

Lebanon Valley College

Financial Statements and
Supplementary Information

June 30, 2020 and 2019

Lebanon Valley College

Table of Contents
June 30, 2020 and 2019

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	6
Notes to Financial Statements	7
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	35
Supplementary Information	
Financial Responsibility Supplemental Schedule	37
Schedule of Expenditures of Federal Awards	38
Notes to Schedule of Expenditures of Federal Awards	39
Schedule of Findings and Questioned Costs	40
Summary Schedule of Prior Year Findings	41

Independent Auditors' Report

To the Board of Trustees of
Lebanon Valley College

Report on the Financial Statements

We have audited the accompanying financial statements of Lebanon Valley College (the College), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 Lebanon Valley 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* and the financial responsibility supplemental schedule, as required by Title 34 CFR Section 668.172, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2020, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Baker Tilly US, LLP (F/K/A Baker Tilly Virchow Krause, LLP)
Lancaster, Pennsylvania

October 23, 2020, except for Note 18 and our report on supplementary information, as to which the date is March 26, 2021

Lebanon Valley College

Statements of Financial Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 15,026,063	\$ 11,309,872
Short-term marketable securities	6,436,069	9,558,543
Accounts receivable:		
Students, net	1,232,238	806,499
Other	3,070,803	284,801
Prepaid insurance and expenses	1,383,510	1,490,008
Pledges receivable, net	9,811,294	11,045,926
Student loans receivable, net	1,700,433	2,080,678
Investments	72,819,483	74,484,293
Property, plant and equipment, net	<u>102,868,735</u>	<u>99,527,627</u>
 Total assets	 <u>\$ 214,348,628</u>	 <u>\$ 210,588,247</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,214,850	\$ 1,695,943
Construction payable	1,274,299	342,239
Accrued expenses	3,307,907	3,098,980
Other liabilities	277,856	187,616
Contract liabilities	1,947,323	2,187,917
Refundable advances	332,352	-
Liability on annuity contracts	672,408	774,439
Advances from federal government for student loans	1,933,518	1,890,927
Equipment and other notes payable	355,879	516,603
Tax exempt notes payable	40,757,776	40,323,097
Accrued interest, swap agreement	<u>5,647,049</u>	<u>251,108</u>
 Total liabilities	 <u>57,721,217</u>	 <u>51,268,869</u>
Net Assets		
Without donor restrictions	90,607,081	92,634,068
With donor restrictions	<u>66,020,330</u>	<u>66,685,310</u>
 Total net assets	 <u>156,627,411</u>	 <u>159,319,378</u>
 Total liabilities and net assets	 <u>\$ 214,348,628</u>	 <u>\$ 210,588,247</u>

See notes to financial statements

Lebanon Valley College

Statement of Activities

Year Ended June 30, 2020

(with comparative totals for 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues and Other Additions				
Student tuition and fees, net	\$ 34,729,872	\$ -	\$ 34,729,872	\$ 34,016,927
Governmental grants	6,422,364	-	6,422,364	2,840,633
Gifts and private grants	1,171,973	3,251,958	4,423,931	5,819,014
Investment income	700,706	832,276	1,532,982	1,478,631
Auxiliary enterprises	12,113,824	-	12,113,824	15,386,419
Gains (losses) on investments, net	(314,926)	(1,108,082)	(1,423,008)	898,333
Net assets released from restrictions and reclassified	3,641,132	(3,641,132)	-	-
Total revenues and other additions (reductions)	<u>58,464,945</u>	<u>(664,980)</u>	<u>57,799,965</u>	<u>60,439,957</u>
Expenses and Other Deductions				
Instruction	33,741,692	-	33,741,692	31,965,082
Student services	12,304,528	-	12,304,528	11,249,910
Auxiliary enterprises	4,883,540	-	4,883,540	5,259,781
Management and general	7,946,498	-	7,946,498	7,449,451
Development	1,615,674	-	1,615,674	1,562,558
Total expenditures and other deductions	<u>60,491,932</u>	<u>-</u>	<u>60,491,932</u>	<u>57,486,782</u>
Change in net assets	(2,026,987)	(664,980)	(2,691,967)	2,953,175
Net Assets, Beginning	<u>92,634,068</u>	<u>66,685,310</u>	<u>159,319,378</u>	<u>156,366,203</u>
Net Assets, Ending	<u>\$ 90,607,081</u>	<u>\$ 66,020,330</u>	<u>\$ 156,627,411</u>	<u>\$ 159,319,378</u>

See notes to financial statements

Lebanon Valley College

Statement of Activities

Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Other Additions			
Student tuition and fees, net	\$ 34,016,927	\$ -	\$ 34,016,927
Governmental grants	2,840,633	-	2,840,633
Gifts and private grants	1,088,342	4,730,672	5,819,014
Investment income	716,064	762,567	1,478,631
Auxiliary enterprises	15,386,419	-	15,386,419
Gains on investments, net	290,120	608,213	898,333
Net assets released from restrictions and reclassified	<u>19,064,752</u>	<u>(19,064,752)</u>	<u>-</u>
Total revenues and other additions	<u>73,403,257</u>	<u>(12,963,300)</u>	<u>60,439,957</u>
Expenses and Other Deductions			
Instruction	31,965,082	-	31,965,082
Student services	11,249,910	-	11,249,910
Auxiliary enterprises	5,259,781	-	5,259,781
Management and general	7,449,451	-	7,449,451
Development	<u>1,562,558</u>	<u>-</u>	<u>1,562,558</u>
Total expenditures and other deductions	<u>57,486,782</u>	<u>-</u>	<u>57,486,782</u>
Change in net assets	15,916,475	(12,963,300)	2,953,175
Net Assets, Beginning	<u>76,717,593</u>	<u>79,648,610</u>	<u>156,366,203</u>
Net Assets, Ending	<u>\$ 92,634,068</u>	<u>\$ 66,685,310</u>	<u>\$ 159,319,378</u>

See notes to financial statements

Lebanon Valley College

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (2,691,967)	\$ 2,953,175
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	6,292,815	6,186,313
Amortization of deferred financing costs	257,772	30,943
Contributions restricted for long-term purposes	(1,957,556)	(3,348,337)
Change in valuation of interest rate swap	5,677,141	316,668
Gains on investments, net	1,423,008	(898,333)
Changes in assets and liabilities:		
Pledges receivable	310,699	(288,030)
Accounts receivable	(3,211,741)	262,508
Prepaid insurance and expenses	106,498	110,437
Accounts payable	(481,093)	748,116
Accrued expenses	(72,273)	375,574
Other liabilities	90,240	43,200
Contract liabilities	(240,594)	(158,386)
Refundable advances	332,352	-
Net cash provided by operating activities	<u>5,835,301</u>	<u>6,333,848</u>
Cash Flows From Investing Activities		
(Increase) decrease in short-term marketable securities	3,122,474	(6,525,175)
Purchases of investments	(23,047,119)	(22,398,910)
Proceeds from sales of investments	23,288,921	22,775,235
Purchase of property and equipment	(8,701,863)	(4,723,756)
Disbursements for student loans	(7,488)	(34,869)
Repayments of student loans	387,733	375,389
Net cash used in investing activities	<u>(4,957,342)</u>	<u>(10,532,086)</u>
Cash Flows From Financing Activities		
Proceeds from contributions restricted by donors for other purposes	2,002,867	1,919,805
Proceeds from contributions restricted for property and equipment	878,622	2,195,341
Proceeds from tax exempt notes payable	621,799	4,181,509
Proceeds from other notes payable	54,151	-
Payments of other notes payable	(214,875)	(207,256)
Payments of tax exempt notes payable	(262,657)	(2,929,140)
Payment of debt issuance costs	(182,235)	-
Increase in refundable government loan funds, net	42,591	27,457
Payments of annuity contracts	(102,031)	(142,108)
Net cash provided by financing activities	<u>2,838,232</u>	<u>5,045,608</u>
Net increase in cash and cash equivalents	3,716,191	847,370
Cash and Cash Equivalents, Beginning	<u>11,309,872</u>	<u>10,462,502</u>
Cash and Cash Equivalents, Ending	<u>\$ 15,026,063</u>	<u>\$ 11,309,872</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, including capitalized interest	<u>\$ 1,188,224</u>	<u>\$ 1,045,944</u>
Supplemental Disclosure of Noncash Investing		
Tax exempt note principal repaid in refinancing	<u>\$ 40,441,619</u>	<u>\$ -</u>
Interest rate swap repaid in refinancing	<u>\$ 281,200</u>	<u>\$ -</u>

See notes to financial statements

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Lebanon Valley College (the College), located in Annville, Pennsylvania, delivers a transformative education built on the liberal arts. The College develops students who think critically and creatively across boundaries; who solve complex problems; who communicate effectively and who value differences among human beings. The College's graduates are empowered to pursue a life of learning, citizenship and success.

