



Messiah College

Financial Statements

June 30, 2019 and 2018

Messiah College

Table of Contents
June 30, 2019 and 2018

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6

Independent Auditors' Report

To the Board of Trustees of
Messiah College

Report on the Financial Statements

We have audited the accompanying financial statements of Messiah College (the "College"), which comprise the statements of financial position as of June 30, 2019 and 2018, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Baker Tilly Virchow Krause, LLP

Williamsport, Pennsylvania
October 18, 2019

Messiah College

Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 5,616,513	\$ 7,285,877
Notes and accounts receivable, net	3,036,764	2,235,203
Promises to give, net	6,885,269	7,388,463
Interest receivable	163,992	194,129
Inventories	579,384	573,951
Prepaid expenses and other assets	1,503,138	1,282,122
Investments, endowment	137,833,984	138,084,401
Investments, gift annuities and trusts	6,906,627	6,845,322
Investments, other	10,333,260	7,483,179
Loans receivable, students	2,449,333	2,909,511
Deposits with trustee under debt agreements, restricted	231,528	5,320,428
Beneficial interest in perpetual trusts	3,956,904	3,977,900
Property and equipment, net	151,263,698	156,356,433
Total assets	<u>\$ 330,760,394</u>	<u>\$ 339,936,919</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 6,359,998	\$ 8,742,209
Student deposits	1,344,959	1,482,915
Funds held in custody for others	76,263	66,487
Deferred revenue	1,655,388	1,479,829
Annuities payable	3,861,112	3,892,121
Funds held in trust for others	303,414	304,146
Long-term debt	66,576,964	68,743,571
U.S. government grants refundable	2,534,749	2,503,950
Other liabilities	3,096,181	2,994,768
Total liabilities	<u>85,809,028</u>	<u>90,209,996</u>
Net Assets		
Without donor restrictions	<u>185,543,635</u>	<u>192,312,403</u>
With donor restrictions		
Restricted, time and purpose	18,766,135	18,753,305
Restricted, in perpetuity	40,641,596	38,661,215
Total net assets with donor restrictions	<u>59,407,731</u>	<u>57,414,520</u>
Total net assets	<u>244,951,366</u>	<u>249,726,923</u>
Total liabilities and net assets	<u>\$ 330,760,394</u>	<u>\$ 339,936,919</u>

See notes to financial statements

Messiah College

Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions		Subtotal With Donor Restrictions	Total
		Restricted, Time and Purpose	Restricted, in Perpetuity		
Operating Revenues					
Net tuition and fees	\$ 59,916,554	\$ -	\$ -	\$ -	\$ 59,916,554
Government grants and appropriations	882,619	84,198	-	84,198	966,817
Gifts and grants	1,019,704	1,189,122	-	1,189,122	2,208,826
Capital gifts and grants	510	1,345,164	-	1,345,164	1,345,674
Endowment return designated for operations	5,516,402	1,848,534	-	1,848,534	7,364,936
Investment income (loss)	(38,646)	29,394	-	29,394	(9,252)
Other sources	4,456,444	107,014	-	107,014	4,563,458
Auxiliary enterprises	21,476,602	-	-	-	21,476,602
Net assets released from restrictions	1,880,053	(1,880,053)	-	(1,880,053)	-
Net assets released from restrictions, capital	2,887,881	(2,887,881)	-	(2,887,881)	-
Total operating revenues	97,998,123	(164,508)	-	(164,508)	97,833,615
Operating Expenses					
Educational program services:					
Instructional	39,120,154	-	-	-	39,120,154
Academic support	9,385,375	-	-	-	9,385,375
Student services	21,210,794	-	-	-	21,210,794
Public service	2,772,420	-	-	-	2,772,420
Auxiliary enterprises	16,077,697	-	-	-	16,077,697
Supporting services, institutional support	14,352,707	-	-	-	14,352,707
Total operating expenses	102,919,147	-	-	-	102,919,147
Changes in net assets from operating activities	(4,921,024)	(164,508)	-	(164,508)	(5,085,532)
Nonoperating Revenues, Expenses, and Other Changes					
Endowment and life income gifts	18,498	1,900	2,020,342	2,022,242	2,040,740
Endowment investment return, net of amount designated for operations	(1,873,439)	165,204	-	165,204	(1,708,235)
Change in value of beneficial interest in perpetual trusts	-	-	(20,996)	(20,996)	(20,996)
Investment return for trusts and gift annuities	52,501	36,717	107,286	144,003	196,504
Change in value of split-interest agreements	(45,304)	(26,483)	(126,251)	(152,734)	(198,038)
Total nonoperating revenues, expenses, and other changes	(1,847,744)	177,338	1,980,381	2,157,719	309,975
Changes in net assets	(6,768,768)	12,830	1,980,381	1,993,211	(4,775,557)
Net Assets, Beginning	192,312,403	18,753,305	38,661,215	57,414,520	249,726,923
Net Assets, Ending	\$ 185,543,635	\$ 18,766,135	\$ 40,641,596	\$ 59,407,731	\$ 244,951,366

See notes to financial statements

Messiah College

Statement of Activities

Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions			Total
		Restricted, Time and Purpose	Restricted, in Perpetuity	Subtotal With Donor Restrictions	
Operating Revenues					
Net tuition and fees	\$ 58,230,823	\$ -	\$ -	\$ -	\$ 58,230,823
Government grants and appropriations	873,417	90,134	-	90,134	963,551
Gifts and grants	1,168,008	1,084,960	-	1,084,960	2,252,968
Capital gifts and grants	-	8,292,858	-	8,292,858	8,292,858
Endowment return designated for operations	5,527,092	1,718,474	-	1,718,474	7,245,566
Investment income	1,021,899	26,248	-	26,248	1,048,147
Other sources	3,970,429	64,935	-	64,935	4,035,364
Auxiliary enterprises	21,248,124	-	-	-	21,248,124
Net assets released from restrictions	3,110,216	(3,110,216)	-	(3,110,216)	-
Net assets released from restrictions, capital	3,795,485	(3,795,485)	-	(3,795,485)	-
Total operating revenues	98,945,493	4,371,908	-	4,371,908	103,317,401
Operating Expenses					
Educational program services:					
Instructional	38,907,293	-	-	-	38,907,293
Academic support	9,388,423	-	-	-	9,388,423
Student services	19,873,920	-	-	-	19,873,920
Public service	2,496,049	-	-	-	2,496,049
Auxiliary enterprises	16,198,493	-	-	-	16,198,493
Supporting services, institutional support	14,837,640	-	-	-	14,837,640
Total operating expenses	101,701,818	-	-	-	101,701,818
Changes in net assets from operating activities	(2,756,325)	4,371,908	-	4,371,908	1,615,583
Nonoperating Revenues, Expenses, and Other Changes					
Endowment and life income gifts	-	-	2,116,356	2,116,356	2,116,356
Endowment investment return, net of amount designated for operations	898,352	1,319,560	-	1,319,560	2,217,912
Change in value of beneficial interest in perpetual trusts	-	-	52,754	52,754	52,754
Investment return for trusts and gift annuities	66,564	47,004	234,331	281,335	347,899
Change in value of split-interest agreements	149,227	(30,992)	(459,770)	(490,762)	(341,535)
Total nonoperating revenues, expenses, and other changes	1,114,143	1,335,572	1,943,671	3,279,243	4,393,386
Changes in net assets	(1,642,182)	5,707,480	1,943,671	7,651,151	6,008,969
Net Assets, Beginning	193,954,585	13,045,825	36,717,544	49,763,369	243,717,954
Net Assets, Ending	\$ 192,312,403	\$ 18,753,305	\$ 38,661,215	\$ 57,414,520	\$ 249,726,923

