

Bryn Mawr College
Financial Statements
May 31, 2019 and 2018

Bryn Mawr College
Index
May 31, 2019 and 2018

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Report of Independent Auditors

To the Board of Trustees of Bryn Mawr College

We have audited the accompanying financial statements of Bryn Mawr College, which comprise the statements of financial position as of May 31, 2019 and 2018, and the related statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the College's preparation and fair presentation of the 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 College'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Bryn Mawr College as of May 31, 2019 and 2018, 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.

PricewaterhouseCoopers LLP

October 7, 2019

Bryn Mawr College
Statements of Financial Position
May 31, 2019 and 2018

(in thousands)

| | <u>2019</u> | <u>2018</u> |
|---|---------------------------|---------------------------|
| Assets | | |
| Cash & cash equivalents | \$55,907 | \$49,146 |
| Short term investments | \$6,367 | \$5,239 |
| Accounts receivable (less allowance of \$364 in 2019 & \$465 in 2018) | \$5,754 | \$5,873 |
| Other current assets | \$1,734 | \$1,640 |
| Contributions receivable (less allowance of \$4 in 2019 & \$3 in 2018) | \$23,698 | \$22,339 |
| Student loans receivable (less allowance of \$1,765 in 2019 & \$1,758 in 2018) | \$2,727 | \$3,001 |
| Deposits with trustees of debt obligations | \$2,540 | \$2,601 |
| Plant and equipment, net of accumulated depreciation | \$196,782 | \$196,149 |
| Long term investments | \$931,340 | \$939,850 |
| Total assets | <u>\$1,226,849</u> | <u>\$1,225,839</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts Payable | \$2,974 | \$5,954 |
| Accrued Expenses | \$7,858 | \$6,516 |
| Student Deposits | \$1,704 | \$1,773 |
| Deferred Revenue | \$2,647 | \$2,418 |
| Annuity Obligations | \$7,185 | \$7,291 |
| Debt | \$121,569 | \$125,366 |
| Other Long-term Liabilities | \$2,908 | \$2,769 |
| Advances from US government for student loans | \$964 | \$984 |
| Total Liabilities | <u>\$147,808</u> | <u>\$153,071</u> |
| Net Assets | | |
| Without donor restrictions | \$521,709 | \$520,730 |
| With donor restrictions | \$557,332 | \$552,038 |
| Total net assets | <u>\$1,079,041</u> | <u>\$1,072,768</u> |
| Total Liabilities and Net Assets | <u>\$1,226,849</u> | <u>\$1,225,839</u> |

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

Bryn Mawr College
Statement of Activities
Year Ended May 31, 2019

(with comparative totals for 2018, in thousands)

| | Without donor restrictions | With donor restrictions | Total 2019 | Total 2018 |
|---|-------------------------------|----------------------------|--------------------|--------------------|
| Operating revenues and other support: | | | | |
| Tuition and fees, net of discount of \$39,265 | \$ 43,941 | \$ - | \$ 43,941 | \$ 42,393 |
| Private contributions | 6,306 | 9,826 | 16,132 | 26,113 |
| Government grants | 7,074 | - | 7,074 | 7,745 |
| Endowment payout under spending formula | 22,391 | 23,889 | 46,280 | 45,818 |
| Other | 4,290 | - | 4,290 | 5,033 |
| Auxiliary enterprises, net of discount of \$1,520 | 23,887 | - | 23,887 | 22,859 |
| Interest income on cash and short-term investments | 1,974 | - | 1,974 | 1,107 |
| Releases from restriction | 26,382 | (26,382) | - | - |
| Total operating revenues and other support | <u>136,246</u> | <u>7,334</u> | <u>143,579</u> | <u>151,068</u> |
| Operating expenses: | | | | |
| Education | 80,756 | | 80,756 | 78,823 |
| Research | 2,156 | | 2,156 | 2,989 |
| Public service | 1,463 | | 1,463 | 1,851 |
| Institutional support | 22,154 | | 22,154 | 21,118 |
| Auxiliary enterprises | 17,291 | | 17,291 | 17,293 |
| Total operating expenses | <u>123,821</u> | <u>-</u> | <u>123,821</u> | <u>122,074</u> |
| Net changes from operations | <u>12,425</u> | <u>7,334</u> | <u>19,758</u> | <u>28,994</u> |
| Non-operating items: | | | | |
| Private contributions | 3,329 | 16,260 | 19,588 | 27,395 |
| Actuarial changes, interest and payments | (646) | (356) | (1,003) | (866) |
| Releases from restriction | 446 | (446) | - | - |
| Other | 35 | (20) | 16 | 589 |
| Realized and unrealized gains (losses) on investments, net of \$42,183 appropriated for endowment spending payout | (14,610) | (17,477) | (32,086) | 18,714 |
| Net changes from non-operating activities | <u>(11,446)</u> | <u>(2,039)</u> | <u>(13,485)</u> | <u>45,832</u> |
| Change in net assets | 979 | 5,294 | 6,273 | 74,826 |
| Net assets at beginning of year | 520,730 | 552,038 | 1,072,768 | 997,942 |
| Net assets at end of year | <u>\$ 521,709</u> | <u>\$ 557,332</u> | <u>\$1,079,041</u> | <u>\$1,072,768</u> |

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

Bryn Mawr College
Statement of Activities
Year Ended May 31, 2018

(in thousands)

