

Messiah University

Financial Statements

June 30, 2020 and 2019

Messiah University

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Independent Auditors' Report

To the Board of Trustees of
Messiah University

Report on the Financial Statements

We have audited the accompanying financial statements of Messiah University (the University), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 University as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Williamsport, Pennsylvania
October 23, 2020

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Messiah University

Statements of Financial Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 9,510,874	\$ 5,616,513
Notes and accounts receivable, net	3,126,886	3,036,764
Promises to give, net	6,171,138	6,885,269
Interest receivable	132,253	163,992
Inventories	595,205	579,384
Prepaid expenses and other assets	494,605	1,503,138
Investments, endowment	129,832,547	137,833,984
Investments, gift annuities and trusts	6,960,602	6,906,627
Investments, other	7,348,997	10,333,260
Loans receivable, students	2,090,509	2,449,333
Deposits with trustee under debt agreements, restricted	156	231,528
Beneficial interest in perpetual trusts	3,871,156	3,956,904
Property and equipment, net	152,206,286	151,263,698
	<u>\$ 322,341,214</u>	<u>\$ 330,760,394</u>
Total assets		
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 10,274,830	\$ 6,359,998
Student deposits	2,667,935	1,344,959
Funds held in custody for others	60,785	76,263
Deferred revenue	1,341,806	1,655,388
Annuities payable	3,779,761	3,861,112
Funds held in trust for others	389,244	303,414
Long-term debt	64,330,488	66,576,964
U.S. government grants refundable	1,879,652	2,534,749
Other liabilities	3,203,701	3,096,181
	<u>87,928,202</u>	<u>85,809,028</u>
Total liabilities		
Net Assets		
Without donor restrictions	<u>178,043,091</u>	<u>185,543,635</u>
With donor restrictions:		
Restricted, time and purpose	14,859,887	18,766,135
Restricted, in perpetuity	41,510,034	40,641,596
	<u>56,369,921</u>	<u>59,407,731</u>
Total net assets with donor restrictions		
Total net assets	<u>234,413,012</u>	<u>244,951,366</u>
Total liabilities and net assets	<u>\$ 322,341,214</u>	<u>\$ 330,760,394</u>

See notes to financial statements

Messiah UniversityStatement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions		Subtotal With Donor Restrictions	Total
		Restricted, Time and Purpose	Restricted, in Perpetuity		
Operating Revenues					
Net tuition and fees	\$ 60,883,289	\$ -	\$ -	\$ -	\$ 60,883,289
Government grants and appropriations	2,452,892	2,889	-	2,889	2,455,781
Gifts and grants	881,738	901,627	-	901,627	1,783,365
Capital gifts and grants	-	2,792,101	-	2,792,101	2,792,101
Endowment return designated for operations	5,490,665	2,004,048	-	2,004,048	7,494,713
Investment income	580,229	13,882	-	13,882	594,111
Other sources	3,047,913	56,061	-	56,061	3,103,974
Auxiliary enterprises	17,761,625	-	-	-	17,761,625
Net assets released from restrictions	3,177,873	(3,177,873)	-	(3,177,873)	-
Net assets released from restrictions, capital	4,590,548	(4,590,548)	-	(4,590,548)	-
Total operating revenues	98,866,772	(1,997,813)	-	(1,997,813)	96,868,959
Operating Expenses					
Educational program services:					
Instructional	36,920,344	-	-	-	36,920,344
Academic support	9,089,314	-	-	-	9,089,314
Student services	21,100,599	-	-	-	21,100,599
Public service	1,908,792	-	-	-	1,908,792
Auxiliary enterprises	14,528,666	-	-	-	14,528,666
Supporting services, institutional support	15,971,897	-	-	-	15,971,897
Total operating expenses	99,519,612	-	-	-	99,519,612
Changes in net assets from operating activities	(652,840)	(1,997,813)	-	(1,997,813)	(2,650,653)
Nonoperating Revenues, Expenses and Other Changes					
Endowment and life income gifts	9,833	205,775	1,062,128	1,267,903	1,277,736
Endowment investment return, net of amount designated for operations	(6,826,858)	(2,205,158)	-	(2,205,158)	(9,032,016)
Change in value of beneficial interest in perpetual trusts	-	-	(85,748)	(85,748)	(85,748)
Investment return for trusts and gift annuities	36,913	376,849	(66,186)	310,663	347,576
Change in value of split-interest agreements	(67,592)	(285,901)	(41,756)	(327,657)	(395,249)
Total nonoperating revenues, expenses and other changes	(6,847,704)	(1,908,435)	868,438	(1,039,997)	(7,887,701)
Changes in net assets	(7,500,544)	(3,906,248)	868,438	(3,037,810)	(10,538,354)
Net Assets, Beginning	<u>185,543,635</u>	<u>18,766,135</u>	<u>40,641,596</u>	<u>59,407,731</u>	<u>244,951,366</u>
Net Assets, Ending	<u>\$ 178,043,091</u>	<u>\$ 14,859,887</u>	<u>\$ 41,510,034</u>	<u>\$ 56,369,921</u>	<u>\$ 234,413,012</u>

