Lebanon Valley College

Financial Statements and
Supplementary Information

June 30, 2021 and 2020

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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, 2021 and 2020, 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lebanon Valley College as of June 30, 2021 and 2020, 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 audits were 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 November 11, 2021, 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.

Baker Tilly US, LLP

Lancaster, Pennsylvania
November 11, 2021, except for our report on supplementary information as to which the date is April 1, 2022

Lebanon Valley College

Statements of Financial Position
June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 23,482,650	$ 15,026,063
Short-term marketable securities	3,096,596	6,436,069
Accounts receivable:		
Students, net	1,392,526	1,232,238
Bequest	6,000,000	-
Other	3,259,179	3,070,803
Prepaid insurance and expenses	1,321,813	1,383,510
Pledges receivable, net	8,941,210	9,811,294
Student loans receivable, net	1,272,892	1,700,433
Investments	91,203,398	72,819,483
Property, plant and equipment, net	99,515,183	102,868,735
Total assets	$ 239,485,447	$ 214,348,628
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,306,846	$ 1,214,850
Construction payable	327,734	1,274,299
Accrued expenses	5,082,184	3,307,907
Other liabilities	275,622	277,856
Contract liabilities	2,051,449	1,947,323
Refundable advances	-	332,352
Liability on annuity contracts	610,925	672,408
Advances from federal government for student loans	1,802,602	1,933,518
Equipment and other notes payable	138,975	355,879
Tax-exempt notes payable	39,824,154	40,757,776
Accrued interest, swap agreement	2,414,161	5,647,049
Total liabilities	53,834,652	57,721,217
Net Assets		
Without donor restrictions	99,473,938	90,607,081
With donor restrictions	86,176,857	66,020,330
Total net assets	185,650,795	156,627,411
Total liabilities and net assets	$ 239,485,447	$ 214,348,628

See notes to financial statements

Lebanon Valley College

Statement of Activities
Year Ended June 30, 2021
(With Comparative Totals for 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues and Other Additions				
Student tuition and fees, net	$ 35,844,372	$ -	$ 35,844,372	$ 34,729,872
Governmental grants	7,661,834	-	7,661,834	6,422,364
Gifts and private grants	1,149,901	8,115,274	9,265,175	4,423,931
Investment income	238,941	619,550	858,491	1,532,982
Auxiliary enterprises	9,831,887	-	9,831,887	12,113,824
Gains (losses) on investments, net	4,213,971	15,512,912	19,726,883	(1,423,008)
Net assets released from restrictions and reclassified	4,091,209	(4,091,209)	-	-
Total revenues and other additions	63,032,115	20,156,527	83,188,642	57,799,965
Expenses and Other Deductions				
Instruction	31,336,145	-	31,336,145	33,741,692
Student services	9,521,694	-	9,521,694	12,304,528
Auxiliary enterprises	4,126,669	-	4,126,669	4,883,540
Management and general	7,567,585	-	7,567,585	7,946,498
Development	1,613,165	-	1,613,165	1,615,674
Total expenditures and other deductions	54,165,258	-	54,165,258	60,491,932
Change in net assets	8,866,857	20,156,527	29,023,384	(2,691,967)
Net Assets, Beginning	90,607,081	66,020,330	156,627,411	159,319,378
Net Assets, Ending	$ 99,473,938	$ 86,176,857	$ 185,650,795	$ 156,627,411

See notes to financial statements

Lebanon Valley College

Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Additions			
Student tuition and fees, net	$ 34,729,872	$ -	$ 34,729,872
Governmental grants	6,422,364	-	6,422,364
Gifts and private grants	1,171,973	3,251,958	4,423,931
Investment income	700,706	832,276	1,532,982
Auxiliary enterprises	12,113,824	-	12,113,824
Losses on investments, net	(314,926)	(1,108,082)	(1,423,008)
Net assets released from restrictions and reclassified	3,641,132	(3,641,132)	-
Total revenues and other additions	58,464,945	(664,980)	57,799,965
Expenses and Other Deductions			
Instruction	33,741,692	-	33,741,692
Student services	12,304,528	-	12,304,528
Auxiliary enterprises	4,883,540	-	4,883,540
Management and general	7,946,498	-	7,946,498
Development	1,615,674	-	1,615,674
Total expenditures and other deductions	60,491,932	-	60,491,932
Change in net assets	(2,026,987)	(664,980)	(2,691,967)
Net Assets, Beginning	92,634,068	66,685,310	159,319,378
Net Assets, Ending	$ 90,607,081	$ 66,020,330	$ 156,627,411

