DeSales University

Consolidated Financial Statements

June 30, 2019 and 2018

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Independent Auditors' Report

To the Board of Trustees of
DeSales University and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of DeSales University and Subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Allentown, Pennsylvania
October 24, 2019

DeSales University and Subsidiaries

Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 9,627,019	$ 12,514,900
Short-term investments (Note 2)	111,114	110,782
Accounts receivable, less allowance of $1,400,000 in 2019 and $1,230,000 in 2018	1,772,630	1,290,375
Contributions receivable (Note 3)	958,473	1,015,459
Notes receivable and other assets (Notes 1 and 4)	643,291	764,834
Charitable lead trust receivable (Note 5)	-	138,168
Prepaid expenses and other current assets	878,202	702,744
Investment income receivable	83,504	65,850
Total current assets	14,074,233	16,603,112
Long-Term Investments (Note 2)	91,840,777	87,843,074
Contributions Receivable (Note 3)	948,873	1,343,060
Notes Receivable and Other Assets (Notes 1 and 4)	2,203,745	2,186,228
Assets Held Under Other Split Interest Agreements (Note 5)	32,171	115,903
Land, Buildings and Equipment (Note 6)	132,744,864	123,392,265
Total assets	$ 241,844,663	$ 231,483,642
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 4,404,551	$ 2,887,014
Accrued expenses	2,936,758	3,015,426
Deferred revenues (Note 1)	4,248,698	4,236,822
Line of credit (Note 7)	3,000,000	-
Current portion of long-term debt (Note 7)	4,326,178	3,963,999
Total current liabilities	18,916,185	14,103,261
Accrued Expenses, Non-Current	118,357	972,693
Long-Term Debt (Note 7)	47,218,342	51,064,612
Refundable Deposits	380,600	374,200
Refundable Government Loan Funds	1,435,549	1,462,395
Liabilities Under Split-Interest Agreements (Note 5)	56,352	87,274
Total liabilities	68,125,385	68,064,435
Net Assets (Note 9)		
Without donor restrictions	133,703,149	123,108,137
With donor restrictions	40,016,129	40,311,070
Total net assets	173,719,278	163,419,207
Total liabilities and net assets	$ 241,844,663	$ 231,483,642

See notes to consolidated financial statements

DeSales University and Subsidiaries

Consolidated Statement of Activities
Year Ended June 30, 2019

	2019		
	Net Assets Without Donor Restriction	Net Assets With Donor Restriction	Total
Operating Revenues and Other Additions			
Tuition and fees, net of scholarship allowances of $32,561,431	$ 57,473,815	$ -	57,473,815
Federal grants	455,687		455,687
State appropriations	426,844		426,844
Private gifts and grants	2,830,944	1,886,868	4,717,812
Endowment earnings	1,281,998	1,336,707	2,618,705
Investment earnings	715,187	42,479	757,666
Sales and services of educational departments	397,841	-	397,841
Sales and services of auxiliary enterprises	15,972,378	-	15,972,378
Other sources	380,509	330,962	711,471
Net assets released from restrictions	1,242,340	(1,242,340)	-
Total operating revenues and other additions	81,177,543	2,354,676	83,532,219
Operating Expenditures and Other Deductions			
Educational and general:			
Instruction and research	31,847,981	-	31,847,981
Academic support:			
Administrative	3,102,410	-	3,102,410
Library	1,348,165	-	1,348,165
Student services	12,154,539	-	12,154,539
Institutional support	12,878,617	-	12,878,617
Auxiliary enterprise expenditures	14,450,948	-	14,450,948
Total operating expenditures and other deductions	75,782,660	-	75,782,660
Increase in net assets from operating activities	5,394,883	2,354,676	7,749,559
Non-Operating Activities			
Endowment earnings less than spending policy	(715,820)	(324,278)	(1,040,098)
Unrealized net gain on investments	1,362,646	949,961	2,312,607
Capital campaign gifts	-	1,015,346	1,015,346
Other non-operating revenues	404,827	-	404,827
Gifts released from restrictions	4,038,393	(4,038,393)	-
Subsidiary operations, net	34,987	(74,250)	(39,263)
Change in value of split-interest agreements	75,096	(178,003)	(102,907)
Change in net assets from non-operating activities	5,200,129	(2,649,617)	2,550,512
Change in net assets	10,595,012	(294,941)	10,300,071
Net Assets, Beginning	123,108,137	40,311,070	163,419,207
Net Assets, Ending	$ 133,703,149	$ 40,016,129	$ 173,719,278

See notes to consolidated financial statements

DeSales University and Subsidiaries

Consolidated Statement of Activities
Year Ended June 30, 2018

	2018		
	Net Assets Without Donor Restriction	Net Assets With Restriction	Total
Operating Revenues and Other Additions			
Tuition and fees, net of scholarship allowances of $28,754,115	$ 54,361,545	$ -	$ 54,361,545
Federal grants	348,474	-	348,474
State appropriations	391,573	-	391,573
Private gifts and grants	773,075	2,127,071	2,900,146
Endowment earnings	1,259,736	1,839,760	3,099,496
Investment earnings	832,940	16,877	849,817
Sales and services of educational departments	397,029	-	397,029
Sales and services of auxiliary enterprises	15,302,556	-	15,302,556
Other sources	421,171	190,138	611,309
Net assets released from restrictions	1,326,013	(1,326,013)	-
Total operating revenues and other additions	75,414,112	2,847,833	78,261,945
Operating Expenditures and Other Deductions			
Educational and general:			
Instruction and research	31,309,554	-	31,309,554
Academic support:			
Administrative	3,091,460	-	3,091,460
Library	1,305,913	-	1,305,913
Student services	11,607,899	-	11,607,899
Institutional support	11,948,322	-	11,948,322
Auxiliary enterprise expenditures	14,144,337	-	14,144,337
Total operating expenditures and other deductions	73,407,485	-	73,407,485
Increase in net assets from operating activities	2,006,627	2,847,833	4,854,460
Non-Operating Activities			
Endowment earnings less than spending policy	(62,744)	(49,839)	(112,583)
Unrealized net gain on investments	1,770,896	1,075,091	2,845,987
Capital campaign gifts	-	1,371,374	1,371,374
Other non-operating expenses	(919,827)	-	(919,827)
Gifts released from restrictions	272,847	(272,847)	-
Subsidiary operations, net	122,972	(184,876)	(61,904)
Change in value of split-interest agreements	-	(110,625)	(110,625)
Change in net assets from non-operating activities	1,184,144	1,828,278	3,012,422
Change in net assets	3,190,771	4,676,111	7,866,882
Net Assets, Beginning, as Previously Reported	117,612,442	35,648,331	153,260,773
Reclassification to Adopt ASU No. 2016-14	13,372	(13,372)	-
Adjustment to Adopt ASU No. 2014-09	2,291,552	-	2,291,552
Net Assets, Beginning, as Restated	119,917,366	35,634,959	155,552,325
Net Assets, Ending	$ 123,108,137	$ 40,311,070	$ 163,419,207