See notes to financial statements

Messiah College

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (4,775,557)	\$ 6,008,969
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,197,487	11,898,418
Accretion	101,413	95,651
Amortization of bond premium (discount) and issuance costs, net	(116,607)	(102,042)
Net realized and unrealized gains on investments	(468,471)	(6,170,242)
Loss (gain) on sale of property and equipment	17,317	(3,625)
Contributions for long-term purposes	(1,989,185)	(2,116,356)
(Increase) decrease in operating assets:		
Notes and accounts receivable	(801,561)	(441,152)
Promises to give	503,194	(5,026,390)
Inventories	(5,433)	(1,260)
Other assets	(568,792)	(56,022)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(2,589,283)	(190,323)
Funds held in custody for others	9,776	32,620
Student deposits	(137,956)	34,169
Deferred revenue	175,559	37,733
Funds held in trust for others	(732)	(197,070)
Net cash provided by operating activities	<u>1,551,169</u>	<u>3,803,078</u>
Cash Flows from Investing Activities		
Purchases of investments	(70,504,417)	(97,256,737)
Proceeds from sale of investments	68,332,915	97,643,750
Purchase of property and equipment	(6,997,595)	(10,342,782)
Student loan principal payments received	596,390	420,570
Disbursements for loans to students	(136,212)	(475,296)
Proceeds from sale of property and equipment	82,598	3,625
Net cash used in investing activities	<u>(8,626,321)</u>	<u>(10,006,870)</u>
Cash Flows from Financing Activities		
Contributions for long-term purposes	2,367,098	2,134,462
Principal payments on long-term debt	(2,050,000)	(1,965,000)
(Decrease) increase in annuities payable	(31,009)	38,709
Increase in U.S. government grants refundable	30,799	1,788
Proceeds from issuance of long-term debt	-	5,500,000
Premium from issuance of long-term debt, net of issue costs	-	439,015
Net cash provided by financing activities	<u>316,888</u>	<u>6,148,974</u>
Net decrease in cash and cash equivalents and deposits with trustee under debt agreements	(6,758,264)	(54,818)
Cash and Cash Equivalents and Deposits with Trustee Under Debt Agreements, Restricted, Beginning	<u>12,606,305</u>	<u>12,661,123</u>
Cash and Cash Equivalents and Deposits with Trustee Under Debt Agreements, Restricted, Ending	<u>\$ 5,848,041</u>	<u>\$ 12,606,305</u>
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest (excluding capitalized interest of \$188,000 and \$31,352 in 2019 and 2018)	<u>\$ 1,958,842</u>	<u>\$ 1,769,581</u>
Supplementary Disclosure of Noncash Investing Activities		
Property and equipment in accounts payable	<u>\$ 207,072</u>	<u>\$ 334,746</u>

See notes to financial statements

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Messiah College is a private Christian college of the liberal and applied arts and sciences. Founded in 1909 by the Brethren in Christ Church, the College is located in Mechanicsburg, Pennsylvania. The College is accredited by the Middle States Commission on Higher Education and has a student body of approximately 3,400 undergraduate and graduate students.

Basis of Presentation

These financial statements present financial information showing the financial position, the activities, and the cash flows of the College reflecting the presence or absence of donor-imposed restrictions. Accordingly, the amounts of net assets are classified according to the nature of such restrictions, as follows:

Net Assets With Donor Restrictions, in Perpetuity - Net assets which are subject to donor-imposed restrictions that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Net Assets With Donor Restrictions, Time and Purpose - Net assets which are subject to donor-imposed restrictions that will be met when expenditures are made for the designated purposes or with passage of time. The expiration of time or purpose restrictions on net assets is reported in the statement of activities as net assets released from restrictions. Contributions with time and purpose restriction and endowment income whose restrictions are not met in the same period as received or earned are reported as increases in net assets with restrictions.

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed restrictions. The Board of Trustees has several standing board policies that affect the presentation of board designations on net assets. Proceeds from matured gift annuities without donor restrictions and trusts without donor restrictions are designated for long-term investment in the endowment (quasi-endowment).

Government Grants and Student Aid

The government grants and student aid amounts reported do not include funds credited to students under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent.

Title IV Requirements

The College participates in Student Financial Assistance Programs ("Title IV") administered by the U.S. Department of Education ("ED") for the payment of student tuition. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2019 and 2018, are dependent upon the College's continued participation in the Title IV programs.

Cash and Cash Equivalents

Cash and cash equivalents represent highly liquid investments with an original maturity date not exceeding 90 days.

Messiah College

Notes to Financial Statements

June 30, 2019 and 2018

Notes and Accounts Receivable

Student accounts receivable are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on the College's historical losses and periodic review of individual accounts. Student accounts receivable are written off when they are determined to be uncollectible based on management's assessment of individual accounts. Other items included are notes receivable from employees and faculty, grants receivable from federal and state agencies and receivables from unrelated individuals, companies and organizations.

Student Loans

The student loans receivable primarily represents loans to students funded by advances to the College by the federal government under the Perkins and Nursing Student Loan Programs (the "Programs"). Such funds may be re-loaned by the College after collection. The Perkins loan program expired on September 30, 2017; after June 30, 2018, no new loans are permitted. Institutions are permitted to liquidate all Perkins loans or continue to service all or some of its outstanding Perkins loans. The College is continuing to service its Perkins loans and is assessing the loan portfolio to determine if certain loans will be assigned to the government, but in the event that the College no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these funds at June 30, 2019 and 2018 was \$2,534,749 and \$2,503,950, respectively.

Contributions

Unconditional promises to give (pledges) are recorded as receivables and revenues and the College distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions for donor-restricted purposes (other than capital) are reported as revenue without donor restrictions when the restriction is satisfied within the same year that the contribution is received.

Contributions with donor-imposed restrictions (for purposes other than capital) that are not met in the same year as received are reported as revenues with donor restrictions (time and purpose restrictions) and are reclassified to net assets without donor restrictions when an expenditure is incurred that satisfies the donor-imposed restriction.