See notes to financial statements

Lebanon Valley College

Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Change in net assets	$ 29,023,384	$ (2,691,967)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	6,751,626	6,292,815
Amortization of deferred financing costs	9,113	257,772
Contributions restricted for long-term purposes	(7,228,940)	(1,957,556)
Change in valuation of interest rate swap	(3,232,888)	5,677,141
(Gains) losses on investments, net	(19,726,883)	1,423,008
Changes in assets and liabilities:		
Pledges receivable	91,181	310,699
Accounts receivable	(348,664)	(3,211,741)
Prepaid insurance and expenses	61,697	106,498
Accounts payable	91,996	(481,093)
Accrued expenses	1,774,277	(72,273)
Other liabilities	(2,234)	90,240
Contract liabilities	104,126	(240,594)
Refundable advances	(332,352)	332,352
Net cash provided by operating activities	7,035,439	5,835,301
Cash Flows From Investing Activities		
Change in short-term marketable securities	3,339,473	3,122,474
Purchases of investments	(25,422,968)	(23,047,119)
Proceeds from sales of investments	26,765,936	23,288,921
Purchase of property and equipment	(4,344,639)	(8,701,863)
Disbursements for student loans	(5,000)	(7,488)
Repayments of student loans	432,541	387,733
Net cash provided by (used in) investing activities	765,343	(4,957,342)
Cash Flows From Financing Activities		
Proceeds from contributions restricted by donors for other purposes	1,060,699	2,002,867
Proceeds from contributions restricted for property and equipment	947,144	878,622
Proceeds from tax-exempt notes payable	-	621,799
Proceeds from other notes payable	6,255	54,151
Payments of other notes payable	(223,159)	(214,875)
Payments of tax-exempt notes payable	(942,735)	(262,657)
Payment of debt issuance costs	-	(182,235)
Proceeds from new annuity contracts	42,942	-
Increase in refundable government loan funds, net	(130,916)	42,591
Payments of annuity contracts	(104,425)	(102,031)
Net cash provided by financing activities	655,805	2,838,232
Net increase in cash and cash equivalents	8,456,587	3,716,191
Cash and Cash Equivalents, Beginning	15,026,063	11,309,872
Cash and Cash Equivalents, Ending	$ 23,482,650	$ 15,026,063
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, including capitalized interest	$ 1,037,568	$ 907,024
Cash paid for swap agreement termination	$ -	$ 281,200
Supplemental Disclosure of Noncash Investing and Financing Activities		
Property and equipment purchases included in construction payable	$ 327,734	$ 1,274,299
Tax-exempt note principal repaid in refinancing	$ -	$ 40,441,619

See notes to financial statements

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 net assets without donor restrictions or net assets 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 restrictions 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 stipulations 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, 2021 and 2020, the allowance for doubtful student accounts was $196,013 and $307,982, respectively.

Bequests Receivable

The College records all unconditional bequests as a receivable when notification of the bequest is received and there is no major uncertainty about the existence of value. Bequests receivable expected to be received in one year are measured at the net realizable value, which is the nondiscounted amount of cash expected to be received, less direct costs. The College recorded an estimated gift from a deceased donor's estate with an approximate value of $6,000,000 as of June 30, 2021. The College subsequently received a payment of $3,200,000 in August 2021, and anticipates receiving the remaining amount by June 30, 2022.

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, 2021 and 2020.

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, 2021 and 2020 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 revenues with or without restrictions by the College when received, depending on whether donor-imposed restrictions exist. For the years ended June 30, 2021 and 2020, income recognized and received relating to these trusts amounted to $537,961 and $797,286, 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, 2021 and 2020, investment-related fees amounted to $246,816 and $249,093, 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, 2021 and 2020 was $1,802,602 and $1,933,518, respectively. Student loans receivables related to the Program was $1,596,610 and $2,103,042 at June 30, 2021 and 2020, respectively. An allowance for uncollectable loans related to the Program was $366,244 and $445,163 as of June 30, 2021 and 2020, 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, 2021, 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, 2021 and 2020, loans outstanding to students through the LVC Loan fund were $149,699 and $154,021, respectively, with a corresponding allowance for uncollectable loans of $107,173 and $111,467, 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.

Title IV Requirements

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 (DOE) for the payment of student tuition. Portions of the revenue and collection of accounts receivable as of June 30, 2021 and 2020, are dependent upon the College's continued participation in the Title IV programs.

Institutions participating in Title IV programs are also required by DOE to demonstrate financial responsibility. DOE 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, 2021, and 2020, the College's composite score exceeded 1.5.

The DOE revised the regulations for financial responsibility effective July 1, 2020. The regulations required the College to provide additional disclosures to assist the DOE in measuring financial responsibility through the composite score of financial ratios.

Pre-implementation property, plant and equipment totaled $87,151,164 and $93,287,959 at June 30, 2021 and 2020, respectively. There was no post-implementation property, plant and equipment with outstanding debt for original purchase at June 30, 2021 and 2020. Post-implementation property, plant and equipment without outstanding debt for original purchase totaled $12,364,019 and $9,580,776 at June 30, 2021 and 2020, respectively.

Pre-implementation long-term debt for long term purposes totaled $39,305,911 and $40,437,704 at June 30, 2021 and 2020, respectively. Post-implementation long-term debt for long term purposes totaled $52,653 and $54,151 at June 30, 2021 and 2020, respectively. Debt associated with operations totaled $604,565 and $621,800 at June 30, 2021 and 2020, respectively.

