

## BOARD OF TRUSTEES BUSINESS MEETING MOTION

TITLE OF MOTION:

Acceptance of Annual Audit

ACTION REQUESTED:        \_\_\_FIRST READ    XBOARD VOTE

COMMITTEE RECOMMENDATION:    Finance Committee

MOTION

*On behalf of the Finance Committee, we recommend acceptance of the external audit for the year ended June 30, 2016 as presented.*

PREPARED BY:    NAME        Marc Mathews

TITLE            Vice President for Finance and Business

EMAIL           mmathews@transy.edu

# **TRANSYLVANIA UNIVERSITY**

**COMMUNICATION WITH THOSE CHARGED WITH  
GOVERNANCE AND OTHER MATTERS**

**JUNE 30, 2016**



Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507  
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To the Finance Committee  
Transylvania University  
Lexington, Kentucky

Dear Finance Committee Members:

We have audited the consolidated financial statements of Transylvania University (the University) for the year ended June 30, 2016, and have issued our report thereon dated as of the date of this letter. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter of August 16, 2016. Professional standards also require that we communicate to you the following information related to our audit.

#### **OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS**

As stated in our engagement letter dated March 1, 2016, our responsibility, as described by professional standards, was to express an opinion about whether the consolidated financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our responsibility was to plan and perform the audit to obtain reasonable, but not absolute, assurance that the consolidated financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the University. Such consideration was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. Our audit of the consolidated financial statements does not relieve you or management of your responsibilities.

#### **SIGNIFICANT AUDIT FINDINGS**

##### **QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the University are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the University during the year for which there is a lack of authoritative guidance or consensus. We noted no significant transactions that have been recognized in the consolidated financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based upon management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

Management's estimate of the allowance for doubtful accounts is evaluated on a regular basis and is based upon periodic review of the collectability of the receivables in light of historical experience and various facts and circumstances pertinent to customers.

Management's estimate of the fair value of pledges receivable is based on historical collection rates and an analysis of the collectability of individual pledges. Pledges are discounted to their net realizable value based on the University's current cost of capital in the year of the pledge.

Management's estimate of the future useful lives of fixed assets is based on a reasonable life expectancy that is consistent with previous experience.

Management's estimate of annuity gifts and liabilities is calculated and recorded using the discount rates and estimates of life expectancies of the annuitants as provided by the investment managers.

Management's estimate of unpaid claims at year end for self-funded health coverage is based on claims data for subsequent months and an estimate of amounts incurred but not reported at year end.

We evaluated the key factors and assumptions used to develop the above estimates in determining that each is reasonable in relation to the financial statements taken as a whole. We believe the disclosures in the consolidated financial statement are neutral, consistent, and clear.

#### **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the consolidated financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the consolidated financial statements taken as a whole.

### **DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

### **MANAGEMENT REPRESENTATIONS**

We have requested certain representations from management that are included in the management representation letter dated as of the date of this letter.

### **MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle to the University's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all of the relevant facts. To our knowledge, there were no such consultations.

### **OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the University's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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This communication is intended solely for the information and use of management, the board of directors, and others within the University, and is not intended to be and should not be used by anyone other than those specified parties.

We appreciate this opportunity to be of service and extend our thanks to everyone at the University for their cooperation and assistance. We would be pleased to discuss any of the above matters with you at your convenience.

*Blue & Co., LLC*

September 16, 2016

**TRANSYLVANIA UNIVERSITY**

## Waived adjustments

As of and for the year ended June 30,2016

<u>Description</u>	<u>Dr.</u>	<u>Cr.</u>
Management fees	\$ 750,000	
Donated services		\$ 750,000

To record donated services for endowment management fees.

Net assets	\$ 374,000	
Salaries and wages	4,000	
Accrued payroll		\$ 378,000

To record accrued vacation at year end.

Liability for self-insured health benefits	\$ 612,000	
Net assets		\$ 434,000
Health insurance expense		178,000

To agree liability for self-insurance to third-party report.

## Waived adjustments

As of and for the year ended June 30,2015

<u>Description</u>	<u>Dr.</u>	<u>Cr.</u>
Management fees	\$ 740,000	
Donated services		\$ 740,000

To record donated services for endowment management fees.

Net assets	\$ 349,000	
Salaries and wages	25,000	
Accrued payroll		\$ 374,000

To record accrued vacation at year end.

Liability for self-insured health benefits	\$ 434,000	
Health insurance expense		\$ 434,000

To agree liability for self-insurance to third-party report.

Above amounts are rounded.



**TRANSYLVANIA**  
**UNIVERSITY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

# TRANSYLVANIA UNIVERSITY

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees  
Transylvania University  
Lexington, Kentucky

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, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

To the Board of Trustees  
Transylvania University  
Lexington, Kentucky

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Blue & Co., LLC*

Lexington, Kentucky  
September 16, 2016

# TRANSYLVANIA UNIVERSITY

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2016 AND 2015

### ASSETS

	2016	2015
Cash and cash equivalents	\$ 1,140,679	\$ 814,298
Cash and cash equivalents - restricted	1,875,021	2,144,605
Accounts receivable, net	515,385	624,043
Prepaid expenses and other assets	991,084	1,290,038
Pledges receivable, net	1,299,410	641,447
Loans receivable, net	2,146,489	2,161,341
Investments - at fair market value	170,779,696	169,691,696
Restricted investments - at fair market value	4,179,197	-0-
Assets held in trust by others	1,360,524	1,452,216
Land, buildings and equipment, net	86,547,717	78,346,328
Bond issuance costs, net of accumulated amortization of \$292,092 and \$262,177 in 2016 and 2015, respectively	418,240	345,228
	<u>\$ 271,253,442</u>	<u>\$ 257,511,240</u>

### LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 2,538,502	\$ 2,435,333
Accrued liabilities	2,361,088	2,089,733
Deferred revenues	2,092,498	1,767,469
Lines of credit	1,900,000	2,000,000
Deposits held in custody	45,107	41,738
Advances from federal government for student loans	2,233,280	2,241,981
Annuities payable	809,298	811,055
Bonds payable	37,161,676	25,520,000
Total liabilities	49,141,449	36,907,309
Net assets:		
Unrestricted:		
Board-designated	4,469,947	4,040,054
Undesignated	36,257,730	38,424,054
Total unrestricted	40,727,677	42,464,108
Temporarily restricted	108,014,989	105,519,512
Permanently restricted	73,369,327	72,620,311
Total net assets	222,111,993	220,603,931
	<u>\$ 271,253,442</u>	<u>\$ 257,511,240</u>

*See accompanying notes to consolidated financial statements.*

# TRANSYLVANIA UNIVERSITY

## CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues:</b>				
Tuition and fees	\$ 35,446,296	\$	\$	\$ 35,446,296
Auxiliary - room and board	6,861,567			6,861,567
Institutional scholarship allowance	(18,451,283)			(18,451,283)
Net tuition and fees	23,856,580	-0-	-0-	23,856,580
Gifts	1,669,847	516,186		2,186,033
Investment return designated for current operations	328,718	8,952,282		9,281,000
Auxiliary - other	810,567			810,567
Other revenues	596,321	76,234		672,555
Net assets released from restrictions	8,535,475	(8,535,475)		-0-
Total operating revenues	35,797,508	1,009,227	-0-	36,806,735
<b>Operating expenses:</b>				
Instruction	11,578,988			11,578,988
Research	23,635			23,635
Academic support	5,044,847			5,044,847
Student services	6,693,942			6,693,942
Student recruiting/admissions	1,866,868			1,866,868
Institutional support	6,546,934			6,546,934
Auxiliary enterprises	6,184,478			6,184,478
Total operating expenses	37,939,692	-0-	-0-	37,939,692
Change in net assets from operations	(2,142,184)	1,009,227	-0-	(1,132,957)
<b>Nonoperating activities:</b>				
Investment return, net	(713,055)	533,688	51,766	(127,601)
Change in assets held in trust by others			(91,692)	(91,692)
Other expenses	(94,684)			(94,684)
Change in annuities payable	(13,213)	(58,086)	(57,323)	(128,622)
Gifts		1,963,760	1,119,858	3,083,618
Net assets released from restrictions	1,226,705	(953,112)	(273,593)	-0-
Change in net assets from nonoperating activities	405,753	1,486,250	749,016	2,641,019
Total changes in net assets	(1,736,431)	2,495,477	749,016	1,508,062
<b>Net assets, beginning of year</b>	42,464,108	105,519,512	72,620,311	220,603,931
<b>Net assets, end of year</b>	<u>\$ 40,727,677</u>	<u>\$ 108,014,989</u>	<u>\$ 73,369,327</u>	<u>\$ 222,111,993</u>

*See accompanying notes to consolidated financial statements.*

# TRANSYLVANIA UNIVERSITY

## CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues:</b>				
Tuition and fees	\$ 33,269,472	\$	\$	\$ 33,269,472
Auxiliary - room and board	6,644,816			6,644,816
Institutional scholarship allowance	(16,773,328)			(16,773,328)
Net tuition and fees	23,140,960	-0-	-0-	23,140,960
Gifts	1,654,834	690,601		2,345,435
Investment return designated for current operations	310,426	8,970,574		9,281,000
Auxiliary - other	847,986			847,986
Other revenues	692,112	79,157		771,269
Net assets released from restrictions	8,319,105	(8,319,105)		-0-
Total operating revenues	34,965,423	1,421,227	-0-	36,386,650
<b>Operating expenses:</b>				
Instruction	11,933,697			11,933,697
Research	37,752			37,752
Academic support	4,753,116			4,753,116
Student services	6,527,024			6,527,024
Student recruiting/admissions	1,974,514			1,974,514
Institutional support	6,489,297			6,489,297
Auxiliary enterprises	7,126,981			7,126,981
Total operating expenses	38,842,381	-0-	-0-	38,842,381
Change in net assets from operations	(3,876,958)	1,421,227	-0-	(2,455,731)
<b>Nonoperating activities:</b>				
Investment return, net	(652,546)	(3,195,648)	53,610	(3,794,584)
Change in assets held in trust by others			(59,380)	(59,380)
Other expenses	(22,269)			(22,269)
Change in annuities payable	(14,079)	9,851	(2,799)	(7,027)
Gifts		1,505,454	1,030,225	2,535,679
Net assets released from restrictions	357,655	(357,655)		-0-
Change in net assets from nonoperating activities	(331,239)	(2,037,998)	1,021,656	(1,347,581)
Total changes in net assets	(4,208,197)	(616,771)	1,021,656	(3,803,312)
<b>Net assets, beginning of year</b>	46,672,305	106,136,283	71,598,655	224,407,243
<b>Net assets, end of year</b>	<u>\$ 42,464,108</u>	<u>\$ 105,519,512</u>	<u>\$ 72,620,311</u>	<u>\$ 220,603,931</u>

