

ALLEGHENY COLLEGE
Meadville, Pennsylvania

Financial Statements
For the years ended June 30, 2020 and 2019
and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Allegheny College
Meadville, Pennsylvania

We have audited the accompanying financial statements of Allegheny College (College), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 these 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 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 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 the College as of June 30, 2020 and 2019, 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.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
October 21, 2020

ALLEGHENY COLLEGE

STATEMENTS OF FINANCIAL POSITION

	June 30	
	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 4,978,910	\$ 1,777,681
Restricted cash	4,714,337	5,326,501
	<u>9,693,247</u>	<u>7,104,182</u>
Student and other receivables - net	541,963	874,432
Government grants and receivable - net	100,503	1,905,244
Inventories	722,067	709,044
Contribution receivable - net	2,015,317	6,855,865
Student loans receivable - net	4,233,665	4,639,711
Investments	256,501,100	258,686,223
Land, buildings and equipment - net	113,123,727	108,776,577
Trusts held by others	7,774,132	8,034,610
	<u>7,774,132</u>	<u>8,034,610</u>
Total Assets	<u>\$ 394,705,721</u>	<u>\$ 397,585,888</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 3,137,427	\$ 2,565,625
Accrued salaries and wages	3,900,125	6,301,304
Student deposits and deferred revenue	2,617,105	1,861,205
Accrued liabilities	3,944,603	3,133,797
Annuities payable	3,242,796	3,741,209
Trusts payable	2,150,234	2,933,682
Bonds and notes payable	55,380,540	56,865,726
Refundable government advances for student loans	4,498,244	5,656,639
	<u>4,498,244</u>	<u>5,656,639</u>
Total Liabilities	<u>78,871,074</u>	<u>83,059,187</u>
NET ASSETS		
Without Donor Restrictions	81,685,413	85,109,467
With Donor Restrictions	234,149,234	229,417,234
	<u>234,149,234</u>	<u>229,417,234</u>
Total Net Assets	<u>315,834,647</u>	<u>314,526,701</u>
Total Liabilities And Net Assets	<u>\$ 394,705,721</u>	<u>\$ 397,585,888</u>

See notes to financial statements.

ALLEGHENY COLLEGE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Tuition and fees	\$ 84,044,672	-	\$ 84,044,672
Less student aid	<u>(55,591,176)</u>	-	<u>(55,591,176)</u>
	28,453,496	-	28,453,496
Federal grants and contracts	7,117,350	\$ 327,083	7,444,433
State grants and contracts	276,836	-	276,836
Private gifts and grants	4,251,164	6,864,036	11,115,200
Auxiliary enterprises	16,621,403	-	16,621,403
Investment return designated for current operations, net	8,553,258	6,460,334	15,013,592
Other sources	996,211	459,721	1,455,932
	<u>66,269,718</u>	<u>14,111,174</u>	<u>80,380,892</u>
Net assets released from restrictions	<u>10,186,609</u>	<u>(10,186,609)</u>	<u>-</u>
Total Revenues, Gains And Other Support	76,456,327	3,924,565	80,380,892
 EXPENSES			
Instruction	23,271,577	-	23,271,577
Research	857,237	-	857,237
Academic support	6,541,154	-	6,541,154
Student services	19,152,631	-	19,152,631
Institutional support	13,391,987	-	13,391,987
Auxiliary enterprises	11,472,060	-	11,472,060
	<u>74,686,646</u>	<u>-</u>	<u>74,686,646</u>
Increase In Net Assets - From Operating Activities	1,769,681	3,924,565	5,694,246
 NONOPERATING INCOME GAIN/(LOSS)			
Investment gain not designated for current operations, net	(5,298,450)	1,260,917	(4,037,533)
Change in value of split-interest agreements	104,715	(453,482)	(348,767)
	<u>(5,193,735)</u>	<u>807,435</u>	<u>(4,386,300)</u>
Total Nonoperating Gain (Loss) - Net	<u>(5,193,735)</u>	<u>807,435</u>	<u>(4,386,300)</u>
Changes In Net Assets	(3,424,054)	4,732,000	1,307,946
 NET ASSETS			
Beginning of year	<u>85,109,467</u>	<u>229,417,234</u>	<u>314,526,701</u>
End of year	<u>\$ 81,685,413</u>	<u>\$ 234,149,234</u>	<u>\$ 315,834,647</u>

See notes to financial statements.

ALLEGHENY COLLEGE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Tuition and fees	\$ 81,686,441	-	\$ 81,686,441
Less student aid	<u>(52,907,212)</u>	-	<u>(52,907,212)</u>
	28,779,229	-	28,779,229
Federal grants and contracts	573,540	\$ 470,221	1,043,761
State grants and contracts	294,670	10,579	305,249
Private gifts and grants	4,490,631	15,437,751	19,928,382
Auxiliary enterprises	20,233,281	-	20,233,281
Investment return designated for current operations, net	8,289,125	6,007,324	14,296,449
Other sources	<u>1,054,205</u>	<u>692,376</u>	<u>1,746,581</u>
	63,714,681	22,618,251	86,332,932
Net assets released from restrictions	<u>8,660,351</u>	<u>(8,660,351)</u>	-
Total Revenues, Gains And Other Support	72,375,032	13,957,900	86,332,932
 EXPENSES			
Instruction	23,584,030	-	23,584,030
Research	1,070,643	-	1,070,643
Academic support	6,611,232	-	6,611,232
Student services	18,566,632	-	18,566,632
Institutional support	11,028,853	-	11,028,853
Auxiliary enterprises	<u>13,110,836</u>	-	<u>13,110,836</u>
Total Operating Expenses	<u>73,972,226</u>	-	<u>73,972,226</u>
(Decrease) Increase In Net Assets - From Operating Activities	(1,597,194)	13,957,900	12,360,706
 NONOPERATING INCOME GAIN/(LOSS)			
Investment gain not designated for current operations, net	(3,094,128)	5,177,048	2,082,920
Change in value of split-interest agreements	<u>(475,553)</u>	<u>(357,052)</u>	<u>(832,605)</u>
Total Nonoperating Gain (Loss) - Net	<u>(3,569,681)</u>	<u>4,819,996</u>	<u>1,250,315</u>
Changes In Net Assets	(5,166,875)	18,777,896	13,611,021
 NET ASSETS			
Beginning of year	<u>90,276,342</u>	<u>210,639,338</u>	<u>300,915,680</u>
End of year	<u>\$ 85,109,467</u>	<u>\$ 229,417,234</u>	<u>\$ 314,526,701</u>

See notes to financial statements.