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 2021-2022 academic year.

Transaction prices for tuition, fees, room and board are determined based on applicable College pricing schedules approved by the Board. 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 $46,062,650 and $44,189,585 for the years ended June 30, 2021 and 2020, 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, 2021, the withdrawal period for summer and Module 5 (May/June) has passed; thus, all revenue relating to the 2021 summer and Module 5 academic terms that finish by June 30 has 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.

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

	2021	2020
Undergraduate programs:		
Tuition	$ 72,374,174	$ 70,895,719
Fees	2,083,050	2,066,860
	74,457,224	72,962,579
Discounts	(44,377,381)	(42,580,162)
Total undergraduate	30,079,843	30,382,417
Graduate programs:		
Tuition	7,216,410	5,512,280
Discounts	(1,685,269)	(1,609,423)
Total graduate	5,531,141	3,902,857
Other:		
Miscellaneous fees	123,289	154,280
Program revenue	110,099	290,318
Total other	233,388	444,598
Total student tuition and fees, net	$ 35,844,372	$ 34,729,872

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.

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, 2021 and 2020 are described below.

	2021			
	Beginning	Revenue Recognized	Cash Received in Advance of Performance	Ending
Deferred tuition	$ 24,143	$ (24,143)	$ 299,091	$ 299,091
Other contract liabilities	1,024,129	(333,678)	391,038	1,081,489
Student deposits	899,051	(898,824)	670,642	670,869
Total	$ 1,947,323	$ (1,256,645)	$ 1,360,771	$ 2,051,449

	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	$ 2,187,917	$ (927,263)	$ 686,669	$ 1,947,323

Advertising Costs

The College follows the policy of expensing advertising and marketing costs when incurred. Advertising related costs amounted to approximately $682,000 and $642,000 at June 30, 2021 and 2020, respectively.

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.

Accounting Standards Adopted in the Current Year

Effective July 1, 2020, the College adopted the FASB Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842) (as amended)*. Topic 842 was issued to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements. Under the provisions of Topic 842, a lessee is required to recognize a right-of-use asset and lease liability, initially measured at the present value of the remaining lease payments, in the statements of financial position. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the leasing activities.

The College elected the option to apply the transition requirements at the effective date of July 1, 2020, which allows the effects of initially applying Topic 842 to be recognized as a cumulative effect adjustment to net assets without donor restrictions in the period of adoption. Consequently, the financial statements and disclosures required under Topic 842 have not been updated as of and for year ending June 30, 2020. The College also elected the package of practical expedients, which permits the College to not reassess prior conclusions about lease identification, classification and initial direct costs. In addition, the College elected the short-term lease recognition exemption for all leases that qualify under Topic 842. The adoption of Topic 842 did not have a material impact on the College's financial statements. The accounting for existing capital leases, now referred to as finance leases, remain substantially unchanged.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurement*. The amendments are based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, which the FASB finalized on August 28, 2018. ASU No. 2018-13 was adopted by College in fiscal year 2021 and was applied retrospectively to all periods presented in Note 3.

Recently Issued Accounting Standards Not Yet Adopted

During September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services.
ASU No. 2020-07 is effective for the College in fiscal 2022 and is to be applied on a retrospective basis. The College is currently assessing the effect that ASU No. 2020-07 will have on its financial statements.

Subsequent Events

The College evaluated subsequent events for recognition or disclosure through November 11, 2021, the date the financial statements were issued.

2. Promises to Give/Pledges Receivable

Unconditional Promises to Give

As of June 30, 2021 and 2020, donors to the College have made written promises to give, totaling a discounted present value of $9,034,242 and $9,935,343, respectively, on which management has established a reserve for uncollectible pledges of $93,032 and $124,049, 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, 2021 and 2020.

	2021		
	Other Restrictions	Endowment	Total
Less than one year	$ 1,856,721	$ 682,069	$ 2,538,790
One to two years	1,297,840	131,276	1,429,116
Three to four years	2,332,252	71,243	2,403,495
Five or more years	2,569,809	-	2,569,809
	$ 8,056,622	$ 884,588	$ 8,941,210

	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
	$ 8,625,289	$ 1,186,005	$ 9,811,294

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 $953,448 and $1,017,959 as of June 30, 2021 and 2020, respectively.