See notes to financial statements

Messiah University

Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions			Total
		Restricted, Time and Purpose	Restricted, in Perpetuity	Subtotal With Donor Restrictions	
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 University

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Changes in net assets	\$ (10,538,354)	\$ (4,775,557)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	12,029,958	12,197,487
Accretion	107,520	101,413
Amortization of bond premium (discount) and issuance costs, net	(116,476)	(116,607)
Net realized and unrealized losses (gains) on investments	5,887,462	(468,471)
(Gain) loss on sale of property and equipment	(3,850)	17,317
Contributions for long-term purposes	(4,876,410)	(1,989,185)
(Increase) decrease in operating assets:		
Notes and accounts receivable	(90,122)	(801,561)
Promises to give	714,131	503,194
Inventories	(15,821)	(5,433)
Other assets	1,138,178	(568,792)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	405,663	(2,589,283)
Funds held in custody for others	(15,478)	9,776
Student deposits	1,322,976	(137,956)
Deferred revenue	(313,582)	175,559
Funds held in trust for others	85,830	(732)
Net cash provided by operating activities	<u>5,721,625</u>	<u>1,551,169</u>
Cash Flows From Investing Activities		
Purchases of investments	(96,030,911)	(70,504,417)
Proceeds from sale of investments	101,160,922	68,332,915
Purchase of property and equipment	(9,463,377)	(6,997,595)
Student loan principal payments received	469,118	596,390
Disbursements for loans to students	(110,294)	(136,212)
Proceeds from sale of property and equipment	<u>3,850</u>	<u>82,598</u>
Net cash used in investing activities	<u>(3,970,692)</u>	<u>(8,626,321)</u>
Cash Flows From Financing Activities		
Contributions for long-term purposes	4,778,504	2,367,098
Principal payments on long-term debt	(2,130,000)	(2,050,000)
Decrease in annuities payable	(81,351)	(31,009)
(Decrease) increase in U.S. government grants refundable	<u>(655,097)</u>	<u>30,799</u>
Net cash provided by financing activities	<u>1,912,056</u>	<u>316,888</u>
Net increase (decrease) in cash and cash equivalents and deposits with trustee under debt agreements	3,662,989	(6,758,264)
Cash and Cash Equivalents and Deposits With Trustee Under Debt Agreements, Restricted, Beginning	<u>5,848,041</u>	<u>12,606,305</u>
Cash and Cash Equivalents and Deposits With Trustee Under Debt Agreements, Restricted, Ending	<u>\$ 9,511,030</u>	<u>\$ 5,848,041</u>
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest (excluding capitalized interest of \$0 and \$188,000 in 2020 and 2019)	<u>\$ 2,133,050</u>	<u>\$ 1,958,842</u>
Supplementary Disclosure of Noncash Investing Activities		
Property and equipment in accounts payable	<u>\$ 3,509,169</u>	<u>\$ 207,072</u>

See notes to financial statements

Messiah University

Notes to Financial Statements
June 30, 2020 and 2019

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Effective July 1, 2020, Messiah College became Messiah University. This name change was approved by the Board of Trustees and reflects a comprehensive mix of undergraduate and graduate programs—including expansion in recent years to master's and doctoral programs. University status more clearly communicates Messiah's national visibility; top-tier facilities; and breadth of student academic, research and off-campus programs, including international study, service and internship and career opportunities. University is a term more readily understood outside of the U.S., which supports efforts to recruit international students and develop global partnerships.