ALLEGHENY COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,307,946	\$ 13,611,021
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	5,968,939	6,160,903
Amortization of deferred financing costs, included in interest expense	28,234	26,826
Change in allowance	(3,312)	(417,312)
Realized and unrealized losses (gains) on investments	(10,072,582)	(15,913,934)
Contributions restricted for long-term investment and investment in plant	(3,567,684)	(12,964,174)
Investment gain restricted for long-term investment	(34,615)	(31,243)
Change in value of split-interest agreements	348,767	832,605
Changes in assets and liabilities:		
Student and other receivables	1,637,211	(480,709)
Contributions receivable	3,914,969	8,203,560
Other assets	247,456	(47,399)
Accounts payable and other liabilities	(4,606,392)	(2,504,177)
Net Cash Used In Operating Activities	(4,831,063)	(3,524,033)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings and equipment	(7,955,461)	(4,898,554)
Proceeds from sales of investments	124,132,497	30,651,373
Purchases of investments	(111,874,791)	(21,686,083)
Investment gain restricted for long-term investment	34,615	31,243
Repayments of loans from students	935,619	950,638
Net Cash Provided By Investing Activities	5,272,479	5,048,617
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment and investment in plant	4,467,002	1,955,059
Payments on annuity obligations	(805,931)	(881,926)
Repayments of borrowings	(1,513,422)	(91,270)
Net Cash Provided By Financing Activities	2,147,649	981,863
Increase In Cash And Cash Equivalents and Restricted Cash	2,589,065	2,506,447
CASH AND CASH EQUIVALENTS		
Beginning of year	7,104,182	4,597,735
End of year	\$ 9,693,247	\$ 7,104,182
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 2,270,000	\$ 2,149,000

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES
In 2020 and 2019, the College incurred approximately \$1,180,000 and \$1,321,000, respectively, in accounts payable related to purchases of land, buildings and equipment.

See notes to financial statements.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS
JUNE 30 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements is as follows:

Organization - Allegheny College (College) is a four-year coeducational college fully accredited by the Middle States Association of Colleges and Secondary Schools. The College generates its operating revenues generally from student tuition, fees and gifts. The College's students are primarily from the states of Pennsylvania, New York and Ohio. The College is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Basis of Presentation - The College classifies net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the College and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition - Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations or by law.

Cash and Cash Equivalents - The College considers all short-term investments with a maturity at the date of acquisition of three months or less and that are not intended for long-term or restricted purposes to be cash equivalents. The balance of restricted cash at June 30, 2020 and 2019 is related to funds designated for donor-restricted use for capital projects.

Student Receivables - Student receivables represent balances due from students for tuition, fees and other charges and are reported at their net realizable value. Student receivables are considered to be due when invoiced. Provisions are established for estimated uncollectible receivables when considered necessary. The College's estimate is based on historical collection experience, a review of the current status of receivables and judgment. Decisions to charge off receivables are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts. Management has recorded an allowance of approximately \$1,186,000 and \$686,000 as of June 30, 2020 and 2019, respectively; however, it is reasonably possible that this estimate of the allowance could change in future periods.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS
JUNE 30 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans to Students - Loans to students under the Federal Perkins Loans Program are reported at their outstanding principal, adjusted for any charge-offs and net of the allowance for loan losses. The availability of funds for loans under the Federal Perkins Loans Program is dependent on reimbursement to the pool from repayments on outstanding loans. The College recognizes interest, delinquency charges and other fees when earned and collectability is reasonably assured. Outstanding loans canceled under the program result in a reduction of the funds available for future loans and a decrease in the liability due to the government. The allowance for loan losses is increased by charges and decreased by charge-offs (net of recoveries). The College's periodic evaluation of the adequacy of the allowance is based on the College's loan loss experience, adverse situations that might affect the borrower's ability to repay and current economic conditions. Loan balances are written off when they are deemed to be permanently uncollectible.

Contributions - Contributions are recognized when the donor makes a promise to give to the College that is, in substance, unconditional. Noncash contributions are valued at the fair value of the asset contributed at the date of the contribution. Contributions received and unconditional promises to give are recorded as either net assets with donor restrictions or without donor restrictions depending on existence of donor restrictions and nature of restrictions, if they exist.

Contributions restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction is met or expires, net assets with donor restrictions are released to net assets without donor restrictions.

Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are calculated using a risk-free rate of return.

Substantially all of the net assets with donor restrictions as of June 30, 2020 and 2019 relate to amounts given to the College for future capital additions, loans and scholarships to students or unexpended gains under Pennsylvania Trust Law. Net assets with donor restrictions also consist of endowment fund investments to be held indefinitely, certain split-interest agreements, and certain trusts held and administered by others.

Inventories - Inventories are stated at the lower of cost (first-in, first-out basis) or market and represent books and other merchandise held for resale.

Investments and Investment Income - Investments are reported at fair value, net of internal and external expenses. Investments received from donors as gifts are recorded at fair value at the date of gift. Investment return includes interest, dividends, and both realized and unrealized gains and losses.

The College's investments comprise the College's endowment and other investments held for general operating purposes. Level 1 investments are defined as marketable securities, including money market funds, mutual funds and bond funds, and are reported at fair values based on quoted active market prices. Level 2 investments, including international equity funds, are reported based on observable prices not quoted on active exchanges or readily determinable fair values based on comparable market data.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Alternative investments, which are not readily marketable, are carried at net asset value (NAV) as a practical expedient, as provided by the investment managers. Alternative investments consist of venture capital, private equity, private real estate and hedge funds. NAV is assessed by management to approximate fair value. The College reviews and evaluates the values and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Due to the level of risk associated with certain investment securities, changes in values of investment securities will occur in the near term, and it is reasonably possible that such changes could materially affect the amounts reported in the statements of activities and changes in net assets.

Pennsylvania Trust Law's "Total Investment Return Policy" - The Board of Trustees, in accordance with Pennsylvania Trust Law's "Total Investment Return Policy," designates only a portion of the College's cumulative investment return for support of current operations. Pennsylvania Act 141 permits a not-for-profit to elect to release between 2% and 7%. The amount computed under the endowment spending policy and non-endowment investment income is used to support current operations. The spendable return on endowment, as calculated based on the 12-quarter average market value of the endowment, was 4.25% for both 2020 and 2019. Additionally, the College's Board of Trustees may specifically authorize an amount for board-directed spending, which is also classified as current operating, up to a maximum of \$6.1 million in total. The total spendable return on endowment was 6.5% for 2020 and 2019. The remaining endowment income gain is recorded as nonoperating investment return not designated for current operations.