Basis of Presentation

The financial statements of the College have been prepared in conformity with accounting principles generally accepted in the United States of America including accounting regulations as they relate to financial statements of not-for-profit organizations. The Financial Accounting Standards Board (FASB) guidance requires the reporting of total assets, liabilities and net assets in a statement of financial position; reporting the change in net assets in a statement of activities and reporting the sources and uses of cash and cash equivalents in a statement of cash flows.

Net Assets

Net assets and revenues, gains, expenses and losses are classified as without donor restrictions or with donor restrictions based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees.

Net Assets With Donor Restrictions - Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these net assets with donor restriction are reclassified to net assets without restrictions and reported in the statements of activities as net assets released from restrictions. Additionally, funds received as gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity are reported as net assets with donor restrictions.

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments, with maturities of three months or less at time of purchase. Cash and cash equivalents that are components of the College's investment funds are not classified as cash equivalents.

Short-Term Marketable Securities

Short-term marketable securities consist of highly liquid investments in certificates of deposit, municipal bonds, government securities and corporate debt securities and are recorded at fair value.

Accounts Receivable, Students

Accounts receivable, students are reported at net realizable value. Management determines the allowance for doubtful accounts based on the current and historical experience of uncollectible amounts charged off. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts and considering a student's financial condition, credit history and current economic conditions. Recoveries of receivables previously written off are recorded when received. At June 30, 2020 and 2019, the allowance for doubtful student accounts was \$307,982 and \$321,163, respectively.

Accounts Receivables, Other

Other receivables are carried at the original invoice amount, less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management has determined that no allowance for doubtful accounts was required against other accounts receivables for the years ended June 30, 2020 and 2019.

Pledges Receivable

The College records all unconditional pledges as receivables when notification of the pledge is received and there is no major uncertainty about the existence of value. Pledges receivable expected to be received in one year are measured at the net-realizable value which is the nondiscounted amount of cash to be received less direct costs. Pledges to be received in future years are recorded at their net present value. Amortization of the discounts is included in private gifts and grants.

Investments

The fair values of equity and fixed income mutual funds and commodities funds are based on the quoted market price of the underlying securities. The fair values of other investments, consisting primarily of short-term financial instruments, are based on values reported by external investment managers when available using quoted market prices or using prices for similar assets with similar terms in actively traded markets. Alternative investments are comprised of hedge funds and private equity investments, which are measured at fair value based upon the net asset value of their underlying investments. Gains and losses realized on the sale of investments are determined using the carrying value for securities and the specific identification method for real estate and other investments. Gains and losses are realized as of the trade date for investments.

It is the College's policy to recognize the benefit of any irrevocable trust in which the College is a beneficiary, has been informed of its interest and can reasonably estimate its fair value. The College's beneficial interest in these trusts is based on the actuarially determined present value of the most recent market prices available of the College's interest in the trust asset. The College used a discount rate of 4.5 percent as of June 30, 2020 and 2019 to value these charitable remainder trusts.

The College is the recipient/beneficiary to several perpetual trust arrangements which are held by others in perpetuity. The College recognizes these arrangements at fair value of the College's interest which is a reasonable approximation of the present value of future cash flows to the College. The related income from these arrangements is recognized as either revenue with or without restrictions by the College when received, depending on whether donor-imposed restrictions exist. For the years ended June 30, 2020 and 2019, income recognized and received relating to these trusts amounted to \$797,286 and \$486,635, respectively, and is recorded in gifts and private grants on the statements of activities.

Investment-related fees are expensed when incurred and are netted against investment income in the statements of activities. For the years ended June 30, 2020 and 2019, investment-related fees amounted to \$249,093 and \$276,083, respectively.

The College's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statements of financial position are exposed to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of gifts. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings (20 - 40 years) and equipment (3 - 10 years).

Renewals and improvements which extend the useful lives of assets are capitalized at cost. The College's policy is to capitalize expenditures in excess of \$5,000. Library books are expensed when purchased. At the time plant and equipment is retired or otherwise disposed of, the cost is adjusted and any gain or loss on disposition is recognized. Maintenance and repairs are included as expenses in the statements of activities.

Student Loans Receivable and Advances From Federal Government for Student Loans

The College is a participant in the Federal Perkins Loan program (the Program) which makes student loans available to eligible participants. This program was funded by both the federal government and the College, with the portion estimated to be allocable to the federal government recorded as a liability in the statements of financial position, and the portion allocable to the College included in net assets without donor restrictions. The federal government's portion of these funds at June 30, 2020 and 2019 was \$1,933,518 and \$1,890,927, respectively. Student loans receivables related to the Program was \$2,103,042 and \$2,494,529 at June 30, 2020 and 2019, respectively. An allowance for uncollectable loans related to the Program was \$445,163 and \$456,979 as of June 30, 2020 and 2019, respectively.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable. Accordingly, interest on loans is recorded as received and is reinvested to support additional loans; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with the Program's requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management.

The Program expired on September 30, 2017 and after June 30, 2018, no new loans were permitted. The College is not required to assign its outstanding Perkins Loans to the Department of Education or liquidate its Perkins Loans Revolving Funds due to the wind-down of the Program; however, the College may choose to liquidate at any time in the future. As of June 30, 2020, the College continues to service the Program.

The College also will loan to students from its LVC Loan Fund, based on student individual circumstances. At June 30, 2020 and 2019, loans outstanding to students through the LVC Loan fund were \$154,021 and \$159,930, respectively, with a corresponding allowance for uncollectable loans of \$111,467 and \$116,802, respectively.

Derivative Financial Instruments

The College has entered into interest rate swap agreements, which are considered derivative financial instruments, to manage its exposure on its variable rate notes payable. Interest rate swap agreements are reported at fair value and included in accrued interest, swap agreement on the statements of financial position; related changes in fair value are netted against interest expense.

Revenue Recognition and Disaggregation of Revenue

Student tuition and fees are recorded at the established rates net of financial aid provided directly by the College, endowed scholarships and certain federal grants. Any payments received in advance for the subsequent year are classified as contract liabilities in the statements of financial position.

Tuition revenue is recognized in the fiscal year in which the academic programs are delivered, i.e. when the performance obligation is satisfied. Undergraduate programs are delivered in fall and spring academic terms. Graduate and adult education programs are delivered in six academic terms called Modules. Modules 1 through 4 overlay with the traditional fall and spring semesters, while Modules 5 and 6 are during the summer months, with Modules 5 ending around June 30 each year.

Room and board and other auxiliary services revenue are delivered primarily to undergraduate students in fall and spring academic terms and are recognized when the related services are performed. Any summer room and board charges are billed separately for summer sessions 1 and 2 for fiscal year considerations.

Full-time undergraduate and graduate health professions student withdrawals that occur within the first 60 percent of the academic term may receive a full or partial refund in accordance with the College's refund policy. Part-time undergraduate, graduate and adult education student withdrawals may receive a full or partial refund based on course length in accordance with the College's refund policy and the current refund table.

Payments for tuition are due on the first day of the academic term. Student deposits for housing are recognized as the College satisfies its performance obligations, which is generally equally over the academic term. Performance obligations for certain other auxiliary enterprises are satisfied when services are performed and which can be over a student's tenure at the College. Other contract liabilities are recognized as revenue once the College satisfies the performance obligations of the contract.

The College applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining significant performance obligations will be satisfied in connection with the completion of the 2020-2021 academic year.

Transaction prices for tuition, fees, room and board are determined based on applicable College pricing schedules. Institutional financial aid and discounts provided by the College are reflected as a reduction of the tuition price with the exception of specifically identified auxiliary discounts such as room grants, which are reflected as a reduction in the auxiliary price. The College awards grants-in-aid and scholarships to individuals who meet the College's academic standards. The amounts of such awards are based upon the financial needs and/or merit of each applicant. Institutional financial aid and discounts provided to students was \$44,189,585 and \$42,279,455 for the years ending June 30, 2020 and 2019, respectively.

Student deposits represent payments received for room deposits for the fall semester, graduate and adult education payments for Module 6 (July/August), and prepaid fall scholarships, prepaid fall HES payment plans and are included in contract liabilities on the statements of activities. As of June 30, 2020, the withdrawal period for summer and Module 5 (May/June) has passed; thus, all revenue relating to the 2020 Summer and Module 5 academic terms that finish by June 30 have been recognized. Any revenue for a course that begins in Module 5 and does not finish until after June 30 is prorated and deferred accordingly.