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:

	2021				
	Endowment	Gift Annuities and Trusts	Split-Interest Agreements	Other	Total
Cash and cash equivalents	$ 2,633,328	$ 12,399	$ -	$ -	$ 2,645,727
Common stocks	35,413,686	-	-	-	35,413,686
Equity mutual funds:					
Domestic large cap	5,044,357	15,281	-	-	5,059,638
Domestic small cap	-	5,896	-	-	5,896
International	-	4,897	-	-	4,897
Exchange traded funds	21,536,010	-	-	-	21,536,010
Fixed income mutual funds	-	575,692	-	-	575,692
Hedge funds	12,554,669	-	-	-	12,554,669
Private equity partnerships	2,669,528	-	-	-	2,669,528
Beneficial interest in perpetual trusts	-	-	3,595,073	-	3,595,073
Charitable remainder trusts	-	-	919,331	-	919,331
Life insurance policies	-	-	-	331,216	331,216
Government and agency bonds	3,801,035	6,823	-	-	3,807,858
Corporate bonds	2,084,177	-	-	-	2,084,177
Total investments	$ 85,736,790	$ 620,988	$ 4,514,404	$ 331,216	$ 91,203,398

	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	$ 67,825,446	$ 711,768	$ 3,908,792	$ 373,477	$ 72,819,483

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.

The following tables present the financial instruments measured at fair value as of June 30, 2021 and 2020 by caption on the statements of financial position by the valuation hierarchy defined above:

	2021			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term marketable securities:				
Municipal bonds	$ 1,499,980	$ -	$ 1,499,980	$ -
Certificates of deposit	1,227,568	1,227,568	-	-
Ultra-short bond funds	369,048	369,048	-	-
Total	$ 3,096,596	$ 1,596,616	$ 1,499,980	$ -
Investments:				
Cash and cash equivalents	$ 2,645,727	$ 2,645,727	$ -	$ -
Common stock	35,413,686	35,413,686	-	-
Equity mutual funds:				
Domestic large cap	5,059,638	5,059,638	-	-
Domestic small cap	5,896	5,896	-	-
International	4,897	4,897	-	-
Exchange traded funds	21,536,010	21,536,010	-	-
Fixed income mutual funds	575,692	575,692	-	-
Split-interest agreements	4,514,404	-	-	4,514,404
Life insurance policies	331,216	331,216	-	-
Government and agency bonds	3,807,858	6,823	3,801,035	-
Corporate bonds	2,084,177	-	2,084,177	-
Total investments at fair value	75,979,201	$ 65,579,585	$ 5,885,212	$ 4,514,404
Alternative investments reported at net asset value	15,224,197			
Total	$ 91,203,398			
Liability:				
Interest rate swaps	$ 2,414,161	$ -	$ 2,414,161	$ -

	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	$ 6,436,069	$ 5,367,189	$ 1,068,880	$ -
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	$ 48,548,313	$ 5,835,799	$ 3,908,792
Alternative investments reported at net asset value	14,526,579			
Total	$ 72,819,483			
Liability:				
Interest rate swaps	$ 5,647,049	$ -	$ 5,647,049	$ -

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.

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 the 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 earnings of the underlying trust assets applied to the fair value of the underlying assets. This is considered a Level 3 measurement because even though the measurement is based on the underlying fair value of the trust assets as reported by the trustee, the College will never receive those assets or have the ability to direct the trustee to redeem them. Distributions received from these agreements are included as gifts and private grants in the statements of activities.

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

2021

Name of Fund	Fair Value	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Fund International PE Partners VI	$ 88,256	Private equity fund of funds commingled Cayman Island Corp	$ 32,250	None - private equity structure nine year lock-up on underlying funds	N/A
Common Fund Private Equity Partners VII	243,752	Domestic private equity fund of funds commingled Cayman Island Corp	35,000	None - private equity structure nine year lock-up on underlying funds	N/A
Blackstone Energy Partners Fund	795,917	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	163,635	Private equity structure. Term is 11 years, subject to two one-year extensions	N/A

2021					
Name of Fund	**Fair Value**	**Investment Strategy**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Morgan Stanley Hedge Premier/ Millennium International, LTD	$ 1,953,659	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	850,250	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	2,879,632	Private equity structure. Term is five years with two possible 1.5 year extensions	N/A
Canyon Value Realization Fund (Cayman), Ltd	1,184,331	Event-driven: Distressed	N/A	Quarterly	60 days
Third Point Offshore Fund, Ltd	1,434,364	Event driven multi-strategy. Includes constructive activist investing	N/A	Quarterly	60 days
Marshall Wace Eureka IV	1,260,212	Diversified International equity long/short	N/A	Monthly	30 days
TPG Public Equity Partners - B, Ltd	1,101,592	Fundamental equity long/short	N/A	Quarterly	60 days
Corbin Opportunity Fund, Ltd.	1,518,654	Relative value investment focused on relatively short maturities (one year to three years)	N/A	Quarterly	60 days
Fort Global Contrarian LP	1,060,689	Global systemic futures trading program	N/A	Daily	3 days
Graham Absolute Return Fund LP	1,381,532	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	260,178	Customized series offered under this structure by Hamilton Lane will generally focus on small and mid-sized private equity funds	1,339,412	Ten year term	N/A
PE Premier Coller International Partners VIII Offshore, LP	431,175	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	1,760,000	Ten year term	N/A
SEG Partners, Offshore Class D	1,659,636	Select Equity Group Identifies what they believe to be the highest quality businesses that exhibit sustainable competitive advantage	N/A	Quarterly	60 days
	$ 15,224,197		$ 6,209,929		

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 (one year to three years)	N/A	Quarterly	60 days

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	Ten 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	Ten 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
	$ 14,526,579		$ 6,242,074		

4. Endowment Funds

The College's endowment consists of approximately 408 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.