Contributions restricted for the acquisition of plant and equipment are reported as revenues with donor restrictions and are reclassified to net assets without donor restrictions when the asset acquisitions are placed in service.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at their net present value. The discount is computed using a credit-adjusted interest rate. Conditional promises to give are not recorded until such time as the conditions are substantially met.

Inventories

Inventories are valued at the lower of cost or net realizable value on a first-in, first-out basis. Inventories consist of dining services, College press, postage and facilities supplies.

Messiah College

Notes to Financial Statements

June 30, 2019 and 2018

Investments and Deposits with Trustee

Investments are reported at fair value. Adjustments to reflect increases or decreases in fair value, referred to as unrealized gains and losses, are reported in the statements of activities. The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized and unrealized gains and losses arising from the sale or appreciation (depreciation) in fair value of investments, and all income from investments, are reported as changes in net assets without restrictions unless their use is restricted by explicit donor-imposed stipulations, or by law.

Deposits with trustee under debt agreements, restricted at June 30, 2019 and 2018 consist of cash and money market funds from unspent bond proceeds.

Property and Equipment

Physical plant and equipment are stated at cost when purchased, and gifts of plant assets are reflected at fair value when received. Land, buildings, equipment and furniture are stated at cost less accumulated depreciation which is computed on a straight-line basis over the respective estimated useful lives as follows:

Building and improvements	10 - 40 years
Leasehold improvements	5 - 12 years
Equipment	4 - 20 years
Furniture	4 - 20 years

As permitted by accounting principles generally accepted in the United States of America, the College does not generally capitalize its museum and art collections. The College's intention is to preserve the archives and use them as a resource for students of the College.

Impairment of Long-Lived Assets

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

Annuity and Trust Funds

The College has entered into split-interest agreements with donors primarily consisting of charitable gift annuities and charitable trusts. Assets for which the College serves as trustee are included in assets held in trust. Contribution revenues are recognized at the date the annuities and trusts are established after recording liabilities for the present value of the estimated future annuity payments to be made to the donors and/or other beneficiaries. Such revenues are recorded as increases in net assets with donor restrictions unless the donor has given the College the right to use such assets without restriction. Changes in the value of the associated liabilities are recorded within "change in value of split-interest agreements" throughout the term of the agreements to reflect the current estimated present value of future cash outflows. Contributions arising from split interest agreements amounted to \$116,835 and \$443,886 for the years ended June 30, 2019 and 2018, respectively.

Messiah College

Notes to Financial Statements

June 30, 2019 and 2018

The College is also a beneficiary of certain perpetual trusts held and administered by others. Under the terms of the trust agreements, the College has the irrevocable right to receive a portion of the income earned on trust assets in perpetuity, but never receives the assets held in the trusts. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established.

Revenue Recognition

Tuition and fee revenue is recognized in the fiscal year in which the associated academic programs are delivered. Sales and services of auxiliary enterprises revenue, which consists of room and board and related services, is recognized when the related service is provided or performed. Tuition and fee and auxiliary enterprise contracts are considered to have a duration of less than one year.

Transaction prices for tuition, fees, room, and board are determined based on applicable College pricing schedules. Institutional financial aid and discounts provided by the College are reflected as a reduction of tuition and fee revenue, with the exception of specifically identified auxiliary discounts such as room grants, which are reflected as a reduction in auxiliary revenue. 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.

Amounts are due for tuition, fees, room, and board at the beginning of each semester. In accordance with the College's refund policies, undergraduate students may receive a full or partial refund up to the 60 percent date of the semester. Graduate students taking anything other than intensive courses may receive a full or partial refund until the date the course section is over 33 percent complete. Graduate students taking intensive courses may receive a 100 percent refund up to the end of the first day of on-campus classes. Student accounts receivable includes amounts to which the College is unconditionally entitled. In connection with the adoption of the revenue recognition standard, the College considers such amounts as unconditional based on the payment due date.

Student-related deferred revenue for billed services not yet performed totaled approximately \$779,000 at June 30, 2019 and consists primarily of amounts related to 2019 summer sessions. The College's student deposits includes amounts collected but not yet earned of \$1,345,000. These amounts will be recognized as revenue in fiscal 2020 as academic services are provided. In 2018, prior to the adoption of the revenue recognition standard, the College's student-related deferred revenue for billed services not yet performed totaled approximately \$771,000 and consists primarily of amounts related to 2018 summer sessions. The College's student deposits at June 30, 2018 were approximately \$1,480,000. These amounts were recognized as revenue in fiscal 2019.

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

From time to time the College receives private grants and contracts that are exchange (reciprocal) transactions and would fall under the scope of the new revenue recognition standard. The performance obligation for each grant or contract is deemed to be the research itself and revenue is recognized as the eligible grant activities are conducted. Transaction prices are based on budgets in the award agreement. Exchange contracts are not significant to the College's financial statements.

Functional Allocation of Certain Expenses

The statements of activities present expenses by functional classification. Depreciation of plant assets, interest on long-term debt, and expenses incurred for the operation and maintenance of plant facilities are allocated to program and supporting activities based upon proportional occupancy of campus buildings. Costs of other categories were allocated on estimates of time and effort. A summary of functional and natural classification is available at Note 14.

Fundraising Costs

The College expenses fundraising costs when incurred. Fundraising costs were approximately \$2,038,000 and \$2,031,000 for the years ended June 30, 2019 and 2018, respectively, and are included in institutional support in the statements of activities.

Use of Estimates

The preparation of the 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.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Subsequent Events

The College evaluated subsequent events for recognition or disclosure through October 18, 2019, the date the financial statements were issued.

Recently Adopted Accounting Standards

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. The College adopted ASU 2016-14 in fiscal 2019 and has applied the changes retrospectively to all periods presented, except for the disclosure around natural classification of expenses which has been presented for fiscal 2019 only as permitted by the guidance.

As a part of the adoption, changes in terminology were made throughout the financial statements and related footnotes. Unrestricted net assets were renamed net assets without donor restrictions and temporarily restricted net assets and permanently restricted assets were combined into the category of net assets with donor restrictions.

In 2019, the College adopted ASU No. 2014-09, *Revenues from Contracts with Customers (Topic 606)*, using the modified retrospective approach which provides for application of the new standard to uncompleted contracts at the date of adoption (July 1, 2018) without revising prior periods. ASU No. 2014-09 supersedes the revenue recognition requirements under Topic 605, *Revenue Recognition*, and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration at which the College expects to be entitled for those goods or services. The adoption of ASU No. 2014-09 did not have a material impact on the financial statements.

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new guidance requires that a statement of cash flows explain the change in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning and ending total amounts shown on the statements of cash flows. The College adopted ASU No. 2016-18 in fiscal 2019. The adoption of this guidance led to deposits with trustee under debt agreements being included in cash and cash equivalents on the statements of cash flows. The adoption increased the previously reported 2018 beginning of year cash and cash equivalents of \$10,463,456 by \$2,197,667 to \$12,661,123, increased 2018 net cash used in investing activities by \$5,320,208, and increased the 2018 ending cash and cash equivalents by \$5,320,428 to \$12,606,305.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The College adopted this guidance in 2019 utilizing the modified retrospective method of adoption; the adoption of this guidance did not have a material impact on the College's financial statements.