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

The College's tuition and fee revenues are disaggregated as follows:

	<u>2020</u>	<u>2019</u>
Undergraduate programs:		
Tuition	\$ 70,895,719	\$ 68,856,630
Fees	<u>2,066,860</u>	<u>2,002,840</u>
	72,962,579	70,859,470
Discounts	<u>(42,580,162)</u>	<u>(40,784,858)</u>
Total undergraduate	<u>30,382,417</u>	<u>30,074,612</u>
Graduate programs:		
Tuition	5,512,280	4,743,000
Discounts	<u>(1,609,423)</u>	<u>(1,494,597)</u>
Total graduate	<u>3,902,857</u>	<u>3,248,403</u>
Other:		
Miscellaneous fees	154,280	177,034
Program revenue	<u>290,318</u>	<u>516,878</u>
Total other	<u>444,598</u>	<u>693,912</u>
Total student tuition and fees, net	<u>\$ 34,729,872</u>	<u>\$ 34,016,927</u>

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the College reports the support as without donor restrictions.

Contributed services are recognized when the College would typically purchase such services if they require specialized skills and the contributor possesses such skills. Contributed property and equipment is recorded at fair value at the date of donation. The College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Conditional promises to give are not included as support until the conditions are substantially met. When collected prior to satisfaction of donor conditions, amounts are reported as refundable advances on the statements of financial position.

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

Contract Liabilities

Contract liabilities include student tuition, deposits and financial commitments by third party vendors that are being recognized as revenue over the life of the contract. The activity for contract liabilities for the years ended June 30, 2020 and 2019 are described below.

	2020			
	Beginning	Revenue Recognized	Cash Received in Advance of Performance	Ending
Deferred tuition	\$ 70,962	\$ (70,962)	\$ 24,143	\$ 24,143
Other contract liabilities	1,136,417	(462,766)	350,478	1,024,129
Student deposits	980,538	(393,535)	312,048	899,051
Total	<u>\$ 2,187,917</u>	<u>\$ (927,263)</u>	<u>\$ 686,669</u>	<u>\$ 1,947,323</u>

	2019			
	Beginning	Revenue Recognized	Cash Received in Advance of Performance	Ending
Deferred tuition	\$ 134,281	\$ (134,281)	\$ 70,962	\$ 70,962
Other contract liabilities	1,213,361	(579,581)	502,637	1,136,417
Student deposits	998,662	(564,167)	546,043	980,538
Total	<u>\$ 2,346,304</u>	<u>\$ (1,278,029)</u>	<u>\$ 1,119,642</u>	<u>\$ 2,187,917</u>

Advertising Costs

The College follows the policy of expensing advertising and marketing costs when incurred. Advertising related costs amounted to approximately \$642,000 in 2020 and \$161,000 in 2019.

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.

Functional Expenses

The statements of activities present expenses by functional classification. The majority of expenses are recorded directly to a functional classification based upon the specific department incurring the expense. However some expenses require allocation as they do not pertain to one specific department. Accordingly, depreciation and amortization, interest and certain expenses related to plant operation and maintenance have been allocated to functional classifications based on square footage. Salaries are allocated based on estimated time and effort. Employee benefits are allocated based on a percentage of salaries.

Debt Issuance Costs

Debt issuance costs are deferred and amortized over the term of the debt using the effective interest method. Debt issuance costs are recorded as a direct deduction to long-term debt on the statements of financial position.

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

Recently Issued Accounting Standards Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase the transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for the College in fiscal 2021. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The College is assessing the impact this standard will have on its financial statements.

Reclassification

Certain 2019 amounts have been reclassified to conform with the 2020 classifications. These reclassifications had no effect on previously reported total net assets for the year ended June 30, 2019.

Subsequent Events

The College evaluated subsequent events for recognition or disclosure through October 23, 2020, the date the financial statements were issued.

2. Promises to Give/Pledges Receivable

Unconditional Promises to Give

As of June 30, 2020 and 2019, donors to the College have made written promises to give, totaling a discounted present value of \$9,935,343 and \$11,200,970, respectively, on which management has established a reserve for uncollectible pledges of \$124,049 and \$155,044, respectively. Management believes the College's allowance for doubtful collections, which is an estimate based on management's periodic assessment of the risk of collectability of each gift, is adequate based upon information currently known as of June 30, 2020 and 2019.

	2020		
	Other Restrictions	Endowment	Total
Less than one year	\$ 2,281,188	\$ 128,140	\$ 2,409,328
One to two years	1,633,926	124,212	1,758,138
Three to four years	2,136,018	125,485	2,261,503
Five or more years	2,574,157	808,168	3,382,325
	<u>\$ 8,625,289</u>	<u>\$ 1,186,005</u>	<u>\$ 9,811,294</u>
	2019		
	Other Restrictions	Endowment	Total
Less than one year	\$ 2,530,149	\$ 106,921	\$ 2,637,070
One to two years	2,088,144	100,020	2,188,164
Three to four years	2,389,714	142,288	2,532,002
Five or more years	2,788,603	900,087	3,688,690
	<u>\$ 9,796,610</u>	<u>\$ 1,249,316</u>	<u>\$ 11,045,926</u>

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

Pledges are discounted to their present value over the period they are to be collected by using discount rates between 3.0 percent and 3.5 percent. The discounts were \$1,017,959 and \$1,090,616 as of June 30, 2020 and 2019, respectively.

Conditional Promises and Indications of Intentions to Give

The College does not recognize conditional promises as revenue until the condition is substantially met.

The College received two challenge gifts, one for \$3 million and one for \$7 million for a total of \$10 million to support the construction of a new health professions building. Gifts received on or after March 24, 2016, which meet the conditions of the pledge specified by the donor, qualify towards the challenge. As of June 30, 2018, the College met the \$3 million challenge. The remaining amount on the \$7 million challenge was met at June 30, 2019.

3. Investments, Fair Value Measurements and Other Financial Instruments

The College's investments, excluding short-term marketable securities, were comprised of the following as of June 30:

	2020				
	Endowment	Gift Annuities and Trusts	Split Interest Agreements	Other	Total
Cash and cash equivalents	\$ 1,311,789	\$ 39,402	\$ -	\$ -	\$ 1,351,191
Common stocks	27,639,980	-	-	-	27,639,980
Equity mutual funds:					
Domestic large cap	4,594,271	13,386	-	-	4,607,657
Domestic small cap	-	4,732	-	-	4,732
International	-	3,759	-	-	3,759
Exchange traded funds	13,917,028	-	-	-	13,917,028
Fixed income mutual funds	-	648,462	-	-	648,462
Hedge funds	12,080,093	-	-	-	12,080,093
Private equity partnerships	2,446,486	-	-	-	2,446,486
Beneficial interest in perpetual trusts	-	-	2,949,058	-	2,949,058
Charitable remainder trusts	-	-	959,734	-	959,734
Life insurance policies	-	-	-	373,477	373,477
Government and agency bonds	3,887,784	2,027	-	-	3,889,811
Corporate bonds	1,948,015	-	-	-	1,948,015
Total investments	<u>\$ 67,825,446</u>	<u>\$ 711,768</u>	<u>\$ 3,908,792</u>	<u>\$ 373,477</u>	<u>\$ 72,819,483</u>

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

	2019				
	Endowment	Gift Annuities and Trusts	Split Interest Agreements	Other	Total
Cash and cash equivalents	\$ 1,644,724	\$ 39,014	\$ -	\$ -	\$ 1,683,738
Common stocks	29,354,555	-	-	-	29,354,555
Equity mutual funds:					
Domestic large cap	5,480,432	7,016	-	-	5,487,448
Domestic small cap	-	3,038	-	-	3,038
International	-	5,170	-	-	5,170
Exchange traded funds	11,964,639	-	-	-	11,964,639
Fixed income mutual funds	-	803,596	-	-	803,596
Hedge funds	10,900,586	-	-	-	10,900,586
Private equity partnerships	3,797,482	-	-	-	3,797,482
Beneficial interest in perpetual trusts	-	-	3,053,106	-	3,053,106
Charitable remainder trusts	-	-	1,393,971	-	1,393,971
Life insurance policies	-	-	-	379,310	379,310
Government and agency bonds	3,738,815	20,810	-	-	3,759,625
Corporate bonds	1,898,029	-	-	-	1,898,029
Total investments	<u>\$ 68,779,262</u>	<u>\$ 878,644</u>	<u>\$ 4,447,077</u>	<u>\$ 379,310</u>	<u>\$ 74,484,293</u>