Annuities - Annuities represent the College's obligation to pay a donor an annual amount, based on the donor's original contribution, over the remaining life of the donor. These annuities are stated at the net present value of the projected future cash flows assuming discount rates ranging from 4.0% to 9.2% in 2020 and 2019.

Debt Issuance Costs - Debt issuance costs are stated at cost and are being amortized over the term of the related debt. Debt issuance costs related to a recognized debt liability are presented in the statements of financial position as a direct reduction to the carrying amount of debt. See Note 9 for the presentation of unamortized debt issuance costs as a reduction to the corresponding financing arrangements. The related amortization is presented as a component of interest expense.

Land, Buildings and Equipment - Land, buildings and equipment are stated at cost at date of acquisition (in the case of gifts, fair value at date of donation), less accumulated depreciation. Interest expense is capitalized on qualifying assets during the period necessary to ready the asset for its intended use. Interest capitalized is net of interest earnings, if any, from proceeds of tax-exempt borrowings for the respective projects. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. The estimated useful lives of buildings and equipment are summarized as follows:

	<u>Years</u>
Building and improvements	20-50
Equipment and fixtures	3-10
Vehicles	3

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS
JUNE 30 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The College reviews its land, buildings and equipment for impairment when events or changes in circumstances may indicate that the carrying amount of these assets might not be recoverable. No impairment charges were recorded by the College in 2020 or 2019. Repairs, maintenance and minor replacements of existing facilities are charged to expense as incurred.

Split-Interest Agreements and Trusts Held by Others - The College's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and gift annuities for which the College serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or beneficiaries. Liabilities are adjusted during the terms of the trusts for changes in the value of assets, accretion of the discount, and other changes in the estimates of future benefits.

The College is also the beneficiary of certain trusts held and administered by others. The College's portion of the fair market value of the underlying assets of these trusts and the net realized and unrealized gains (losses) of trusts held by others are primarily recorded in permanently restricted net assets. Trusts that permit the principal of the trust to be invested and distributed to the College are recorded in temporarily restricted net assets. The College considers these trusts held by others to be a Level 2 measurement.

Auxiliary Enterprises - The College's auxiliaries exist primarily to furnish goods and services to students, faculty and staff. Managed as essentially self-supporting activities, the College's auxiliary activities consist primarily of housing services and dining services.

Fundraising Expense - The College includes fundraising expenses in institutional support. These expenses are approximately \$2,737,000 and \$3,000,000 in 2020 and 2019, respectively. Included in these amounts are approximately \$579,000 and \$553,000, respectively, which are the allocated portion (joint costs) of fundraising cost for activities that include program and other components.

Use of Estimates and Assumptions - 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.

Risks and Uncertainties - The College utilizes various investment instruments that are exposed to risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements and accompanying notes.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - The College follows Financial Accounting Standards Board (FASB) guidance for accounting for uncertainty in income taxes, which provides criteria for the recognition and measurement of uncertain tax positions. This guidance requires that an uncertain tax position should be recognized only if it is “more likely than not” that the position is sustainable based on its technical merits. Recognizable tax positions should then be measured to determine the amount of benefit recognized in the financial statements. The College files U.S. federal, state and local information returns, and no returns are currently under examination. The statute of limitations on the College’s U.S. federal tax returns remains open for the years ended June 30, 2017 through the present. The College continues to evaluate its tax positions pursuant to the principles of FASB guidance and has determined that there is no material impact on the College’s financial statements.

The College maintains a self-insured medical program under which the cost for such claims is recognized in the year the claims are incurred. Management also records an estimate of incurred but not reported claims. In addition, the College maintains a stop-loss insurance policy, which pays the cost in excess of \$175,000 in 2020 and 2019, respectively, for any medical insurance claim, with an annual aggregate maximum of \$1,000,000 as of June 30, 2020 and 2019, respectively. Expenses under the medical program were approximately \$3,724,000 and \$3,513,000 in 2020 and 2019, respectively, including accrued and unpaid claims, which totaled approximately \$124,000 and \$152,000 at June 30, 2020 and 2019, respectively.

Recent Accounting Pronouncements - The FASB issued ASU No. 2016-02 Leases (Topic 842) (ASU 2016-02), which is the result of a joint project of FASB and IASB to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU 2016-02 amends Topic 842 to require a lessee to recognize a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term initially measured at the present value of the lease payments. The lessee should also include payments to be made on an optional lease extension if the company is reasonably certain that the extension will be exercised when measuring the asset and liability. Companies will be permitted to make an accounting policy election to not recognize leases with a term of 12 months or less. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. Early application is permitted. The College is assessing the impact that ASU 2016-02 will have on its financial statements and related disclosures.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13 Fair Value Measurement (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which clarifies that entities should disclose information about the uncertainty of fair value measurements as of the reporting date. ASU 2018-13 removes the requirement to disclose the amount and reasons for transfers between Level 1 and 2 of the fair value hierarchy table, the policy for timing of transfers between levels, the valuation processes for Level 3 fair value measurements, and the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. ASU 2018-13 requires transfers out of and into Level 3 and purchases and issues of Level 3 assets and liabilities to be disclosed. Also required to be disclosed is liquidation timing of an investee’s assets and the date when restrictions from redemption might lapse. ASU 2018-13 is effective for nonpublic entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. A reporting entity should apply amendments retrospectively to all periods presented. Early application is permitted. The College is assessing the impact that ASU 2018-13 will have on its financial statements and related disclosures.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 2 - REVENUE FROM CONTRACTS WITH CUSTOMERS

Effect of Adopting Topic 606

The core principle of FASB ASC Topic 606, Revenue from Contracts with Customers, is that revenue will be recognized when promised goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services. The College adopted Topic 606 with a date of initial application of July 1, 2018 using the cumulative effect method, which recognizes the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of net assets without donor restrictions. The initial application of Topic 606 was applied to all contracts at the date of initial application. The adoption of Topic 606 did not materially affect the College's change in net assets, financial position or cash flows. Accordingly, no adjustment was recorded to net assets without donor restrictions as of July 1, 2018.

Revenue reported on the statement of activities and changes in net assets was derived from contracts with customers (i.e. students). As a private college with a four-year residency, the College includes net tuition and fees and auxiliary activities, such as room and board, as revenue or otherwise known as the comprehensive fee. At a percentage less than 1%, other revenue that may qualify under Topic 606 such as bookstore and other revenue does not represent a material value and is not included. Most revenues from government grants, private gifts and grants, investment income, endowment income, net realized and unrealized gains on operating and endowment investments are not derived from contracts with students and do not qualify for inclusion under Topic 606.