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. The Board of Trustees of the College has authorized the expenditure of the full 7 percent permitted by law for undesignated endowment assets, and 4.49 percent and 4.75 percent for the years ended June 30, 2021 and 2020, respectively, 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	2021 Total
Endowment net assets, beginning of year	$ 15,124,282	$ 52,701,164	$ 67,825,446
Investment return:			
Investment income	174,232	608,779	783,011
Net appreciation (realized and unrealized)	4,214,505	14,710,338	18,924,843
Total investment return	4,388,737	15,319,117	19,707,854
Contributions	130,849	917,727	1,048,576
Appropriation of endowment assets for expenditure	(691,210)	(2,444,312)	(3,135,522)
Other changes:			
Realized and unrealized gains in excess of the authorized spending rate up to the 7.00% annual limitation	166,964	(166,964)	-
Transfer of annuity to endowment	-	278,316	278,316
Other changes	35,644	(23,524)	12,120
Endowment net assets, end of year	$ 19,155,266	$ 66,581,524	$ 85,736,790

	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 appreciation (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 in excess of the 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

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, 2021 and 2020. Management has interpreted state law to permit prudent spending from underwater endowments.

	Without Donor Restrictions	With Donor Restrictions			Total Funds, June 30, 2021
		Original Gift	Accumulated Gains (Losses)	Total	
Board-designed funds	$ 19,155,266	$ -	$ -	$ -	$ 19,155,266
Other endowment funds:					
Underwater funds	-	442,999	(18,247)	424,752	424,752
Other funds, donor-restricted earnings	-	38,731,131	20,078,516	58,809,647	58,809,647
Other funds, unrestricted earnings	-	5,303,911	2,043,214	7,347,125	7,347,125
Total	$ 19,155,266	$ 44,478,041	$ 22,103,483	$ 66,581,524	$ 85,736,790

	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	$ 15,124,282	$ 43,573,056	$ 9,128,108	$ 52,701,164	$ 67,825,446

5. Property, Plant and Equipment

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

	2021	2020
Land	$ 2,474,725	$ 2,474,725
Land improvements	15,058,652	15,058,652
Buildings	169,310,300	164,384,562
Equipment	23,356,420	23,151,487
Capitalized interest	2,717,536	2,638,560
Construction in progress	1,743,392	3,554,965
	214,661,025	211,262,951
Less accumulated depreciation/amortization	115,145,842	108,394,216
Property, plant and equipment, net	$ 99,515,183	$ 102,868,735

Depreciation expense was $6,751,626 and $6,292,815 for the years ended June 30, 2021 and 2020, 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:

	2021	2020
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; 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 is fixed from series issuance at 2.5% through an interest rate swap expiring on January 1, 2035.		
	$ 39,992,265	$ 40,935,000
	39,992,265	40,935,000
Unamortized deferred financing costs	(168,111)	(177,224)
Total tax-exempt notes payable	$ 39,824,154	$ 40,757,776

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

	2021	2020
Equipment and Other Notes Payable		
Equipment and other notes payable at June 30 consist of 12 notes maturing April 2022 through December 2025; annual principal payments ranging from $97 to $4,722; 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.	$ 138,975	$ 355,879

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:			
2022	$ 965,674	$ 100,970	$ 1,066,644
2023	989,172	20,874	1,010,046
2024	1,010,706	10,304	1,021,010
2025	1,037,836	6,009	1,043,845
2026	1,063,090	818	1,063,908
Thereafter	34,925,787	-	34,925,787
	$ 39,992,265	$ 138,975	$ 40,131,240

Interest cost capitalized on the construction of buildings and other improvements was approximately $79,000 and $225,000 for the years ended June 30, 2021 and 2020, 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 would 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 would pay a variable rate of interest equal to 68 percent of the USD one-month London Interbank Offered Rate (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 would 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 would 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.

The College recognized a noncash fair value liability of $2,414,161 and $5,647,049 as of June 30, 2021 and 2020, respectively, on the mark to market related to the Hedge Contracts. The net (income) expense, or the difference between the College's and the counterparty's payments under the swaps during the years ended June 30, 2021 and 2020, was $(3,232,888) and $5,677,141, respectively, and is included in interest expense.

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 (2.345 percent at June 30, 2021). 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 $184,000 and $490,000 as of June 30, 2021 and 2020, respectively. 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 $2,816,000 and $2,510,000 as of June 30, 2021 and 2020, respectively. The letter of credit expires on April 22, 2022. The College had no additional borrowings under the letter of credit as of June 30, 2021 or 2020.

Subsequent to year-end, on September 23, 2021, the College increased its unsecured line of credit from $3,000,000 to $7,000,000.