Fair Value Measurements

The College has categorized its financial instruments that are measured at fair value based on the priority of the inputs to the valuation technique into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in the active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the hierarchy are described below:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the College for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

The following tables present the financial instruments measured at fair value as of June 30, 2020 and 2019 by caption on the statements of financial position by the valuation hierarchy defined above:

	2020			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term marketable securities:				
Municipal bonds	\$ 1,068,880	\$ -	\$ 1,068,880	\$ -
Certificates of deposit	4,199,503	4,199,503	-	-
Ultra-short bond funds	1,167,686	1,167,686	-	-
Total	<u>\$ 6,436,069</u>	<u>\$ 5,367,189</u>	<u>\$ 1,068,880</u>	<u>\$ -</u>
Investments:				
Cash and cash equivalents	\$ 1,351,191	\$ 1,351,191	\$ -	\$ -
Common stock	27,639,980	27,639,980	-	-
Equity mutual funds:				
Domestic large cap	4,607,657	4,607,657	-	-
Domestic small cap	4,732	4,732	-	-
International	3,759	3,759	-	-
Exchange traded funds	13,917,028	13,917,028	-	-
Fixed income mutual funds	648,462	648,462	-	-
Split interest agreements	3,908,792	-	-	3,908,792
Life insurance policies	373,477	373,477	-	-
Government and agency bonds	3,889,811	2,027	3,887,784	-
Corporate bonds	1,948,015	-	1,948,015	-
Total investments at fair value	58,292,904	<u>\$ 48,548,313</u>	<u>\$ 5,835,799</u>	<u>\$ 3,908,792</u>
Alternative investments reported at net asset value				
Total	<u>\$ 72,819,483</u>			
Liability:				
Interest rate swaps	<u>\$ 5,647,049</u>	<u>\$ -</u>	<u>\$ 5,647,049</u>	<u>\$ -</u>

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

	2019			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term marketable securities:				
Municipal bonds	\$ 1,757,278	\$ -	\$ 1,757,278	\$ -
Certificates of deposit	2,454,518	2,454,518	-	-
Ultra-short bond funds	5,346,747	5,346,747	-	-
	<u>\$ 9,558,543</u>	<u>\$ 7,801,265</u>	<u>\$ 1,757,278</u>	<u>\$ -</u>
Investments:				
Cash and cash equivalents	\$ 1,683,738	\$ 1,683,738	\$ -	\$ -
Common stock	29,354,555	29,354,555	-	-
Equity mutual funds:				
Domestic large cap	5,487,448	5,487,448	-	-
Domestic small cap	3,038	3,038	-	-
International	5,170	5,170	-	-
Exchange traded funds	11,964,639	11,964,639	-	-
Fixed income mutual funds	803,596	803,596	-	-
Split interest agreements	4,447,077	-	-	4,447,077
Life insurance policies	379,310	379,310	-	-
Government and agency bonds	3,759,625	20,810	3,738,815	-
Corporate bonds	1,898,029	-	1,898,029	-
Total investments at fair value	59,786,225	<u>\$ 49,702,304</u>	<u>\$ 5,636,844</u>	<u>\$ 4,447,077</u>
Alternative investments reported at net asset value	<u>14,698,068</u>			
Total	<u>\$ 74,484,293</u>			
Liability:				
Interest rate swaps	<u>\$ 251,108</u>	<u>\$ -</u>	<u>\$ 251,108</u>	<u>\$ -</u>

Valuation Methodologies

Fair values of financial instruments were determined as follows:

Short-term marketable securities are valued based on the closing price on the active market on which the individual security is traded for certificates of deposit and ultra-short bond funds, which are considered Level 1 inputs, or using pricing for similar assets with similar terms in actively traded markets for corporate and municipal bonds, which are considered Level 2 inputs.

Equity mutual funds, fixed income mutual funds, common stocks and exchange traded funds in the investment portfolio are measured at fair value using quoted market prices for identical assets, which are considered Level 1 inputs.

Corporate, government and agency bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings and are considered Level 2 inputs.

Lebanon Valley College

Notes to Financial Statements

June 30, 2020 and 2019

Alternative investments are comprised of hedge funds and private equity investments with no readily determinable fair values. The College measures the fair value of the alternative investments based on the net asset value per share (the NAV) as calculated on the reporting entity's measurement date as the fair value of the investment. The College measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the investment as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments.

The College's split interest agreements are measured at fair value using the College's percentage of the underlying trust assets, which approximates the present value of estimated future cash flows to be received from the trust, and are Level 3 inputs.

The College measures its derivative financial instrument, interest rate swaps, at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. The fair value was estimated using the zero-coupon discounting method and considers the credit risk of the College and the counterparty. This method calculates the future payments required by the derivative financial instruments, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for a hypothetical zero coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the College would pay to terminate the agreements.

The following tables present a reconciliation of the beginning and ending balances of assets with fair value measurements using significant unobservable inputs (Level 3) as of June 30:

	Split Interest Agreements	
	2020	2019
Balance, beginning	\$ 4,447,077	\$ 4,583,312
Total gains (realized/unrealized)	259,001	350,400
Distributions	(797,286)	(486,635)
Balance, ending	\$ 3,908,792	\$ 4,447,077

Gains and losses (realized and unrealized) included in the statements of activities are reported in gains on investments, net. Distributions are included as gifts and private grants in the statements of activities.

Lebanon Valley College

Notes to Financial Statements

June 30, 2020 and 2019

The following table presents a list of the College's alternative investments as of June 30:

2020					
Name of Fund	Fair Value	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Fund International PE Partners VI	\$ 92,060	Private equity fund of funds commingled Cayman Island Corp	\$ 33,750	None - private equity structure nine year lock-up on underlying funds	N/A
Common Fund Private Equity Partners VII	208,357	Domestic private equity fund of funds commingled Cayman Island Corp	36,250	None - private equity structure nine year lock-up on underlying funds	N/A
Blackstone Energy Partners Fund	786,880	The Blackstone Energy Partners Fund (the Fund) is a private equity fund that focuses on investments in the energy and natural resources sector. The Fund consists of a diversified mix of mature buyout, management buildup, management acquisition/consolidation, and growth equity strategies	167,293	Private equity structure. Term is 11 years, subject to two one-year extensions	N/A
Morgan Stanley Hedge Premier/Millennium International, LTD	1,856,293	Highly diversified, absolute return strategy with low volatility and low correlation to capital markets. Morgan Stanley Feeder Fund, Cayman Island exempted company for U.S. tax exempt investors	N/A	Annual	90 days
PIMCO BRAVO Fund II Special TE	1,044,548	The PIMCO BRAVO Fund II Special TE (the Fund) is a private equity fund that focuses on residential and commercial real estate related assets in the U.S. and Europe. The Fund mainly invests in performing, underperforming and nonperforming loans as well as structured products and equity securities	2,617,323	Private equity structure. Term is five years with two possible 1.5 year extensions	N/A
Canyon Value Realization Fund (Cayman), Ltd	932,211	Event-driven: Distressed	N/A	Quarterly	60 days
Renaissance Institutional Equities Fund, LLC Series B	1,730,716	Long Exposure	N/A	Monthly	45 days
Third Point Offshore Fund, Ltd	943,417	Event driven multi-strategy. Includes constructive activist investing	N/A	Quarterly	60 days
Marshall Wace Eureka IV	1,059,814	Diversified International equity long short	N/A	Monthly	30 days
TPG Public Equity Partners - B, Ltd	1,080,949	Fundamental equity long short	N/A	Quarterly	60 days
Corbin Opportunity Fund, Ltd.	1,117,632	Relative value investment focused on relatively short maturities (1 year to 3 years)	N/A	Quarterly	60 days

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

2020

Name of Fund	Fair Value	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fort Global Contrarian LP	1,016,233	Global systemic futures trading program	N/A	Daily	3 days
Graham Absolute Return Fund LP	1,135,703	Diversified multi-portfolio manager fund allocating to a range of discretionary global macro strategies	N/A	Quarterly	30 days
Hamilton Lane Private Markets Opportunity Fund, Series II	74,639	Customized series offered under this structure by Hamilton Lane will generally focus on small and mid-sized private equity funds	1,427,458	10 year term	N/A
PE Premier Coller International Partners VIII Offshore, LP	240,000	Coller Capital originates and executes secondary transactions across the secondaries market - from single limited partnership interests, to complex portfolios of direct holdings in private companies	1,960,000	10 year term	N/A
SEG Partners, Offshore Class D	1,207,127	Select Equity Group Identifies what they believe to be the highest quality businesses that exhibit sustainable competitive advantage	N/A	Quarterly	60 days
	<u>\$ 14,526,579</u>		<u>\$ 6,242,074</u>		