| | Without donor restrictions | With donor restrictions | Total 2018 |
|---|---------------------------------------|------------------------------------|--------------------|
| Operating revenues and other support: | | | |
| Tuition and fees, net of discount of \$35,847 | \$ 42,393 | \$ - | \$ 42,393 |
| Private contributions | 6,615 | 19,498 | 26,113 |
| Government grants | 7,745 | - | 7,745 |
| Endowment payout under spending formula | 21,953 | 23,865 | 45,818 |
| Other | 5,033 | - | 5,033 |
| Auxiliary enterprises, net of discount of \$1,160 | 22,859 | - | 22,859 |
| Interest income on cash and short-term investments | 1,107 | - | 1,107 |
| Releases from restriction | 29,881 | (29,881) | - |
| Total operating revenues and other support | <u>137,586</u> | <u>13,482</u> | <u>151,068</u> |
| Operating expenses: | | | |
| Education | 78,823 | | 78,823 |
| Research | 2,989 | | 2,989 |
| Public service | 1,851 | | 1,851 |
| Institutional support | 21,118 | | 21,118 |
| Auxiliary enterprises | 17,293 | | 17,293 |
| Total operating expenses | <u>122,074</u> | <u>-</u> | <u>122,074</u> |
| Net changes from operations | <u>15,512</u> | <u>13,482</u> | <u>28,994</u> |
| Non-operating items: | | | |
| Private contributions | 11,405 | 15,990 | 27,395 |
| Actuarial changes, interest and payments | (515) | (351) | (866) |
| Releases from restriction | 4,362 | (4,362) | - |
| Other | 589 | - | 589 |
| Realized and unrealized gains (losses) on investments, net of \$42,464 appropriated for endowment spending payout | 8,363 | 10,351 | 18,714 |
| Net changes from non-operating activities | <u>24,204</u> | <u>21,628</u> | <u>45,832</u> |
| Change in net assets | 39,717 | 35,110 | 74,826 |
| Net assets at beginning of year | 481,014 | 516,928 | 997,942 |
| Net assets at end of year | <u>\$ 520,730</u> | <u>\$ 552,038</u> | <u>\$1,072,768</u> |

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

Bryn Mawr College
Statements of Cash Flows
Years Ended May 31, 2019 and 2018

(in thousands)

| | <u>2019</u> | <u>2018</u> |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 6,273 | \$ 74,826 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 13,036 | 13,207 |
| Amortization | (832) | (832) |
| Loss on disposal of equipment | 6 | 178 |
| Provision for losses on accounts/loans receivable | (65) | 295 |
| Contributions restricted/designated for long-term investment | (20,204) | (24,637) |
| Contributions of property | (1,405) | - |
| Net realized and unrealized (gains)/losses on investments | (10,381) | (61,132) |
| Change in net present value of annuities | (106) | (243) |
| Change in asset retirement obligation | 139 | 132 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, inventory and prepaid expenses | 126 | (665) |
| Accounts payable, accruals, deferred revenue and deposits | 148 | 1,135 |
| Contributions receivable | (1,360) | (14,279) |
| Net cash provided by (used in) operating activities | <u>(14,625)</u> | <u>(12,014)</u> |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | 159,133 | 121,814 |
| Purchase of long-term investments | (141,079) | (107,125) |
| Payments on student loans and employee mortgages | 1,236 | 851 |
| Student loans and employee mortgages advanced | (1,287) | (1,576) |
| Purchase of property, plant and equipment | (13,897) | (13,097) |
| Decrease(increase) in deposits held by trustees of debt obligations | 61 | 6,356 |
| Net cash provided by (used in) investing activities | <u>4,167</u> | <u>7,223</u> |
| Cash flows from financing activities | | |
| Contributions restricted or designated for long-term investment | 20,204 | 24,637 |
| Proceeds from long-term borrowing | - | 22,249 |
| Debt issuance costs/premium | - | (1,008) |
| Repayment of debt | (2,965) | (25,035) |
| Government advance for loans | (20) | (479) |
| Net cash provided by (used in) financing activities | <u>17,219</u> | <u>20,364</u> |
| Net increase in cash and cash equivalents | 6,761 | 15,573 |
| Cash and cash equivalents at beginning of year | 49,146 | 33,573 |
| Cash and cash equivalents at end of year | <u>\$ 55,907</u> | <u>\$ 49,146</u> |
| Supplemental disclosures | | |
| Non-cash gifts-in-kind | \$ 37 | \$ 10 |
| Contributed securities | 4,991 | 7,436 |
| Interest paid | 5,201 | 5,422 |
| Construction related payables | 822 | 2,448 |

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

Bryn Mawr College

Notes to the Financial Statements

May 31, 2019

(Dollars in thousands)

1 Organization

Bryn Mawr College (the College) is a private institution of higher education founded in 1885 and located in Bryn Mawr, Pennsylvania on an historic and picturesque suburban campus less than ten miles from the downtown center of Philadelphia.

The Undergraduate College offers a four-year, residential experience to approximately 1,450 women representing 48 different states, districts and territories and 58 different countries with an expansive, customizable liberal arts curriculum of over 37 majors and 41 minors. Bryn Mawr was the first women's college to offer graduate education through the Ph.D., defying the limitations imposed on women's intellectual achievement at other institutions of the time. The College continues its support of master and doctoral programs via its Graduate School of Arts and Sciences and its Graduate School of Social Work and Social Research. Both graduate schools are coeducational and enroll approximately 300 full-time equivalent students in total.

2 Summary of Significant Accounting Policies

Basis of Presentation

The College's financial statements have been prepared on an accrual basis and in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Net assets are classified as without donor restrictions or with donor restrictions based on the existence or absence of donor-imposed restrictions as follows:

With donor restrictions: Net assets subject to donor-imposed stipulations include current spendable contributions (non-endowment) with donor-imposed restrictions, endowment, capital, and planned contributions, and realized and unrealized gains and losses on the endowment.

Without donor restrictions: Net assets that are not subject to donor-imposed stipulations. Net assets without donor restriction may be designated for specific purposes by action of the Board of Trustees ("Quasi Endowment") or may otherwise be limited by contractual agreements with outside parties.

Expenses are reported as decreases in net assets without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose for the restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the Statements of Activities as releases from restriction.

Measure of Operations

The College's measure of operations as presented in the Statement of Activities includes operating revenue from student tuition and fees (net of financial aid), private contributions, government grants, endowment payout under spending formula, auxiliary (net of financial aid), interest, and other. The Statement of Activities presents operating expenses by their functional classification. Additionally, operating expenses are presented by natural and functional classifications in footnote 10 Expenses by Nature and Function.

Non-operating activity presented on the Statement of Activities is comprised of private contributions (endowment and capital gifts), realized and unrealized gains and losses on investments (net of funds appropriated for endowment spending payout), actuarial changes, interest and payments related to the College's endowment and trusts, and other.

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Notes to the Financial Statements
May 31, 2019

(Dollars in thousands)

Use of Estimates

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

Cash and Cash Equivalents

Cash and other investments with a maturity of three months or less at the time of purchase are reported as cash equivalents. Cash and cash equivalents representing assets of the endowment and similar funds are included in long-term investments.

Contributions Receivable

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received at their net present value, less an allowance for estimated uncollectible amounts.