*See accompanying notes to consolidated financial statements.*

# TRANSYLVANIA UNIVERSITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,508,062	\$ (3,803,312)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization expense	3,543,638	4,787,553
Loss on disposal of equipment	146,560	-0-
Amortization of bond issuance costs	29,916	36,947
Net realized and unrealized gains on investments	(5,570,187)	(2,080,869)
Proceeds from sales of non-donor restricted assets	385,567	280,001
Depreciable property received as gift in kind	-0-	(15,000)
Provision for losses on uncollectible accounts:		
Accounts receivable	3,084	(21,868)
Loans receivable	10,966	25,591
Contributions restricted for long-term investment	(3,083,618)	(2,535,679)
Decrease in assets held in trust by others	91,692	59,380
Computational adjustment of annuity liabilities	152,230	12,145
Donated securities	(1,269,000)	(1,557,549)
Changes in assets and liabilities:		
Accounts receivable	105,574	(324,215)
Pledges receivable	(657,963)	313,971
Prepaid expenses and other assets	298,954	(386,281)
Accounts payable	(1,955,020)	(214,476)
Deposits held in custody	3,369	(60,692)
Accrued liabilities	271,355	(29,684)
Deferred revenues	325,029	(168,549)
Net cash flows from operating activities	<u>\$ (5,659,793)</u>	<u>\$ (5,682,586)</u>
<b>Cash flows from investing activities:</b>		
Purchases of land, buildings and equipment	(9,842,398)	(9,175,955)
Proceeds from disposal of buildings and equipment	9,000	-0-
Purchases of investments	(25,509,470)	(10,910,045)
Sales and maturities of investments	30,859,000	15,889,621
Student loans issued	(338,091)	(420,700)
Student loans repaid	341,977	381,689
Net cash flows from investing activities	<u>\$ (4,479,982)</u>	<u>\$ (4,235,390)</u>

*See accompanying notes to consolidated financial statements.*

# TRANSYLVANIA UNIVERSITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2016 AND 2015

### Cash flows from financing activities:

Proceeds from contributions restricted for long-term investment and capital purposes	3,083,618	2,535,679
Proceeds from sale of donor restricted assets	-0-	1,214,937
Proceeds from the issuance of bonds payable	15,467,479	6,850,000
Payment of bond issuance costs	(207,581)	(104,653)
Extinguishment of debt	104,653	-0-
Proceeds from issuance of notes payable	-0-	2,000,000
Change in advances from federal government for student loans	(8,701)	(29,511)
Principal payments on notes payable	(100,000)	-0-
Principal payments on bonds payable	(8,005,000)	(1,475,000)
Payments of annuity obligations	(151,986)	(131,542)
Receipt of new annuity contributions	14,089	35,600
Net cash flows from financing activities	<u>\$ 10,196,572</u>	<u>\$ 10,895,510</u>
Net change in cash and cash equivalents	56,797	977,534
Cash and cash equivalents, beginning of year	<u>2,958,903</u>	<u>1,981,369</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,015,700</u></u>	<u><u>\$ 2,958,903</u></u>

### Supplemental disclosures of non-cash investing activities

Cash paid during the year for:		
Interest	\$ 829,381	\$ 739,602
Non-cash investing and financing transactions:		
Buildings and equipment financed with accounts payable	\$ 2,058,189	\$ 1,444,135
Donated property and equipment	\$ -0-	\$ 15,000

*See accompanying notes to consolidated financial statements.*

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 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. Henry Clay was both a law professor and a member of Transylvania's board of trustees.

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, 2016 AND 2015

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### Accrual Basis

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

### Basis of Presentation

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:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. The donors of these assets generally permit the University to use all or part of the income earned on related investments 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 and long-term debt 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 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. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 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 solely of state and local government securities certificates and notes that have been purchased and deposited in an escrow account with the bond trustee of the Series 2009A bonds. These investments are restricted for the payment of interest on the Series 2009A bonds up to and including the call date of March 1, 2019 and the principal for all bonds maturing on or after March 1, 2020.

### Loans Receivable

Loans receivable consists primarily of amounts loaned to qualified students through the Federal Perkins Loan Program (Program) and administered by the University. These loans receivable are carried at unpaid principal balances, less an allowance for uncollectible loans. Management's periodic evaluation of the adequacy of the allowance is based primarily on Program requirements, the University's past loan loss experience, specifically impaired loans, and adverse situations that may affect the borrower's ability to repay. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with contractual terms. The allowance represents an amount, which, in management's judgment, is sufficient to absorb loans that may ultimately be written off.

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 U.S. Department of Education.

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.

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# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 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.

### 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 forty 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. However, 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.

### 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

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# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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payments for the years ended June 30, 2016 and 2015 were \$151,986 and \$131,542, respectively.

The June 30, 2016 and 2015 annuity liabilities balances of \$809,298 and \$811,055, 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 11.1% in 2016 and 2015. The estimated remaining life expectancies of the annuitants range from two to 15 years in 2016 and one to 18 years in 2015.

### Tuition and Fees

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. 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.

### 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.

### Donor-Restricted Gifts

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 restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. The gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and

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# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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reported in the consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as temporarily restricted contributions 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, 2016 and 2015 was \$873,012 and \$744,097, respectively, and is allocated to operating expenses by functional category.

### 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 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 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, 2016 and 2015, 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, 2015 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

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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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).

### 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.

### 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 September 16, 2016, which is the date the financial statements were issued.