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

2019

Name of Fund	Fair Value	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Fund International PE Partners VI	\$ 116,913	Private equity fund of funds commingled Cayman Island Corp	\$ 33,750	None - private equity structure nine year lock-up on underlying funds	N/A
Common Fund Private Equity Partners VII	280,824	Domestic private equity fund of funds commingled Cayman Island Corp	41,500	None - private equity structure nine year lock-up on underlying funds	N/A
Blackstone Energy Partners Fund	1,737,831	The Blackstone Energy Partners Fund (the Fund) is a private equity fund that focuses on investments in the energy and natural resources sector. The Fund consists of a diversified mix of mature buyout, management buildup, management acquisition/consolidation, and growth equity strategies	172,964	Private equity structure. Term is 11 years, subject to two one-year extensions	N/A
Morgan Stanley Hedge Premier/Millennium International, LTD	1,793,749	Highly diversified, absolute return strategy with low volatility and low correlation to capital markets. Morgan Stanley Feeder Fund, Cayman Island exempted company for U.S. tax exempt investors	N/A	Annual	90 days
PIMCO BRAVO Fund II Special TE	1,616,294	The PIMCO BRAVO Fund II Special TE (the Fund) is a private equity fund that focuses on residential and commercial real estate related assets in the U.S. and Europe. The Fund mainly invests in performing, underperforming and nonperforming loans as well as structured products and equity securities	2,110,726	Private equity structure. Term is five years with two possible 1.5 year extensions	N/A
Scopus Fund LTD	45,619	Long and Short-Term Equities	N/A	Annual	60 days
Canyon Value Realization Fund (Cayman), Ltd	1,101,027	Event-driven: Distressed	N/A	Quarterly	60 days
Renaissance Institutional Equities Fund, LLC Series B	1,853,107	Long Exposure	N/A	Monthly	45 days
Third Point Offshore Fund, Ltd	965,692	Event driven multi-strategy. Includes constructive activist investing	N/A	Quarterly	60 days
Marshall Wace Eureka IV	1,016,931	Diversified International equity long short	N/A	Monthly	30 days
TPG Public Equity Partners - B, Ltd	1,062,548	Fundamental equity long short	N/A	Quarterly	60 days
Corbin Opportunity Fund, Ltd.	1,339,577	Relative value investment focused on relatively short maturities (1 year to 3 years)	N/A	Quarterly	60 days
Fort Global Contrarian LP	518,441	Global systemic futures trading program	N/A	Daily	3 days
Graham Absolute Return Fund LP	1,249,515	Diversified multi-portfolio manager fund allocating to a range of discretionary global macro strategies	N/A	Quarterly	30 days
	<u>\$ 14,698,068</u>		<u>\$ 2,358,940</u>		

4. Endowment Funds

The College's endowment consists of approximately 398 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. In addition, annual fund gifts in excess of \$25,000 without donor restrictions are designated by the Board of Trustees as endowment. Investments restricted by the donor for endowment purposes are recorded as net assets with donor restrictions based on the original amount of the gift. Dividends, interest and gains on such endowed assets are reflected as an increase in net assets with or without donor restrictions based on the intention stipulated by the donor.

The College's policy requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets without donor restrictions is classified as either net assets with or without restrictions based on the existence of donor restrictions or by law.

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

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

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of 65 percent of the MSCI AC World Index (Net), 15 percent of the Barclays 1-5 Year Government/Credit Index and 20 percent of the HFRI FOF Index, while assuming an acceptable level of risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 5.75 percent above inflation annually which represents the 4.75 percent spending rate plus 1.00 percent. Actual returns in any given year may vary from this amount.

Lebanon Valley College

Notes to Financial Statements

June 30, 2020 and 2019

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Pennsylvania law stipulates that realized and unrealized gains on endowment assets, including dividends and interest, may be expended for the purposes stipulated by the donors only to the extent that the total of such expenditures do not exceed 7 percent of the average market value of the assets determined at least annually and averaged over a period of three or more years. For years ended June 30, 2020 and 2019, the Board of Trustees of the College has authorized the expenditure of the full 7 percent permitted by law for undesignated endowment assets and 4.75 percent for restricted endowment assets of the endowment fund's average fair value over the prior three calendar years. Realized and unrealized gains are included in the statements of activities as increases in net assets with donor restrictions. Such amounts may be released to net assets without donor restrictions in future years based on annual authorization by the Board of Trustees only to the extent of the annual limitation applicable to the year in which they are to be released. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow annually. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The net asset category with donor restrictions includes the value of interest in various trust accounts established by donors. The assets of the trusts are held by independent trustees. The College has an interest in the income generated from these trusts. These assets are not governed by the College's investment policy. All investment decisions and distributions are governed by trust documents and the trustee.

Changes in invested endowment net assets excluding the value of interest in various trusts held by independent trustees for the fiscal years ended June 30:

	Board Designated	With Donor Restrictions	2020 Total
Endowment net assets, beginning of year	\$ 15,182,588	\$ 53,596,674	\$ 68,779,262
Investment return:			
Investment income	229,000	817,573	1,046,573
Net depreciation (realized and unrealized)	(291,752)	(1,082,770)	(1,374,522)
Total investment return	(62,752)	(265,197)	(327,949)
Contributions	112,601	1,801,767	1,914,368
Appropriation of endowment assets for expenditure	(697,635)	(2,437,885)	(3,135,520)
Other changes:			
Realized and unrealized gains (losses) in excess of the 4.75% authorized spending rate up to the 7.00% annual limitation	149,311	(149,311)	-
Transfer of annuity to endowment	481,628	88,469	570,097
Other changes	(41,459)	66,647	25,188
Endowment net assets, end of year	\$ 15,124,282	\$ 52,701,164	\$ 67,825,446

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

	Board Designated	With Donor Restrictions	2019 Total
Endowment net assets, beginning of year	\$ 15,015,394	\$ 52,365,162	\$ 67,380,556
Investment return:			
Investment income	210,779	732,908	943,687
Net appreciation (realized and unrealized)	208,869	804,436	1,013,305
Total investment return	419,648	1,537,344	1,956,992
Contributions	223,001	1,667,973	1,890,974
Appropriation of endowment assets for expenditure	(659,321)	(2,371,211)	(3,030,532)
Other changes:			
Realized and unrealized gains in excess of the 4.75% authorized spending rate up to the 7.00% annual limitation	153,312	(153,312)	-
Transfer of annuity to endowment	-	581,272	581,272
Other Changes	30,554	(30,554)	-
Endowment net assets, end of year	<u>\$ 15,182,588</u>	<u>\$ 53,596,674</u>	<u>\$ 68,779,262</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law. The table below shows donor-restricted funds with original gift values, fair values and deficiencies reported in net assets with donor restrictions at June 30, 2020 and 2019. Management has interpreted state law to permit prudent spending from underwater endowments.

	Without Donor Restrictions	With Donor Restrictions			Total Funds June 30, 2020
		Original Gift	Accumulated Gains (Losses)	Total	
Board-designed funds	\$ 15,124,282	\$ -	\$ -	\$ -	\$ 15,124,282
Other endowment funds					
Underwater funds	-	11,976,311	(755,349)	11,220,962	11,220,962
Other funds, donor restricted earnings	-	26,292,834	9,117,642	35,410,476	35,410,476
Other funds, unrestricted earnings	-	5,303,911	765,815	6,069,726	6,069,726
Total	<u>\$ 15,124,282</u>	<u>\$ 43,573,056</u>	<u>\$ 9,128,108</u>	<u>\$ 52,701,164</u>	<u>\$ 67,825,446</u>
	Without Donor Restrictions	With Donor Restrictions			Total Funds June 30, 2019
Board-designed funds	\$ 15,182,588	\$ -	\$ -	\$ -	\$ 15,182,588
Other endowment funds					
Underwater funds	-	6,940,710	(325,031)	6,615,679	6,615,679
Other funds, donor restricted earnings	-	29,233,391	11,222,470	40,455,861	40,455,861
Other funds, unrestricted earnings	-	5,262,420	1,262,714	6,525,134	6,525,134
Total	<u>\$ 15,182,588</u>	<u>\$ 41,436,521</u>	<u>\$ 12,160,153</u>	<u>\$ 53,596,674</u>	<u>\$ 68,779,262</u>

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

5. Property, Plant and Equipment

Property, plant and equipment at June 30 consist of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 2,474,725	\$ 2,474,725
Land improvements	15,058,652	15,058,652
Buildings	164,384,562	157,765,018
Equipment	23,151,487	22,771,598
Capitalized interest	2,638,560	2,413,179
Construction in progress	3,554,965	1,145,856
	<u>211,262,951</u>	<u>201,629,028</u>
Less accumulated depreciation/amortization	<u>108,394,216</u>	<u>102,101,401</u>
Property, plant and equipment, net	<u>\$ 102,868,735</u>	<u>\$ 99,527,627</u>

Depreciation expense was \$6,292,815 and \$6,186,313 for the years ended June 30, 2020 and 2019, respectively.