Future Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statements of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU No. 2016-02 is effective for the College in fiscal year 2020. The College is currently assessing the effect that ASU No. 2016-02 will have on its financial statements.

2. Cash and Cash Equivalents

The College maintains cash balances in high credit financial institutions in excess of the federally insured limit under the FDIC. The exposure of the College to uninsured balances as of June 30, 2019 and 2018 was approximately \$4,360,000 and \$7,311,000, respectively. Historically, the College has not experienced any losses and management believes it is not exposed to any significant credit risk.

3. Notes and Accounts Receivable, Net

Notes and accounts receivable consist of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Student balances	\$ 2,391,442	\$ 4,113,415
Student income share agreements	217,800	-
Employees and faculty	160,685	183,773
College related organizations	21,670	17,246
Federal and state agencies	970,760	755,463
Other unrelated individuals, companies, and organizations	<u>546,407</u>	<u>315,306</u>
Subtotal	4,308,764	5,385,203
Allowance for doubtful accounts	<u>(1,272,000)</u>	<u>(3,150,000)</u>
Notes and accounts receivable, net	<u>\$ 3,036,764</u>	<u>\$ 2,235,203</u>

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

4. Promises to Give

Included in promises to give are the following unconditional promises to give as of June 30:

	<u>2019</u>	<u>2018</u>
Capital campaign	\$ 6,060,265	\$ 7,279,279
Endowed scholarships	540,694	131,581
Other promises to give	766,313	681,743
	<hr/>	<hr/>
Unconditional promises to give, before unamortized discount	7,367,272	8,092,603
Unamortized discount	(482,003)	(704,140)
	<hr/>	<hr/>
Present value of pledges receivable	<u>\$ 6,885,269</u>	<u>\$ 7,388,463</u>
Amounts due in:		
Less than one year	\$ 2,297,869	\$ 1,636,287
One to five years	5,010,019	5,746,016
More than five years	59,384	710,300
	<hr/>	<hr/>
Total	<u>\$ 7,367,272</u>	<u>\$ 8,092,603</u>

Discount rates ranged from 0.72 percent to 2.73 percent for the years ended June 30, 2019 and 2018.

All promises to give are reviewed by management and evaluated for collectability when received. Promises to give that are deemed uncollectible are not recognized. As such, the College considers the entire amount to be collectible.

5. Investments, Fair Value Measurements and Other Financial Instruments

Investments consist of the following as of June 30:

	<u>2019</u>			
	<u>Endowment</u>	<u>Gift Annuities and Trusts</u>	<u>Other</u>	<u>Total</u>
Money market accounts	\$ 1,880,919	\$ 136,074	\$ 34,798	\$ 2,051,791
Equity funds and common stocks	42,353,704	3,888,940	7,729,432	53,972,076
Fixed income	67,267,436	1,981,613	2,452,770	71,701,819
Private equity and venture capital	7,172,337	-	-	7,172,337
Accrued net income receivable	938,056	-	19,260	957,316
Local real estate development company, including real estate	17,859,640	-	-	17,859,640
Real asset based funds	353,014	-	-	353,014
Real assets, held in trust and other	-	900,000	97,000	997,000
Hedge funds	8,878	-	-	8,878
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments	137,833,984	<u>\$ 6,906,627</u>	<u>\$ 10,333,260</u>	<u>\$ 155,073,871</u>
Cash due from operating fund	16,441			
Other non-unitized assets	97,000			
	<hr/>			
Total	<u>\$ 137,947,425</u>			

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

	2018			
	<u>Endowment</u>	<u>Gift Annuities and Trusts</u>	<u>Other</u>	<u>Total</u>
Money market accounts	\$ 6,192,422	\$ 85,039	\$ 10,900	\$ 6,288,361
Equity funds and common stocks	43,747,883	3,946,129	3,843,927	51,537,939
Fixed income	67,181,513	1,781,154	3,530,954	72,493,621
Private equity and venture capital	7,051,167	-	-	7,051,167
Accrued net income receivable	828,786	-	398	829,184
Local real estate development company, including real estate	12,111,966	-	-	12,111,966
Real asset based funds	479,619	-	-	479,619
Real assets - held in trust and other	-	1,033,000	97,000	1,130,000
Hedge funds	491,045	-	-	491,045
Total investments	138,084,401	<u>\$ 6,845,322</u>	<u>\$ 7,483,179</u>	<u>\$ 152,412,902</u>
Cash due from operating fund	13,961			
Other non-unitized assets	97,000			
Total	<u>\$ 138,195,362</u>			

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the College for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

The following tables present the assets measured at fair value as of June 30, 2019 and 2018 by caption on the statements of financial position by the valuation hierarchy defined above:

	2019			
	Total Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value				
Money market accounts	\$ 2,051,791	\$ 2,051,791	\$ -	\$ -
Equity funds and common stocks:				
Domestic	44,249,798	44,249,798	-	-
International	4,860,088	4,860,088	-	-
Emerging markets	3,555,024	3,555,024	-	-
Other	1,307,166	1,307,166	-	-
Total equity funds and common stocks	53,972,076	53,972,076	-	-
Fixed income:				
Intermediate term bond mutual funds	62,834,385	62,834,385	-	-
Global fixed income	1,110,675	1,110,675	-	-
Inflation-protected bond mutual funds	223,151	223,151	-	-
Municipal bond/funds	2,254,050	-	2,254,050	-
Fixed - high yield	353,456	353,456	-	-
Bond fund (including convertibles and other)	4,926,102	-	4,926,102	-
Total fixed income	71,701,819	64,521,667	7,180,152	-
Accrued net income receivable	957,316	907,316	50,000	-
Real assets, held in trust and other (a)	997,000	-	-	997,000
Subtotal	129,680,002	121,452,850	7,230,152	997,000
Alternative investments measured at net asset value:				
Private equity and venture capital	7,172,337			
Real asset - based funds	353,014			
Hedge funds	8,878			
Total investments and assets held in trust	137,214,231	121,452,850	7,230,152	997,000
Deposits with trustee under debt agreements	231,528	231,528	-	-
Beneficial interest in perpetual trusts	3,956,904	-	-	3,956,904
	<u>\$ 141,402,663</u>	<u>\$ 121,684,378</u>	<u>\$ 7,230,152</u>	<u>\$ 4,953,904</u>