Disaggregation of Revenue

The College generates revenue from an individual contract with students from one primary source, the comprehensive fee. The provisions of Topic 606 are applied by the College on an individual contract basis. As a practical expedient, the College applies this Topic to a portfolio of contracts with similar characteristics for the comprehensive fee revenue stream. The College expects that the effects of applying this guidance to the portfolios would not significantly differ from applying the guidance to the individual contracts within the portfolio.

Tuition and fees revenue is presented separately on the statement of activities and changes in net assets under its own caption and is derived from delivering academic programs to students for undergraduate programs. Tuition and fees revenue was \$84,044,672 and \$81,686,441 at June 30, 2020 and 2019, respectively. Student aid was \$55,591,176 and \$52,907,212 at June 30, 2020 and 2019, respectively. Tuition and fees are recognized over time as the academic programs are delivered to students, because the students simultaneously receive and consume the benefits provided by the College as it satisfies the performance obligation. Institutional scholarships and other student aid reduce the amount of revenue recognized. At the beginning of each academic term, there is a period in which students may adjust their course load or withdraw completely. Refunds issued to students reduce the amount of revenue recognized and are recorded as refunds occur and become known. Payments for tuition and fees are due prior to the start of each academic semester and are recorded as deferred revenue on the statement of financial position as of June 30, 2020 and 2019. Tuition remission programs are reported as compensation expense and included in the caption compensation. See Note 19.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS
JUNE 30 2020 AND 2019

NOTE 2 - REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Auxiliary activity revenue is presented on the statement of activities and changes in net assets under the caption auxiliary enterprises and is derived from providing on-campus lodging and meal plans to students enrolled in academic programs. Auxiliary enterprises revenue was \$16,621,403 and \$20,233,281 at June 30, 2020 and 2019, respectively. Auxiliary activity is recognized over time as the lodging services and meal plans are delivered to enrolled students, because the students simultaneously receive and consume the benefits provided by the College as it satisfies the performance obligation. At the beginning of each academic term, there is period in which students may withdraw completely. Refunds issued to students reduce the amount of revenue recognized and are recorded as refunds occur and become known. As a component of the comprehensive fee, payments for auxiliary activity are due prior to the start of each academic semester. Payments for auxiliary activities that extend past June 30, 2020 and 2019 are due prior to the start of each academic semester and are recorded as deferred revenue on the statement of financial position as of June 30, 2020 and 2019.

Contract Balances

Receivables from students, which include amounts derived from the comprehensive fee, are presented on the statements of financial position less an allowance for doubtful accounts on the portfolio basis.

Contract liabilities consist of student deposits and deferred revenue. Student deposits consist of \$2,617,106 and \$1,861,205 related to credit balances on student receivables as of June 30, 2020 and 2019, respectively.

Remaining Performance Obligations

The College applies the practical expedient in FASB ASC 606-10-50-14 and, therefore, does not disclose further information about remaining performance obligations that have original expected durations of one year or less. Additionally, there was no revenue recognized during the years ended June 30, 2020 or 2019, respectively, from performance obligations that were satisfied or partially satisfied in prior periods.

Significant Judgements

The timing and the satisfaction of performance obligations were determined through careful analysis of the timing of which control of goods or services are transferred to students. Most performance obligations are satisfied over time, as customers simultaneously receive and consume the benefits provided by the College's performance as it satisfies performance obligations. Performance obligations that are recognized over time generally use a pro rata time-based output method, which the College believes depicts the transfer of goods and services to customers. The transaction price is determined through Board of Trustee-approved tuition and room and board rates.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES

As of June 30, 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

	<u>2020</u>	<u>2019</u>
Total financial assets:		
Cash and cash equivalents	\$ 4,978,910	\$ 1,777,681
Students and other receivables - net	541,963	874,432
Government grants and receivable - net	100,503	1,905,244
Promises to give not subject to donor restriction	355,242	412,507
Endowment - Spending rate appropriation	9,150,000	8,500,000
Additional endowment spend	<u>6,900,000</u>	<u>6,000,000</u>
Financial Assets Available To Meet Cash Needs For Expenditures Within One Year	<u>\$ 22,026,618</u>	<u>\$ 19,469,864</u>

The College is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the College must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets might not be available for general expenditure within one year. As part of the College's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. In addition, the College has over \$28 million and \$33 million in unrestricted quasi-endowment assets at June 30, 2020 and 2019, respectively, and maintains a \$5 million line of credit in the event of unanticipated liquidity needs.

NOTE 4 - RECEIVABLES

Student accounts receivable as of June 30 consist of the following:

	<u>2020</u>	<u>2019</u>
Accounts and other receivables	\$ 1,727,468	\$ 1,559,937
Less allowance for doubtful accounts	<u>(1,185,505)</u>	<u>(685,505)</u>
	<u>\$ 541,963</u>	<u>\$ 874,432</u>

In order to estimate the allowance, the College performs a student-by-student review for internal and external collection accounts. Once the analysis is complete, an allowance percentage is placed on each age and type for all internal and external collection accounts.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 4 - RECEIVABLES (Continued)

Contributions receivable are promises to give from various donors that are unconditional. The net present value of the contributions receivable as of June 30 is as follows:

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 1,470,959	\$ 6,130,285
One to five years	918,500	1,103,994
Greater than five years	3,417	-
	<u>2,392,876</u>	<u>7,234,279</u>
Discounts and allowances	<u>(377,559)</u>	<u>(378,414)</u>
Net Contributions Receivable	<u>\$ 2,015,317</u>	<u>\$ 6,855,865</u>

Student Loans Receivable - Net - The College makes loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources.

As of June 30, student loans receivable - net consisted of the following:

	<u>2020</u>	<u>2019</u>
Student loans receivable	\$ 4,847,026	\$ 5,782,645
Less allowance for doubtful accounts	<u>(613,361)</u>	<u>(1,142,934)</u>
Student Loans Receivable - Net	<u>\$ 4,223,665</u>	<u>\$ 4,639,711</u>

Allowances for doubtful accounts are established based on prior collection experience and current economic factors that, in management's judgement, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 5 - INVESTMENTS

Investments are carried at fair value of \$256,501,101 and \$258,686,223 as of June 30, 2020 and 2019, respectively. The aggregate carrying value of investments, exclusive of cash equivalents, as of June 30 is summarized as follows:

	2020 Endowment Investments			
	Level 1	Level 2	Level 3	Total
Assets:				
Money Market	\$ 2,464,811	-	-	\$ 2,464,811
U.S. Equity Large Cap	26,135,490	\$ 27,207,094	-	53,342,584
U.S. Equity Small Cap	14,438,945	-	-	14,438,945
Global ex. U.S. Equity	36,668,807	-	-	36,668,807
Global ex. U.S. Small Cap Equity	5,214,214	-	-	5,214,214
U.S. Government/Credit Securities	25,537,247	-	-	25,537,247
Emerging Markets	-	4,048,289	-	4,048,289
Public Natural Resources and Real Estate	3,900,956	2,934,343	-	6,835,299
Assets in the fair value hierarchy	114,360,470	34,189,726	-	148,550,196
Investments measured at NAV (a)	-	-	-	85,111,285
 Total Fair Value of Assets	 \$ 114,360,470	 \$ 34,189,726	 -	 \$ 233,661,481

	2020 Other Investments			
	Level 1	Level 2	Level 3	Total
Assets:				
Money Market	\$ 5,109,121	-	-	\$ 5,109,121
U.S. Equity Large Cap	7,002,509	-	-	7,002,509
U.S. Equity Mid Cap	292,373	-	-	292,373
U.S. Equity Small Cap	1,996,986	-	-	1,996,986
Global ex. U.S. Equity	1,496,587	-	-	1,496,587
Fixed Income and Bond	5,121,767	-	-	5,121,767
Assets in the fair value hierarchy	21,019,343	-	-	21,019,343
Equity-method investment (b)	-	-	-	1,820,276
 Total Fair Value of Assets	 \$ 21,019,343	 -	 -	 \$ 22,839,619

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 5 - INVESTMENTS (Continued)

	2019 Endowment Investments			
	Level 1	Level 2	Level 3	Total
Assets:				
Money Market	\$ 5,930,556	-	-	\$ 5,930,556
U.S. Equity Large Cap	31,879,703	\$ 18,369,098	-	50,248,801
U.S. Equity Small Cap	14,121,746	-	-	14,121,746
Global ex. U.S. Equity	43,117,154	-	-	43,117,154
Global ex. U.S. Small Cap Equity	4,918,994	-	-	4,918,994
U.S. Government/Credit Securities	23,389,295	-	-	23,389,295
Emerging Markets	-	4,273,615	-	4,273,615
Public Natural Resources and Real Estate	6,842,696	4,681,890	-	11,524,586
Assets in the fair value hierarchy	130,200,144	27,324,603	-	157,524,747
Investments measured at NAV (a)	-	-	-	72,928,155
Total Fair Value of Assets	\$ 130,200,144	\$ 27,324,603	-	\$ 230,452,902

	2019 Other Investments			
	Level 1	Level 2	Level 3	Total
Assets:				
Money Market	\$ 8,748,411	-	-	\$ 8,748,411
U.S. Equity Large Cap	7,886,576	-	-	7,886,576
U.S. Equity Mid Cap	322,347	-	-	322,347
U.S. Equity Small Cap	1,992,234	-	-	1,992,234
Global ex. U.S. Equity	1,600,945	-	-	1,600,945
Fixed Income and Bond	5,882,469	-	-	5,882,469
Assets in the fair value hierarchy	26,432,982	-	-	26,432,982
Equity-method investment (b)	-	-	-	1,800,339
Total Fair Value of Assets	\$ 26,432,982	-	-	\$ 28,233,321

(a) In accordance with the College's adoption of ASU 2015-07 and ASC Subtopic 820-10, certain investments were measured at NAV per share (or its equivalent) as a practical expedient, and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of fair value hierarchy line items presented in the statements of financial position.

(b) Equity-method investments are excluded from the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of fair value hierarchy line items presented in the statements of financial position.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 5 - INVESTMENTS (Continued)

There were no significant transfers in or out of Levels 1, 2 or 3 for the years ended June 30, 2020 and 2019.

Total investment summary is as follows:

		<u>2020</u>		<u>2019</u>
Endowment	\$	233,661,481	\$	230,452,902
Other		<u>22,839,619</u>		<u>28,233,321</u>
		<u>\$ 256,501,100</u>		<u>\$ 258,686,223</u>

The following redemption table clarifies the nature and risk of the College's investments and liquidity for investments, including alternative investments, measured using net asset value as of June 30, 2020:

<u>Category</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Venture Capital and Private Equity	\$ 31,719,815	\$ 30,688,949	Generally upon dissolution	N/A
Private Real Estate	18,916,835	16,336,339	Generally upon dissolution	N/A
Hedge Funds	<u>34,474,635</u>	<u>-</u>	Quarterly	30-90 days
	<u>\$ 85,111,285</u>	<u>\$ 47,025,288</u>		

The following redemption table clarifies the nature and risk of the College's investments and liquidity for investments, including alternative investments, measured using net asset value as of June 30, 2019:

<u>Category</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Venture Capital and Private Equity	\$ 22,739,276	\$ 20,712,864	Generally upon dissolution	N/A
Private Real Estate	17,324,915	17,512,635	Generally upon dissolution	N/A
Hedge Funds	<u>32,863,964</u>	<u>-</u>	Quarterly	30-90 days
	<u>\$ 72,928,155</u>	<u>\$ 38,225,499</u>		

The total investment pool provides daily liquidity for 53% and 60% of the holdings at June 30, 2020 and 2019, respectively.

As of June 30, 2020 and 2019, there were no significant concentrations of investments, since no individual investment exceeded 10% of total assets.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 5 - INVESTMENTS (Continued)

The College uses prices and inputs that are current as of the measurement date obtained through multiple third-party custodians from independent pricing services.

A description of the valuation techniques applied to the major categories of investments measured at fair value is outlined below. The fair value of common, preferred and foreign stocks are valued using quoted market prices in active markets. Such actively traded securities are categorized in Level 1 of the fair value hierarchy.

Mutual funds are open-ended Securities and Exchange Commission registered funds with daily NAV. The mutual funds allow investors to sell their interest to the fund at a published daily NAV, with no restrictions on redemptions. These mutual funds are categorized in Level 1 of the fair value hierarchy.

Government securities, government agency securities, corporate fixed-income securities, and asset-backed mortgage securities, including residential mortgage-backed securities, commercial mortgage-backed securities and other securitized assets, are categorized in Level 1 of the fair value hierarchy.