6. Tax Exempt Notes Payable and Equipment and Other Notes Payable

Tax exempt notes payable and equipment and other notes payable at June 30 consist of the following:

	<u>2020</u>	<u>2019</u>
Tax Exempt Notes Payable		
2019 Annville Township Authority \$40,935,000 College Revenue note; maturing December 13, 2039; annual principal payments beginning on April 1, 2021 ranging from \$942,735 to \$1,452,973; fixed rate of interest of 2.5% through December 13, 2039; variable rate of interest equal to 83% of the sum of index plus the margin but in no instance shall such rate exceed 10% commencing on the series issuance date above until maturity or prepayment; interest payable semi-annually on April 1 and October 1. Interest rate as of June 30, 2020 was 2.5%	\$ 40,935,000	\$ -
Tax exempt notes refinanced in 2020	<u>-</u>	<u>40,575,858</u>
	40,935,000	40,575,858
Unamortized deferred financing costs	<u>(177,224)</u>	<u>(252,761)</u>
Total tax exempt notes payable	<u>\$ 40,757,776</u>	<u>\$ 40,323,097</u>

The College has collateralized its obligations by granting a security interest in College revenue received without donor restrictions.

	<u>2020</u>	<u>2019</u>
Equipment and Other Notes Payable		
Equipment notes at June 30 consist of twelve notes maturing July 2021 through December 2025; annual principal payments ranging from \$123 to \$125,000; fixed interest rates ranging from 0.0% to 13.83% interest per annum with terms ranging from four to six years; collateralized by equipment purchased.	\$ 355,879	\$ 516,603

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

Approximate annual maturities of tax exempt notes payable and equipment and other notes payable are as follows:

	Tax Exempt Notes Payable	Equipment and Other Notes Payable	Total
Years ending June 30:			
2021	\$ 942,735	\$ 222,699	\$ 1,165,434
2022	965,674	99,823	1,065,497
2023	989,172	19,665	1,008,837
2024	1,010,706	9,028	1,019,734
2025	1,037,836	4,664	1,042,500
Thereafter	35,988,877	-	35,988,877
	<u>\$ 40,935,000</u>	<u>\$ 355,879</u>	<u>\$ 41,290,879</u>

Interest cost capitalized on the construction of buildings was approximately \$225,000 and \$87,000 for the years ended June 30, 2020 and 2019, respectively.

Interest Rate Swaps

The College entered into two Hedge Contracts with a national bank (counterparty) in December 2016. The College entered into the Hedge Contracts primarily to modify the risk of interest rate changes (to hedge against changes in the applicable interest rate) and to manage the interest cost with respect to a portion of the 2016 Revenue Notes, and 2008 Revenue Note and any other bonds or notes issued to refund such bonds.

The first Hedge Contract provided that the College will pay a fixed rate of interest of 2.54 percent per annum on a notional amount equal to \$5,000,000 of the outstanding and regularly scheduled amortizing principal amount of the 2016 Revenue Notes, effective October 1, 2017 through December 1, 2026. The Hedge Contract also provided that the counterparty will pay a variable rate of interest equal to 68 percent of the USD one-month LIBOR plus 120 basis points on a notional amount equal to then outstanding and regularly scheduled amortizing principal amount of the 2016 Revenue Notes through December 1, 2026. This hedge was cancelled on December 13, 2019.

The second Hedge Contract provided that the College will pay a fixed rate of interest of 2.63 percent per annum on a notional amount equal to \$1,850,000 of the outstanding and regularly scheduled amortizing principal amount of the 2008 Revenue Notes, effective January 6, 2017 through April 1, 2029. The Hedge Contract also provided that the counterparty will pay a variable rate of interest equal to 68 percent of the USD one-month LIBOR plus 120 basis points on a notional amount equal to then outstanding and regularly scheduled amortizing principal amount of the 2008 Revenue Note through April 1, 2029. This hedge was cancelled on December 13, 2019.

The College entered into a new Hedge Contract with a national bank (counterparty) in December 2019. The College entered into the Hedge Contract primarily to modify the risk of interest rate changes (to hedge against changes in the applicable interest rate) and to manage the interest cost with respect to a portion of the 2019 Revenue Note.

The Hedge Contract provides that the College will pay a fixed rate of interest of 2.50 percent per annum on a notional amount equal to \$40,935,000 of the outstanding and regularly scheduled amortizing principal amount of the 2019 Revenue Notes, effective April 1, 2020 through January 1, 2035. The Hedge Contract also provides that the counterparty will pay a variable rate of interest equal to 83 percent of the USD one-month LIBOR on a notional amount equal to the outstanding and regularly scheduled amortizing principal amount of the 2019 Revenue Note through January 1, 2035.

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

The College recognized a noncash fair value liability of \$5,647,049 and \$251,108 as of June 30, 2020 and 2019, respectively, on the mark to market related to the Hedge Contracts. The net expense, or the difference between the College's and the counterparty's payments under the swaps during the years ended June 30, 2020 and 2019, was \$5,677,141 and \$316,668, respectively.

The College uses financial instruments to manage its exposures to movements in interest rates. The use of interest rate swaps lessens the exposure to this risk with the intent to reduce the risk or cost to the College over time. The College does not use derivatives for trading purposes.

The College's exposure to credit risk, associated with its derivative financial instruments, is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. The College does not believe there is significant risk of credit loss as of the date of this report.

7. Line of Credit

On July 2, 2014, the College opened an unsecured line of credit of \$3,000,000 that may be used to support general operating expenses, if needed, at a variable 30 day LIBOR plus 2.25 percent (2.43 percent at June 30, 2020). The agreement shall continue in full force and effect until such time as all of the College's loans with the institution have been paid in full, or until such time as the parties may agree in writing to terminate the agreement. The College has an Irrevocable Standby Letter of Credit agreement in the amount of \$490,000 as of June 30, 2020 and 2019. The College was able to reduce the unsecured line of credit balance by the amount granted on the Irrevocable Standby Letter of Credit thereby reducing the amount available for borrowing to \$2,510,000 as of June 30, 2020 and 2019. The Letter of Credit expires on April 22, 2021. The College had no additional borrowings under the line as of June 30, 2020.

8. Retirement Plans

The College has contributory retirement plans covering substantially all employees who meet age and service requirements. The plans are administered by Teachers' Insurance and Annuity Association (TIAA), a multi-employer plan. The retirement plan expense amounted to approximately \$1,732,000 in 2020 and \$1,653,000 in 2019.

9. Concentrations of Credit Risk

Financial instruments which subject the College to concentrations of credit risk consist primarily of investments in long-term corporate and governmental fixed income instruments; equity holdings of domestic corporations and mutual funds which invest primarily in short-term government securities. The College typically maintains cash and cash equivalents and temporary investments in local banks. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

The College's operations are located in Annville, Pennsylvania and its students come primarily from Pennsylvania and surrounding states. The College's major source of revenue is derived from tuition and room and board.

The College receives funds which are applied against students' accounts from federal and state governmental organizations which provide assistance to students attending institutions of higher education. The College participates in Government Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education (ED) for the payment of student tuition. Portions of the revenue and collection of accounts receivable as of June 30, 2020 and 2019, are dependent upon the College's continued participation in the Title IV programs.

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

Institutions participating in Title IV programs are also 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 between 1.0 and 1.5 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of June 30, 2020 and 2019, the College's composite score exceeded 1.5.

10. Guarantee of Privately Funded Student Loans

The College began participating in a program offered by the National Collegian Trust, referred to as the PledgeGATE (Guaranteed Access to Education) Program intended to provide a source of student loans to its students. Loans to students are initially funded by a bank on behalf of the College and then sold to a sub-trust of the National Collegian Trust on an annual basis as part of a securitization. In conjunction with this transaction, the College must guarantee or pledge up to a certain amount to pay for defaults the sub-trusts may experience.