See notes to consolidated financial statements

DeSales University and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ 10,300,071	$ 7,866,882
Adjustments to reconcile change in net assets tonet cash provided by operating activities:		
Depreciation	7,480,217	7,206,737
Amortization of note premium and deferred financing costs, net	(35,763)	8,090
Contributions restricted for permanent endowment and capital campaign	(2,045,487)	(3,109,710)
Contributed property	(56,565)	-
Net realized and unrealized gains on investments	(3,145,719)	(5,640,971)
(Gain) loss on disposal of equipment	32,374	(12,421)
(Increase) decrease in assets:		
Accounts receivable	(482,255)	(229,523)
Contributions receivable	451,173	141,690
Charitable lead trust receivable	138,168	109,870
Notes receivable and other assets	(88,056)	(585,692)
Prepaid expenses and other current assets	(175,458)	(28,953)
Investment income receivable	(17,654)	(17,605)
Assets held under other split-interest agreements	83,732	1,823
Increase (decrease) in liabilities:		
Accounts payable	(451,403)	386,182
Accrued expenses	(933,004)	555,442
Deferred revenues	11,876	46,689
Refundable government loan funds	(26,846)	(6,514)
Liabilities under split-interest agreements	(22,104)	14,090
Refundable deposits	6,400	(4,400)
Net cash provided by operating activities	11,023,697	6,701,706
Cash Flows from Investing Activities		
Proceeds from sales of investments	19,558,651	11,314,222
Purchase of investments	(20,410,967)	(13,320,304)
Student loans advanced	(29,135)	(160,500)
Student loans collected	221,217	142,059
Purchase of buildings and equipment	(14,276,589)	(6,354,018)
Proceeds from sale of equipment	11,075	27,900
Net cash used in investing activities	(14,925,748)	(8,350,641)
Cash Flows from Financing Activities		
Contributions restricted for permanent endowment and capital campaign	2,045,487	3,109,710
Proceeds from line of credit	3,000,000	-
Proceeds from long-term debt	-	10,000,000
Payment of financing costs on issuance of long-term debt	-	(92,681)
Repayment on line of credit	-	(3,000,000)
Repayment of long-term debt	(4,022,499)	(3,982,829)
Payment of annuity obligations	(8,818)	(15,158)
Net cash provided by financing activities	1,014,170	6,019,042
Net (decrease) increase in cash and cash equivalents	(2,887,881)	4,370,107
Cash and Cash Equivalents, Beginning	12,514,900	8,144,793
Cash and Cash Equivalents, Ending	$ 9,627,019	$ 12,514,900
Supplementary Cash Flows Information		
Interest paid	$ 1,321,141	$ 1,326,935
Assets acquired under financing arrangements	$ 574,171	$ 288,267
Building and equipment purchases in accounts payable	$ 2,857,056	$ 888,116

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Nature of Operations

DeSales University (the "University") is an independent, four-year coeducational Catholic liberal arts university with both undergraduate and graduate degree programs serving approximately 3,200 students. The University is incorporated in the Commonwealth of Pennsylvania as a non-profit corporation in accordance with Section 501(c)(3) of the Internal Revenue Code, and is accredited by Middle States Commission on Higher Education.

The University was established in 1965 by the Oblates of St. Francis de Sales and is situated on an approximately 550 acre campus in Center Valley, Pennsylvania. The University offers undergraduate degrees in forty major areas of study, as well as pre-professional programs in medicine, dentistry, law, and teacher certification in secondary education. In graduate study, the University offers master's degrees in business administration, education, nursing, information systems, criminal justice and physician assistant studies, and doctorates of nursing practice in clinical leadership and of physical therapy.

The significant accounting policies followed by the University are set forth below and in other sections of these notes.

Basis of Presentation and Consolidation

The consolidated financial statements of the University have been prepared on the accrual basis of accounting and in accordance with the principles of not-for-profit accounting generally accepted in the United States of America. These consolidated financial statements include the accounts of the University and its wholly-owned subsidiaries, The Pennsylvania Shakespeare Festival ("PSF") and the Forum for Ethics in the Workplace ("Forum for Ethics").

All significant inter-organization accounts and transactions have been eliminated in consolidation.

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

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

Net assets with donor restrictions are subject to donor-imposed stipulations for specific operating purposes, for the acquisition of property and equipment, are time-restricted or require that they be held in perpetuity with investment returns used for operations or scholarships. 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 donor restriction and reported in the statement of activities as net assets released from restriction.

Non-Operating Activities

Non-operating activities primarily reflect transactions of a long-term investment or capital nature, including contributions restricted for future acquisitions of facilities and equipment and the net realized and unrealized gains and losses on investments in excess of, or less than, the University's spending policy, change in value of split-interest agreements, as well as the net operating results of PSF and the Forum for Ethics.

Revenue Recognition

The University recognizes tuition and fee revenue in the fiscal year in which the academic programs are delivered. Revenue for the majority of auxiliary enterprises, including food service, residence halls, and the campus store, is recognized as the related goods and services are delivered and rendered. The remainder of auxiliary enterprises revenues is derived from the rental of the University's conference center, classrooms, and athletic fields for conferences, meetings, and camp activities and for which revenue is recognized monthly based on the applicable calendar of events held.