Fair Value of Financial Instruments

The College's investments and other financial instruments are reported at fair value. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Investments are then classified and disclosed in one of the following categories based on the lowest level input that is significant to the fair value measurement in its entirety:

- Level I – Quoted prices in active markets for identical assets or liabilities, at the reporting date, without adjustment. Market price is data generally obtained from relevant exchange or dealer markets.
- Level II – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date.
- Level III – Pricing inputs are unobservable for the investment and includes situations where a) there is minimal, if any, market activity for the investment and b) the inputs used in determination of fair value require significant management judgment or estimation.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. The College considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the College's perceived risk of that instrument.

Assets and liabilities are disclosed in the Notes to Financial Statements within the hierarchy based on the lowest (or least observable) input that is significant to the measurement. The College's assessment of the significance of an input requires judgment, which may affect the valuation and categorization within the fair value hierarchy.

The College performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or net asset value

Bryn Mawr College
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May 31, 2019

(Dollars in thousands)

(NAV) provided to ensure conformity with US Generally Accepted Accounting Principles (GAAP). The College has assessed factors including, but not limited to, managers' compliance with the Fair Value Measurement standard, price transparency and valuation procedures in place, the ability to redeem NAV at the measurement date and existence of certain redemption restrictions at the measurement date.

Cash and Equivalents

The carrying amount approximates fair value because of the short maturity of these instruments.

Short-Term Investments

Short-term investments include cash equivalents and fixed income mutual funds with maturities between three and twelve months. These short-term investments are valued using observable market data to the degree that they can be valued based on quoted market prices in active markets.

Equity Funds

Equity investments consist of separate accounts, daily traded mutual funds, commingled funds and limited partnerships. Securities held in separate accounts and daily traded mutual funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets with no valuation adjustment applied. Commingled funds and limited partnership interests are valued at NAV.

Real Assets

Real assets primarily represent real estate, commodity and energy related interests held through limited partnerships. The fund managers invest primarily in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These investments are valued at NAV and adjusted for subsequent cash flow activity if applicable.

Private Equity

Investments in private equity are in the form of limited partnership interests. The fund managers invest primarily in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV and adjusted for subsequent cash flow activity if applicable.

Hedge Funds

Investments in hedge funds, also known as marketable alternatives, represent multi-strategy, global and US equity interests. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These investments are valued at NAV and adjusted for subsequent cash flow activity if applicable.

Trust and Split Interest Agreements

Split interest agreements represent a variety of funds including pooled growth, pooled income, charitable gift annuity, charitable remainder unitrust and annuity trusts and income trusts. Where the College is trustee, liabilities associated with third party interests are reported on the Statement of Financial Position at fair value. Discount rates range between 3-6%. The College is the beneficiary of Trusts held by others. These are income trusts where the College will receive income payments in perpetuity or a defined term as defined in the trust. Beneficial interest in perpetual trusts represent resources neither in the possession of nor under the control of the College, but held and

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Notes to the Financial Statements

May 31, 2019

(Dollars in thousands)

administered by outside fiscal agents, with the College deriving income from such funds. The trusts are recorded at their respective fair values which are reported periodically to the College by the outside fiscal agent.

Mortgages

The College's Mortgage Loan program is currently available to faculty who meet certain eligibility requirements and permits long-term monthly amortizing first mortgage loans of up to 85% of the appraised value (subject to a cap) for homes which are within a specified distance of campus. Mortgages are to be paid off in full within six months of termination of employment for any reason. The interest rate on such mortgage loans is locked for the term of the mortgage using the long-term monthly Applicable Federal Rate published by the Internal Revenue Service. Mortgage payments are by payroll deduction. Currently, there are no associated allowances for the receivables held under this program. The College has limited the number of faculty mortgages it issues to five during each calendar year.

Student Loan Receivables

Student loan receivables are reported net of allowances for doubtful loans whose adequacy is assessed regularly. The allowance provisions are intended to provide for loans that may not be collected. Determination of the fair value of student loan receivables, which are primarily federally-sponsored student loans with U.S. Government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition, could not be made without incurring excessive costs.

Endowment Investment and Spending Policies and Objectives

The College's endowment is comprised of approximately 1,440 individual funds established for a variety of reasons, including donor restrictions as well as funds designated by the Board to function as endowments (i.e. the quasi-endowment). Bryn Mawr's investment policy goal is primarily to maintain the purchasing power of the endowment and secondarily, to increase the portion of the College's operating budget that comes from endowment over time. The College utilizes a highly diversified investment portfolio to reduce the risk and increase the return over a full market cycle.

In determining the annual spending amount, Bryn Mawr College's policy uses a constant growth factor in combination with incremental spending from new gifts and a market-value-based collar. The spending amount for a given fiscal year is calculated using a 4.5% increase over the prior fiscal year's spending amount plus 5% of new gifts that were received in the most recently closed fiscal year. The draw amount is then tested against the set collar: a floor or minimum draw amount of 4.5% of the trailing three-year average of the fiscal year-end market values and a ceiling or maximum draw amount of 5.5% of the same trailing three-year average of the fiscal year-end market values.

Commonwealth of Pennsylvania law (Act 141) permits the College to allocate to income each year a portion of endowment net realized gains. In accordance with the law, the College spends between 2% and 7% of the fair market value of the endowment funds, averaged over a period of three or more preceding years.

New Accounting Standards

In May 2014, the FASB issued a standard of Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations

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May 31, 2019

(Dollars in thousands)

and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The College used the modified retrospective method to adopt the provisions of this new standard during the year ended May 31, 2019. The standard had no material impact on the revenue recognized in the Statement of Activities.

In August 2016, the FASB issued a standard on the Presentation of Financial Statements of Not-for-Profit Entities. The new guidance requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other users. The College adopted the provisions of this new standard during the year ended May 31, 2019. In applying the standard the College changed the terminology it uses to describe categories of net assets as “Without Donor Restriction” and “With Donor Restrictions” throughout the financial statements. Additionally, disclosures were added regarding the liquidity and availability of resources (footnote 12) and disclosures related to functional allocation of expenses were expanded (footnote 10). The changes resulting from the adoption of this standard were applied retrospectively to ensure comparability with the prior year presented. A summary of the net asset reclassification resulting from the adoption of this standard as of May 31, 2018 is as follows:

| | New Standard Presentation | | |
|------------------------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total Net Assets |
| Net assets as previously presented | | | |
| Unrestricted | 520,730 | | 520,730 |
| Temporarily Restricted | | 273,265 | 273,265 |
| Permanently Restricted | | 278,773 | 278,773 |
| Net assets, as restated | 520,730 | 552,038 | 1,072,768 |

In June 2018, the FASB issued an amendment to the Topic 958, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard provides specific guidance on evaluating whether gifts and grants should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions and whether a contribution is conditional. The College early adopted the provisions of this new standard on a modified prospective basis during the year ended May 31, 2019. The standard had no material impact on the private gift and government grants recognized in the Statement of Activities.