Between 1999 and 2005, the College has entered into transactions with seven sub-trusts of the National Collegian Trust, enabling \$940,000 in loans to be provided to students of the College, with the current outstanding balance totaling approximately \$10,000. Related to this, the College has had to make guarantee payments totaling approximately \$84,000 due to defaults and has guarantee commitments outstanding in the amount of \$211,000. The present value of the guarantee payments that the College is expected to have to make over the lives of the sub-trusts does not exceed the present value of the residual payments from the trust as of June 30, 2020.

11. Functional Classification of Expenses

Expenses by functional and natural classifications for the years ended June 30:

	2020					
	Program Expenses			Institutional Support		Total
	Instruction	Student Services	Auxiliary Services	Management and General	Development	
Salaries and benefits	\$ 20,096,877	\$ 4,646,616	\$ 717,529	\$ 4,432,041	\$ 1,196,807	\$ 31,089,870
Operating expenses	4,737,343	1,719,598	2,536,596	2,047,982	255,925	11,297,444
Plant operation and maintenance	2,524,110	1,682,740	461,727	415,555	46,173	5,130,305
Depreciation and amortization	3,222,889	2,148,592	589,553	530,598	58,955	6,550,587
Interest	3,160,473	2,106,982	578,135	520,322	57,814	6,423,726
Total	<u>\$ 33,741,692</u>	<u>\$ 12,304,528</u>	<u>\$ 4,883,540</u>	<u>\$ 7,946,498</u>	<u>\$ 1,615,674</u>	<u>\$ 60,491,932</u>
	2019					
	Program Expenses			Institutional Support		Total
	Instruction	Student Services	Auxiliary Services	Management and General	Development	
Salaries and benefits	\$ 20,019,482	\$ 4,628,328	\$ 717,791	\$ 4,300,910	\$ 1,188,260	\$ 30,854,771
Operating expenses	5,541,936	2,320,040	3,493,551	2,080,657	269,454	13,705,638
Plant operation and maintenance	2,672,575	1,781,716	488,886	439,997	48,889	5,432,063
Depreciation and amortization	3,058,890	2,039,260	559,553	503,598	55,955	6,217,256
Interest	672,199	480,566	-	124,289	-	1,277,054
Total	<u>\$ 31,965,082</u>	<u>\$ 11,249,910</u>	<u>\$ 5,259,781</u>	<u>\$ 7,449,451</u>	<u>\$ 1,562,558</u>	<u>\$ 57,486,782</u>

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

12. Net Assets

Net assets without donor restriction are available for the following purposes as of June 30:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 15,002,018	\$ 19,105,822
Board-designated net assets	15,124,282	15,182,558
Investment in property and equipment	<u>60,480,781</u>	<u>58,345,688</u>
Total net assets without donor restriction	<u>\$ 90,607,081</u>	<u>\$ 92,634,068</u>

Net assets with donor restriction are available for the following purposes as of June 30:

	<u>2020</u>	<u>2019</u>
Pledges with time or purpose restrictions	\$ 3,352,956	\$ 3,051,356
Investments, primarily accumulated change in market value of investments in excess of the PA trust limitation and unexpended assets for other designated purposes	9,128,108	12,160,153
Academic programs and related funds	4,338,157	3,847,665
Time restricted split interest and annuity agreements	905,835	834,038
Pledges related to endowment	1,186,004	1,249,316
Student loans	370,135	366,438
Split interest and annuity agreements	3,166,079	3,739,823
Endowment investments, principal	<u>43,573,056</u>	<u>41,436,521</u>
Total net assets with donor restriction	<u>\$ 66,020,330</u>	<u>\$ 66,685,310</u>

Net assets released from donor restrictions were comprised of the following for the years ending June 30:

	<u>2020</u>	<u>2019</u>
Instruction and scholarship	\$ 1,083,175	\$ 2,333,413
Capital projects	236,020	14,206,816
Endowment investments	<u>2,321,937</u>	<u>2,524,523</u>
Total net assets released from donor restrictions	<u>\$ 3,641,132</u>	<u>\$ 19,064,752</u>

Included in net assets with donor restrictions as of June 30, 2020 and 2019, are \$765,815 and \$1,247,714, respectively, of accumulated gains on investments of funds with donor restrictions held in the endowment which have no specific purpose restrictions, have not been used in operations, and are only restricted as to prudent spending limits under Pennsylvania law. Bequests without donor restrictions are designated for long-term investment (quasi-endowment). The quasi-endowment fund balance totaled \$15,124,282 at June 30, 2020 and \$15,182,588 at June 30, 2019.

During the course of the year, net assets whose use by the College was subject to donor-imposed restrictions were fulfilled by actions of the College pursuant to those restrictions, the expiration of time or the designation of law. These assets are shown in the statements of activities as a release of net assets from donor restrictions.

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

13. Commitments

The College has approximately \$6,242,000 and \$2,359,000 in unfunded capital calls related to various alternative investments at June 30, 2020 and 2019, respectively. The College intends to fund these commitments through liquidation of current investments.

The College owns several buildings constructed prior to the passage of the Clean Air Act that may contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The College has not recognized the asset retirement obligation for asbestos removal in its financial statements because it cannot reasonably estimate the fair value of the obligation. If sufficient information becomes available to estimate the liability, it will be recognized at that time.

As of June 30, 2020 and 2019, the College was committed to approximately \$1,472,000 and \$3,529,000, respectively, on construction contracts.

14. Related-Party Transactions

The College paid fees of approximately \$3,235,000 in 2020 and \$5,098,000 in 2019 to vendors whose officer is also a Trustee of the College. All transactions were completed on an arm's length basis.

The College recognized contributions from Trustees of approximately \$1,290,000 and \$1,802,000 in 2020 and 2019, respectively, and has pledges outstanding from Trustees of approximately \$7,731,000 and \$8,557,000 at June 30, 2020 and 2019, respectively.

15. Income Taxes

The College is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The College follows the FASB guidance that requires a tax position to be recognized based on a more likely than not to be sustained upon examination threshold. The College does not believe its financial statements include any uncertain tax positions.

The College's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. No interest or penalties were recognized in 2020 or 2019.

16. Liquidity and Availability of Resources

The College's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for tuition charges and collections on student accounts in relation to the start of academic semesters.

The College's financial assets available within one year of the statement of financial position dates for general expenditure are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 10,686,335	\$ 7,462,207
Students and other receivables	4,303,041	1,091,300
Short-term investments	6,436,069	9,558,543
Anticipated appropriations of endowment for next fiscal year	<u>3,135,522</u>	<u>3,135,520</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 24,560,967</u>	<u>\$ 21,247,570</u>

The College's endowment funds consist of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. The quasi-endowment has a spending rate of 4.49 percent, \$691,210 of appropriations from the quasi-endowment will be available within the next 12 months.

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 come due. To help manage unanticipated liquidity needs, the College has committed lines of credit in the amount of approximately \$2,510,000 at June 30, 2020, which it could draw upon. In addition, the College has a board-designated endowment of \$15,124,282. Although the College does not intend to spend from its board-designated endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from the College board-designated endowment could be made available if necessary. However, both the board-designated endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available.

17. Coronavirus Pandemic Impact

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei Province, China. During the first several months of 2020, the virus, SARS-COV-2, and resulting disease, COVID-19, spread to the United States, including the geographical location in which the College operates. Beginning in March 2020, many businesses across the United States and worldwide, closed temporarily, either by government mandate or discretion of the individual business. As a result of this pandemic, the College moved its instruction to an online format for the rest of the Spring 2020 semester. The College also closed to resident students, resulting in a refund for room and board charges to students. Additionally, College faculty and staff were required to stagger times on campus and work remotely.

The Coronavirus Aid, Relief and Economic Security (CARES) Act provided budgetary relief to higher education institutions. Congress set aside approximately \$14.25 billion of the \$30.75 billion allotted to the Education Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF). Each institution received one grant comprised of two parts. Under the legislation, no less than 50 percent of the full grant was to be used for direct emergency aid to students. The remaining portion of the full grant was to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Institutions were given one calendar year from the date of the award in their HEERF Grant Notification to complete the performance of their HEERF grant.

The College received approximately \$1,443,000 of HEERF funding on April 25, 2020. Institutions may recognize the institutional portion of the grant to the extent the grant was expended on student relief as of June 30, 2020. As of June 30, 2020, \$389,000 of the student relief portion of the grant was expended and recognized as federal grants and contracts income and student aid expense and \$389,000 of the institutional portion of the grant was expended and recognized as federal grants and contract income and was used to offset the costs related to room and board refunds. Cash received in excess of the amounts recognized as revenue for the institutional portion was recorded as a refundable advance on the statements of financial position. As restrictions were met in the same period, these grants were reported as changes in net assets without donor restrictions.