Transaction prices for tuition, fees, room and board are determined based on applicable University pricing schedules by program as approved by the Board of Trustees. Institutional financial aid and discounts provided by the University are reflected as a reduction of tuition and fee revenue and is awarded to students who meet the University's academic and aid eligibility standards.

Amounts are due for tuition, fees, room and board at the beginning of the start of each academic semester. The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws or adjusts their course load during stated refund periods which vary by program and term.

Private grants and contracts are generally deemed to be exchange (reciprocal) transactions and fall under the scope of the new revenue recognition standard. The performance obligation for each grant or contract is deemed to be the research itself and revenue is recognized as the eligible grant activities are conducted. Transaction prices are based on budgets in the award agreement. Private grants and contracts are generally one year or less in duration. Exchange contracts are not significant to the University's financial statements.

Government grants and contracts are deemed to be non-exchange (nonreciprocal) transactions and fall under the contribution accounting guidance. Under this guidance, revenue related to conditional grants and contracts is recorded when the conditions are met. Most grants and contracts are on a cost reimbursement basis and require the University to incur eligible expenses prior to the release of funds. The University reports these grants and contracts as changes in net assets without donor restrictions when restrictions are met in the same period. Restricted private gifts are recorded as changes in net assets with donor restrictions. When a donor restriction expires, net assets are reclassified as net assets without donor restrictions.

Deferred Revenue

Deferred revenue consists primarily of student tuition and fees received prior to the start of the academic term. The following table depicts activities for deferred revenue related to tuition and fees along with other revenue classifications.

	Balance at June 30, 2018	Refunds Issued	Revenue Recognized in 2019 Included in June 30, 2018 Balance	Cash Received in Advance of Performance	Balance at June 30, 2019
Tuition and fees	$ 3,594,797	$ 63,749	$ 3,531,048	$ 3,756,022	$ 3,756,022
Room and board	133,065	-	133,065	139,329	139,329
Theatre and PSF performances	407,254	-	407,254	285,377	285,377
Conference services	101,706	-	101,706	67,970	67,970
Total	$ 4,236,822	$ 63,749	$ 4,173,073	$ 4,248,698	$ 4,248,698

Fair Value Measurements

Accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value for certain financial assets and liabilities. The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Quoted prices in markets that are not active, quoted prices for similar securities, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

See Notes 2 and 5 for the fair value measurements by level within the fair value hierarchy.

Cash Equivalents

Cash equivalents include short-term, highly liquid investments with maturities of three months or less. The carrying amount approximates fair value because of the short-term maturity of these instruments, which is considered a Level 1 input.

Accounts Receivable

Accounts receivable are stated at outstanding balance less an allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based primarily on past experience, aging of the receivables, and other relevant factors, and is maintained at a level considered adequate to provide for losses that can be reasonably anticipated.

Accounts are written off when they are determined to be uncollectible based upon management's assessment of the individual accounts.

Notes Receivable and Other Assets

The notes receivables include loans to students funded by advances to the University by the federal government under the Federal Perkins Loan Program, Nursing Student Loan Program, and the Nursing Faculty Loan Program (the "Programs"). These advances may be re-loaned by the University after collection, but in the event that the University no longer participates in the Programs, the amounts are refundable to the federal government. The federal government's portion of these funds at June 30, 2019 and 2018 was $1,455,000. The University provides required matching contributions for any new advances received from the U.S. Government, of which there were none during fiscal 2019 and 2018. The carrying amounts of these notes receivables and federal government grants refundable approximate the fair value of these instruments.

The Federal Perkins Loan Extension Act amended section 461 of the Higher Education Act to end the University's authority to grant new Perkins Loans after June 30, 2018. The University is not required to assign the outstanding Perkins Loans to the Department of Education or liquidate the Perkins Loan Revolving Funds due to the wind-down of the Perkins Loan Program (the "Program"); however, the University may choose to liquidate at any time in the future. As of June 30, 2019, the University continues to service the Program.

The prescribed practices for the Programs 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 Programs' 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, but are not material to the overall consolidated financial statements.

Investments

Investments in marketable securities are stated at fair value. The average cost of marketable securities is used to determine the basis for computing realized and unrealized gains and losses.

Contributions

Contributions received, including unconditional promises to give, are recognized as revenues when the donor's commitment is received. Unconditional promises to give over more than one year are recognized at the estimated present value of the future cash flows. The discounts on those amounts are computed using the expected rate of return of a market participant applicable to the year in which the promise is received. Promises made and collected in the same reporting period are recorded when received in the appropriate net asset category. Contributions and promises to give of non-cash assets are recorded at their fair value. Conditional promises are recognized when donor stipulations are substantially met.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost if purchased or at fair value at date of donation if received by gift, less an allowance for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets ranging from 5 years to 50 years. All assets with a purchased cost, or fair value if acquired by gift, in excess of $5,000 are capitalized. Depreciation is not recorded on works of art or land.

Planned major maintenance activities are expensed as incurred or capitalized if the planned maintenance extends the useful life of the asset.

Impairment of Long-lived Assets

Management of the University reviews long-lived assets (including property and equipment and other assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management considers the undiscounted cash flow expected to be generated by the use of the asset and its eventual disposition to determine when, and if, an impairment has occurred. An impairment loss is recognized to the extent that the carrying value of assets exceeds their fair value. Any write-downs due to impairment are charged to operations at the time impairment is identified. No such write-downs were required in 2019 and 2018.

Pension Plans

The University provides defined contribution pension plan benefits for substantially all regular full-time employees through the Teachers Insurance and Annuity Association and contributes to a pension fund established and maintained by the Oblates of St. Francis de Sales. Total University contributions made under these plans totaled approximately $1,825,000 and $2,112,000 for the fiscal years ended June 30, 2019 and 2018, respectively.