In February 2016, the FASB issued a standard on Leases. This standard requires lessees to recognize assets and liabilities for the rights and obligations created by leases with terms in excess of 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease will primarily depend on its classification as a finance or operating lease. The accounting by lessors remains largely unchanged. This standard is effective for fiscal years beginning after December 15, 2018. The College is evaluating the impact this will have on the financial statements beginning in Fiscal Year 2020.

In November 2016, the FASB issued an amendment to the Topic 230, Statement of Cash Flows - Restricted Cash. This standard provides specific guidance on the treatment of restricted cash on the Statement of Cash Flows. This standard is effective for fiscal years beginning after December 15, 2018. The College is evaluating the impact this will have on the financial statements beginning in Fiscal Year 2020.

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May 31, 2019

(Dollars in thousands)

Plant and Equipment

Plant assets are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, as follows: building shell (60 years); building systems, renovations and land improvements (20-25 years); information systems, equipment and furnishings (5-10 years); and library books (20 years). Depreciation expense is allocated to functional categories in the statement of operations based on building square footage. Expenditures for new construction, major renovations, equipment, and library acquisitions are capitalized. Gains or losses on the sale or retirement of plant assets are recorded in the year of disposition.

Works of art, special collections and similar assets have been capitalized at their estimated fair value at the date of acquisition, based upon appraisals or similar valuations. Such assets are not depreciated.

Long-lived assets to be held and used are reviewed for impairments whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable.

Deferred Revenue

Student revenue is recognized net of institutional scholarships in the fiscal year in which the academic programs are delivered. Revenues received prior to the end of the fiscal year which relate to the following fiscal year are recorded and reflected in student deposits and deferred revenue.

Deposit with Trustees

Deposits with the trustee associated with the College's debt obligations are invested in cash, money market and various government securities according to the requirements established by the associated bond agreements.

Fund Raising Expenses

Direct expenses for fundraising were \$4,541 in 2019 and \$4,540 in 2018.

Tax Status

The College has been granted tax-exempt status as a non-profit organization under Section 501(c) (3) of the Internal Revenue Code, and accordingly, files annually federal tax Form 990 (Return of Organization Exempt from Income Tax). The College also files federal tax Form 990-T (Exempt Organizations Business Income Tax Return). The College monitors and evaluates its activities for unrelated business income.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act impacts the College in several ways, including a new excise tax on net investment income, increases to unrelated business taxable income (UBTI) by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax (AMT), and the computation of UBTI separately for each unrelated trade or business. The College has used the published federal guidance and proposed guidance to estimate the tax liability that the Act has created for the year ending with May 31, 2019.

Other Assets

Other assets include prepaid expenses and inventory which is valued at the lower of cost or market.

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May 31, 2019

(Dollars in thousands)

3 Contributions Receivable

Contributions receivable consisted of the following at May 31. The discount rates applied to new pledges was 4.3% at May 31, 2019 and 2018.

| | | | | |
|---|----|---------------|----|---------------|
| Contributions receivable in: | | <u>2019</u> | | <u>2018</u> |
| Less than one year | \$ | 309 | \$ | 87 |
| One to five years | | 26,852 | | 25,614 |
| More than five years | | 0 | | 1 |
| | | <u>27,161</u> | | <u>25,702</u> |
| Less allowance for doubtful contributions | | (4) | | (3) |
| Less discount to present value | | (3,459) | | (3,360) |
| Contributions receivable | \$ | <u>23,698</u> | \$ | <u>22,339</u> |

Conditional contributions including bequest intentions are not recognized as assets and if received, are recorded as revenue in the period the condition is met. The College has federal awards which are considered conditional grants. These grants are considered conditional due to the need to first spend the awarded funds on qualifying expenses and the right of return that exists for unexpended funds. As of May 31, 2019, the College had \$2,609 of conditional contributions from federal awards for which the conditions have not been met.

4 Property, Plant and Equipment

At May 31 property, plant and equipment consisted of the following:

| | | | | |
|------------------------------------|----|----------------|----|----------------|
| | | <u>2019</u> | | <u>2018</u> |
| Land and land improvements | \$ | 9,282 | \$ | 7,783 |
| Buildings and fixed equipment | | 328,552 | | 303,827 |
| Information systems | | 6,029 | | 5,960 |
| Equipment and library books | | 51,182 | | 50,387 |
| Fine arts and special collections | | 5,731 | | 5,705 |
| Construction in progress | | 2,376 | | 15,934 |
| | | <u>403,151</u> | | <u>389,596</u> |
| Accumulated depreciation | | (206,369) | | (193,447) |
| Net property, plant, and equipment | \$ | <u>196,782</u> | \$ | <u>196,149</u> |

Depreciation expense was \$13,036 and \$13,207 at May 31, 2019 and 2018, respectively.

5 Long Term Investments

Endowment and similar funds are classified as long-term investments and include the College's permanent endowment funds, term endowment funds, and quasi-endowment funds. Quasi-endowment funds have been established by the Board of Trustees for the same purposes as endowment funds; however, quasi-endowment funds may be expended in their entirety at the discretion of the Board.

Annuity, life income, and trust agreements are also classified as long-term investments. The College pays periodically either the income earned or a fixed percentage of the assets to the beneficiary designated by the donor. Upon termination of an annuity, life income, or trust agreement the College's remainder interest in the assets is available for use by the College as restricted by the donor or designated by the Board of Trustees. The College has recorded an accrued liability and deferred revenue of \$7,185 at May 31, 2019 and \$7,291 at May 31, 2018 representing gift annuities payable and pooled income fund liabilities.