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

	2018			
	Total Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value				
Money market accounts	\$ 6,288,361	\$ 6,288,361	\$ -	\$ -
Equity funds and common stocks:				
Domestic	38,564,030	38,564,030	-	-
International	8,392,261	8,392,261	-	-
Emerging markets	2,672,943	2,672,943	-	-
Other	1,908,705	1,908,705	-	-
Total equity funds and common stocks	51,537,939	51,537,939	-	-
Fixed income:				
Intermediate term bond mutual funds	60,478,390	60,478,390	-	-
Global fixed income	3,048,593	3,048,593	-	-
Inflation-protected bond mutual funds	222,125	222,125	-	-
Municipal bond/funds	2,278,125	-	2,278,125	-
Fixed - high yield	235,183	235,183	-	-
Bond fund (including convertibles and other)	6,231,205	-	6,231,205	-
Total fixed income	72,493,621	63,984,291	8,509,330	-
Accrued net income receivable	829,184	779,184	50,000	-
Real assets, held in trust and other (a)	1,130,000	-	-	1,130,000
Subtotal	132,279,105	122,589,775	8,559,330	1,130,000
Alternative investments measured at net asset value:				
Private equity and venture capital	7,051,167			
Real asset, based funds	479,619			
Hedge funds	491,045			
Total investments and assets held in trust	140,300,936			
Deposits with trustee under debt agreements	5,320,428	5,320,428	-	-
Beneficial interest in perpetual trusts	3,977,900	-	-	3,977,900
	<u>\$ 149,599,264</u>	<u>\$ 127,910,203</u>	<u>\$ 8,559,330</u>	<u>\$ 5,107,900</u>

(a) Real assets, held in trust and other includes real estate owned; fair value is based on market value appraisals using a sales approach, which is a non-recurring fair value measurement.

- (b) Investments also include member interests in a local real estate development company, totaling \$17,859,640 and \$12,111,966 at June 30, 2019 and 2018, respectively, (including real estate). The College is the sole member of this corporation, which has an independent board. Activity for the current year included capital contributions of approximately \$6,300,000 by the College to the real estate development company, construction, and securing financing debt. The College reports its investment in the real estate development company using the equity method. Fiscal 2018 also included a transfer of real estate previously held in the investment portfolio, valued at approximately \$8,700,000. In fiscal 2019, the real estate development company obtained taxable bonds to fund its construction projects, with a guarantee from the College to make principal and interest payments if necessary, through the final maturity of the bonds. The outstanding principal bond balance is \$57,404,367 as of June 30, 2019. The College has not made any principal payments to date.

Valuation Methodologies

Level 1 - Fair value of money market funds, equity funds, common stock, and fixed income securities was based on quoted market prices for the identical security.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

Beneficial interest in perpetual trusts - The College's beneficial interest in perpetual trusts held by others is based on the fair value of the trusts' holdings as reported by the trustees as an estimate of the cash flows to be received from the trusts. The College's proportionate share of the net asset values of funds held in trust by others as of June 30, 2019 and 2018 were \$3,956,904 and \$3,977,900, respectively.

Hedge funds, private equity and venture capital, and real asset-based funds - Fair value of these alternative investments was based upon estimated net asset values provided by investment managers. The College measures the fair value of an investment that does not have a readily determinable fair value based on the net asset value 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 net asset value. These values are determined using the audited financial statements of the investment and evaluating any cash flows or outflows post-audit. Management reviews and evaluates the values and agrees with the methods and assumptions used.

The fair values of several of the investment instruments classified in the above tables have been estimated using the net asset value of the College's ownership interest in partner's capital. Those are:

Private equity and venture capital: This category includes funds that invest primarily in technology, emerging growth and real estate companies. These investments can never be redeemed at the option of the investor. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets of the various funds will be liquidated over the next 12 years. As of June 30, 2019, the College has committed \$14,080,000 to these funds, of which \$2,080,726 remains unfunded.

Real asset-based funds: This category includes funds that invest primarily in commercial real estate properties and partnerships in the United States. Distributions from each fund will be received as the underlying investments of the funds are liquidated. As of June 30, 2019, the College has committed \$1,000,000 to the funds, of which \$180,000 remains unfunded.

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

Hedge funds: This category includes a fund of funds which pursues multiple strategies to diversify risks and reduce volatility. There are no additional commitments required as the fund is in the process of winding down with full liquidation anticipated by the end of calendar 2019. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The activity recognized during the fiscal years ended June 30, 2019 and 2018, for Level 3 assets with recurring fair value measurements, is as follows:

	Beneficial Interest in Perpetual Trusts
July 1, 2017	\$ 3,925,146
Distributions	(172,829)
Unrealized gains	<u>225,583</u>
June 30, 2018	3,977,900
Distributions	(178,014)
Unrealized gains	<u>157,018</u>
June 30, 2019	<u><u>\$ 3,956,904</u></u>

Unrealized and realized gains are included in net assets with donor restrictions or without donor restrictions in the statements of activities based on donor stipulations as components of endowment investment return, investment return of gift annuities, and change in value of split-interest agreements.

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30:

	2019			Total
	Without Donor Restrictions	With Donor Restrictions		
		Restricted, Time and Purpose	Restricted, in Perpetuity	
Dividends and interest, net of expense	\$ 3,920,262	\$ 1,423,337	\$ 10,887	\$ 5,354,486
Net realized and unrealized gains (losses)	<u>(263,444)</u>	<u>656,512</u>	<u>75,403</u>	<u>468,471</u>
Total return on investments	<u><u>\$ 3,656,818</u></u>	<u><u>\$ 2,079,849</u></u>	<u><u>\$ 86,290</u></u>	<u><u>\$ 5,822,957</u></u>
Operating investment income:				
Endowment return designated for operations	\$ 5,516,402	\$ 1,848,534	\$ -	\$ 7,364,936
Investment income	(38,646)	29,394	-	(9,252)
Non-operating investment income:				
Endowment investment returns, net of amount designated for operations	(1,873,439)	165,204	-	(1,708,235)
Change in value of beneficial interest in perpetual trusts	-	-	(20,996)	(20,996)
Investment returns on trusts and gift annuities	<u>52,501</u>	<u>36,717</u>	<u>107,286</u>	<u>196,504</u>
Total return on investments	<u><u>\$ 3,656,818</u></u>	<u><u>\$ 2,079,849</u></u>	<u><u>\$ 86,290</u></u>	<u><u>\$ 5,822,957</u></u>

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Restricted, Time and Purpose	Restricted, in Perpetuity	
Dividends and interest, net of expense	\$ 3,432,844	\$ 1,227,954	\$ 81,238	\$ 4,742,036
Net realized and unrealized gains	4,081,063	1,883,332	205,847	6,170,242
Total return on investments	<u>\$ 7,513,907</u>	<u>\$ 3,111,286</u>	<u>\$ 287,085</u>	<u>\$ 10,912,278</u>
Operating investment income:				
Endowment return designated for operations	\$ 5,527,092	\$ 1,718,474	\$ -	\$ 7,245,566
Investment income	1,021,899	26,248	-	1,048,147
Non-operating investment income:				
Endowment investment returns, net of amount designated for operations	898,352	1,319,560	-	2,217,912
Change in value of beneficial interest in perpetual trusts	-	-	52,754	52,754
Investment returns on trusts and gift annuities	66,564	47,004	234,331	347,899
Total return on investments	<u>\$ 7,513,907</u>	<u>\$ 3,111,286</u>	<u>\$ 287,085</u>	<u>\$ 10,912,278</u>