Basis of Presentation

These financial statements present financial information showing the financial position, the activities and the cash flows of the University 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 University. Generally, the donors of these assets permit the University 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 the passage of time. The expiration of time or purpose restrictions on net assets is reported in the statements of activities as net assets released from restrictions. Contributions with time and purpose restrictions and endowment income whose restrictions are not met in the same period as received or earned are reported as increases in net assets with donor 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 University acts only as custodian and disbursing agent.

Title IV Requirements

The University 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, 2020 and 2019, are dependent upon the University's continued participation in the Title IV programs.

Messiah University

Notes to Financial Statements
June 30, 2020 and 2019

Cash and Cash Equivalents

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

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 University'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 University by the federal government under the Perkins and Nursing Student Loan Programs (the Programs). Such funds may be re-loaned by the University 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 University 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 University 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, 2020 and 2019 was \$1,879,652 and \$2,534,749, respectively.

Contributions

Unconditional promises to give (pledges) are recorded as receivables and revenues and the University 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 revenues 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 (capital) 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, Messiah Press, postage and facilities supplies.

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, 2020 and 2019 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 (GAAP), the University does not generally capitalize its museum and art collections. The University's intention is to preserve the archives and use them as a resource for students of the University.

Impairment of Long-Lived Assets

Management of the University reviews long-lived assets (including property and equipment and other assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management considers the undiscounted cash flow expected to be generated by the use of the asset and its eventual disposition to determine when, and if, an impairment has occurred. An impairment loss is recognized to the extent that the carrying value of assets exceeds their fair value. Write-downs due to impairment are charged to operations at the time a material impairment is identified. No such write-downs were required in 2020 and 2019.

Annuity and Trust Funds

The University has entered into split-interest agreements with donors primarily consisting of charitable gift annuities and charitable trusts. Assets for which the University 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 University 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 \$109,833 and \$116,835 for the years ended June 30, 2020 and 2019, respectively.

Messiah University

Notes to Financial Statements

June 30, 2020 and 2019

The University is also a beneficiary of certain perpetual trusts held and administered by others. Under the terms of the trust agreements, the University 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 University pricing schedules. Institutional financial aid and discounts provided by the University 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 University awards grants-in-aid and scholarships to individuals who meet the University'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 University'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 University is unconditionally entitled; the University considers such amounts as unconditional based on the payment due date.

Student-related deferred revenue for billed services not yet performed totaled approximately \$1,271,000 at June 30, 2020 and consists primarily of amounts related to 2020 summer sessions. The University's student deposits includes amounts collected but not yet earned of approximately \$2,668,000. These amounts will be recognized as revenue in fiscal 2021 as academic services are provided. 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 University's student deposits includes amounts collected but not yet earned of approximately \$1,345,000. These amounts were recognized in full as revenue in 2020.

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

From time to time the University receives private grants and contracts that are exchange (reciprocal) transactions. 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 University'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 15.

Fundraising Costs

The University expenses fundraising costs when incurred. Fundraising costs were approximately \$1,729,000 and \$2,038,000 for the years ended June 30, 2020 and 2019, respectively, and are included in institutional support in the statements of activities.

Use of Estimates

The preparation of the financial statements in conformity with GAAP 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 University evaluated subsequent events for recognition or disclosure through October 23, 2020, the date the financial statements were issued.

Future Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 statement of financial position. 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. In June 2020, FASB issued ASU No. 2020-05 delaying implementation 2016-02 until fiscal year 2023. The University is currently assessing the effect that ASU No. 2016-02 will have on its financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU No. 2020-07). 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. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021. Early adoption is permitted. The University is currently assessing the effect that ASU No. 2020-07 will have on its financial statements.