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Long-term investments include outstanding balances on residential mortgages held for eligible employees. The outstanding balances amounted to \$6,150 and \$5,858 as of May 31, 2019 and 2018, respectively. The mortgage portfolio's 3.7% average interest rate approximates the market rates and the assets are fully collateralized with a zero deficiency and default rate. Also included is a payable balance related to a sale of investments of \$452 and \$516 as of May 31, 2019 and 2018, respectively.

Certain investments that are measured at fair value using the net asset value per share or its equivalent (NAV) as a practical expedient for fair value have been categorized separately.

A summary of investments, measured at fair value in accordance with the *Fair Value Measurements* standard on a recurring basis, as of May 31, 2019 and 2018, is as follows:

| | 2019 | | | | |
|--|-------------------|-------------------|------------------|-------------------|-------------------|
| | Level I | Level II | Level III | NAV | Total |
| Endowment | | | | | |
| Cash and Cash Equivalents | \$ 42,527 | | | \$ | \$ 42,527 |
| Diversifying Strategies/Hedge Funds | | | | \$ 132,005 | 132,005 |
| Equity - Developed International | | \$ 99,415 | | | 99,415 |
| Equity - Domestic | 79,698 | 11,331 | | | 91,029 |
| Equity - Emerging Markets | | 85,076 | | | 85,076 |
| Equity - Global | | 41,007 | | | 41,007 |
| Fixed Income | | 75,405 | | | 75,405 |
| Private Equity-Buyout/Other | | | | 126,840 | 126,840 |
| Private Equity-Fund of Funds | | | | 7,331 | 7,331 |
| Private Equity-Venture Capital | | | | 87,841 | 87,841 |
| Real Assets (non-marketable) | | | | 99,677 | 99,677 |
| Total Endowment | \$ 122,224 | \$ 312,234 | \$ - | \$ 453,695 | \$ 888,153 |
| Trusts | 11,213 | | 25,825 | | 37,038 |
| Residential Mortgages | | 6,150 | | | 6,150 |
| Sub-Total Long Term Investments | \$ 133,437 | \$ 318,384 | \$ 25,825 | \$ 453,695 | \$ 931,340 |
| Short Term Investments | 425 | 5,942 | | | 6,367 |
| Total Investments | \$ 133,862 | \$ 324,326 | \$ 25,825 | \$ 453,695 | \$ 937,708 |
| | | | | | |
| | 2018 | | | | |
| | Level I | Level II | Level III | NAV | Total |
| Endowment | | | | | |
| Cash and Cash Equivalents | \$ 32,401 | | | \$ | \$ 32,401 |
| Diversifying Strategies/Hedge Funds | | | | \$ 164,608 | 164,608 |
| Equity - Developed International | | \$ 109,382 | | | 109,382 |
| Equity - Domestic | 76,821 | 11,758 | | | 88,579 |
| Equity - Emerging Markets | | 89,772 | | | 89,772 |
| Equity - Global | | 43,529 | | | 43,529 |
| Fixed Income | | 72,876 | | | 72,876 |
| Private Equity-Buyout/Other | | | | 111,959 | 111,959 |
| Private Equity-Fund of Funds | | | | 11,617 | 11,617 |
| Private Equity-Venture Capital | | | | 64,974 | 64,974 |
| Real Assets (non-marketable) | | | | 107,539 | 107,539 |
| Total Endowment | \$ 109,222 | \$ 327,317 | \$ - | \$ 460,697 | \$ 897,236 |
| Trusts | 12,222 | | 24,534 | | 36,756 |
| Residential Mortgages | | 5,858 | | | 5,858 |
| Sub-Total Long Term Investments | \$ 121,444 | \$ 333,175 | \$ 24,534 | \$ 460,697 | \$ 939,850 |
| Short Term Investments | 420 | 4,819 | | | 5,239 |
| Total Investments | \$ 121,864 | \$ 337,994 | \$ 24,534 | \$ 460,697 | \$ 945,089 |

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Changes to the reported amounts of investments measured at fair value on a recurring basis listing Level III (unobservable) inputs as of May 31 are as follows:

| | Trusts | | Trusts |
|--|-----------------|--|-----------------|
| Balance, May 31,2018 | \$24,534 | Balance, May 31,2017 | \$22,875 |
| Purchases, sales and settlements | 1,847 | Purchases, sales and settlements | 1,089 |
| Net interest, dividends, fees | 151 | Net interest, dividends, fees | 139 |
| Net distributions | (396) | Net distributions | (369) |
| Net change in realized/unrealized gains (losses) | (311) | Net change in realized/unrealized gains (losses) | 800 |
| Balance, May 31,2019 | <u>\$25,825</u> | Balance, May 31,2018 | <u>\$24,534</u> |

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of May 31, 2019 and 2018 there were no transfers between Levels I, II, or III.

The realized and unrealized gains and losses of the Level III investments for fiscal years 2018 and 2017 are included in realized and unrealized gains (losses) on investments in the Non-operating section of the Statement of Activities. Realized and unrealized gains (losses) of (\$311) and \$800 are attributable to the trusts for 2019 and 2018 respectively.

Deposits with trustees of debt obligations of \$2,540 and \$2,601 as of May 31, 2019 and 2018, respectively, are considered Level II investments.

Limitations and restrictions regarding redeeming or selling investments exist for some of the College's investments. Investments like publicly traded securities or certain mutual funds have no restrictions, and under normal circumstances cash can be realized on a daily basis without advance notice prior to withdrawal. Other investments have provision that limit redemptions by requiring notice periods (generally 30 to 180 days after initial lock-up periods), limiting the dates on which redemptions can take place, and/or releasing cash associated with redemption requests over multiple quarters. Private equity and non-marketable real asset limited partnership interests are "illiquid" in that they are reliant on the disposition of portfolio positions and return of capital by the investment manager. Liquidity provisions of the College's investments as of May 31, 2019 and May 31, 2018 are as follows:

| | 2019 | | | | | | | |
|--|-------------------------------|-------------------|------------------|-------------------|-----------------|------------------|---|-------------------|
| | In Redemption/ Liquidation | Daily | Weekly | Monthly | Quarterly | Annual | Greater Than One Year or Illiquid | Total |
| Endowment | | | | | | | | |
| Cash and Cash Equivalents | | \$ 42,527 | | | | | | \$ 42,527 |
| Diversifying Strategies/Hedge Funds | \$ 32,783 | | | | \$ 4,811 | \$ 79,573 | \$ 14,838 | 132,005 |
| Equity - Developed International | | | | \$ 99,415 | | | | 99,415 |
| Equity - Domestic | | 79,698 | | 11,331 | | | | 91,029 |
| Equity - Emerging Markets | | 17,065 | | 68,012 | | | | 85,076 |
| Equity - Global | | | \$12,780 | 28,227 | | | | 41,007 |
| Fixed Income | | 75,405 | | | | | | 75,405 |
| Private Equity-Buyout/Other | | | | | | | 126,840 | 126,840 |
| Private Equity-Fund of Funds | | | | | | | 7,331 | 7,331 |
| Private Equity-Venture Capital | | | | | | | 87,841 | 87,841 |
| Real Assets (non-marketable) | | | | | | | 99,677 | 99,677 |
| Total Endowment | \$ 32,783 | \$ 214,694 | \$ 12,780 | \$ 206,984 | \$ 4,811 | \$ 79,573 | \$ 336,528 | \$ 888,153 |
| Trusts | | | | | | | 37,038 | 37,038 |
| Residential Mortgages | | | | | | | 6,150 | 6,150 |
| Sub-Total Long Term Investments | \$ 32,783 | \$ 214,694 | \$ 12,780 | \$ 206,984 | \$ 4,811 | \$ 79,573 | \$ 379,716 | \$ 931,340 |
| Short Term Investments | | 6,367 | | | | | | 6,367 |
| Total Investments | \$ 32,783 | \$ 221,062 | \$ 12,780 | \$ 206,984 | \$ 4,811 | \$ 79,573 | \$ 379,716 | \$ 937,708 |

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| | 2018 | | | | | | | Total |
|--|-------------------------------|-------------------|-------------|-------------------|------------------|------------------|---|-------------------|
| | In Redemption/ Liquidation | Daily | Weekly | Monthly | Quarterly | Annual | Greater Than One Year or Illiquid | |
| Endowment | | | | | | | | |
| Cash and Cash Equivalents | | \$ 32,401 | | | | | | \$ 32,401 |
| Diversifying Strategies/Hedge Funds | \$ 11,831 | | | | \$ 27,025 | \$ 94,609 | \$ 31,659 | 165,124 |
| Equity - Developed International | | | | \$ 109,381 | | | | 109,381 |
| Equity - Domestic | | 76,821 | | 11,758 | | | | 88,579 |
| Equity - Emerging Markets | | 17,667 | | 72,104 | | | | 89,771 |
| Equity - Global | | | | 43,529 | | | | 43,529 |
| Fixed Income | | 72,876 | | | | | | 72,876 |
| Private Equity-Buyout/Other | 5 | | | | | | 111,955 | 111,959 |
| Private Equity-Fund of Funds | | | | | | | 11,617 | 11,617 |
| Private Equity-Venture Capital | | | | | | | 64,974 | 64,974 |
| Real Assets (non-marketable) | | | | | | | 107,023 | 107,023 |
| Total Endowment | \$ 11,836 | \$ 199,765 | \$ - | \$ 236,773 | \$ 27,025 | \$ 94,609 | \$ 327,227 | \$ 897,235 |
| Trusts | | | | | | | 36,756 | 36,756 |
| Residential Mortgages | | | | | | | 5,858 | 5,858 |
| Sub-Total Long Term Investments | \$ 11,836 | \$ 199,765 | \$ - | \$ 236,773 | \$ 27,025 | 94,609 | \$ 369,841 | \$ 939,849 |
| Short Term Investments | | 5,239 | | | | | | 5,239 |
| Total Investments | \$ 11,836 | \$ 205,004 | \$ - | \$ 236,773 | \$ 27,025 | \$ 94,609 | \$ 369,841 | \$ 945,088 |

Investment activity for 2019 and 2018 is as follows:

| | Endowment & similar funds | Gift annuities and trusts | Trusts held by others | 2019 | 2018 |
|---|---------------------------------|---------------------------------|-----------------------------|------------|------------|
| Investments at beginning of year | \$ 897,236 | \$ 29,691 | \$ 7,065 | \$ 933,992 | \$ 887,633 |
| Contributions restricted by donor | 12,344 | 701 | 1,848 | 14,893 | 13,301 |
| Contributions designated for long-term investment | 5,311 | | | 5,311 | |
| Payout returned to long-term investment | (5) | | | (5) | 519 |
| Other increases | 4,925 | | | 4,925 | 4,048 |
| | 919,811 | 30,392 | 8,913 | 959,116 | 916,837 |
| Investment returns net of expenses of \$8,550 in 2019 and \$9,071 in 2018 | | | | | |
| Investment dividends and interest | 4,099 | | | 4,099 | 3,357 |
| Realized/unrealized gains/(losses) | 10,523 | (415) | (38) | 10,070 | 61,171 |
| | 14,622 | (415) | (38) | 14,169 | 64,528 |
| Endowment spending payout | (46,280) | | | (46,280) | (45,818) |
| | (31,658) | (415) | (38) | (32,111) | 18,710 |
| Annuity and trust income | | 266 | | 266 | 278 |
| Payments to annuitants and trust expenses | | (1,375) | | (1,375) | (1,386) |
| Maturities of annuities | | (705) | | (705) | (447) |
| Investments at end of year | \$ 888,153 | \$ 28,163 | \$ 8,875 | \$ 925,191 | \$ 933,992 |

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6 Debt

Long-term debt, net of unamortized issuance costs, discounts, or premiums at May 31, consisted of the following:

| | <u>Maturity Date</u> | <u>Coupon Rates</u> | <u>2019</u> | <u>2018</u> |
|--|--------------------------|-------------------------|-------------------|-------------------|
| Montgomery County Industrial Development Authority | | | | |
| College Revenue Bonds, Series 2017 | 12/1/2037 | 3.25-5% | \$ 21,700 | \$ 21,776 |
| Pennsylvania Higher Educational Facilities Authority | | | | |
| College Revenue Bonds, Series 2014 | 12/1/2044 | 3.0-5.0% | 53,321 | 54,643 |
| Pennsylvania Higher Educational Facilities Authority | | | | |
| College Revenue Bonds, Series 2012A | 12/1/2022 | 4.0% | 13,766 | 13,988 |
| Pennsylvania Higher Educational Facilities Authority | | | | |
| College Revenue Bonds, Series 2010A | 12/1/2019 | 4.0-5.0% | 22,710 | 24,165 |
| Pennsylvania Higher Educational Facilities Authority | | | | |
| College Revenue Bonds, Series 2010 | 12/1/2029 | 3.0-5.0% | 10,072 | 10,794 |
| | | | <u>\$ 121,569</u> | <u>\$ 125,366</u> |