6. Property and Equipment, Net

Property and equipment consists of the following as of June 30:

	Useful Lives	Acquired Value	2019	
			Less Accumulated Depreciation	Net Book Value
Land		\$ 2,773,740	\$ -	\$ 2,773,740
Improvements	20 years	19,556,629	13,577,875	5,978,754
Buildings	10 - 40 years	250,515,131	122,029,781	128,485,350
Leasehold improvements	5 - 12 years	2,829,396	503,268	2,326,128
Equipment	4 - 20 years	79,807,392	69,181,242	10,626,150
Construction in progress		1,073,576	-	1,073,576
		<u>\$ 356,555,864</u>	<u>\$ 205,292,166</u>	<u>\$ 151,263,698</u>

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

	2018			
	Useful Lives	Acquired Value	Less Accumulated Depreciation	Net Book Value
Land		\$ 2,823,740	\$ -	\$ 2,823,740
Improvements	20 years	19,163,657	12,949,728	6,213,929
Buildings	10 - 40 years	243,272,967	113,645,843	129,627,124
Leasehold improvements	5 - 12 years	2,739,513	266,888	2,472,625
Equipment	4 - 20 years	78,475,176	66,391,028	12,084,148
Construction in progress		3,134,867	-	3,134,867
		<u>\$ 349,609,920</u>	<u>\$ 193,253,487</u>	<u>\$ 156,356,433</u>

Depreciation expense totaled \$12,197,487 and \$11,898,418 for the years ended June 30, 2019 and 2018, respectively.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at June 30:

	2019	2018
Accounts payable	\$ 1,821,839	\$ 3,768,338
Accrued salaries and benefits	4,009,790	4,477,224
Other	528,369	496,647
Total	<u>\$ 6,359,998</u>	<u>\$ 8,742,209</u>

8. Lines of Credit

The College has two unsecured lines of credit with a national and a regional bank in the amounts of \$5,000,000 and \$10,000,000, respectively, for the years ended June 30, 2019 and 2018. There were no amounts outstanding under either line of credit as of June 30, 2019 or June 30, 2018. Both lines of credit bear interest at 1.65 percent above one-month LIBOR with an interest period duration of one day (4.05 percent at June 30, 2019).

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

9. Long-Term Debt

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

	<u>2019</u>	<u>2018</u>
2001 I-3 Messiah College Revenue Bonds	\$ 8,500,000	\$ 9,000,000
2001 I-4 Messiah College Revenue Bonds	13,600,000	13,600,000
2012 Messiah College Revenue Bonds	6,410,000	7,960,000
2014 Messiah College Revenue Bonds	4,500,000	4,500,000
2015 Messiah College Revenue Bonds	11,385,000	11,385,000
2016 Messiah College Revenue Bonds	16,655,000	16,655,000
2018 Messiah College Revenue Bonds	<u>5,500,000</u>	<u>5,500,000</u>
Total	66,550,000	68,600,000
Unamortized premium (discount) and issuance costs on bonds payable, net	<u>26,964</u>	<u>143,571</u>
	<u>\$ 66,576,964</u>	<u>\$ 68,743,571</u>

2001 Messiah College Revenue Bonds

The 2001 Multi-Mode I-3 Revenue Bonds have a variable interest rate with principal maturing in varying amounts from November 1, 2018 through November 1, 2031. The College may elect to remarket the bonds for a new mode period and interest rate on the mandatory tender date of any existing mode period. On November 1, 2017, the bonds were remarketed with no letter of credit enhancement, and converted to a four-year term mode bearing interest at a rate of 2.2 percent through October 31, 2021. The bonds are secured by a lien on the College's unrestricted revenues, and the loan agreement between the College and the issuer of the bonds contains a rate covenant.

The 2001 Multi-Mode I-4 Revenue Bonds have a variable interest rate with principal maturing in varying amounts from November 1, 2023 through November 1, 2031. The College may elect to remarket the bonds for a new mode period and interest rate on the mandatory tender date of any existing mode period. On May 1, 2018, the 2001 I-4 Bonds were remarketed with no letter of credit enhancement, and converted to a three-year rate of 2.72 percent through April 30, 2021.

Bond discounts and issuance costs relating to the 2001 Revenue Bonds are being amortized over the term of the bonds on a straight line-basis. The unamortized net costs amounted to \$21,394 and \$23,129 as of June 30, 2019 and 2018, respectively.

2012 Messiah College Revenue Bonds

The 2012 Revenue Bonds have interest rates ranging from 4.0 percent to 5.0 percent with principal maturing in various amounts from November 1, 2018 through November 1, 2022. The bonds are secured by a lien on the College's unrestricted revenues, and the loan agreement between the College and the issuer of the bonds contains a rate covenant.

Bond premiums and issuance costs relating to the 2012 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net premium amounted to \$450,506 and \$585,657 as of June 30, 2019 and 2018, respectively.

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

2014 Messiah College Multi-Mode Revenue Bonds

The 2014 Multi-Mode Revenue Bonds were initially issued with a coupon rate of 3.0 percent for a three-year period at an original issue premium. On May 1, 2017 the bonds were remarketed at a three-year term mode with an interest rate of 2.00 percent through April 30, 2020. The College, at its option, may continue under this arrangement in the term mode for successive three-year periods, or, convert to a different rate mode. Principal will mature in various amounts from May 1, 2033 through May 1, 2044. The bonds are secured by a lien on the College's unrestricted revenues, and the loan agreement between the College and the issuer of the bonds contains a rate covenant.

Bond premiums and issuance costs relating to the 2014 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net premium amounted to \$111,576 and \$116,069 as of June 30, 2019 and 2018, respectively.

2015 Messiah College Revenue Bonds

The 2015 Revenue Bonds have interest rates ranging from 3.375 percent to 4.0 percent with principal maturing in various amounts from November 1, 2029 through November 1, 2046. The bonds are secured by a lien on the College's unrestricted revenues, and the loan agreement between the College and the issuer of the bonds contains a rate covenant.

Bond discount and issuance costs relating to the 2015 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net discount amounted to \$356,849 and \$370,573 as of June 30, 2019 and 2018, respectively.

2016 Messiah College Revenue Bonds

The 2016 Revenue Bonds have interest rates ranging from 3.0 percent to 3.4 percent with principal maturing in various amounts from November 1, 2032, through November 1, 2046. The bonds are secured by a lien on the College's unrestricted revenues and the loan agreement between the College and the issuer of the bonds contains a rate covenant.

Bond discount and issuance costs relating to the 2016 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net discount amounted to \$581,256 and \$603,468 as of June 30, 2019 and 2018, respectively.