2. Coronavirus Disease (COVID-19) and Emergency Relief Funding

In January 2020, an outbreak of a new strain of the coronavirus disease, COVID-19, was identified. The World Health Organization declared COVID-19 a public health emergency on March 11, 2020. Currently, no vaccine has been made available to the public. In response, various governmental agencies have mandated stricter procedures to address the health and safety of both employees and patrons including, in certain cases, requiring the closure of operations. In mid-March 2020, students, staff and faculty were transitioned to remote operations. For the fiscal year ended June 30, 2020, the COVID-19 outbreak has had an adverse impact on the University's operations. While the University has resumed in-person instruction for the fall 2020 semester, the extent of the impact of COVID-19 on the University's operational and financial performance will depend on the developments of COVID-19, including the duration and spread of the outbreak, development of a vaccine, impact on students, employees and vendors, all of which are uncertain and cannot be reasonably predicted at the current time. The Board of Trustees and the University's management are monitoring the outbreak and potential financial impact, which are currently uncertain. The duration and intensity of the impact of COVID-19 and resulting disruption to the University's operations are uncertain and could adversely affect future financial results.

As a result of closing the on campus operations in mid-March 2020, the University issued a combination of refunds and student account credits to be used on charges in future semesters for dining totaling \$713,878 and for housing of \$2,277,570. Refunds and credits issued reduced the amount of auxiliary enterprise revenue recognized in the statement of activities for the year ended June 30, 2020. The University also implemented a number of internal cost saving measures to address the negative financial impact of COVID-19. These measures included a spending freeze on capital and operating expenditures, and temporary employee furloughs and other compensation adjustments.

As a response to COVID-19, the Coronavirus Aid, Relief and Economics Security (CARES) Act was established and provided budgetary relief to higher education institutions. Congress set aside approximately \$14.25 billion of the \$30.75 billion allotted to the Education Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF). Each institution received one grant comprised of two parts. Under the legislation, no less than 50 percent of the full grant was to be used for direct emergency aid to students. The remaining portion of the full grant was to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Institutions were given one calendar year from the date of award in their HEERF Grant Award Notification to complete the performance of their HEERF grant.

The University was allocated \$2,106,740 of HEERF funding on April 20, 2020. Institutions may recognize the institutional portion of the grant to the extent the grant was expended on student relief. As of June 30, 2020, \$1,053,370 of the student relief portion of the grant was expended and recognized as government grants and appropriations income and student aid expense. The University also chose to use the institutional portion on direct emergency aid to students and as of June 30, 2020 \$549,777 of the institutional portion of the grant was expended and recognized as government grants and appropriations income and student aid expense. As restrictions were met in the same period, these grants were reported as changes in net assets without donor restrictions.

3. Cash and Cash Equivalents

The University maintains cash balances in high credit financial institutions in excess of the federally insured limit under the FDIC. The exposure of the University to uninsured balances as of June 30, 2020 and 2019 was approximately \$8,913,000 and \$4,360,000, respectively. Historically, the University has not experienced any losses and management believes it is not exposed to any significant credit risk.

Messiah University

Notes to Financial Statements
June 30, 2020 and 2019

4. Notes and Accounts Receivable, Net

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

	<u>2020</u>	<u>2019</u>
Student balances	\$ 2,125,991	\$ 2,391,442
Student income share agreements	525,690	217,800
Employees and faculty	144,603	160,685
University related organizations	21,251	21,670
Federal and state agencies	1,040,364	970,760
Other unrelated individuals, companies and organizations	368,987	546,407
	<hr/>	<hr/>
Subtotal	4,226,886	4,308,764
Allowance for doubtful accounts	(1,100,000)	(1,272,000)
	<hr/>	<hr/>
Notes and accounts receivable, net	<u>\$ 3,126,886</u>	<u>\$ 3,036,764</u>

5. Promises to Give, Net

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

	<u>2020</u>	<u>2019</u>
Capital campaign	\$ 5,483,222	\$ 6,060,265
Endowed scholarships	422,050	540,694
Other promises to give	539,200	766,313
	<hr/>	<hr/>
Unconditional promises to give, before unamortized discount	6,444,472	7,367,272
Unamortized discount	(273,334)	(482,003)
	<hr/>	<hr/>
Present value of pledges receivable	<u>\$ 6,171,138</u>	<u>\$ 6,885,269</u>
Amounts due in:		
Less than one year	\$ 3,316,670	\$ 2,297,869
One to five years	3,127,802	5,010,019
More than five years	-	59,384
	<hr/>	<hr/>
Total	<u>\$ 6,444,472</u>	<u>\$ 7,367,272</u>

Discount rates ranged from 0.29 percent to 2.73 percent for the years ended June 30, 2020 and 2019, respectively.