Principal payments on long-term debt are as follows:

| | Series 2017 | Series 2014 | Series 2012A | Series 2010A | Series 2010 | Total |
|---|----------------|----------------|-----------------|-----------------|----------------|-------------------|
| 2020 | \$ - | \$ 1,195 | \$ - | \$ 22,360 | \$ 745 | \$ 24,300 |
| 2021 | - | 1,250 | - | - | 780 | 2,030 |
| 2022 | - | 1,320 | - | - | 815 | 2,135 |
| 2023 | - | 1,385 | 13,100 | - | 840 | 15,325 |
| 2024 | - | 1,455 | - | - | 870 | 2,325 |
| Thereafter | \$ 20,335 | 42,295 | - | - | 5,945 | <u>68,575</u> |
| Total principal payments | | | | | | \$ 114,690 |
| Net bond premiums, discount, and issuance costs | | | | | | 6,879 |
| Total outstanding debt | | | | | | <u>\$ 121,569</u> |

The long-term debt includes various tax-exempt bond issues. All of the bonds bear interest at fixed rates that were determined on their original sale date. Interest is payable semi-annually. The bonds were issued by the Pennsylvania Higher Educational Facilities Authority or by the Montgomery County Industrial Development Authority, as noted on the schedule above, pursuant to indentures with bond trustees. The proceeds were loaned to the College via loan agreements. For the purpose of securing the payments to Series 2010, 2010A, 2012, and 2014 bondholders, the College pledged its unrestricted revenues, as defined in those agreements. In addition, under the terms of the agreements, the College is required to comply with various financial covenants. The College was in compliance with such covenants as of May 31, 2019 and May 31, 2018. The Series 2017 bonds are not secured by a pledge of revenues or any other asset of the College; they are a general obligation of the College.

In May 2010, the College issued the Series 2010 bonds primarily to currently refinance the Series 1999 bond issue.

In November 2010, the College issued the Series 2010A bonds primarily to refinance a portion of the Series 2002 bond issue.

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In November 2012, the College issued the Series 2012A bonds primarily to currently refinance the remainder of the Series 2002 bond issue. Approximately \$5,000 of proceeds was used for the construction, improvement, renovation, and equipping of various College facilities.

In July 2014, the College issued the Series 2014 bonds to refinance a portion of the Series 2012 bond issue and to fund various construction, improvement, renovation and equipping projects expected to include the renovation and expansion of a student residential facility and the College's primary science facility. The Series 2014 Bonds legally defeased \$21,780 of the outstanding Series 2012 Bonds.

In June 2017, the College issued the Series 2017 bonds primarily to currently refinance the Series 2007 bond issue.

7 Net Assets

Net assets at May 31, 2019 consisted of the following:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|-----------------------------|-------------------------------|----------------------------|---------------------|
| Current funds | \$ 20,366 | \$ 27,949 | \$ 48,315 |
| Loan funds | 538 | 138 | 676 |
| Endowment and similar funds | | | |
| True endowment | - | 486,994 | 486,994 |
| Quasi-endowment | 400,003 | 6,840 | 406,844 |
| Term endowment | - | 1,735 | 1,735 |
| Annuities and trusts | 2,410 | 27,443 | 29,853 |
| Plant funds | | | |
| Unexpended plant | 26,085 | - | 26,085 |
| Capital projects | - | 6,233 | 6,233 |
| Net investment in plant | 72,305 | - | 72,305 |
| Total | <u>\$ 521,709</u> | <u>\$ 557,332</u> | <u>\$ 1,079,041</u> |

Net assets at May 31, 2018 consisted of the following:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|-----------------------------|-------------------------------|----------------------------|---------------------|
| Current funds | \$ 9,647 | \$ 25,798 | \$ 35,445 |
| Loan funds | 538 | 77 | 615 |
| Endowment and similar funds | | | |
| True endowment | - | 491,757 | 491,757 |
| Quasi-endowment | 407,342 | 4,378 | 411,720 |
| Term endowment | - | 1,794 | 1,794 |
| Annuities and trusts | 3,056 | 26,409 | 29,465 |
| Plant funds | | | |
| Unexpended plant | 32,132 | - | 32,132 |
| Capital projects | - | 1,825 | 1,825 |
| Net investment in plant | 68,015 | - | 68,015 |
| Total | <u>\$ 520,730</u> | <u>\$ 552,038</u> | <u>\$ 1,072,768</u> |

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Changes to the reported amount of the College's endowment net assets as of May 31 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|------------|
| Net assets, May 31, 2018 | \$ 407,342 | \$ 497,929 | \$ 905,271 |
| Investment return: | | | |
| Investment income | 1,820 | 2,279 | 4,099 |
| Net appreciation/(depreciation), realized and unrealized | 4,672 | 5,851 | 10,523 |
| Total investment return | \$ 6,492 | \$ 8,130 | \$ 14,622 |
| New gifts | 2,937 | 14,102 | 17,039 |
| Appropriation of endowment assets for spending | (20,835) | (25,445) | (46,280) |
| Transfers | 4,067 | 853 | 4,920 |
| Net assets, May 31, 2019 | \$ 400,003 | \$ 495,570 | \$ 895,573 |

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|------------|
| Net assets, May 31, 2017 | \$ 380,650 | \$ 477,371 | \$ 858,021 |
| Investment return: | | | |
| Investment income | 1,509 | 1,848 | 3,357 |
| Net appreciation/(depreciation), realized and unrealized | 26,756 | 32,723 | 59,479 |
| Total investment return | \$ 28,264 | \$ 34,571 | \$ 62,835 |
| New gifts | 11,305 | 14,360 | 25,665 |
| Appropriation of endowment assets for spending | (20,646) | (25,172) | (45,818) |
| Transfers | 7,768 | (3,201) | 4,567 |
| Net assets, May 31, 2018 | \$ 407,342 | \$ 497,929 | \$ 905,271 |

As of May 31, 2019, there were 92 donor-restricted endowment funds for which the fair value of assets was less than the level required by donor stipulations. These endowment funds had a total original gift value of \$56,326, current fair value of \$54,852, and a deficiency of \$1,474.

