% of a three-year moving average of the fair value of the donor restricted endowed assets. Since endowment net realized and unrealized gains may eventually be expended by the University, donor endowment net realized and unrealized gains are recorded in the financial statements as net assets with restrictions until transferred to net assets without donor restrictions. For the years ended June 30, 2024 and 2023, the University's spending policy was 5.0% of the 12-quarter average fair market value of the donor endowed assets calculated as of the prior June 30. Based upon this formula, total distributed income on donor-restricted funds for the years ended June 30, 2024 and 2023 amounted to \$2,652,800 and \$2,552,900, respectively.

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

	2024			
	Without Donor Restrictions	With Donor Restrictions		Total
		Restricted, Time and Purpose	Restricted, in Perpetuity	
Endowment net assets, July 1, 2023	\$ 79,044,585	\$ 5,639,946	\$ 41,917,255	\$ 126,601,786
Investment return:				
Dividends and interest, net of expense	2,508,417	1,523,970	-	4,032,387
Net realized and unrealized gains	4,337,866	3,029,315	-	7,367,181
Total investment return	6,846,283	4,553,285	-	11,399,568
Contributions	-	-	1,551,733	1,551,733
Other changes:				
Transfers	369,245	(184,562)	51,229	235,912
Endowment spending	(4,834,600)	(2,652,800)	-	(7,487,400)
Total other changes	(4,465,355)	(2,837,362)	51,229	(7,251,488)
Endowment net assets, June 30, 2024	\$ 81,425,513	\$ 7,355,869	\$ 43,520,217	\$ 132,301,599

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	2023			
	Without Donor Restrictions	With Donor Restrictions		Total
		Restricted, Time and Purpose	Restricted, in Perpetuity	
Endowment net assets, July 1, 2022	\$ 80,917,588	\$ 6,422,796	\$ 40,255,441	\$ 127,595,825
Investment return:				
Dividends and interest, net of expense	2,658,324	1,551,556	-	4,209,880
Net realized and unrealized gains	4,997	443,709	-	448,706
Total investment return	2,663,321	1,995,265	-	4,658,586
Contributions	-	-	1,569,908	1,569,908
Other changes:				
Transfers	452,860	(225,215)	91,906	319,551
Endowment spending	(4,989,184)	(2,552,900)	-	(7,542,084)
Total other changes	(4,536,324)	(2,778,115)	91,906	(7,222,533)
Endowment net assets, June 30, 2023	<u>\$ 79,044,585</u>	<u>\$ 5,639,946</u>	<u>\$ 41,917,255</u>	<u>\$ 126,601,786</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration (i.e., underwater endowments). At June 30, 2024, underwater funds reported in net assets with donor restrictions were \$286,954. At June 30, 2023, underwater funds reported in net assets with donor restrictions were \$814,608.

	2024				
	Without Donor Restrictions	With Donor Restrictions			Total Funds June 30, 2024
		Original Gift	Accumulated Gains (Losses)	Total	
Board-designated funds	\$ 81,425,513	\$ -	\$ -	\$ -	\$ 81,425,513
Donor-restricted funds:					
Underwater funds	-	11,568,982	(286,954)	11,282,028	11,282,028
Other funds	-	31,951,235	7,642,823	39,594,058	39,594,058
Total endowment funds	<u>\$ 81,425,513</u>	<u>\$ 43,520,217</u>	<u>\$ 7,355,869</u>	<u>\$ 50,876,086</u>	<u>\$ 132,301,599</u>
	2023				
	Without Donor Restrictions	With Donor Restrictions			Total Funds June 30, 2023
		Original Gift	Accumulated Gains (Losses)	Total	
Board-designated funds	\$ 79,044,585	\$ -	\$ -	\$ -	\$ 79,044,585
Donor-restricted funds:					
Underwater funds	-	17,939,860	(814,608)	17,125,252	17,125,252
Other funds	-	23,977,395	6,454,554	30,431,949	30,431,949
Total endowment funds	<u>\$ 79,044,585</u>	<u>\$ 41,917,255</u>	<u>\$ 5,639,946</u>	<u>\$ 47,557,201</u>	<u>\$ 126,601,786</u>

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13. Net Assets

Net assets without donor restrictions included the following as of June 30:

	<u>2024</u>	<u>2023</u>
Unrestricted promises to give	\$ 572,175	\$ 34,248
Annuity funds	582,733	531,494
Loan funds	837,086	837,086
Funds designated for long-term investment in endowment	81,425,513	79,044,585
Net investment in property and equipment	64,252,087	64,271,279
Designated and other funds available for operations	14,560,690	16,555,696
	<u>\$ 162,230,284</u>	<u>\$ 161,274,388</u>

Net assets with donor restrictions, time and purpose included the following as of June 30:

	<u>2024</u>	<u>2023</u>
Unspent balances of restricted gifts:		
The Boyer Center	\$ 27,927	\$ 27,927
School Enrichment	146,421	68,903
Collaboratory (endowment designation)	127,137	123,569
Gender studies (endowment designation)	76,102	73,966
Scholarships and other student assistance	362,837	415,448
Collaboratory (foundation-funded and other sources)	278,870	448,839
Athletic teams	592,108	753,910
Investment Club activities	579,891	523,407
Early Clergy Leadership and Youth Theology	44,286	123,765
Other	1,596,044	1,759,212
Net annuities	309,886	235,265
Capital projects	3,298,689	4,159,030
Market appreciation of donor endowment	7,152,628	5,442,411
	<u>\$ 14,592,826</u>	<u>\$ 14,155,652</u>

Net assets with donor restrictions to be held in perpetuity are restricted as follows as of June 30:

	<u>2024</u>	<u>2023</u>
Investments to be held in perpetuity, the income from which is expendable to support:		
Scholarships and awards	\$ 34,782,670	\$ 33,759,336
Faculty chairs	1,433,687	933,687
Instruction	1,972,621	1,971,974
Faculty development	740,928	727,743
Campus ministries	651,124	637,410
General operations and other purposes	3,762,560	3,624,210
Total principal of donor endowment	43,343,590	41,654,360
Net annuities held in perpetuity	2,096,711	1,887,167
Beneficial interest in perpetual trusts	4,123,431	3,920,744
Pledges and bequests (endowment designation)	176,628	262,896
	<u>\$ 49,740,360</u>	<u>\$ 47,725,167</u>

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Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by the donors.

The income received from net annuities held in perpetuity and perpetual trusts are primarily restricted for scholarships and instruction.

The University aimed to enhance alignment with reporting standards and examined endowed fund agreements as of July 1, 2023. This better aligns the consistency and comparability of its endowment reporting with industry benchmarks.

14. Expenses

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the University. These expenses include depreciation and amortization, interest, information technology support and facilities operations and maintenance. Depreciation and operations and maintenance are allocated based on usage of square footage and interest is allocated based on usage of bond proceeds. Costs of other categories were allocated on estimates of time and effort.

	2024							Total
	Educational Programs Services				Auxiliary Enterprises	Supporting Services, Institutional Support	Physical Plant	
	Instructional	Academic Support	Student Services	Public Service				
Compensation and benefits	\$ 26,217,565	\$ 4,770,118	\$ 10,234,561	\$ 1,651,649	\$ 3,477,767	\$ 12,040,522	\$ 5,101,477	\$ 63,493,659
Services and supplies	3,040,583	1,832,634	5,767,413	1,063,285	485,445	2,668,896	2,061,161	16,919,417
Depreciation and amortization	1,196,458	549,515	2,936,344	6,764	234,311	482,685	5,915,943	11,322,020
Purchases for resale	176,849	3,202	1,893	9,765	4,042,584	328,207	-	4,562,500
Utilities	23,095	22,456	18,736	14,025	71,763	12,737	3,073,303	3,236,115
Insurance, maintenance and supplies	55,238	9,973	97,664	8,073	6,610	1,197,665	1,904,252	3,279,475
Interest	229,488	28,759	677,225	-	236,009	610,210	277,994	2,059,685
Other physical plant	2,695,117	2,621,781	2,108,425	1,613,403	8,378,698	916,706	(18,334,130)	-
	<u>\$ 33,634,393</u>	<u>\$ 9,838,438</u>	<u>\$ 21,842,261</u>	<u>\$ 4,366,964</u>	<u>\$ 16,933,187</u>	<u>\$ 18,257,628</u>	<u>\$ -</u>	<u>\$ 104,872,871</u>
	2023							
	Educational Programs Services				Auxiliary Enterprises	Supporting Services, Institutional Support	Physical Plant	Total
	Instructional	Academic Support	Student Services	Public Service				
Compensation and benefits	\$ 25,174,767	\$ 4,593,986	\$ 10,189,672	\$ 1,504,081	\$ 3,239,416	\$ 11,976,962	\$ 4,777,303	\$ 61,456,187
Services and supplies	3,562,717	1,876,465	5,755,171	961,277	454,334	3,021,095	2,321,192	17,952,251
Depreciation and amortization	1,176,695	607,538	2,787,504	2,241	229,467	428,849	6,249,126	11,481,420
Purchases for resale	269,064	36	3,806	4,781	3,999,319	315,674	-	4,592,680
Utilities	26,317	25,406	21,024	16,462	81,193	13,503	2,934,643	3,118,548
Insurance, maintenance and supplies	63,818	2,634	170,737	17,353	8,119	1,069,662	1,763,201	3,095,524
Interest	273,156	35,438	698,452	-	223,500	649,740	285,454	2,165,740
Other physical plant	2,694,645	2,621,321	2,108,055	1,613,122	8,377,230	916,546	(18,330,919)	-
	<u>\$ 33,241,179</u>	<u>\$ 9,762,824</u>	<u>\$ 21,734,421</u>	<u>\$ 4,119,317</u>	<u>\$ 16,612,578</u>	<u>\$ 18,392,031</u>	<u>\$ -</u>	<u>\$ 103,862,350</u>

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Notes to Financial Statements
June 30, 2024 and 2023

15. Leases

The University has entered into the following lease arrangements:

Operating leases: the University leases office and classroom space, copiers and other equipment. The leases generally have initial lease terms of 2 - 6 years, with one lease having an initial term of 118 months.