Limited liability partnerships are partnerships created and administered by a general partner who invests either directly in a specified investment strategy or indirectly through other limited liability partnerships in a so-called "fund of funds." The underlying investments of these funds can be actively traded securities in the case of certain hedge fund strategies or illiquid and privately held equity investment, as in the case of private equity investments, private real estate, hedge fund strategies or real assets. The partnership documents outline the terms and conditions by which the general partner administers the partnership and its investments. Each limited partner owns a specified share of the partnership. These partnerships cannot be marketed to the public and are restricted, by regulation, to qualified investors. The underlying investments of these partnerships include many different types of investments, including interest rate swaps, commercial paper, foreign currency, private equity, short interest in common stock and convertible bonds. The valuation of the partnership interest typically is performed at least quarterly by the general partner through unaudited statements and validated through annual audited financial statements. In certain partnerships, the readily available data on market values allows for monthly valuation of the partnership interest.

There has been no significant change in valuation techniques of investments during either year.

A breakdown of total investment return for the years ended June 30 is as follows:

	<u>2020</u>	<u>2019</u>
Interest and dividends earnings	\$ 3,555,401	\$ 3,081,700
Realized and unrealized gains, net	10,072,582	15,913,934
Fees and other expenses	<u>(2,651,924)</u>	<u>(2,616,265)</u>
	10,976,059	16,379,369
Total Investment Return Policy Amount Designated For Current Operations	<u>15,013,592</u>	<u>14,296,449</u>
Total Investment Gain Not Designated For Current Operations	<u>\$ (4,037,533)</u>	<u>\$ 2,082,920</u>

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 5 - INVESTMENTS (Continued)

Endowment Pennsylvania Trust Law Spending for the years ended June 30 consists of:

	<u>2020</u>	<u>2019</u>
Total Pennsylvania Trust Law Spending	\$ 8,913,592	\$ 8,296,449
Strategic action plan	<u>6,100,000</u>	<u>6,000,000</u>
Investment Return Designated For		
Current Operations	<u>\$ 15,013,592</u>	<u>\$ 14,296,449</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds might fall below the level that the donor or PA Act 141 requires the entity to retain as a fund of perpetual duration. Deficiencies of this nature exist in several donor-restricted endowment funds, which together have an original gift value of \$1,520,844, a current fair value of \$1,506,180, and a deficiency of \$14,664 as of June 30, 2019. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. For the fiscal year ended June 30, 2020, those deficiencies are an original gift value of \$3,016,291, a current fair value of \$2,989,814, and a deficiency of \$26,477.

The College is subject to the PA Act 141 and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time-restricted until the Board of Trustees appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Trustees of the College has interpreted the requirements as not requiring the maintenance of purchasing power to the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the College considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

Included within investment return, net is \$58,288 and \$55,719 of 2020 and 2019, respectively, net depreciation that occurred in recent donor-restricted endowment funds, causing the fair value of those funds to be less than the original gift amount. In addition, so as not to suspend certain programs, during the years ended June 30, 2020 and 2019, the College's Board deemed it prudent to continue to appropriate to those underwater programs.

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The College applies fair value guidance to all assets and liabilities that are being measured and reported on a fair value basis. This guidance establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

This guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following categories:

Level 1 - Valuations based on quoted market prices in active markets for identical assets that the organization has the ability to access. Since valuations are based on quoted market prices that are readily available in the active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable in the market, the determination of fair value requires more judgment.

The hierarchy has three levels based on the observability of inputs as follows. The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

- The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.
- Contributions receivable are reported at the present value of estimated future receipts, which approximates fair value.
- The carrying values of investments, trusts held by others, annuities and remainder interest trusts are based primarily on Level 1 quoted market prices. Where such quoted market prices are not available, Level 2 and Level 3 inputs, which include audited financial statements, appraisals or recent or comparable costs, are used as an estimate of fair value.
- The carrying value of split-interest obligations approximates fair value, since the obligations are recorded at the net present value of estimated future payments.
- The carrying value of the Bonds is \$55,135,000 and \$56,570,000 as of June 30, 2020 and 2019, respectively, as compared to the estimated fair value of \$58,816,892 and \$60,562,106 as of June 30, 2020 and 2019, respectively. Fair value of the bonds payable was calculated by discounting scheduled cash flows through the maturity of the bonds and notes using Level 2 inputs and estimated market rates.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 7 - LAND, BUILDINGS AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Land	\$ 15,206,205	\$ 15,190,493
Buildings and improvement	183,488,830	182,043,930
Furniture, fixtures and equipment	21,111,091	20,913,523
Computer equipment	12,128,736	12,128,736
Scientific equipment	10,014,049	9,901,621
Vehicles	562,746	465,650
Works of art	<u>1,837,002</u>	<u>1,820,102</u>
	244,348,659	242,464,055
Less - Accumulated depreciation	<u>144,373,494</u>	<u>138,610,488</u>
	99,975,165	103,853,567
Construction-in-progress	<u>13,148,562</u>	<u>4,923,010</u>
	<u>\$ 113,123,727</u>	<u>\$ 108,776,577</u>

The College maintains various collections of inexhaustible assets to which at times no value can be determined. Such collections could include contributed works of art, historical treasures, literature and the like that are held for exhibition and public service. These collections are neither disposed of for financial gain nor encumbered by any means. Accordingly, such collections are not capitalized or recognized for financial statement purposes.

Depreciation expense amounted to \$5,968,939 and \$6,160,903 for the years ended June 30, 2020 and 2019, respectively.

NOTE 8 - ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Under the provisions of FASB ASC 410-20 Asset Retirement and Environmental Obligations, the College is obligated to record a liability for conditional asset retirement obligations. The College performed an analysis of such obligations and determined that asbestos remediation costs represented the College's primary source of such liabilities. The College reviewed all facilities and determined the timing, method and cost of asbestos remediation using a variety of assumptions and estimates. The analysis included an estimated inflation factor and discount rate, which were used to determine the present value of the obligation. The cumulative cost of asset remediation is depreciated over the remaining useful life of the affected asset.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 8 - ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS (Continued)

The liability related to conditional asset remediation obligations as of June 30 is included in accrued liabilities in the accompanying statements of financial position as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 1,259,947	\$ 1,201,896
Accretion	<u>60,855</u>	<u>58,052</u>
	<u>\$ 1,320,802</u>	<u>\$ 1,259,948</u>

NOTE 9 - BORROWING ARRANGEMENTS

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

	<u>2020</u>	<u>2019</u>
College Revenue Bonds Series 2016 - capital improvement (including unamortized Premium of \$788,275 in 2020 and \$837,034 in 2019).	\$ 14,223,274	\$ 14,272,034
College Revenue Bonds Series 2018 - capital improvement (including unamortized Premium of \$137,994 in 2020 and \$142,908 in 2019).	41,837,994	43,277,908
Note payable - athletic equipment	<u>23,826</u>	<u>48,572</u>
	56,085,094	57,598,514
Less - Unamortized deferred financing costs	<u>704,554</u>	<u>732,788</u>
	<u>\$ 55,380,540</u>	<u>\$ 56,865,726</u>

In July 2016, the Series 2016 Bonds were issued through the Crawford County Industrial Development Authority for a total amount of \$13,435,000 with the purpose of refinancing the Series 2006 Bonds and various capital improvements at the College. The Series 2016 Bonds require semiannual interest payments at fixed interest rates ranging from 3% to 5% and have maturity dates from May 1, 2028 with final payment due May 1, 2036. The Bond agreement provides that the College maintain continuing disclosure information.