## 3. ACCOUNTS AND LOANS RECEIVABLE AND RELATED CREDIT QUALITY

### Accounts Receivable

The University has provided an allowance for uncollectible student accounts receivable amounting to \$31,508 and \$9,854 at June 30, 2016 and 2015, respectively.

### 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, 2016 and 2015, student loans receivable represented 0.77% and 0.84% 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 held in the Federal Perkins Loan Program of \$2,233,280 and \$2,241,981 at June 30, 2016 and 2015, 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,

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

when they are written off, they reduce the amount refundable to the federal government.

Balances of financing receivables at June 30:

	2016		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Financing receivables:			
Ending balance	<u>\$ 2,146,489</u>	<u>883,455</u>	<u>\$ 3,029,944</u>
Ending balance:			
Individually evaluated for impairment	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Ending balance:			
Collectively evaluated for impairment	<u>\$ 2,146,489</u>	<u>\$ 883,455</u>	<u>\$ 3,029,944</u>
	2015		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Financing receivables:			
Ending balance	<u>\$ 2,161,341</u>	<u>\$ 902,026</u>	<u>\$ 3,063,367</u>
Ending balance:			
Individually evaluated for impairment	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Ending balance:			
Collectively evaluated for impairment	<u>\$ 2,161,341</u>	<u>\$ 902,026</u>	<u>\$ 3,063,367</u>

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

	2016		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Performing	\$ 2,146,489	\$ 883,455	\$ 3,029,944
Non-performing	-0-	-0-	-0-
	<u>\$ 2,146,489</u>	<u>\$ 883,455</u>	<u>\$ 3,029,944</u>
	2015		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Performing	\$ 2,161,341	\$ 902,026	\$ 3,063,367
Non-performing	-0-	-0-	-0-
	<u>\$ 2,161,341</u>	<u>\$ 902,026</u>	<u>\$ 3,063,367</u>

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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. Delinquency status is updated monthly by the University's loan servicer. 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.

Allowances for estimated losses are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Loan balances are written off only when they are deemed to be permanently uncollectible. The University determines the allowance for estimated losses on these financing receivables by looking at historical default rates and analyzing the aging of past due loans. All non-performing loans are included in the allowance for estimated losses. Loans are considered past due based on contractual terms.

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

	2016		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Allowance for credit losses:			
Beginning balance	\$	\$ 902,026	\$ 902,026
Charge-offs	(10,966)		(10,966)
Recoveries		(18,571)	(18,571)
Provision	10,966		10,966
Ending balance	<u>\$ -0-</u>	<u>\$ 883,455</u>	<u>\$ 883,455</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>\$ 883,455</u>	<u>\$ 883,455</u>



# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

	2015		
	Federal Perkins Loan Program Receivables	Institutional Loans	Total
Allowance for credit losses:			
Beginning balance	\$	\$ 916,660	\$ 916,660
Charge-offs	(25,591)		(25,591)
Recoveries		(14,634)	(14,634)
Provision	25,591		25,591
Ending balance	<u>\$ -0-</u>	<u>\$ 902,026</u>	<u>\$ 902,026</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>\$ 902,026</u>	<u>\$ 902,026</u>

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

	2016				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Current	Total
Federal Perkins Loan program receivables	\$ 22,491	\$ 20,853	\$ 221,837	\$ 1,881,308	\$ 2,146,489
Institutional loans				883,455	883,455
	<u>\$ 22,491</u>	<u>\$ 20,853</u>	<u>\$ 221,837</u>	<u>\$ 2,764,763</u>	<u>\$ 3,029,944</u>

  

	2015				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Current	Total
Federal Perkins Loan program receivables	\$ 31,839	\$ 4,252	\$ 253,971	\$ 1,871,279	\$ 2,161,341
Institutional loans				902,026	902,026
	<u>\$ 31,839</u>	<u>\$ 4,252</u>	<u>\$ 253,971</u>	<u>\$ 2,773,305</u>	<u>\$ 3,063,367</u>

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

	2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Federal Perkins Loan program receivables	\$	\$	\$	\$	\$
Institutional loans		883,455	883,455		
	<u>\$ -0-</u>	<u>\$ 883,455</u>	<u>\$ 883,455</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

  

	2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Federal Perkins Loan program receivables	\$	\$	\$	\$	\$
Institutional loans		902,026	902,026		
	<u>\$ -0-</u>	<u>\$ 902,026</u>	<u>\$ 902,026</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

### 4. INVESTMENTS

Investments consist of the following as of June 30:

	2016		2015	
	Market	Cost	Market	Cost
Money market funds	\$ 4,149,716	\$ 4,149,716	\$ 20,367,589	\$ 20,367,589
U.S. Government and government agency debt securities	16,740,920	16,740,920	229,227	226,003
Corporate and government mutual funds	1,200,036	1,235,479	570,863	583,544
Large cap U.S. equity securities	138,676,662	53,068,888	132,751,457	52,839,196
Mid/Small cap U.S. equity securities	640,071	406,878	1,008,174	621,428
Non-U.S. equity securities	12,837,578	9,697,167	14,232,250	9,737,986
Other securities	713,910	421,596	532,136	311,731
	<u>\$ 174,958,893</u>	<u>\$ 85,720,644</u>	<u>\$ 169,691,696</u>	<u>\$ 84,687,477</u>

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

	2016	2015
Dividends and interest income	\$ 3,699,620	\$ 3,508,336
Net unrealized gains	4,971,796	1,823,004
Net realized gains	616,847	289,591
Investment fees	(134,864)	(134,515)
Total return on investments	9,153,399	5,486,416
Investment return designated for current operations	(9,281,000)	(9,281,000)
Investment return reinvested	<u>\$ (127,601)</u>	<u>\$ (3,794,584)</u>

#### Endowment Investment and Spending Policies

The University's endowment consists of approximately 280 individual funds established for a variety of purposes. The University's endowment funds support current operations, scholarships, the William T. Young Scholarship program, the 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.