Finance leases: The University leases eSports technology and dining equipment. The leases generally have initial lease terms of 2 - 3 years.

Short-term leases: The University has certain leases that are for periods of 12 months or less. Short-term lease expenses are recognized on a straight-line basis over the lease term as an operating expense.

Subsequent to the lease commencement date, the University reassesses lease classification when there is a contract modification that is accounted for as a separate contract, a change in the lease term, or a change in the assessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset or terminate the lease.

The table below summarizes the University's scheduled future minimum lease payments for years ending after June 30, 2024:

	<u>Operating Leases</u>	<u>Finance Leases</u>
Year ending June 30:		
2025	\$ 852,233	\$ 58,987
2026	864,539	58,987
2027	877,571	4,496
2028	834,267	-
2029	149,730	-
Thereafter	18,699	-
Total lease payments	<u>\$ 3,597,039</u>	<u>\$ 122,470</u>

Below is a summary of expenses incurred pertaining to leases during the year ended June 30, 2024:

Finance lease expense:	
Amortization of right-of-use assets	\$ 31,274
Interest on lease liabilities	2,020
Operating lease expense	866,742
Short-term lease expense	555,718
Total lease expense	<u>\$ 1,455,754</u>

The following table presents supplemental information related to leases in 2024:

Weighted-average remaining lease term (in years):	
Operating leases	4.2
Finance leases	2.2
Weighted-average discount rate:	
Operating leases	3.05 %
Finance leases	7.09

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Below is a summary of expenses incurred pertaining to leases during the year ended June 30, 2023:

Operating lease expense	\$ 1,044,197
Short-term lease expense	<u>755,395</u>
Total lease expense	<u>\$ 1,799,592</u>

The following table presents supplemental information related to leases in 2023:

Weighted-average remaining lease term (in years):	
Operating leases	5.0
Weighted-average discount rate:	
Operating leases	2.16 %

16. Commitments Contingencies

The University owns several buildings constructed prior to the passage of the Clean Air Act that may contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The University has recognized an asset retirement obligation of \$2,753,209 and \$2,716,345 for the years ended June 30, 2024 and 2023, and is included in other liabilities on the statement of financial position.

The University committed to several construction projects with a remaining amount of approximately \$3,300,000 at June 30, 2024 for various projects on campus.

The University is involved in various claims and litigation arising out of the normal conduct of its operations. In the opinion of management, the outcome of such claims and litigation will not have a material effect on the University's financial statements.

Amounts received and expended by the University under various federal and state programs (principally related to student financial aid) are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position or result of activities of the University.

The University executed a Guaranty Agreement dated October 1, 2018, pursuant to which the University guaranteed the payment of debt service with respect to \$57,490,000 of Cumberland County Industrial Development Authority (Commonwealth of Pennsylvania) Taxable Revenue Bonds (Rider Musser Development, LLC Project), Series 2018 (the 2018 Taxable Revenue Bonds). The guarantee only secures the debt service obligations with respect to the 2018 Taxable Revenue Bonds and does not secure Rider Musser Development, LLC's obligations with respect to any additional bonds or indebtedness. The guarantee is an unsecured general obligation of the University.

17. Income Taxes

The University qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes.

The University accounts for uncertainties in income taxes in accordance with authoritative guidance, which prescribes a recognition threshold of "more likely than not" to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold at June 30, 2024 and 2023.

The University's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

18. Related-Party Transactions

Members of the University's Board and senior management may, from time to time, be associated, either directly or through interlocking board memberships, with entities doing business with the University. Related-party transactions amounted to \$2,094,470 and \$632,838 at June 30, 2024 and 2023, respectively. The University has a written conflict of interest policy that requires such associations be disclosed in writing on an annual basis and updated as appropriate during the year for officers and trustees. When such associations exist, measures are taken to mitigate any actual or perceived conflict.

The University maintains a deposit account at a regional community bank, where numerous board members serve on the governing bodies of both institutions. Deposits were \$5,267,554 and \$2,844,942 at June 30, 2024 and 2023, respectively.

The financial statements include unsecured pledges receivable from related parties of approximately \$2,474,000 and \$2,734,000 at June 30, 2024 and 2023, respectively. All related-party activity is conducted in accordance with the University's normal policies and procedures during the year for officers, designated employees and trustees.