Self-Funded Insurance

The University participates in a self-funded insurance plan to cover employee medical claims. Under the terms of the underlying trust agreement, a trust account was established to administer the stop/loss premium and medical claim payments. At June 30, 2019 and 2018, the value of the trust account, less an estimated liability which includes an estimate of incurred but not reported claims based on data compiled from historical and actuarial experience, is recorded in notes receivable and other assets in the statements of financial position (Note 4).

Fundraising

Fundraising costs are expensed as incurred and amounted to $1,724,087 and $1,986,419 for the years ended June 30, 2019 and 2018, respectively. Fundraising costs are included in institutional support in the consolidated statements of activities.

Use of Estimates

The preparation of the University's consolidated 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 disclosures of contingent assets and liabilities at the dates of the statements of financial position and the reported amounts of revenue and expense included in the statements of activities. Actual results could differ from such estimates. Significant estimates relate to the allowance for uncollectible accounts receivable and contributions receivable, the fair value of alternative investments, and the estimate of incurred but not reported employee medical claims that are self-funded.

Concentrations of Credit Risk

The University's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments, all of which are held in various high-quality financial institutions. The University believes that the concentrations of credit risk are very limited for these instruments, although the University does maintain cash and cash equivalent balances in financial institutions which at times exceed federally insured limits.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit. 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 at least reasonably possible that changes in the fair value of investments in the near term would materially affect the amounts reported in the statements of financial position and the statements of activities.

Income Taxes

The Internal Revenue Service ("IRS") has ruled that the University is tax-exempt as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes is required in the accompanying consolidated financial statements.

The University accounts for uncertainties in income taxes in accordance with authoritative guidance, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold at June 30, 2019 and 2018.

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

Endowments

The University's endowments consist of various funds established for a variety of purposes. Its endowments include both a donor-restricted endowment fund and a fund designated by the Board of Trustees to function as an endowment. As required by generally accepted accounting principles, 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.

Interpretation of Relevant Law

The University has interpreted relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions the original value of gifts donated to the permanent endowment and 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, and including investment return on those amounts.

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the University to retain as a fund of perpetual duration. The University does not have a policy to suspend distributions on such endowments. At June 30, 2019, 68 donor-restricted funds with original gift values of $15,880,000, fair values of $14,984,000 and deficiencies of $896,000 were reported in net assets with donor restrictions. At June 30, 2018, 60 donor-restricted funds with original gift values of $12,949,000, fair values of $12,264,000 and deficiencies of $685,000 were reported in net assets with donor restrictions. The deficiencies resulted from recent unfavorable market fluctuations that occurred after the investment of donor restricted contributions and continued appropriation for certain programs that was deemed prudent by University management.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the performance of a blended index while assuming a moderate to moderately aggressive level of investment risk. The University expects its endowment funds, over time, to provide an average rate of return of approximately the consumer price index plus five percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Endowment Spending Policy

The University has an endowment and similar funds investment return spending policy. The policy allows spending of the earnings equal to 5 percent of the lower of cost or market value of the respective endowment at the beginning of the fiscal year. Any income earned in excess of the spending limit is reinvested, while funds may be withdrawn from investment returns earned in previous years if income is less than the spending limit.

Subsequent Events

The University has evaluated subsequent events through October 24, 2019, which is the date the consolidated financial statements were issued.

Accounting Standards Adopted in the Current Year

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The standard's core principle is that an entity will recognize revenue when it transfers promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. ASU No. 2014-09 was early-adopted by the University and was applied retrospectively for the years ended June 30, 2019 and 2018. The University determined that its major revenue streams of tuition and fees and sales and services of educational departments and auxiliary enterprises as well as certain grants and contracts and other revenues were under the scope of the standard. Other revenue streams related to contributions, governmental grants and appropriations, and investment earnings were determined to be out of scope as they are covered by other accounting guidance. Changes to the consolidated financial statements as a result of the adoption of this ASU are expanded disclosures and an increase in net assets without donor restriction of $2,291,552 and $297,739 at June 30, 2018 and 2017, respectively. The consolidated statement of activities for the year ended 2018 have been restated from the prior year reflect an increase of approximately $297,739 to tuition and fees.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in consolidated financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. Changes to the consolidated financial statements as a result of the adoption of this ASU are:

- Unrestricted net assets are renamed net assets without donor restriction
- Temporarily restricted net assets and permanently restricted net assets were combined under one category of net assets named net assets with donor restrictions
- Underwater endowments previously recorded in net assets without restrictions were reclassified to net assets with donor restrictions as of June 30, 2018 and 2017.
- The placed-in-service approach for releasing restrictions related to the contributions for long-lived assets being adopted.
- A footnote disclosing the University's expenses by natural classification was added. See Note 10.
- A footnote discussing the University's liquidity and availability of resources was added. See Note 11.

Summary of the adjustments resulting from the adoption of ASU 2016-14 and ASU 2014-09 as of July 1, 2017:

Net Asset Classifications	ASU 2016-14 Classifications Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	$ 117,612,442	$ -	$ 117,612,442
Temporarily restricted	-	11,953,166	11,953,166
Permanently restricted	-	23,695,165	23,695,165
Net assets previously reported	117,612,442	35,648,331	153,260,773
Reclassification to adopt ASU 2016-14			
Donor funded construction	(641,472)	641,472	-
Restoration of underwater endowments	654,844	(654,844)	-
Adjustment to adopt ASU 2014-09			
Tuition and fee revenues	2,291,552	-	2,291,552
Net assets after restatement	$ 119,917,366	$ 35,634,959	$ 155,552,325

Summary of the changes resulting from the adoption of ASU 2016-14 and 2014-09 for the year ended June 30, 2018:

Consolidated Statement of Activities	ASU 2016-14 Classifications Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Gifts released from restrictions:			
Unrestricted	$ 785,254	$ -	$ 785,254
Temporarily restricted	-	(785,254)	(785,254)
Changes due to implementation of ASU 2016-14	(512,407)	512,407	-
Gifts released after implementation	$ 272,847	$ (272,847)	$ -
As previously presented:			
Endowment earnings less than spending policy			
Unrestricted	$ (92,688)	$ -	$ (92,688)
Temporarily restricted	-	(19,895)	(19,895)
Changes due to implementation of ASU 2016-14	29,944	(29,944)	-
Endowment earnings less than spending policy after implementation	$ (62,744)	$ (49,839)	$ (112,583)
As previously presented:			
Tuition and fees, net	$ 54,063,806	$ -	$ 54,063,806
Changes due to implementation of ASU 2014-09	297,739	-	297,739
Tuition and fees, net after implementation	$ 54,361,545	$ -	$ 54,361,545

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 was early adopted by the University in conjunction with the adoption of ASU 2014-09. There has been no significant changes to the consolidated financial statements as a result of the adoption of this ASU.

New Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases. ASU No. 2016-02 was issued to increase 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 statements 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 University in fiscal 2020. Early adoption is permitted for all entities. 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. Management is assessing the impact this standard will have on its consolidated financial statements.

2. Investments

The following table summarizes the fair value and cost of investments at June 30:

	2019		2018	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Short-term investments, Certificates of deposit	$ 111,114	$ 111,114	$ 110,782	$ 110,782
Long-term investments:				
Financial instruments measured at fair value	$ 91,661,480	$ 80,302,012	$ 87,618,147	$ 78,571,286
Cash surrender value of life insurance	179,297	179,297	224,927	224,927
Total long-term investments	$ 91,840,777	$ 80,481,309	$ 87,843,074	$ 78,796,213

The following is a summary of the University's investments in financial instruments measured at fair value segregated by level within the fair value hierarchy at June 30:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Reported at Fair Value:				
Long-term investments:				
Money market funds	$ 3,275,740	$ -	$ -	$ 3,275,740
U.S. government obligations	3,334,502	-	-	3,334,502
Domestic equity:				
Small-cap securities	2,645,982	-	-	2,645,982
Mid-cap securities	2,528,029	-	-	2,528,029
Large-cap securities	28,060,404	-	-	28,060,404
International equity:				
Developed markets securities	16,373,645	-	-	16,373,645
Emerging markets securities	6,575,971	-	-	6,575,971
Income mutual funds	9,545,683	-	-	9,545,683
Growth mutual funds	2,843,516	-	-	2,843,516
Mortgage and other asset backed securities	-	1,533,711	-	1,533,711
Land	-	3,279,698	-	3,279,698
Total investments by valuation hierarchy	$ 75,183,472	$ 4,813,409	$ -	79,996,881
Alternative investments (measured at net asset value)				11,664,599
Total investments				$ 91,661,480

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Reported at Fair Value:				
Long-term investments:				
Money market funds	$ 1,795,024	$ -	$ -	$ 1,795,024
U.S. government obligations	2,665,626	-	-	2,665,626
Domestic equity:				
Small-cap securities	2,686,163	-	-	2,686,163
Mid-cap securities	2,477,945	-	-	2,477,945
Large-cap securities	26,109,763	-	-	26,109,763
International equity:				
Developed markets securities	17,125,910	-	-	17,125,910
Emerging markets securities	6,488,691	-	-	6,488,691
Income mutual funds	9,079,397	-	-	9,079,397
Growth mutual funds	2,445,988	-	-	2,445,988
Mortgage and other asset backed securities	-	1,880,823	-	1,880,823
Land	-	3,279,698	-	3,279,698
Total investments by valuation hierarchy	$ 70,874,507	$ 5,160,521	$ -	76,035,028
Alternative investments (measured at net asset value)				11,583,119
Total investments				$ 87,618,147

The following valuation techniques were used to measure the fair value of investments as of June 30, 2019 and 2018:

Money market funds, U.S. government obligations, income and growth mutual funds and marketable equity securities - Fair value for these investments was based on quoted market prices for the identical security.

Mortgage and other asset backed securities - Interest rates and credit risks of similar securities are used to determine the fair value of these investments.

Land - An independent appraisal based on quoted prices for similar land and other observable inputs was used to determine the fair value.

Alternative investments - Fair value was based on estimated fair values using the net asset value ("NAV") per share of the investments as provided by investment managers, adjusted to reflect significant events between measurement dates if the NAV measurement date was not June 30. Certain attributes that impact the security's fair value may not be reflected in NAV, including but not limited to, the investor's ability to redeem the investment at the measurement date and any unfunded purchase commitments. If the University sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date due to the nature of the investments, changes in market conditions and the overall economic environment.

Alternative investments are funds and partnerships that invest in a variety of strategies including hedge funds, managed futures, and private equity funds. These are generally illiquid investments pooled and professionally managed with the goal of generating higher returns.

The investment strategies as of June 30, 2019 are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds	$ 9,544,241	$ -	Various	90 - 95 days
Managed futures	2,112,854	-	Monthly	3 days
Private equity funds	7,504	56,371	Illiquid	
	$ 11,664,599	$ 56,371		

The investment strategies as of June 30, 2018 are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds	$ 9,372,477	$ -	Various	90 - 95 days
Managed futures	2,187,308	-	Monthly	3 days
Private equity funds	23,334	56,371	Illiquid	
	$ 11,583,119	$ 56,371		

The hedge funds category includes investments in several funds. One hedge fund invests primarily in long and short equity markets as well as equity markets with arbitrage strategies, merger arbitrage, closed-end fund arbitrage and equity derivative strategies. This investment has a 90 day redemption notice for which funds will be paid semi-annually on the anniversary date over a three year period. Another hedge fund invests primarily in arbitrage, credit and event strategies, equity strategies, and trading oriented strategies. This particular fund has a 95 day redemption notice for which funds will be paid semi-annually.

The managed futures category includes several investment funds that directly invest in futures, forwards and options in global currency, interest rate, energy, equity, metal, and agricultural markets.

The private equity limited partnership's investment objective is long-term capital appreciation by creating a diversified portfolio of global private market investment strategies. The partnership's current investment diversification by strategy consists of approximately 50 percent buyouts and 50 percent in cash and cash equivalents due to the liquidation of the partnership, and full liquidation is anticipated by December 31, 2019.