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 University considers the entire amount to be collectible.

Messiah University

Notes to Financial Statements
June 30, 2020 and 2019

6. Investments, Fair Value Measurements and Other Financial Instruments

Investments consist of the following as of June 30:

	2020			
	Endowment	Gift Annuities and Trusts	Other	Total
Money market accounts	\$ 6,004,276	\$ 49,972	\$ 1,298	\$ 6,055,546
Equity funds and common stocks	36,849,309	3,965,331	2,372,004	43,186,644
Fixed income	61,712,455	1,825,299	4,859,417	68,397,171
Private equity and venture capital	7,328,878	-	-	7,328,878
Accrued net income receivable	820,819	-	19,278	840,097
Local real estate development company, including real estate	16,887,875	-	-	16,887,875
Real asset based funds	228,935	-	-	228,935
Real assets, held in trust and other	-	1,120,000	97,000	1,217,000
Total investments	129,832,547	\$ 6,960,602	\$ 7,348,997	\$ 144,142,146
Other nonunitized assets	97,000			
Total	\$ 129,929,547			

	2019			
	Endowment	Gift Annuities and Trusts	Other	Total
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
Total investments	137,833,984	\$ 6,906,627	\$ 10,333,260	\$ 155,073,871
Cash due from operating fund	16,441			
Other nonunitized assets	97,000			
Total	\$ 137,947,425			

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.

Messiah University

Notes to Financial Statements
June 30, 2020 and 2019

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

	2020			
	Total Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value				
Money market accounts	\$ 6,055,546	\$ 6,055,546	\$ -	\$ -
Equity funds and common stocks:				
Domestic	35,694,757	35,694,757	-	-
International	5,196,206	5,196,206	-	-
Emerging markets	377,591	377,591	-	-
Other	1,918,090	1,918,090	-	-
Total equity funds and common stocks	43,186,644	43,186,644	-	-
Fixed income:				
Intermediate term bond mutual funds	59,075,838	59,075,838	-	-
Global fixed income	1,055,193	1,055,193	-	-
Inflation-protected bond mutual funds	218,322	218,322	-	-
Fixed, high yield	337,302	337,302	-	-
Bond fund (including convertibles and other)	7,710,516	-	7,710,516	-
Total fixed income	68,397,171	60,686,655	7,710,516	-
Accrued net income receivable	840,097	790,097	50,000	-
Real assets, held in trust and other (a)	1,217,000	-	-	1,217,000
Subtotal	119,696,458	110,718,942	7,760,516	1,217,000
Alternative investments measured at net asset value:				
Private equity and venture capital	7,328,878			
Real asset, based funds	228,935			
Total investments and assets held in trust (b)	127,254,271	110,718,942	7,760,516	1,217,000
Deposits with trustee under debt agreements	156	156	-	-
Beneficial interest in perpetual trusts	3,871,156	-	-	3,871,156
	<u>\$ 131,125,583</u>	<u>\$ 110,719,098</u>	<u>\$ 7,760,516</u>	<u>\$ 5,088,156</u>

Messiah University

Notes to Financial Statements
June 30, 2020 and 2019

	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 (b)	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>

(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 nonrecurring fair value measurement.

- (b) Investments also include member interests in a local real estate development company, totaling \$16,887,875 and \$17,859,640 at June 30, 2020 and 2019, respectively, (including real estate). The University is the sole member of this corporation, which has an independent board. Activity for the current year included capital contributions of approximately \$860,000 by the University to the real estate development company for purchase of adjacent property and completion of construction and leasing of units in both phase 1A and 1B of the rental properties. Activity for the prior year included capital contributions of approximately \$6,300,000 by the University to the real estate development company, construction and securing financing debt. The University reports its investment in the real estate development company using the equity method. In fiscal 2019, the real estate development company obtained taxable bonds to fund its construction projects, with a guarantee from the University to make principal and interest payments, if necessary, through the final maturity of the bonds. The outstanding principal bond balance is \$57,490,000 as of June 30, 2020. The University has not made any principal payments to date.