2018 Messiah College Revenue Bonds

The 2018 Revenue Bonds have interest rates ranging from 5.00 percent to 5.25 percent with principal maturing in 2048. The bonds are subject to a mandatory sinking fund redemption prior to maturity beginning in 2033. The bonds are secured by a lien on the College's unrestricted revenues, and the loan agreement between the College and the issuer of the bonds contains a rate covenant.

Bond premiums and issuance costs relating to the 2018 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net premium amounted to \$424,381 and \$439,015 as of June 30, 2019 and 2018.

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

The approximate aggregate amount of principal maturities of debt outstanding as of June 30, 2019 for the five subsequent fiscal years follows:

2020	\$ 2,130,000
2021	2,220,000
2022	2,310,000
2023	1,850,000
2024	1,900,000
Thereafter	<u>56,140,000</u>
Total	<u>\$ 66,550,000</u>

Interest expense on long-term debt was \$1,971,747 in 2019 and \$1,806,371 in 2018, net of capitalized interest of \$188,000 and \$31,352, respectively.

10. Retirement Plan

The College provides retirement benefits to eligible employees through a defined contribution plan. The College made retirement contributions of \$2,864,492 and \$2,820,653 for the years ended June 30, 2019 and 2018, respectively.

11. Liquidity and Availability of Resources

The following reflects the College's financial assets as of the statements of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statements of financial position date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the statements of financial position date have not been subtracted as unavailable.

	<u>2019</u>	<u>2018</u>
Total assets	\$ 330,760,394	\$ 339,936,919
Less nonfinancial assets	<u>(153,346,220)</u>	<u>(158,212,506)</u>
Financial assets, year end	<u>\$ 177,414,174</u>	<u>\$ 181,724,413</u>

Nonfinancial assets include inventories, prepaid expenses and other assets, and property, plant and equipment.

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

Financial assets available to meet general expenditures over the next 12 months:

	<u>2019</u>	<u>2018</u>
Cash and equivalents	\$ 5,616,513	\$ 7,285,877
Accounts receivable, net	3,036,764	2,235,203
Promises to give, net without restriction and due in one year or less	218,000	195,311
Investments other (without donor or board restrictions)	<u>10,333,260</u>	<u>7,483,179</u>
	19,204,537	17,199,570
Less restricted or designated resources	<u>7,804,374</u>	<u>5,186,494</u>
Total financial assets available to meet general expenditures over the next 12 months	11,400,163	12,013,076
Bank lines of credit	<u>15,000,000</u>	<u>15,000,000</u>
Total financial assets and liquidity resources	<u>\$ 26,400,163</u>	<u>\$ 27,013,076</u>

As of June 30, 2019, the College has liquid assets on hand to cover approximately 100 days of operating expenses. The College's practice is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

The College is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period. The College must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

In addition, the College invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the College has committed lines of credit in the amount of \$15 million, which it could draw upon. Additionally, the College has a quasi-endowment of \$94.7 million. Although the College does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary. However, both the quasi-endowment and donor-restricted endowments contain investments with provisions that would reduce the total investments that could be made available (see Note 12 for disclosures about investments).

12. Endowment and Net Assets Released from Restrictions

The College's endowment consists of 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.

Messiah College

Notes to Financial Statements

June 30, 2019 and 2018

The Board of Trustees of the College has developed a policy requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation of Pennsylvania law, the College classifies as net assets with donor restrictions, restricted in perpetuity (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 with donor restrictions, restricted in perpetuity is classified as either net assets with donor restrictions, restricted by time or purpose or without donor restrictions based on the existence of donor restrictions or by law. Board designated investment funds are balances functioning as an endowment that are established by the institution from either donor or institutional monies, and are usually to be retained and invested rather than expended. Since board designated investment funds are established by the institution rather than an external source, the principal may be expended, as directed by the Board of Trustees.

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 sum of the Endowment's spending rate, anticipated inflation, all fees and administrative costs, and any portfolio growth factor that the Committee on Finance recommends to the Board of Trustees, while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 7.5 percent annually. 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 fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

Commonwealth of Pennsylvania law permits the College to allocate to income each year a portion of endowment net realized gains. Pennsylvania legislation was enacted which limited the amount that may be spent to a minimum of 2.0 percent, and a maximum of 7.0 percent of a three-year moving average of the market value of the endowed assets. Since endowment net realized and unrealized gains may eventually be expended by the College, donor endowment net realized and unrealized gains are recorded in the financial statements as net assets with restrictions until transferred to unrestricted net assets. For the years ended June 30, 2019 and 2018, the College's spending policy was 5.0 percent of the 12-quarter average fair market value of the donor endowed assets calculated as of the prior June 30. Based upon this formula, total distributed income on donor-restricted funds for the years ended June 30, 2019 and 2018 amounted to \$1,848,534 and \$1,718,474, respectively.

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

Changes in endowment net assets for the years ended June 30, 2019 and 2018:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Restricted, Time and Purpose	Restricted, in Perpetuity	
Endowment net assets, July 1, 2018	\$ 96,345,662	\$ 8,987,330	\$ 32,989,965	\$ 138,322,957
Investment return:				
Dividends and interest, net of expense	3,007,555	1,341,658	-	4,349,213
Net realized and unrealized gains	635,407	672,080	-	1,307,487
Total investment return	3,642,962	2,013,738	-	5,656,700
Contributions	-	-	1,882,261	1,882,261
Other changes:				
Transfers	224,530	(299,737)	31,157	(44,050)
Endowment spending	(5,516,402)	(1,848,534)	-	(7,364,936)
Total other changes	(5,291,872)	(2,148,271)	31,157	(7,408,986)
Endowment net assets, June 30, 2019	<u>\$ 94,696,752</u>	<u>\$ 8,852,797</u>	<u>\$ 34,903,383</u>	<u>\$ 138,452,932</u>
	2018			
Endowment net assets, July 1, 2017	\$ 95,277,997	\$ 7,971,732	\$ 31,284,080	\$ 134,533,809
Investment return:				
Dividends and interest, net of expense	2,858,074	1,203,970	-	4,062,044
Net realized and unrealized gains	3,549,077	1,852,357	-	5,401,434
Total investment return	6,407,151	3,056,327	-	9,463,478
Contributions	-	-	1,672,470	1,672,470
Other changes:				
Transfers	127,061	(261,710)	33,415	(101,234)
Reclassification of underwater endowment net assets	60,545	(60,545)	-	-
Endowment spending	(5,527,092)	(1,718,474)	-	(7,245,566)
Total other changes	(5,339,486)	(2,040,729)	33,415	(7,346,800)
Endowment net assets, June 30, 2018	<u>\$ 96,345,662</u>	<u>\$ 8,987,330</u>	<u>\$ 32,989,965</u>	<u>\$ 138,322,957</u>

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of perpetual duration (i.e., underwater endowments). In accordance with ASU No. 2016-14, underwater funds reported in net assets with donor restrictions were \$24,538. Amounts previously recognized in net assets without donor restrictions have been restated for the earliest period presented.