The University has entered into a $4,000,000 subscription agreement with a second private equity fund of funds during April 2019; the initial capital call has not yet occurred but is anticipated before December 31, 2019.

3. Contributions Receivable

Unconditional promises to give have been recorded in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category, and are expected to be realized in the following periods:

	2019	2018
In one year or less	$ 958,473	$ 1,015,459
Between one year and five years	1,188,195	1,568,488
Greater than five years	6,000	140,820
Gross contributions receivable	2,152,668	2,724,767
Unamortized discount (discount rates ranging from 1.50% to 2.25%) and allowance for uncollectible amounts	(245,322)	(366,248)
Net contributions receivable	$ 1,907,346	$ 2,358,519

4. Notes Receivable and Other Assets

Notes receivable and other assets at June 30 consist of the following:

	2019	2018
Student loans	$ 1,260,707	$ 1,494,132
Self-insurance trust account, net of estimated claims	1,112,600	885,000
Other, including government grants and other program receivables	522,053	620,254
Total notes receivable and other assets	2,895,360	2,999,386
Allowance for doubtful accounts	(48,324)	(48,324)
Net notes receivable and other assets, net	2,847,036	2,951,062
Current portion	(643,291)	(764,834)
Long-term notes receivable and other assets	$ 2,203,745	$ 2,186,228

5. Split-Interest Agreements

The University held a beneficial interest in a charitable lead trust that awarded the University an annual amount equal to 8.75 percent of the University's portion of the fair market value of the trust's assets at the end of each calendar year for a twenty-five year period that ended in 2019. The trust assets were valued based on quoted market prices for identical securities. The trust agreement stipulated that 30 percent of each annual payment was to be permanently restricted, while 70 percent of the annual payment was eligible to be spent in the following fiscal year. Any earnings on the trust payments were reinvested into permanent endowment. The present value of the University's share of future amounts from the trust was recorded as a charitable lead trust receivable using a discount rate of 7.5 percent at June 30, 2018; all anticipated payments from the trust funds had been received as of June 30, 2019.

The University is also a party to various other types of split-interest agreements, including charitable gift annuities, pooled life income funds, and charitable remainder trusts. Revenue under these agreements is recognized based on the fair value of the assets contributed less a liability for the present value of the payments expected to be made to the beneficiaries. The University annually re-evaluates the expected future payments to beneficiaries based on changes in life expectancy.

The fair value of the charitable lead trust receivable is calculated as the present value of expected future cash flows utilizing inputs that a market participant would be expected to use. Fair value of the assets held under split-interest agreements is based on quoted market prices.

The University measures its charitable lead trust receivable and assets held under split-interest agreements on a recurring basis in accordance with accounting standards on fair value measurements based on the following inputs at June 30:

	2019		
	Level 1	**Level 3**	**Total**
Assets held under other split-interest agreements	$ 32,171	$ -	$ 32,171
	$ 32,171	$ -	$ 32,171
		2018	
Charitable lead trust receivable	$ -	$ 138,168	$ 138,168
Assets held under other split-interest agreements	115,903	-	115,903
	$ 115,903	$ 138,168	$ 254,071

For charitable lead trust receivables falling within Level 3 in the fair value hierarchy, the activity recognized during the years ended June 30, 2019 and 2018 was as follows:

	2019	**2018**
Beginning balance	$ 138,168	$ 248,038
Unrealized gains	-	19,753
Distributions	(138,168)	(129,623)
Ending balance	$ -	$ 138,168

Unrealized gains are reported in the change in value of split-interest agreements in the non-operating section of the statements of activities for the years ended June 30, 2019 and 2018.

6. Land, Buildings and Equipment

Land, buildings and equipment at June 30 consists of the following:

	2019	2018
Land	$ 3,460,163	$ 3,326,612
Land improvements	30,627,827	30,103,840
Buildings and building improvements	148,991,909	139,541,210
Construction in progress	6,574,534	2,432,312
Equipment	43,156,696	41,009,138
Library books	3,432,501	3,408,879
Works of art	1,723,354	1,678,417
	237,966,984	221,500,408
Accumulated depreciation	(105,222,120)	(98,108,143)
	$ 132,744,864	$ 123,392,265

7. Long-Term Debt and Line of Credit

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

	2019	2018
University Revenue Note, Series of 2017, 2.32% through December 2022, 2.44% through December 2027, 2.69% through December 2032, and 2.84% through December 2037 with scheduled principal payments through December 2037.	$ 10,000,000	$ 10,000,000
University Revenue Note, Series of 2015, 2.12% through December 2022, 66% of the bank's prime rate, capped at 5.50% with scheduled principal payments through December 2035.	9,450,000	9,720,000
University Revenue Note, Series of 2013, 2.2% through December 2020, 67% of the sum of one month Libor plus 1% thereafter, capped at 6.0% with scheduled principal payments through December 2033.	8,405,000	8,870,000
University Revenue Note, Series A of 2010, 2.55% with scheduled principal payments through December 2022.	5,695,000	6,385,000
University Revenue Note, Series B of 2010, 2.56% through December 2023, 69% of the sum of one month Libor plus 1.8% thereafter, capped at 5.5% with scheduled principal payments through December 2025.	7,230,000	7,480,000
University Revenue Note, Series of 2007, 2.8% through December 2023, 60% of the sum of one month Libor plus 1% or upon election a fixed rate of interest at 60% of the then prevailing 4-year Treasury Rate plus 1.70%, thereafter, capped at 5.5% with scheduled principal payments through December 2027.	5,145,000	5,555,000

	2019	2018
University Revenue Note, Series of 2005, 4.79% through December 2015, 67% of the bank's prime rate thereafter, capped at 5.50%, with scheduled principal payments through December 2020 (unamortized premium of $55,250 and $94,250 in 2019 and 2018, respectively). Interest rate was 3.685% at June 30, 2019.	$ 2,625,000	$ 3,855,000
University Revenue Note, Series of 2004, with scheduled principal payments through December 2024 and an interest rate of 2.95%.	2,485,000	2,820,000
Bank note, proceeds used to finance equipment, monthly payments plus interest at one month Libor plus 2% through April 2021. Interest rate was 4.40% at June 30, 2019.	220,000	340,000
Equipment financing agreements	657,170	381,089
	51,912,170	55,406,089
Current portion of debt	(4,326,178)	(3,963,999)
Deferred financing costs	(422,900)	(471,728)
Original issue premium	55,250	94,250
	$ 47,218,342	$ 51,064,612