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 $1,780,000 and $1,732,000 at June 30, 2021 and 2020, respectively.

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.

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 $2,000. 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, 2021.

11. Functional Classification of Expenses

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

	2021					
	Program Expenses			Institutional Support		
	Instruction	Student Services	Auxiliary Enterprises	Management and General	Development	Total
Salaries and benefits	$ 21,225,784	$ 5,365,699	$ 669,255	$ 4,603,195	$ 1,288,481	$ 33,152,414
Operating expenses	5,355,345	985,985	2,587,594	2,181,552	237,701	11,348,177
Plant operation and maintenance	2,557,567	1,705,045	467,848	421,063	46,785	5,198,308
Depreciation and amortization	3,326,284	2,217,522	608,466	547,620	60,847	6,760,739
Interest, net of change in value of interest rate swap	(1,128,835)	(752,557)	(206,494)	(185,845)	(20,649)	(2,294,380)
Total	$ 31,336,145	$ 9,521,694	$ 4,126,669	$ 7,567,585	$ 1,613,165	$ 54,165,258

	2020					
	Program Expenses			Institutional Support		
	Instruction	Student Services	Auxiliary Enterprises	Management and General	Development	Total
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, net of change in value of interest rate swap	3,160,473	2,106,982	578,135	520,322	57,814	6,423,726
Total	$ 33,741,692	$ 12,304,528	$ 4,883,540	$ 7,946,498	$ 1,615,674	$ 60,491,932

12. Net Assets

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

	2021	2020
Undesignated	$ 21,094,352	$ 15,002,018
Board-designated net assets	19,155,266	15,124,282
Investment in property and equipment	59,224,320	60,480,781
Total net assets without donor restrictions	$ 99,473,938	$ 90,607,081

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

	2021	2020
Pledges with time or purpose restrictions	$ 2,683,603	$ 3,352,956
Investments, primarily accumulated change in market value of investments in excess of the PA trust limitation and unexpended assets for other designated purposes	22,103,483	9,128,108
Academic programs and related funds	10,547,428	4,338,156
Time restricted split-interest and annuity agreements	1,579,470	905,835
Pledges related to endowment	884,588	1,186,005
Student loans	381,326	370,135
Split-interest and annuity agreements	3,518,918	3,166,079
Endowment investments, principal	44,478,041	43,573,056
Total net assets with donor restrictions	$ 86,176,857	$ 66,020,330

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

	2021	2020
Instruction and scholarship	$ 870,420	$ 1,083,175
Capital projects	882,619	236,020
Endowment investments	2,338,170	2,321,937
Total net assets released from donor restrictions	$ 4,091,209	$ 3,641,132

Included in net assets with donor restrictions as of June 30, 2021 and 2020, are $2,043,213 and $765,815, 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 $19,155,266 at June 30, 2021 and $15,124,282 at June 30, 2020.

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.

13. Commitments

The College has approximately $6,210,000 and $6,242,000 in unfunded capital calls related to various alternative investments at June 30, 2021 and 2020, 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.

Subsequent to year end, the College committed to a construction project in the amount of approximately $16,500,000 for the construction of a new nursing facility on campus.

14. Related-Party Transactions

The College paid fees of approximately $3,579,000 in 2021 and $3,235,000 in 2020 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 $777,000 and $1,290,000 in 2021 and 2020, respectively, and has pledges outstanding from Trustees of approximately $8,108,000 and $7,731,000 at June 30, 2021 and 2020, 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 2021 or 2020.

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 statements of financial position date for general expenditure are as follows:

	2021	2020
Cash and cash equivalents	$ 18,935,222	$ 10,686,335
Students and other receivables	10,651,705	4,303,041
Short-term investments	3,096,596	6,436,069
Anticipated appropriations of endowment for next fiscal year	3,135,532	3,135,522
Financial assets available to meet cash needs for general expenditures within one year	$ 35,819,055	$ 24,560,967

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 4.27 percent, $689,568 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 $2,816,000 at June 30, 2021, which it could draw upon. In addition, the College has a Board-designated endowment of $19,155,266. 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 Disease (COVID-19) and Emergency Relief Funding

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei Provence, 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. COVID-19 affected all of the fiscal 2021 semesters as well. The fall 2020 semester experienced move-in delays for the sophomore and junior classes in order to practice social distancing and provide a phased move-in approach. The College also experienced move-in delays at the beginning of the spring 2021 semester resulting in prorated room and board revenues for those impacted students.

As a response to COVID-19, the government approved three relief packages between April 2020 and March 2021. Congress set aside approximately $76.6 billion between the Coronavirus Aid, Relief and Economic Security Act (CARES), Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan (ARP) to be allotted to the Educational Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF).