In June 2018, the Series 2018 Bonds were issued through the Crawford County Industrial Development Authority for a total amount of \$43,135,000 with the purpose of refinancing the Series 2009 Bonds, 2010 Note and various capital improvements at the College. The Series 2018 Bonds require semiannual interest payments at fixed interest rates ranging from 3.25% to 5% and have maturity dates from November 1, 2023 with final payment due November 1, 2048. The Bond agreement provides that the College maintain continuing disclosure information.

The College has three long-term debt agreements with a financial institution for the purchase of athletic equipment. Interest accrues on the borrowings at an average rate of 5.47%. The combined loan balance outstanding at June 30, 2020 and 2019 was \$23,826 and \$48,572, respectively.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 9 - BORROWING ARRANGEMENTS (Continued)

Scheduled payments in each of the next five fiscal years and thereafter, including the Series 2016 Bonds issued subsequent to year-end, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,499,788	\$ 2,213,217	\$ 3,713,005
2022	1,549,028	2,156,354	3,705,382
2023	1,600,000	2,095,256	3,695,256
2024	1,685,000	2,027,481	3,712,481
2025	1,750,000	1,947,556	3,697,556
Thereafter	<u>47,075,000</u>	<u>23,117,538</u>	<u>70,192,538</u>
	\$ <u>55,158,816</u>	\$ <u>33,557,402</u>	\$ <u>88,716,218</u>

Interest expense was approximately \$2,262,000 for 2020 and \$2,317,000 for 2019.

NOTE 10 - LINE OF CREDIT

The College currently has available a \$5,000,000 revolving line of credit, which is payable on demand. This line of credit is unsecured. Interest is payable monthly on the outstanding principal balance at the best rate option or LIBOR rate, plus 0.65% (0.83% as of June 30, 2020). This line of credit may be canceled by either the lender or the College upon notification in writing to either party. There were no outstanding borrowings on the line of credit as of June 30, 2020 and 2019.

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions during the year ended June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Instructional	\$ 2,143,732	\$ 2,273,230
Research	185,488	353,496
Academic support	622,106	793,988
Student services	705,220	1,024,684
Institutional support	146,095	297,950
Scholarships	3,157,795	3,301,919
Capital additions	2,187,242	235,101
Satisfaction of time restriction and other	<u>1,038,931</u>	<u>379,983</u>
	\$ <u>10,186,609</u>	\$ <u>8,660,351</u>

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 12 - NET ASSETS

Net assets without donor restriction as of June 30 include the following:

	<u>2020</u>	<u>2019</u>
Total Purpose Restricted Designation	\$ 28,046,705	\$ 33,110,607
Undesignated	<u>53,638,708</u>	<u>51,998,859</u>
Total Net Assets Without Donor Restriction	<u>\$ 81,685,413</u>	<u>\$ 85,109,466</u>

Net assets with donor restriction as of June 30 include the following:

	<u>2020</u>	<u>2019</u>
Education and general	\$ 11,392,610	\$ 8,967,559
Split-interest agreements	3,050,293	3,177,340
Trusts held by others	7,774,132	8,034,610
Capital additions, renovations and maintenance	10,924,679	11,970,231
Endowment - unexpended gains	89,830,961	88,819,333
Endowment	<u>111,176,559</u>	<u>108,448,161</u>
Total Net Assets With Donor Restriction	<u>\$ 234,149,234</u>	<u>\$ 229,417,234</u>

Changes in endowment net assets for the years ended June 30 are as follows:

	<u>2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ 33,110,607	\$ 197,267,494	\$ 230,378,101
Investment gains, net	2,762,417	6,788,482	9,550,899
Contributions - outright gifts and contributions - less changes in unamortized discounts and allowances	726,938	3,411,878	4,138,816
Appropriation of endowment assets for expenditure (pending funds)	(2,453,258)	(6,460,334)	(8,913,592)
Appropriation of endowment assets for strategic plan expenditure	<u>(6,100,000)</u>	<u> </u>	<u>(6,100,000)</u>
	<u>\$ 28,046,704</u>	<u>\$ 201,007,520</u>	<u>\$ 229,054,224</u>

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS
JUNE 30 2020 AND 2019

NOTE 15 - GOVERNMENT GRANTS

In April 2020, the College completed and submitted to the Department of Education the Federal Funding Certification and Agreement to participate in Higher Education Emergency Relief Fund (HEERF) as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The College has reflected the full grant of \$1,743,082 in Federal Grants and Contracts in the statement of activities and changes in net assets as of and for the year ended June 30, 2020 in accordance with FASB ASC 958-605, as amended by ASU 2018-08 on conditional contributions. Pursuant to the agreement, the College is required to distribute no less than 50% of the total grant received to eligible students, referred to as Part A. As of June 30, 2020, the College awarded eligible students \$712,035 covered by Part A for students impacted by a campus disrupted by the COVID19 pandemic. The College has plans to continue providing awards to eligible students up to \$871,154. Part B of the HEEFR, representing no more than 50% of the total grant, was available to provide funding to reimburse the College for certain qualifying incremental expenses and lost revenues caused by the COVID-19 pandemic on or after March 13, 2020.

The College has made efforts to identify, manage and mitigate the economic disruption of the COVID-19 pandemic; however, there are factors beyond the College's knowledge or control, including the duration and severity of the outbreak, as well as further governmental and regulatory actions. Financial efforts to mitigate the disruptions of the pandemic included securing a Paycheck Protection Program Loan (PPP Loan). On April 16, 2020, the College entered into an unsecured promissory note with an unrelated bank for a loan in the principal amount of \$5,485,500. The PPP Loan is administered by the United States Small Business Administration (SBA) as part of the CARES Act. Pursuant to the terms of the note, the loan bears interest at a rate of 1% per annum and matures on April 16, 2022. Principal and interest payments on the loan are deferred until December 2020, at which time equal installments of principal and interest will be due and payable monthly through the maturity date. Pursuant to the terms of the PPP, the full amount of the loan, or portion thereof, may be forgiven if loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, costs used to continue group health care benefits, mortgage interest payments, rent and utilities. The College has determined it has incurred qualifying costs in excess of the principal amount of the PPP Loan in the year ended June 30, 2020. Pursuant to the terms of the PPP Loan, the College expects that the principal sum of the agreement shall be forgiven, and accordingly, the PPP Loan has been accounted for as a conditional grant. Conditional grants are recognized as revenue upon the College meeting all contractual stipulations. Management is in the process of submitting its application for PPP Loan forgiveness and believes that all of the conditions required for forgiveness have been met and adhered to during the year ended June 30, 2020. While the College believes that PPP Loan conditions were met, since the SBA has not formally approved it, the forgiveness amount can change. During the year ended June 30, 2020, the entire amount of the PPP Loan of \$5,485,500 was recognized as contributed revenue.