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

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of any 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in 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.

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.

The University utilizes the "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 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 Finance Committee and the Board of Trustees. The actual spending rate in 2016 and 2015 was 5.97% and 6.63%, respectively. Total returns of \$9,281,000 from the endowment and similar funds were allocated for operations for the years ended June 30, 2016 and 2015, respectively.

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

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

GAAP, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies totaled \$2,660,622 and \$2,101,146 as of June 30, 2016 and 2015, respectively. These deficiencies result from unfavorable market value fluctuations that occurred after the investment of new permanently restricted and quasi endowment funds or continued appropriation to support programs in accordance with donor intent.

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

2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (2,660,622)	\$ 95,944,873	\$ 69,572,466	\$ 162,856,717
Board designated endowment funds	4,469,947			4,469,947
	<u>\$ 1,809,325</u>	<u>\$ 95,944,873</u>	<u>\$ 69,572,466</u>	<u>\$ 167,326,664</u>

  

2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (2,101,146)	\$ 95,662,634	\$ 68,496,608	\$ 162,058,096
Board designated endowment funds	4,040,054			4,040,054
	<u>\$ 1,938,908</u>	<u>\$ 95,662,634</u>	<u>\$ 68,496,608</u>	<u>\$ 166,098,150</u>

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

2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,938,908	\$ 95,662,634	\$ 68,496,608	\$ 166,098,150
Contributions			1,396,348	1,396,348
Investment return, net		3,613,095		3,613,095
Net appreciation of investments	141,450	5,411,479		5,552,929
Adjustments	(50,776)	(2,082)		(52,858)
Reclassifications	617,161	(296,671)	(320,490)	-0-
Change in underwater endowment values	(508,700)	508,700		-0-
Amount appropriated for expenditure	(328,718)	(8,952,282)		(9,281,000)
Endowment net assets, end of year	<u>\$ 1,809,325</u>	<u>\$ 95,944,873</u>	<u>\$ 69,572,466</u>	<u>\$ 167,326,664</u>

  

2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,576,452	\$ 98,859,184	\$ 67,579,397	\$ 169,015,033
Contributions			917,211	917,211
Investment return, net		3,373,780		3,373,780
Net appreciation of investments	119,018	1,954,108		2,073,126
Change in underwater endowment values	(446,136)	446,136		-0-
Amount appropriated for expenditure	(310,426)	(8,970,574)		(9,281,000)
Endowment net assets, end of year	<u>\$ 1,938,908</u>	<u>\$ 95,662,634</u>	<u>\$ 68,496,608</u>	<u>\$ 166,098,150</u>

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 5. RESTRICTED INVESTMENTS

Restricted investments consist of the following as of June 30:

	2016	
	Market	Cost
U.S. Government and government agency debt securities	<u>\$ 4,179,197</u>	<u>\$ 4,179,197</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:

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.

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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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, 2016 and 2015.

- 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 1 inputs)
- Common stocks: 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 daily closing price as reported by the fund. Mutual funds held by the University are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the University are deemed to be actively traded. (Level 1 inputs)
- U.S. government securities: Valued using pricing models maximizing the use of observable inputs for similar securities. (Level 1 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)
- Annuities payable: Valued using contractual payment rate percentages and life expectancy tables. (Level 2 inputs)

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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:

	2016			
	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	\$ 4,149,716	\$ 4,149,716	\$	\$
U.S. Government and government agency debt securities	16,740,920	16,740,920		
Corporate and government mutual funds	1,200,036	1,200,036		
Large cap U.S. equity securities	138,676,662	138,676,662		
Mid/Small cap U.S. equity securities	640,071	640,071		
Non-U.S. equity securities	12,837,578	12,837,578		
Other securities	713,910	713,910		
Assets held in trust by others	1,360,524			1,360,524
Total assets at fair value	<u>\$ 176,319,417</u>	<u>\$ 174,958,893</u>	<u>\$ -0-</u>	<u>\$ 1,360,524</u>
Liabilities				
Annuities payable	<u>\$ 809,298</u>	<u>\$ -0-</u>	<u>\$ 809,298</u>	<u>\$ -0-</u>
	2015			
	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	\$ 20,367,589	\$ 20,367,589	\$	\$
U.S. Government and government agency debt securities	229,227	229,227		
Corporate and government mutual funds	570,863	570,863		
Large cap U.S. equity securities	132,751,457	132,751,457		
Mid/Small cap U.S. equity securities	1,008,174	1,008,174		
Non-U.S. equity securities	14,232,250	14,232,250		
Other securities	532,136	532,136		
Assets held in trust by others	1,452,216			1,452,216
Total assets at fair value	<u>\$ 171,143,912</u>	<u>\$ 169,691,696</u>	<u>\$ -0-</u>	<u>\$ 1,452,216</u>
Liabilities				
Annuities payable	<u>\$ 811,055</u>	<u>\$ -0-</u>	<u>\$ 811,055</u>	<u>\$ -0-</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, 2016 and 2015. 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, 2016 AND 2015

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

	2016 Assets held in trust	2015 Assets held in trust
	<u>                    </u>	<u>                    </u>
Balance, beginning of year	\$ 1,452,216	\$ 1,511,596
Realized and unrealized losses	(91,692)	(59,380)
Balance, end of year	<u>\$ 1,360,524</u>	<u>\$ 1,452,216</u>

The University's policy is to recognize transfers between levels as of the date of the event or change in circumstances. There were no transfers between levels during the years ended June 30, 2016 and 2015.