The University Revenue Notes, Series of 2017, 2015, 2013, 2007, 2005, 2004 and Series A and B of 2010, are held by banks and are also secured by a pledge of, and a lien on, the University's unrestricted revenues, but do not contain any debt service reserve requirements. Proceeds from the University Revenue Note, Series of 2004, funded the construction of Annecy Hall, a student residence placed in service in August 2005. Proceeds from the University Revenue Note, Series of 2005, were placed in escrow to refund $9,025,000 of the University Revenue Bonds, Series of 1999A in December 2009. Proceeds from the University Revenue Note, Series of 2007 were used for the construction of Donahue Hall, a student residence hall placed into service in August 2008, and certain other campus improvements. Proceeds from the University Revenue Note, Series A of 2010 were used to refinance the University Revenue Bonds, Series of 2002. Proceeds from the University Revenue Note, Series B of 2010 were used for the construction of the Gambet Center, a 78,000 square foot instructional facility placed into service in April 2013. Proceeds from the University Revenue Note, Series of 2013 were used for the construction of student residence units placed in service in August 2014 in addition to other campus improvements. Proceeds from the Revenue Note, Series of 2015, were used for athletic field and facility improvements that were placed into service during spring 2016. Approximately $6,600,000 of the proceeds from the Revenue Note, Series of 2017, were used to construct a student residence unit placed in service in August 2017, as well as other campus improvements, and to purchase two properties adjacent to campus, with the remaining $3,400,000 used for the construction of a baseball and softball stadium complex completed in March 2019.

The University has an outstanding taxable note with a bank that financed certain capital improvements to Dooling Hall that is also secured by a pledge on the University's unrestricted revenues, but on a subordinated basis as compared to the University Revenue Notes detailed previously.

The University has four four-year equipment financing agreements remaining for computers with terms expiring between July 2019 and February 2023. The maximum payments on these agreements, which are made quarterly, total approximately $71,000. The financing agreements are collateralized by the related equipment.

The University has a $10 million commercial line of credit with a bank that expires on December 31, 2020. Interest on this line is payable monthly based on the published 30-day LIBOR rate plus 1.85 percent (4.25 percent at June 30, 2019). As of June 30, 2019 there was $3,000,000 outstanding under the line of credit while as of June 30, 2018, there was no amount outstanding under the line of credit.

The University is required to maintain a minimum debt service coverage ratio as defined under the Loan and Security Agreements for the 2017, 2015, 2013, 2010, 2007, 2005 and 2004 Notes.

At June 30, 2019, the University had five irrevocable letters of credit with a bank related to certain construction projects on campus totaling approximately $759,000. There were no draws against these letters of credit during the years ended June 30, 2019 and 2018.

Scheduled principal payments, excluding premiums, on the long-term debt during the next five fiscal years and thereafter are as follows:

Years ending June 30:	
2020	$ 4,326,178
2021	4,265,320
2022	4,070,716
2023	3,824,956
2024	3,655,000
Thereafter	31,770,000
	$ 51,912,170

Deferred financing costs are amortized using the straight-line method over the remaining terms of the associated debt. Amortization expense was $48,828 and $47,090 for the years ended June 30, 2019 and 2018, respectively.

8. Commitments and Contingencies

Commitments

The University is party to an agreement with a computer services and consulting firm to manage, maintain, and deliver all computer services on campus; the minimum payments required under the remaining term of the agreement is $1,302,000 in 2020. Payments made under this agreement were approximately $1,402,000 and $1,302,000 in 2019 and 2018, respectively.

The University's Bethlehem Area and Lansdale campus locations are leased under non-cancelable agreements that expire in May 2020 and February 2022, respectively. Minimum lease obligations under these agreements by fiscal year are as follows: 2020 $412,295; 2021 $184,380; and 2022 $124,989. Rent expense under these agreements was approximately $412,000 in 2019 and $407,000 in 2018. The University does not anticipate renewal of these leases upon expiration of their respective terms.

The University started several campus renovation projects during the spring of 2019 with an anticipated collective project cost of $12,100,000, of which approximately $6,760,000 has been expended as of June 30, 2019. The University funded this project on an interim basis using internal funds and its line of credit until permanent financing can be secured before the end of calendar 2019.

Contingencies

The University is involved in litigation arising during the normal course of business. While it cannot be predicted with certainty, the University believes that the outcome of such litigation will not have a material adverse effect on the University's consolidated financial statements.

9. Net Assets

Net assets without donor restrictions result from contributions and other inflows of assets whose use by the University is not limited by donor-imposed stipulations.

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

	2019	2018
Board-designated endowment	$ 41,648,928	$ 40,922,769
Designated for plant activities	10,184,354	6,371,705
Designated for debt service	2,625,824	2,672,419
Net investment in plant	74,665,388	68,949,931
Subsidiary operations	299,606	293,932
Subsidiary operations, board-designated endowment	442,099	402,665
Designated for program and faculty development	950,000	950,000
Undesignated	2,886,950	2,544,716
Total net assets without donor restriction	$ 133,703,149	$ 123,108,137

Donor restricted net assets result from contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations. Donor-imposed stipulations may also require that assets be maintained permanently by the University.