NOTE 16 - GRANT PROGRAMS

The College participates in Government Student Financial Assistance Programs (Title IV) administered by the Department of Education (ED) for the payment of student tuitions. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2020 and 2019 are dependent on the College's continued participation in the Title IV programs. Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score less than 1.5 are subject to additional monitoring and may be required to submit financial guarantees in order to continue participation in the Title IV programs. As of and for the year ended June 30, 2020, the College's composite score was above 1.5.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS
JUNE 30 2020 AND 2019

NOTE 17 - COMMITMENTS AND CONTINGENCIES

The Guaranteed Access to Educational Program (GATE) is a private subsidized educational loan program designed specifically to meet the educational costs of students attending participating accredited institutions. The GATE loans must be repaid by borrowers over a period that typically extends 13 years after graduation. The College participated in the GATE Loan Program through the 2006-2007 academic year. The total potential commitments in excess of the expected contribution by the College to this program amount to approximately \$1,281,000 as of June 30, 2020.

In addition, the College receives significant financial assistance from governmental agencies in the form of grants. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in grant agreements and is subject to audit by grantor agencies. The grant agreements provide for possible auditing of expenditures by grantor agencies and possible disallowance of certain expenditures.

The College is involved in various legal proceedings, administrative actions and claims arising in the normal course of business. In the opinion of management, the College's liability, if any, under pending litigation and administrative actions will not materially affect its financial statements.

NOTE 18 - RELATED PARTIES

The College engages in transactions with businesses whose executives are members of the Board of Trustees. The College undergoes an annual review process to identify and evaluate all such relationships and has concluded that these transactions were conducted at arm's length.

NOTE 19 - SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through October 21, 2020, the date that the financial statements were issued and determined that there have been no events that have occurred that would require adjustments to the disclosures in the financial statements except for the matter described in the following paragraphs.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which continues to spread throughout the United States and world. The College is closely monitoring the impact of the COVID-19 pandemic on all aspects of the College and its operations, including the impact to students, faculty and staff.

At the onset of the COVID-19 outbreak, the College began focusing intensely on mitigating the adverse impacts of the outbreak by protecting students, faculty and staff. Classroom delivery shifted to a remote online platform in mid-March 2020 and through the remainder of the spring 2020 academic term.

Governmental and regulatory responses to the pandemic could continue to include quarantines, shutdowns or other governmental or regulatory actions, including closures or other restrictions that limit or close college campuses. These actions could restrict faculty and staffs' ability to perform necessary business functions and students' ability to travel or attend classes in-person, all of which could adversely impact operating results.

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30 2020 AND 2019

NOTE 19 - SUBSEQUENT EVENTS (Continued)

Constraints triggered by shutdown orders and stay-at-home policies could present challenges in meeting obligations to students and achieving cost and operational budgets; however, the College has demonstrated an ability to quickly and effectively shift to a remote online learning environment, as seen during the end of the spring academic term in 2020.

Additionally, investment value and the College's grantors, donors, partners and the community could be adversely affected by these disruptions, which in turn could negatively impact the College's net assets.

The College has made efforts to identify, manage, and mitigate the economic disruption impacts of the COVID-19 pandemic; however, there are factors beyond the College's knowledge or control, including the duration and severity of the outbreak or any such similar outbreak, as well as further governmental and regulatory actions. Financial efforts to mitigate the disruptions of the pandemic include securing a PPP Loan (See Note 15) and being awarded a HEERF grant (See Note 15). Certain safety protocols and monitoring procedures have been enacted by the College for the fall 2020 and spring 2021 academic terms to ensure the safety of the students, faculty and staff. Such efforts might result in increased operating expenses and potentially affect the efficiency of operations. Such impacts could further increase the difficulty of planning for operations and might adversely impact financial results.

NOTE 20 - FUNCTIONAL EXPENSES

Expenses are summarized and categorized based upon their functional classification as either program or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization, interest and insurance, which are allocated on a square-footage basis, as well as salaries, wages and employee benefits, which are allocated on the basis of estimates of time and effort.

Functional expenses of the College at June 30, 2020 are as follows:

	Total Program	Supporting Activities			Total Expenses
		Management and General	Fundraising	Total Supporting	
Compensation	\$ 32,363,747	\$ 5,238,204	\$ 2,206,772	\$ 7,444,976	\$ 39,808,723
Utilities, supplies, occupancy	11,705,890	958,267	29,197	987,464	12,693,354
Depreciation	5,451,432	517,507	-	517,507	5,968,939
Interest	2,261,577	-	-	-	2,261,577
Services, travel and other	9,512,014	3,910,768	531,271	4,442,039	13,954,053
Total Expenses	<u>\$ 61,294,660</u>	<u>\$ 10,624,746</u>	<u>\$ 2,767,240</u>	<u>\$ 13,391,986</u>	<u>\$ 74,686,646</u>

ALLEGHENY COLLEGE

NOTES TO FINANCIAL STATEMENTS
JUNE 30 2020 AND 2019

NOTE 20 - FUNCTIONAL EXPENSES (Continued)

Functional expenses of the College at June 30, 2019 are as follows:

	Total Program	Supporting Activities		Total Supporting	Total Expenses
		Management and General	Fundraising		
Compensation	\$ 32,633,078	\$ 3,599,468	\$ 2,387,825	\$ 5,987,293	\$ 38,620,371
Utilities, supplies, occupancy	6,039,681	869,078	62,186	931,264	6,970,945
Depreciation	5,729,640	431,263	-	431,263	6,160,903
Interest	2,316,642	-	-	-	2,316,642
Services, travel and other	16,224,332	3,128,355	550,678	3,679,033	19,903,365
Total Expenses	<u>\$ 62,943,373</u>	<u>\$ 8,028,164</u>	<u>\$ 3,000,689</u>	<u>\$ 11,028,853</u>	<u>\$ 73,972,226</u>