The carrying amount of cash, accounts receivable, accounts payable, accrued liabilities and deferred revenues approximates fair value because of the short maturity of these financial instruments.

A reasonable estimate of the student loans receivable under government loan programs and advances from federal government student loans could not be made because the notes receivable are not salable and can only be assigned to the U.S. government or its designees.

The University believes the fair value of its bonds payable approximate their carrying values as of June 30, 2016 and 2015, respectively. The fair value is based on rates currently available to the University for debt with similar terms and remaining maturities.



# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 7. LAND, BUILDINGS AND EQUIPMENT

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

	2016	2015
Land	\$ 15,003,068	\$ 14,400,091
Land improvements	10,374,409	10,383,755
Buildings	94,111,019	85,539,895
Equipment	3,973,163	4,378,271
Technology	3,303,360	3,827,477
Works of art and historical treasures	2,732,177	2,784,693
Library collection	1,367,831	1,291,857
Other	432,109	444,385
Construction in progress	10,019,175	7,728,494
	<u>141,316,311</u>	<u>130,778,918</u>
Accumulated depreciation	<u>(54,768,594)</u>	<u>(52,432,590)</u>
	<u>\$ 86,547,717</u>	<u>\$ 78,346,328</u>

Depreciation expense totaled \$3,543,638 and \$4,787,553 for 2016 and 2015, respectively, and has been allocated to operating expenses by functional classification.

Interest expense amounting to \$93,317 and \$87,874 in 2016 and 2015, respectively, has been capitalized as part of construction in progress.

### 8. LINES OF CREDIT

The University has lines of credit totaling \$5,000,000 with two financial institutions which mature at various times through December 26, 2016. The lines are unsecured and are at rates of interest either tied to the banks' index rate or at one-month LIBOR rounded up to the nearest one-sixteenth of one percent plus 1.50%, ranging from 2.00% to 3.50% as of June 30, 2016, and from 1.75% to 3.25% as of June 30, 2015. Borrowings under these lines of credit totaled \$1,900,000 and \$2,000,000, respectively, at June 30, 2016 and 2015.

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

### 9. BONDS PAYABLE

Bonds payable consist of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Lexington-Fayette Urban County Government (LFUCG) Industrial Building Revenue Bonds, Series 2009A (Transylvania University Project)	\$ 4,735,000	\$ 5,010,000
LFUCG Refunding Revenue Bonds, Series 2009B (Transylvania University Project)	2,655,000	3,490,000
LFUCG Industrial Revenue Bonds, Series 2012 (Transylvania University Project)	10,125,000	10,170,000
LFUCG Industrial Revenue Bonds, Series 2014 (Transylvania University Project)	-0-	6,850,000
Kentucky Bond Development Corporation (KBDC) Industrial Revenue Bonds, City of Alexandria Series 2016A (Transylvania University Project)	6,987,944	-0-
Kentucky Bond Development Corporation (KBDC) Industrial Revenue Bonds, City of Sadieville Series 2016B (Transylvania University Project)	275,000	-0-
Kentucky Bond Development Corporation (KBDC) Industrial Revenue Bonds, City of Williamsburg Series 2016C (Transylvania University Project)	8,198,732	-0-
Kentucky Bond Development Corporation (KBDC) Industrial Revenue Bonds, City of Paris Series 2016D (Transylvania University Project)	4,185,000	-0-
	<u>\$ 37,161,676</u>	<u>\$ 25,520,000</u>

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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The \$6,500,000 LFUCG Industrial Building Revenue Bonds, Series 2009A, were issued in March 2009 to finance various capital projects. The bonds bear interest at predetermined rates ranging from 4.00% to 5.125%. Annual principal payments range from \$275,000 to \$470,000 payable on March 1 to the year 2029. The bonds are collateralized by future revenues of the University. All of the Series 2009A bonds maturing March 1, 2020 and later were advance refunded by the issuance of the Series 2016D bonds. Restricted investments are on deposit with the trustee to call and pay off these bonds on March 1, 2019.

The \$10,520,000 Series 2009B bonds were issued in June 2009 to provide a full refunding of all LFUCG Revenue Bonds, Series 1998 (Transylvania University Project) (\$7,785,000 par) and all LFUCG Adjustable Rate Revenue Bonds, Series 2000 (Transylvania University Project) (\$2,310,000 par). The bonds bear interest at predetermined rates ranging from 3.20% to 3.50%. Annual principal payments range from \$850,000 to \$915,000 payable on September 1 to the year 2018 (fiscal year 2019). The bonds are collateralized by future revenues of the University.

The \$10,170,000 Series 2012 bonds were issued in June 2012 to finance the construction of a new athletics complex. The bonds bear interest at predetermined rates ranging from 2% to 4.5%. Annual principal payments range from \$60,000 to \$1,325,000 payable on March 1, 2017 to the year 2032. The bonds are collateralized by future revenues of the University.