Lebanon Valley College

Notes to Financial Statements
June 30, 2020 and 2019

18. U.S. Department of Education Financial Responsibility

The U.S. Department of Education (DOE) revised the regulations for financial responsibility effective July 1, 2020. The regulations require the College to provide additional disclosures, including a financial responsibility supplemental schedule, to assist the DOE in measuring financial responsibility through the composite score of financial ratios. The financial responsibility supplemental schedule must contain financial elements required to calculate the composite score ratios, with a cross-reference to the financial statement line or note that contains the element.

Note 5 provides information on the College's property, plant and equipment, net, and Note 6 provides information on the College's long-term debt, but neither note provides a breakout by the implementation date of July 1, 2019. The following table provides a breakdown of property, plant and equipment, net and long-term debt at June 30, 2020 based on the July 1, 2019 implementation date.

Pre-implementation:	
Property, plant and equipment, net	<u>\$ 93,175,501</u>
Post-implementation:	
Property, plant and equipment, net, with outstanding debt for original purchase	-
Property, plant and equipment, net, without outstanding debt for original purchase	6,138,269
Construction in progress	<u>3,554,965</u>
Total property, plant and equipment, net, without outstanding debt for original purchase	<u>9,693,234</u>
Total property, plant and equipment, net at June 30, 2020	<u><u>\$ 102,868,735</u></u>
Long-term debt for long-term purposes - pre-implementation	<u>\$ 40,437,704</u>
Long-term debt for long-term purposes - post-implementation	<u>\$ 54,151</u>

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards***

To the Board of Trustees of
Lebanon Valley College

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lebanon Valley College (the College), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2020, except for Note 18 and our report on supplementary information, as to which the date is March 26, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

Baker Tilly US, LLP (F/K/A Baker Tilly Virchow Krause, LLP)
Lancaster, Pennsylvania
October 23, 2020

**Independent Auditors' Report on Compliance
for Each Major Federal Program and Report on
Internal Control Over Compliance Required
by the Uniform Guidance**

To the Board of Trustees of
Lebanon Valley College

Report on Compliance for Each Major Federal Program

We have audited Lebanon Valley College's (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the College's major federal programs for the year ended June 30, 2020. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each of the major federal programs. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Baker Tilly US, LLP (F/K/A Baker Tilly Virchow Krause, LLP)
Lancaster, Pennsylvania
March 26, 2021

Lebanon Valley College

 Financial Responsibility Supplemental Schedule
 For the Year Ended June 30, 2020

Financial Statement and Line Name or Note Location
Primary Reserve Ratio

		<u>Expendable Net Assets:</u>	
Statement of Financial Position - Net Assets without donor restrictions		Net Assets without donor restrictions	\$ 90,607,081
Statement of Financial Position - Net Assets with donor restrictions		Net Assets with donor restrictions	66,020,330
Note 12 - Split interest and annuity agreements		Annuities with donor restrictions	3,166,079
Not applicable for 2020		Term endowments with donor restrictions	-
Not applicable for 2020		Life income with donor restrictions	-
Note 4 - Endowment investments, principal		Net assets with donor restrictions - restricted in perpetuity	43,573,056
Note 12		Net assets with donor restrictions - time or purpose	19,281,195
Note 14 - Related-Party Transactions - Pledges by Trustees		Unsecured related party receivable	7,731,000
Note 18		Property, plant and equipment - pre-implementation	93,175,501
Not applicable for 2020		Property, plant and equipment - post-implementation with outstanding debt for original purchase	-
Note 18		Property, plant and equipment - post-implementation without outstanding debt for original purchase	6,138,269
Note 5 and Note 18		Construction in progress	3,554,965
Statement of Financial Position		Total property, plant and equipment, net (including CIP)	102,868,735
Not applicable for 2020		Intangible Assets	-
Not applicable for 2020		Post-employment and pension liabilities	-
Note 18		Long-term debt for long-term purposes - pre-implementation	40,437,704
Note 18		Long-term debt for long-term purposes - post implementation	54,151
Not applicable for 2020		Line of credit for construction in progress	-
		Total Expenses and Losses Without Donor Restrictions	
Statement of Activities		Total Expenses without donor restrictions	\$ 60,491,932
Not applicable for 2020		Nonoperating and Net Investment (loss)	-
Not applicable for 2020		Net investment losses	-
Not applicable for 2020		Adjustment of actuarial liability	-

Equity Ratio

		<u>Modified Net Assets</u>	
Statement of Financial Position		Net Assets without Donor Restrictions	\$ 90,607,081
Statement of Financial Position		Net Assets with Donor Restrictions	66,020,330
Not applicable for 2020		Intangible assets	-
Note 14 - outstanding pledges from Trustees		Unsecured related party receivable	7,731,000
		Modified Assets	
Statement of Financial Position - Total Assets		Total Assets	\$ 214,348,628
Not applicable for 2020		Intangible assets	-
Note 14 - outstanding pledges from Trustees		Unsecured related party receivable	7,731,000

Net Income Ratio

Statement of Activities - Change in Net Assets Without Donor Restrictions		Change in net assets without donor restrictions	\$ (2,026,987)
		Total Revenue and Gains Without Donor Restrictions	
Statement of Activities - total revenues without donor restrictions		Total operating revenue and other additions (gains)	\$ 58,464,945
Not applicable for 2020		Investment return appropriated for spending	-
Not applicable for 2020		Nonoperating revenue and other gains	-

Lebanon Valley College

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Total Federal Expenditures
U.S. Department of Education		
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	\$ 175,646
Federal Work Study Program	84.033	250,000
Federal Perkins Loan	84.038	2,494,493
Federal Pell Grant Program	84.063	1,781,846
Federal Direct Student Loans	84.268	15,432,593
Teacher Education Assistance for College and Higher Education Grants	84.379	<u>32,842</u>
Total Student Financial Assistance Cluster		<u>20,167,420</u>
Higher Education Emergency Relief Fund (HEERF):		
COVID-19 - Student Aid Portion	84.425E	389,000
COVID-19 - Institutional Portion	84.425F	<u>721,352</u>
Total HEERF		<u>1,110,352</u>
Total U.S. Department of Education		21,277,772
Research and Development Cluster		
National Science Foundation:		
Education and Human Resources	47.076	<u>36,070</u>
Total expenditures of federal awards		<u>\$ 21,313,842</u>

See notes to schedule of expenditures of federal awards

Lebanon Valley College

Notes to Schedule of Expenditures of Federal Awards
June 30, 2020

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Lebanon Valley College (the College) under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the activities of the College, it is not intended to and does not present either the financial position, changes in activities, or cash flows of the College.

2. Summary of Significant Accounting Policies

The Schedule includes the federal grant transactions of the College recorded on the accrual basis of accounting. Such expenditures are recognized following the cost principles in the Uniform Guidance. In certain programs, the expenditures reported in the financial statements may differ from the expenditures reported in the Schedule due to program expenditures exceeding grant or contract budget limitations which are not reported as expenditures in the Schedule.

3. Indirect Cost Rate

The College submits a proposal (simplified method) for an indirect cost rate every five years. The approved rate is used on grants, contracts and other agreements with the Federal Government. The College has not elected to use the 10 percent de minimis indirect cost rate for federal grants under Uniform Guidance.

4. Federal Student Loan Program

The College administers the Federal Perkins Loan Program, and balances and transactions relating to this program are included in the College's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year (none in 2020) are included in the federal expenditures presented in the Schedule. The total loans outstanding under the Federal Perkins Loan Program at June 30, 2020 were \$2,103,043.

5. Administrative Cost Allowances

The U.S. Department of Education allows the College to expend a portion of federal funds for costs incurred to administer the student financial assistance program. The Schedule also includes an administrative cost allowance for the Federal Pell Grant Program of \$2,070.

Lebanon Valley College

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.007	Student Financial Assistance Cluster:
84.033	Federal Supplemental Educational Opportunity Grants
84.038	Federal Work Study Program
84.063	Federal Perkins Loan
84.268	Federal Pell Grant Program
84.379	Federal Direct Student Loans
84.379	Teacher Education Assistance for College and Higher Education Grants
84.425E	COVID-19 – HEERF Student Aid Portion
84.425F	COVID-19 – HEERF Institutional Portion

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ X yes _____ no

Lebanon Valley College

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Summary Schedule of Prior Year Findings

None.