	2019				
	Without Donor Restrictions	With Donor Restrictions			Total Funds June 30, 2019
		Original Gift	Accumulated Gains (Losses)	Total	
Board-designated funds	\$ 94,696,752	\$ -	\$ -	\$ -	\$ 94,696,752
Donor-restricted funds:					
Underwater fund	-	1,513,393	(24,538)	1,488,855	1,488,855
Other funds	-	33,614,378	8,652,947	42,267,325	42,267,325
Total endowment funds	\$ 94,696,752	\$ 35,127,771	\$ 8,628,409	\$ 43,756,180	\$ 138,452,932

	2018				
	Without Donor Restrictions	With Donor Restrictions			Total Funds June 30, 2018
		Original Gift	Accumulated Gains (Losses)	Total	
Board-designated funds	\$ 96,345,662	\$ -	\$ -	\$ -	\$ 96,345,662
Donor-restricted funds:					
Underwater fund	-	917,951	(18,293)	899,658	899,658
Other funds	-	32,314,777	8,762,860	41,077,637	41,077,637
Total endowment funds	\$ 96,345,662	\$ 33,232,728	\$ 8,744,567	\$ 41,977,295	\$ 138,322,957

13. Net Assets

Net assets without donor restrictions included the following as of June 30:

	2019	2018
Unrestricted promises to give	\$ 464,781	\$ 636,800
Annuity funds	498,073	483,863
Loan funds	837,086	837,086
Funds designated for long-term investment in endowment	94,696,752	96,345,662
Net investment in property and equipment	48,542,227	56,022,908
Designated and other funds available for operations	40,504,716	37,986,084
	\$ 185,543,635	\$ 192,312,403

Messiah College

Notes to Financial Statements
June 30, 2019 and 2018

Net assets with donor restrictions, time and purpose included the following as of June 30:

	<u>2019</u>	<u>2018</u>
Unspent balances of restricted gifts:		
The Boyer Center	\$ 37,272	\$ 37,272
School Enrichment	68,882	87,747
Collaboratory (endowment designation)	135,204	135,255
Gender studies (endowment designation)	89,185	89,215
Scholarships and other student assistance	168,284	225,995
Collaboratory (foundation-funded and other sources)	376,235	370,595
Athletic teams	186,468	262,347
Investment Club activities	351,212	323,018
Early Clergy Leadership and Youth Theology	291,890	453,317
Other	839,107	437,406
Net annuities	382,824	372,589
Capital projects	7,211,164	7,195,689
Market appreciation of donor endowment	8,628,408	8,762,860
	<u>\$ 18,766,135</u>	<u>\$ 18,753,305</u>

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by the donors.

Net assets with donor restriction to be held in perpetuity are restricted as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Investments to be held in perpetuity, the income from which is expendable to support:		
Scholarships and awards	\$ 26,938,548	\$ 25,527,312
Faculty chairs	933,687	933,687
Instruction	44,810	44,570
Faculty development	512,493	512,493
Campus ministries	204,372	202,872
General operations and other purposes	5,763,967	5,641,437
	<u>34,397,877</u>	<u>32,862,371</u>
Total principal of donor endowment	34,397,877	32,862,371
Net annuities held in perpetuity	1,781,309	1,693,350
Beneficial interest in perpetual trusts	3,956,904	3,977,900
Pledges and bequests (endowment designation)	505,506	127,594
	<u>\$ 40,641,596</u>	<u>\$ 38,661,215</u>

The income received from net annuities held in perpetuity and perpetual trusts are primarily restricted for scholarships and instruction.

Messiah College

Notes to Financial Statements

June 30, 2019 and 2018

14. Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the College. These expenses include depreciation and amortization, interest, information technology support and facilities operations and maintenance. Depreciation and operations and maintenance are allocated based on usage of square footage and interest is allocated based on usage of bond proceeds. Costs of other categories were allocated on estimates of time and effort.

	2019							Total
	Educational Programs Services					Supporting Services, Institutional Support	Physical Plant	
	Instructional	Academic Support	Student Services	Public Service	Auxiliary Enterprises			
Compensation and benefits	\$ 26,776,647	\$ 4,818,814	\$ 10,190,047	\$ 1,437,499	\$ 3,302,360	\$ 11,257,007	\$ 5,291,043	\$ 63,073,417
Services and supplies	4,085,558	2,768,495	4,742,038	983,982	(489,720)	2,213,066	2,028,518	16,331,937
Depreciation and amortization	1,086,803	860,135	2,008,498	25,779	305,019	520,024	7,410,362	12,216,620
Purchases for resale	170,049	162	11,171	2,780	3,553,781	97,513	-	3,835,456
Utilities	860	85,398	2,750	10,383	-	202,761	2,778,522	3,080,674
Insurance, maintenance and supplies	153,169	(304,103)	592,208	23,698	1,122,367	(591,142)	1,413,099	2,409,296
Interest	1,061,877	22,500	588,898	-	112	-	298,360	1,971,747
Other physical plant	5,785,191	1,133,974	3,075,184	288,299	8,283,778	653,478	(19,219,904)	-
	<u>\$ 39,120,154</u>	<u>\$ 9,385,375</u>	<u>\$ 21,210,794</u>	<u>\$ 2,772,420</u>	<u>\$ 16,077,697</u>	<u>\$ 14,352,707</u>	<u>\$ -</u>	<u>\$ 102,919,147</u>

15. Contingencies and Commitments

The College is involved in various claims and litigation arising out of the normal conduct of its operations. In the opinion of management, the outcome of such claims and litigation will not have a material effect on the College's financial statements.

Amounts received and expended by the College under various federal and state programs (principally related to student financial aid) are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position or result of activities of the College.

The College leases real estate for educational, office, and residential purposes under the terms of non-cancelable agreements classified as operating leases. During the year, the College began subleasing a portion of the space. Future minimum lease payments and anticipated sublease receipts for subsequent fiscal years are as follows:

2020	\$ 821,897
2021	838,954
2022	856,905
2023	598,321
2024	585,206
Thereafter	<u>2,406,488</u>
Total	<u>\$ 6,107,771</u>

Rent expense for the years ended June 30, 2019 and 2018 amounted to \$1,120,636 and \$1,141,189, respectively.

Messiah College

Notes to Financial Statements

June 30, 2019 and 2018

The College executed a Guaranty Agreement dated October 1, 2018, pursuant to which the College guaranteed the payment of debt service with respect to \$57,490,000 of Cumberland County Industrial Development Authority (Commonwealth of Pennsylvania) Taxable Revenue Bonds (Rider Musser Development, LLC Project), Series 2018 (the "2018 Taxable Revenue Bonds"). The guarantee only secures the debt service obligations with respect to the 2018 Taxable Revenue Bonds and does not secure Rider Musser Development, LLC's obligations with respect to any additional bonds or indebtedness. The guarantee is an unsecured general obligation of the College.

16. Income Taxes

The College qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes.

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

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