The 2014 Series bonds were issued in September 2014 to finance the construction of two new residence halls. The bonds were issued on a draw basis and reached a balance of \$12,525,000 prior to pay off on April 29, 2016. The bonds carried a fixed interest rate of 2.64% for the first ten years outstanding and a fixed or LIBOR index rate as selected by the University for two successive ten-year periods. Principal repayments began on October 1, 2016 and were being amortized over 30 years ending September 1, 2044. Estimated monthly principal payments assuming the full amount of debt was drawn ranged from \$29,298 to \$61,174. The bonds were collateralized by a pledge of endowment investments. The 2014 Series bonds were paid off on April 29, 2016 by the issuance of the Series 2016A and Series 2016C bonds.

The \$7,000,000 Kentucky Bond Development Corporation Industrial Revenue Bonds, City of Alexandria Series 2016A were issued on April 29, 2016 to effect a full refunding of the 2014 Bonds. The bonds bear interest at a fixed interest rate of 2.54% for the first seven years outstanding and at a predetermined index rate for each successive seven-year period until final maturity in 2046. Principal repayments began on June 1, 2016 and are being amortized over 30 years ending April 1, 2046. Monthly principal payments range from \$12,055 to \$27,801. The bonds are collateralized by future revenues of the University.

The \$9,250,000 Kentucky Bond Development Corporation Industrial Revenue Bonds, City of Sadieville Series 2016B were issued on April 29, 2016 to provide

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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partial funding for the construction of two new residence halls on the Transylvania campus. These bonds were issued on a draw basis, with \$275,000 having been advanced as of June 30, 2016. The bonds bear interest at a fixed interest rate of 2.54% for the first seven years outstanding and at a predetermined index rate for each successive seven-year period until final maturity in 2046. Principal repayments begin on May 1, 2017 and will be amortized over 30 years ending April 1, 2046. Monthly principal payments based on the balance outstanding at June 30, 2016 will range from \$535 to \$1,115. The bonds are collateralized by future revenues of the University.

The \$9,250,000 Kentucky Bond Development Corporation Industrial Revenue Bonds, City of Williamsburg Series 2016C were issued on April 29, 2016 to effect a full refunding of the 2014 Bonds and to provide partial funding for the construction of two new residence halls on the Transylvania campus. These bonds were issued on a draw basis, with \$8,198,732 having been advanced as of June 30, 2016. The bonds bear interest at a fixed interest rate of 2.54% for the first seven years outstanding and at a predetermined index rate for each successive seven-year period until final maturity in 2046. Principal repayments began on June 1, 2016 and are being amortized over 30 years ending April 1, 2046. Monthly principal payments based on the balance outstanding at June 30, 2016 range from \$9,515 to \$32,823. The bonds are collateralized by future revenues of the University.

The \$4,185,000 Kentucky Bond Development Corporation Industrial Revenue Bonds, City of Paris Series 2016D were issued on June 29, 2016 to effect an advance refunding of the Series 2009A bonds maturing on or after March 1, 2020. The bonds bear interest at predetermined rates ranging from 2.00% to 3.00%. Annual principal payments range from \$380,000 to \$460,000 payable on March 1 to the year 2029. The net present value of the savings provided by the refunding bonds was approximately \$444,000. The bonds are collateralized by future revenues of the University.

Certain covenants were made by the University in conjunction with issuance of each series bonds. As of June 30, 2016 and 2015, the University is in compliance with these covenants.

The following is a schedule of the required future principal payments on all bonds outstanding as of June 30:

2017	\$ 1,490,425
2018	1,596,409
2019	1,650,696
2020	1,610,223
2021	1,654,993
Thereafter	29,158,930
	<u>\$ 37,161,676</u>

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 10. 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 \$1,076,605 and \$1,103,675 in 2016 and 2015, respectively.

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.

### 11. 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 \$60,000 for both 2016 and 2015. The University's aggregate annual loss limitation was approximately \$1.5 million for both 2016 and 2015 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 \$2.0 million and \$1.9 million, respectively, for the years ended June 30, 2016 and 2015. At June 30, 2016 and 2015, the health insurance reserve funds total approximately \$731,000 and \$568,000, respectively.

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30:

	2016	2015
	<hr/>	<hr/>
Gain on endowment investment	\$ 95,944,873	\$ 95,662,634
Unexpended contributions for restricted purposes including scholarships, academic programs, and student services	8,489,783	7,444,933
Unexpended contributions for capital assets	3,016,590	1,803,646
Annuity and life income funds	563,743	608,299
	<hr/> <hr/>	<hr/> <hr/>
	\$ 108,014,989	\$ 105,519,512

As of June 30, 2016 and 2015 all amounts for pledges receivable were restricted as to purpose and are included in the applicable lines in the above table.