As of May 31, 2018, there were 24 donor-restricted endowment funds for which the fair value of assets was less than the level required by donor stipulations. These endowment funds had a total original gift value of \$10,638, current fair value of \$10,458, and a deficiency of \$180.

8 Employee Retirement Benefits

Eligible faculty, administration, and staff are provided retirement benefits under the College's defined contribution retirement program administered by Transamerica Retirement Solutions. The participants' contributions, which are permitted but not required, are fully vested, and the College funds its contributions to the plan on an ongoing basis. There are no unfunded benefits. The College's expense for the program was \$4,740 in 2019 and \$4,694 in 2018.

9 Commitments and Contingencies

Certain of the College's long-term investments involve future cash commitments which total approximately \$189,665 at May 31, 2019.

The College has outstanding construction contracts totaling approximately \$7,355. Completion of these projects is estimated to extend through January 2020.

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The College is a defendant in various legal actions. While the final amount of these claims cannot be determined at this time, management does not expect that the resolution of the outstanding claims and litigation will have a material adverse effect upon the College's financial position.

10 Expenses by Nature and Function

The statements of activities present expenses by functional classification. The College also summarizes its expenses by natural classification.

Expenses related to operation and maintenance of plant include facilities operations and annual maintenance, utilities, depreciation, amortization, and interest expense for long-term debt. Interest expense for long-term debt is allocated to functional categories based on functional nature of campus facilities funded through proceeds of outstanding debt. All other operation and maintenance of plant expenses are allocated to functional categories based on building square footage.

Expenses were incurred in the following categories for the year ended May 31, 2019:

| | Operating Expenses | | | | | Non-operating Expenses | Total Expenses |
|-----------------------------|--------------------|--------------|----------------|-----------------------|-----------------------|------------------------|----------------|
| | Education | Research | Public Service | Institutional Support | Auxiliary enterprises | | |
| Salaries & wages | \$ 36,590 | \$ 576 | \$ 897 | \$ 10,861 | \$ 4,640 | \$ 53 | \$53,618 |
| Benefits | 11,213 | 138 | 284 | 3,833 | 1,664 | 14 | 17,146 |
| Program expenses | 22,570 | 1,442 | 102 | 5,911 | 4,923 | 9,752 | 44,700 |
| Depreciation & amortization | 7,027 | - | 181 | 1,223 | 4,606 | - | 13,036 |
| Interest | 3,356 | - | - | 326 | 1,458 | - | 5,140 |
| Total Expenses | 80,756 | 2,156 | 1,463 | 22,154 | 17,291 | 9,819 | 133,640 |

Expenses were incurred in the following categories for the year ended May 31, 2018:

| | Operating Expenses | | | | | Non-operating Expenses | Total Expenses |
|-----------------------------|--------------------|--------------|----------------|-----------------------|-----------------------|------------------------|----------------|
| | Education | Research | Public Service | Institutional Support | Auxiliary enterprises | | |
| Salaries & wages | \$35,945 | \$514 | \$1,024 | \$10,894 | \$4,517 | \$99 | \$52,993 |
| Benefits | 11,308 | 123 | 329 | 3,982 | 1,708 | 29 | 17,479 |
| Program expenses | 21,033 | 2,351 | 499 | 4,561 | 4,823 | 10,087 | 43,354 |
| Depreciation & amortization | 7,105 | - | - | 1,347 | 4,755 | - | 13,207 |
| Interest | 3,431 | - | - | 333 | 1,491 | - | 5,255 |
| Total Expenses | 78,822 | 2,989 | 1,852 | 21,118 | 17,293 | 10,215 | 132,289 |

11 Line of Credit

The College has access to lines of credit with two banks, with varying terms, through which \$15,000 may be borrowed from each bank. One line of credit commitment is currently scheduled to expire on June 30, 2019, and the other on February 1, 2021. As of May 31, 2019 and May 31, 2018 there was no outstanding balance on either line of credit.

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12 Liquidity

The College closely monitors liquidity and availability of resources required to meet its operating needs and contractual commitments. All expenses of the College’s mission-related and support activities are considered in the analysis of resources available to meet the general expenditures over a 12-month period.

The following financial assets were available for expenditure within one year as of May 31:

| | 2019 | 2018 |
|--|-------------------|-------------------|
| Cash and Cash Equivalents | \$ 55,907 | \$ 49,146 |
| Short Term Investments | \$ 6,367 | \$ 5,239 |
| Accounts Receivable | \$ 5,754 | \$ 5,873 |
| One year or less Contribution Receivable | \$ 937 | \$ 3,874 |
| Endowment Draw for Operations | \$ 46,821 | \$ 46,280 |
| <u>Total</u> | <u>\$ 115,786</u> | <u>\$ 110,412</u> |

In addition to these financial assets, the College has two revolving lines of credit (footnote 11) that totaled \$30,000 as of May 31, 2019.

A portion of College’s assets were designated by the Board of Trustees to function as endowments. Such assets totaled \$400,003 at May 31, 2019. These funds are invested for long-term appreciation and current income but remain available, subject to liquidity terms described in footnote 5, and may be spent at the discretion of the Board.

The College operates with a balanced budget that anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted resources.

13 Subsequent Events

The College evaluated subsequent events after the balance sheet date of May 31, 2019 through its issuance date of October 7, 2019.

On July 1, 2019, the College entered into an amended loan agreement that extends one of its lines of credit through June 30, 2020 and increases its amount to \$30,000.

On September 5, 2019, the College closed a new long-term debt transaction. On the College’s behalf the Pennsylvania Higher Educational Facilities Authority College Revenue Bonds Series 2019 were issued with a par amount of \$26,905,000 (the “Series 2019 Bonds”). Together with other available funds, the Series 2019 Bonds currently refunded all of the \$22,360,000 outstanding Series 2010A Bonds. In addition, the Series 2019 Bonds provide approximately \$9 million to fund a portion of the costs of planned improvements to the College’s facilities. The Series 2019 Bonds are fixed-rate bonds that are scheduled to pay interest semi-annually and have coupon rates ranging from 2.0% to 5.0%. The final maturity date of the Series 2019 Bonds is December 1, 2049. The Series 2019 Bonds are unsecured general obligations of the College and have no associated financial covenants.

The College is not aware of any additional subsequent events that would require recognition or disclosure.