Valuation Methodologies

Level 1 - Fair value of money market accounts, 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 University'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 University's proportionate share of the net asset values of funds held in trust by others as of June 30, 2020 and 2019 were \$3,871,156 and \$3,956,904, 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 University 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 University'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, 2020, the University has committed \$14,080,000 to these funds, of which \$1,339,974 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, 2020, the University has committed \$1,000,000 to the funds, of which \$180,000 remains unfunded.

Messiah University

Notes to Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019, for Level 3 assets with recurring fair value measurements, is as follows:

	Beneficial Interest in Perpetual Trusts
July 1, 2018	\$ 3,977,900
Distributions	(178,014)
Unrealized gains	<u>157,018</u>
June 30, 2019	3,956,904
Distributions	(138,368)
Unrealized gains	<u>52,620</u>
June 30, 2020	<u><u>\$ 3,871,156</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:

	2020			
	Without Donor Restrictions	With Donor Restrictions		Total
		Restricted, Time and Purpose	Restricted, in Perpetuity	
Dividends and interest, net of expense	\$ 3,719,112	\$ 1,407,943	\$ 79,043	\$ 5,206,098
Net realized and unrealized losses	<u>(4,438,163)</u>	<u>(1,218,322)</u>	<u>(230,977)</u>	<u>(5,887,462)</u>
Total return on investments	<u><u>\$ (719,051)</u></u>	<u><u>\$ 189,621</u></u>	<u><u>\$ (151,934)</u></u>	<u><u>\$ (681,364)</u></u>
Operating investment income:				
Endowment return designated for operations	\$ 5,490,665	\$ 2,004,048	\$ -	\$ 7,494,713
Investment income	580,229	13,882	-	594,111
Nonoperating investment income:				
Endowment investment return, net of amount designated for operations	(6,826,858)	(2,205,158)	-	(9,032,016)
Change in value of beneficial interest in perpetual trusts	-	-	(85,748)	(85,748)
Investment return for trusts and gift annuities	<u>36,913</u>	<u>376,849</u>	<u>(66,186)</u>	<u>347,576</u>
Total return on investments	<u><u>\$ (719,051)</u></u>	<u><u>\$ 189,621</u></u>	<u><u>\$ (151,934)</u></u>	<u><u>\$ (681,364)</u></u>

Messiah University

Notes to Financial Statements
June 30, 2020 and 2019

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		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)	(263,444)	656,512	75,403	468,471
Total return on investments	<u>\$ 3,656,818</u>	<u>\$ 2,079,849</u>	<u>\$ 86,290</u>	<u>\$ 5,822,957</u>
Operating investment income:				
Endowment return designated for operations	\$ 5,516,402	\$ 1,848,534	\$ -	\$ 7,364,936
Investment (loss) income	(38,646)	29,394	-	(9,252)
Nonoperating investment income:				
Endowment investment return, 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 return for trusts and gift annuities	52,501	36,717	107,286	196,504
Total return on investments	<u>\$ 3,656,818</u>	<u>\$ 2,079,849</u>	<u>\$ 86,290</u>	<u>\$ 5,822,957</u>

7. Property and Equipment, Net

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

	2020			
	Useful Lives	Acquired Value	Less Accumulated Depreciation	Net Book Value
Land		\$ 2,773,740	\$ -	\$ 2,773,740
Improvements	20 years	19,621,834	14,215,503	5,406,331
Buildings	10 - 40 years	251,730,537	130,425,746	121,304,791
Leasehold improvements	5 - 12 years	2,829,397	741,035	2,088,362
Equipment	4 - 20 years	81,191,014	71,859,088	9,331,926
Construction in progress		11,301,136	-	11,301,136
		<u>\$ 369,447,658</u>	<u>\$ 217,241,372</u>	<u>\$ 152,206,286</u>

Messiah University

Notes to Financial Statements
June 30, 2020 and 2019

	2019			
	Useful Lives	Acquired Value	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>

Depreciation expense totaled \$12,029,958 and \$12,197,487 for the years ended June 30, 2020 and 2019, respectively.