### 13. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following as of June 30:

	2016	2015
	<hr/>	<hr/>
General endowment funds	\$ 18,200,925	\$ 17,883,444
Endowed scholarship funds	51,626,705	51,046,358
Assets held in trust by others and cash surrender value of life insurance policies	3,452,463	3,549,711
Pledges receivable for endowments	89,234	140,798
	<hr/> <hr/>	<hr/> <hr/>
	\$ 73,369,327	\$ 72,620,311

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

### 14. 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:

	2016		2015	
	Operating	Nonoperating	Operating	Nonoperating
Instructional	\$ 1,490,198	\$	\$ 1,236,104	\$
Academic support	649,638	(164,516)	299,836	(55,092)
Student services	83,781		95,879	
Institutional support	277,632	529,363	405,372	(142,697)
Financial aid	6,013,990	285,656	6,171,279	
Capital gifts	(3,399)	554,440		279,345
Auxiliary and other	23,635	21,762	110,635	276,099
	<u>\$ 8,535,475</u>	<u>\$ 1,226,705</u>	<u>\$ 8,319,105</u>	<u>\$ 357,655</u>

### 15. PLEDGES RECEIVABLE

Pledges receivable consist of the following as of June 30:

	2016	2015
Less than one year	\$ 772,308	\$ 318,975
One to five years	905,409	591,615
Greater than five years	22,500	37,500
	<u>1,700,217</u>	<u>948,090</u>
Less: Allowance for uncollectible receivables	(220,099)	(233,099)
	<u>1,480,118</u>	<u>714,991</u>
Less: Discounts to present value (1.69% to 4.54%)	(180,708)	(73,544)
	<u>\$ 1,299,410</u>	<u>\$ 641,447</u>

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 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 salary 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.

Due to the nature of the Trust, its income transactions and additional restricted gifts have been reported in temporarily restricted net assets and its initial corpus has been reported in permanently restricted net assets as of June 30, 2016 and 2015. The initial corpus and related appreciation are included in investments on the University's consolidated statements of financial position.

The statement of financial position and statement of activities of the Trust follow:

#### BINGHAM FUND (TRUST) STATEMENTS OF FINANCIAL POSITION JUNE 30, 2016 AND 2015

##### ASSETS

	2016	2015
Investments - at fair market value	\$ 68,735,493	\$ 65,222,379
Accrued income receivable	89,235	79,794
Due from temporarily restricted funds	1,172,105	873,622
	<u>\$ 69,996,833</u>	<u>\$ 66,175,795</u>

##### LIABILITIES AND NET ASSETS

Net assets:		
Temporarily restricted	\$ 63,575,283	\$ 59,754,245
Permanently restricted	6,421,550	6,421,550
Total net assets	<u>\$ 69,996,833</u>	<u>\$ 66,175,795</u>



# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### BINGHAM FUND (TRUST) STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Revenues and additions:		
Net realized and unrealized gains on investments	\$ 3,541,410	\$ 1,049,112
Investment income	1,570,785	1,472,000
Gifts	<u>275</u>	<u>300</u>
	<u>5,112,470</u>	<u>2,521,412</u>
Expenses and deductions:		
Faculty development expense	124,609	76,203
Faculty salary awards	955,107	870,455
Administration expense	<u>211,716</u>	<u>82,807</u>
	<u>1,291,432</u>	<u>1,029,465</u>
Net change in net assets	<u>\$ 3,821,038</u>	<u>\$ 1,491,947</u>

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 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 \$1,050,677 and \$729,100 as of June 30, 2016 and 2015, respectively.

#### Student Financial Aid

The University's students receive a substantial amount of support from state and federal student financial assistance programs. A significant reduction in the level of this support, if it were to occur, might have an adverse effect on the University's programs and activities.

#### Major Donors

The top five donors comprise approximately 30% and 44%, respectively, of total donations for the University for the years ended June 30, 2016 and 2015.

### 18. 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 physical plant, depreciation and interest expenses, have been allocated among the programs and supporting services benefited.

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

	2016			
	Program Activities	General and Administrative	Fundraising	Total
Salaries and wages	\$ 13,192,452	\$ 2,235,814	\$ 724,449	\$ 16,152,715
Benefits and payroll taxes	3,343,904	744,873	104,125	4,192,902
Operating expenses	7,776,242	1,500,878	294,877	9,571,997
Allocation of physical plant, interest, and depreciation	7,080,161	941,917		8,022,078
	<u>\$ 31,392,759</u>	<u>\$ 5,423,482</u>	<u>\$ 1,123,451</u>	<u>\$ 37,939,692</u>
	2015			
	Program Activities	General and Administrative	Fundraising	Total
Salaries and wages	\$ 13,158,610	\$ 2,246,949	\$ 828,322	\$ 16,233,881
Benefits and payroll taxes	3,346,843	772,977	121,091	4,240,911
Operating expenses	7,915,514	1,348,070	266,176	9,529,760
Allocation of physical plant, interest, and depreciation	7,932,117	905,712		8,837,829
	<u>\$ 32,353,084</u>	<u>\$ 5,273,708</u>	<u>\$ 1,215,589</u>	<u>\$ 38,842,381</u>

## 19. RELATED PARTY TRANSACTIONS

The University routinely conducts banking and investment 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.

## 20. COMMITMENTS AND CONTINGENCIES

The University is exposed to various risks of loss such as errors and omissions, injuries to employees, and general liability claims. The University manages these risks through the purchase of commercial insurance.

The University had outstanding contractual commitments related to construction projects totaling approximately \$9.3 million and \$1 million at June 30, 2016 and 2015, respectively.

# TRANSYLVANIA UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 21. RECENTLY ISSUED ACCOUNTING STANDARDS

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that “an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services”. On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year. These new standards, which the University is not required to adopt until its year ending June 30, 2019, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto. The University is presently evaluating the effect that this ASU will have on its future financial statements, including related disclosures.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the University is not required to adopt until its year ending June 30, 2020, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity’s statement of financial position. The University has reviewed this standard and does not believe it has any substantial impact on its consolidated financial statements.

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the University is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two phase project to amend not-for-profit financial reporting requirements. The University is presently evaluating the effects that this ASU will have on its future financial statements, including related disclosures.