Under CARES, the College 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 award in their HEERF Grant Award Notification to complete the performance of their HEERF grant. Institutions may recognize the institutional portion of the grant to the extent the grant was expended on student emergency aid. The College received approximately $1,443,000 of funding under CARES and recognized approximately $332,000 and $389,000 of the student emergency aid as governmental grants revenue and student services expense for the years ended June 30, 2021 and 2020, respectively. The institutional portion of the grant totaling approximately $722,000 was expended and recognized as governmental grants revenue over 2021 and 2020 to match the student portion. As restrictions were met in the same period, the grants were reported as changes in net assets without donor restrictions.

Under CRRSAA, institutions received one grant comprised of two parts. Institutions were required to spend an equal amount on student emergency aid as they spent under CARES. The remaining portion was to be used defray expenses associated with coronavirus. Institutions were given one calendar year from the date of award in their HEERF Grant Award Notification to complete the performance of their HEERF grant. Institutions may recognize the institutional portion of the grant proportionate to the amount expended on student emergency aid. The College received $2,135,202 of funding under CRRSAA and recognized $721,353 of the student emergency aid as government grants revenue and student services expense for the year ended June 30, 2021. The institutional portion of the grant totaling $1,413,849 was recognized as government grants revenue for the year ended June 30, 2021. The institutional portion of the grant was used to offset auxiliary refunds the College issued to students as a result of the campus closure beginning in March 2020, as well as housing, meal and fee credits issued in fiscal 2020. As restrictions were met in the same period, the grants were reported as changes in net assets without donor restrictions.

Under ARP, institution received one grant comprised of two parts. Under the legislation, no less than 50 percent of the full grant is to be used for direct emergency aid to students. The remaining portion of the full grant is to be used to defray expenses associated with coronavirus, implement evidence-based practices to monitor and suppress coronavirus, and conduct direct outreach to financial aid applications about the opportunity to receive a financial aid adjustment due to a change in circumstance. The College was awarded $3,781,983. At June 30, 2021, the College has not spent any ARP funding, therefore no revenue was recorded.

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, 2021, 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 November 11, 2021, except for our report on supplementary information as to which the date is April 1, 2022 .

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) as a basis for designing 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 financial statements. 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

Lancaster, Pennsylvania
November 11, 2021, except for our report on supplementary information as to which the date is April 1, 2022

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 each of the College's major federal programs for the year ended June 30, 2021. 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 major federal program. 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, 2021.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2021-001. Our opinion on each major federal program is not modified with respect to this matter.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

College's Response to Finding

The College’s response to the noncompliance and internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The College’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This 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

Lancaster, Pennsylvania
April 1, 2022

Financial Statement and Line Name or Note Location		
Primary Reserve Ratio		
	Expendable Net Assets:	
Statement of Financial Position - Net assets without donor restrictions	Net assets without donor restrictions	$ 99,473,938
Statement of Financial Position - Net assets with donor restrictions	Net assets with donor restrictions	86,176,857
Note 12 - split interest and annuity agreements	Annuities with donor restrictions	3,518,918
Not applicable for 2021	Term endowments with donor restrictions	-
Not applicable for 2021	Life income with donor restrictions	-
Note 12 - endowment investments, principal	Net assets with donor restrictions - restricted in perpetuity	44,478,041
Note 12 - total net assets with donor restrictions less endowment investments, principal and split interest and annuity agreements	Net assets with donor restrictions - time or purpose	38,179,898
Note 14 - outstanding pledges from Trustees	Unsecured related party receivable	8,108,000
Note 1 - Title IV Requirements	Property, plant and equipment - pre-implementation	87,151,164
Note 1 - Title IV Requirements	Property, plant and equipment - post-implementation with outstanding debt for original purchase	-
Note 1 - Title IV Requirements - post-implementation property, plant and equipment, without outstanding debt less construction in progress	Property, plant and equipment - post-implementation without outstanding debt for original purchase	10,620,627
Note 5	Construction in progress	1,743,392
Statement of Financial Position	Total property, plant and equipment, net (including CIP)	99,515,183
Not applicable for 2021	Intangible Assets	-
Not applicable for 2021	Post-employment and pension liabilities	-
Note 1	Long-term debt for long-term purposes - pre-implementation	39,305,911
Note 1	Long-term debt for long-term purposes - post implementation	52,653
Not applicable for 2021	Line of credit for construction in progress	-
	Total Expenses and Losses Without Donor Restrictions	
Statement of Activities	Total expenses without donor restrictions	$ 54,165,258
Not applicable for 2021	Nonoperating and net investment (loss)	-
Not applicable for 2021	Net investment losses	-
Not applicable for 2021	Adjustment of actuarial liability	-
Equity Ratio		
	Modified Net Assets	
Statement of Financial Position	Net assets without donor restrictions	$ 99,473,938
Statement of Financial Position	Net assets with donor restrictions	86,176,857
Not applicable for 2021	Intangible assets	-
Note 14 - outstanding pledges from Trustees	Unsecured related party receivable	8,108,000
	Modified Assets	
Statement of Financial Position - Total assets	Total assets	$ 239,485,447
Not applicable for 2021	Intangible assets	-
Note 14 - outstanding pledges from Trustees	Unsecured related party receivable	8,108,000
Net Income Ratio		
Statement of Activities	Change in net assets without donor restrictions	$ 8,866,857
	Total Revenue and Gains Without Donor Restrictions	
Statement of Activities - total revenues without donor restrictions	Total operating revenue and other additions (gains)	$ 63,032,115
Not applicable for 2021	Investment return appropriated for spending	-
Not applicable for 2021	Nonoperating revenue and other gains	-