Net assets with donor restriction consist of the following at June 30:

	2019	2018
Purpose restrictions:		
Donor restricted endowment	$ 8,374,088	$ 7,422,861
Capital campaign funds (includes capital pledges)	1,765,518	4,773,809
Daniel Gambet Enrichment fund	811,565	850,486
Academic programs and related funds	914,591	762,018
Subsidiary operations	140,719	226,610
Time restriction on net investment in plant	255,000	255,000
Donor restricted endowment held in perpetuity	24,870,578	23,108,022
Subsidiary operations, donor restricted endowment	2,450,466	2,438,825
Other	433,604	473,439
Total net assets with donor restrictions	$ 40,016,129	$ 40,311,070

Net asset classification by type of endowment as of June 30, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Board-designated endowment funds	$ 41,648,928	$ -	$ 41,648,928
Subsidiary operations, board-designated endowment	442,099	-	442,099
Donor-restricted endowment	-	8,374,088	8,374,088
Donor-restricted endowment held in perpetuity	-	24,870,578	24,870,578
Subsidiary operations, donor restricted endowment	-	2,450,466	2,450,466
Total funds	$ 42,091,027	$ 35,695,132	$ 77,786,159

The following schedule represents the changes in endowment net assets for the year ended June 30, 2019:

Endowment net assets, beginning of year	$ 41,325,434	$ 32,969,708	$ 74,295,142
Investment return:			
Investment income	1,281,998	1,336,707	2,618,705
Net appreciation (realized and and unrealized gains)	199,970	625,683	825,653
Total investment return	1,481,968	1,962,390	3,444,358
Contributions	30,123	1,638,464	1,668,587
Net assets released from restriction	-	(833,980)	(833,980)
Distributions for current operations	(1,281,998)	-	(1,281,998)
Transfers to create board designations	535,500	-	535,500
Change in value of split interest agreements	-	(41,450)	(41,450)
Endowment net assets, end of year	$ 42,091,027	$ 35,695,132	$ 77,786,159

Net asset classification by type of endowment as of June 30, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Board-designated endowment funds	$ 40,922,769	$ -	$ 40,922,769
Subsidiary operations, board-designated endowment	402,665	-	402,665
Donor-restricted endowment	-	7,422,861	7,422,861
Donor-restricted endowment held in perpetuity	-	23,108,022	23,108,022
Subsidiary operations, donor restricted endowment	-	2,438,825	2,438,825
Total funds	$ 41,325,434	$ 32,969,708	$ 74,295,142

The following schedule represents the changes in endowment net assets for the year ended June 30, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 39,433,184	$ 29,190,293	$ 68,623,477
Investment return:			
Investment income	1,259,736	1,839,760	3,099,496
Net appreciation (realized and and unrealized gains)	1,196,529	1,063,883	2,260,412
Total investment return	2,456,265	2,903,643	5,359,908
Contributions	31,921	1,703,104	1,735,025
Net assets released from restriction	-	(794,371)	(794,371)
Distributions for current operations	(1,259,736)	-	(1,259,736)
Transfers to create board designations	663,800	-	663,800
Change in value of split interest agreements	-	(32,961)	(32,961)
Endowment net assets, end of year	$ 41,325,434	$ 32,969,708	$ 74,295,142

10. Functional and Natural Classification of Expenses

The University reports certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Depreciation, interest and facility operations and maintenance have been allocated to functional classifications based on the usage of the space in the facilities as a percentage the total expenses. Salaries and benefits are allocated on the basis of estimates of time and effort.

Expenses by functional and natural classification for the year ended June 30, 2019:

	Instruction and Research	Academic Support	Student Services	Auxiliary Services	Institutional Support	Total Expenses
Salaries	$ 17,087,611	$ 1,851,715	$ 4,068,132	$ 1,484,039	$ 4,078,765	$ 28,570,262
Benefits	5,414,386	586,735	1,289,030	470,233	1,292,399	9,052,783
Service, supplies and other expenses	3,668,800	997,172	3,280,218	7,344,297	5,459,648	20,750,135
Advertising	480,751	286,690	133,925	60	173,839	1,075,265
Facility operations and maintenance	2,765,233	306,876	1,220,494	2,665,786	575,091	7,533,480
Depreciation	2,145,042	375,490	1,727,612	2,024,125	1,207,948	7,480,217
Interest	286,158	45,897	435,128	462,408	90,927	1,320,518
Total	$ 31,847,981	$ 4,450,575	$ 12,154,539	$ 14,450,948	$ 12,878,617	$ 75,782,660

Expenses by functional and natural classification for the year ended June 30, 2018:

	Instruction and Research	Academic Support	Student Services	Auxiliary Services	Institutional Support	Total Expenses
Salaries	$ 16,195,177	$ 1,912,266	$ 3,959,729	$ 1,401,371	$ 3,469,647	$ 26,938,190
Benefits	5,466,805	645,499	1,336,636	473,043	1,171,205	9,093,188
Service, supplies and other expenses	3,548,354	831,722	2,846,282	7,142,025	5,155,497	19,523,880
Advertising	616,176	268,206	278,431	6,147	308,176	1,477,136
Facility operations and maintenance	2,957,468	313,270	1,338,175	2,646,483	581,059	7,836,455
Depreciation	2,201,884	378,198	1,503,145	1,970,198	1,153,312	7,206,737
Interest	323,690	48,212	345,501	505,070	109,426	1,331,899
Total	$ 31,309,554	$ 4,397,373	$ 11,607,899	$ 14,144,337	$ 11,948,322	$ 73,407,485

11. Liquidity and Availability of Resources

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

	2019	2018
Cash and cash equivalents without donor restriction	$ 7,389,577	$ 6,757,220
Accounts receivable	1,772,630	1,290,375
Contributions receivable	458,412	79,025
Short-term investments	111,114	110,782
Notes receivable	453,971	518,574
Financial assets available to meet cash needs for general expenditures within one year	$ 10,185,704	$ 8,755,976

The University's endowment funds consist of both donor-restricted and board designated endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. The spending policy for board designated endowments is based on a rate of 5 percent of the lower of cost or market value, which will yield approximately $2,050,000 of appropriations available for spending for the year ended June 30, 2020.

A component of the University's liquidity management policy is 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 University has committed lines of credit in the amount of $10,000,000, which it could draw upon. The University also holds board-designated endowment funds of approximately $42,091,000. Although the University 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 University 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 of up to 95 days that would reduce the total investments that could be made available on short notice.