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Entity Passed-Through From	Pass-Through Entity Number	Total Federal Expenditures
Student Financial Assistance Cluster				
U.S. Department of Education				
Federal Supplemental Educational Opportunity Grants	84.007	N/A	N/A	$ 278,574
Federal Work Study Program	84.033	N/A	N/A	158,631
Federal Perkins Loan	84.038	N/A	N/A	2,103,043
Federal Pell Grant Program	84.063	N/A	N/A	1,645,551
Federal Direct Student Loans	84.268	N/A	N/A	14,700,051
Teacher Education Assistance for College and Higher Education Grants	84.379	N/A	N/A	28,251
Total Student Financial Assistance Cluster				18,914,101
Research and Development Cluster				
National Science Foundation				
Mathematical and Physical Sciences	47.049	N/A	N/A	35,806
Education and Human Resources	47.076	N/A	N/A	17,488
Total Research and Development Cluster				53,294
U.S. Department of Treasury				
COVID-19 Coronavirus Relief Fund	21.019	Pennsylvania Higher Education Assistance Agency	N/A	63,671
U.S. Department of Education				
Education Stabilization Fund				
COVID-19 - Governors Emergency Relief Fund	84.425C	Pennsylvania Department of Education	117522	79,741
COVID-19 - Higher Education Emergency Relief Fund (HEERF) - Student Aid Portion	84.425E	N/A	N/A	1,053,706
COVID-19 - Higher Education Emergency Relief Fund (HEERF) - Institutional Portion	84.425F	N/A	N/A	1,413,849
Total Education Stabilization Fund				2,547,296
U.S Department of Homeland Security				
Disaster Grants - Public Assistance	97.036	Lebanon County Cares	N/A	50,000
COVID-19 - Disaster Grants - Public Assistance	97.036	Pennsylvania Emergency Management Agency	N/A	118,204
Total Disaster Grants - Public Assistance				168,204
Total expenditures of federal awards				$ 21,746,566

See notes to schedule of expenditures of federal awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes federal award activity of Lebanon Valley College (the College) under programs of the federal government for the year ended June 30, 2021. 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 this Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net assets or cash flows of the College.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The College has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

4. Federal Perkins Loan Program

The Federal Perkins Loan Program is administered directly by the College, and balances and transactions relating to this program are included in the College's financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Federal Perkins loans outstanding at June 30, 2021 totaled $1,596,610.

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with US 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?	X yes	____ 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)?	X yes	____ no

Identification of major federal programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.038	Federal Perkins Loans
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans Program
84.425	COVID-19 Education Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X yes	____ no

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

Finding 2021-001: Student Eligibility for TEACH Grants

Federal Program - Student Financial Assistance Cluster, Teacher Education Assistance for College and Higher Education (TEACH) Grants Program

Federal Agency - U.S. Department of Education

Pass-Through Entity - Not Applicable

Assistance Listing Number - 84.379

Federal Award Year - June 30, 2021

Criteria: Per 34 CFR 686.11(a)(1)(v)(B) and (E), to be eligible to receive a TEACH Grant, a student that is beyond the first year of an undergraduate program must have a cumulative GPA of at least 3.25, as determined by the institution, through the most recently completed payment period; or score above the 75th percentile (for that period the test was taken) on at least one of the nationally-normed standardized undergraduate admissions test, which may not include a placement test.

Condition: One out of three students tested for eligibility this criteria had a cumulative GPA of 3.15 and was ineligible by the criteria.

Cause: The College's controls over compliance failed to detect this issue during the award packaging cycle.

Effect: This student was awarded TEACH Grant funds when ineligible.

Questioned Costs: $1,886 of TEACH Grant Funds were over-awarded.

Context: One student out of three tested was over-awarded $1,886 of TEACH Grant out of a sample of $9,414. The total population of TEACH Grants awarded was $28,251 to nine students. Our sample was not statistically valid.

Recommendation: The College should revise its procedures for awarding Student Financial Aid, including TEACH Grant funds, to ensure that aid is awarded correctly to eligible students and that controls are in place to prevent or detect and correct over-awarding of Title IV funds.

Views of Responsible Official(s): Management agrees with this finding. Management has reviewed all students awarded TEACH Grant funds during 2020-2021 to ensure all others had met the minimum GPA requirements. Beginning with the 2021-2022 academic year, all incoming TEACH Grant applicants will be reviewed for eligibility requirements by two staff members: the director of financial aid and an associate director of financial aid.

Section IV - Summary of Prior Year Findings

None.