8. Accounts Payable and Accrued Expenses

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

	2020	2019
Accounts payable	\$ 1,145,997	\$ 1,892,951
Construction payable	3,509,169	207,072
Accrued salaries and benefits	5,048,632	3,731,606
Other	571,032	528,369
Total	<u>\$ 10,274,830</u>	<u>\$ 6,359,998</u>

9. Lines of Credit

The University has two unsecured lines of credit with a national and a regional bank in the amounts of \$10,000,000 and \$5,000,000, respectively, for the years ended June 30, 2020 and 2019. There were no amounts outstanding under either line of credit as of June 30, 2020 or 2019. Both lines of credit bear interest at 1.65 percent above one-month LIBOR with an interest period duration of one day (3.48 percent at June 30, 2020) and are renewed annually.

Messiah University

Notes to Financial Statements
June 30, 2020 and 2019

10. Long-Term Debt / Subsequent Event

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

	<u>2020</u>	<u>2019</u>
2001 I-3 Messiah College Revenue Bonds	\$ 8,000,000	\$ 8,500,000
2001 I-4 Messiah College Revenue Bonds	13,600,000	13,600,000
2012 Messiah College Revenue Bonds	4,780,000	6,410,000
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	5,500,000	5,500,000
Total	64,420,000	66,550,000
Unamortized (discount) premium and issuance costs on bonds payable, net	<u>(89,512)</u>	<u>26,964</u>
	<u>\$ 64,330,488</u>	<u>\$ 66,576,964</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 University 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 University's unrestricted revenues and the loan agreement between the University 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 University 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 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 \$19,659 and \$21,394 as of June 30, 2020 and 2019, 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 University's unrestricted revenues and the loan agreement between the University 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 \$315,354 and \$450,506 as of June 30, 2020 and 2019, respectively.

Messiah University

Notes to Financial Statements

June 30, 2020 and 2019

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 April 29, 2020, the bonds were remarketed at a two-year term mode with an interest rate of 3.75 percent through April 30, 2022. The University, 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 University's unrestricted revenues and the loan agreement between the University 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 \$107,083 and \$111,576 as of June 30, 2020 and 2019, 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 University's unrestricted revenues and the loan agreement between the University 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 \$343,124 and \$356,849 as of June 30, 2020 and 2019, 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 University's unrestricted revenues and the loan agreement between the University 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 \$558,913 and \$581,256 as of June 30, 2020 and 2019, 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 University's unrestricted revenues and the loan agreement between the University 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 \$409,747 and \$424,381 as of June 30, 2020 and 2019, respectively.

Messiah University

Notes to Financial Statements

June 30, 2020 and 2019

The approximate aggregate amount of principal maturities of debt outstanding as of June 30, 2020 for the five subsequent fiscal years follows:

2021	\$ 2,220,000
2022	2,310,000
2023	1,850,000
2024	1,900,000
2025	2,000,000
Thereafter	<u>54,140,000</u>
Total	<u>\$ 64,420,000</u>

Interest expense on long-term debt was \$2,133,050 in 2020 and \$1,971,747 in 2019, net of capitalized interest of \$0 and \$188,000, respectively.

Subsequent to year-end, on July 30, 2020, the University issued its \$7,415,000 Revenue Bonds (AICUP Financing Program - Messiah University Project), Series 2020 SS2, and its \$22,845,000 Federally Taxable Revenue Refunding Bonds (AICUP Financing Program - Messiah University Project) Series 2020 SS3, through the Cumberland County Municipal Authority. The proceeds of the SS2 bonds will be used to refinance, in part, a new Welcome and Admissions building, miscellaneous capital expenditures on campus, and the current refunding of a portion of the 2012 Revenue Bonds. The proceeds from the SS3 bonds will be used, together with other available funds, to advance refund the 2001 Revenue Bonds and to pay the costs of issuance. The Series 2020 SS2 Revenue Bonds have an interest rate of 3.25 percent, with the principal maturing in 2050. The Series 2020 SS3 Revenue Bonds have interest rates ranging from 1.57 percent to 3.00 percent, with principal maturing in various amounts from November 1, 2022 through November 1, 2034. The bonds are secured by a lien on the University's unrestricted revenues and the loan agreement between the University and the issuer of the bonds contains a rate covenant.

11. Retirement Plan

The University provides retirement benefits to eligible employees through a defined contribution plan. The University made retirement contributions of \$2,623,503 and \$2,864,492 for the years ended June 30, 2020 and 2019, respectively.

12. Liquidity and Availability of Resources

The following reflects the University'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>2020</u>	<u>2019</u>
Total assets	\$ 322,341,214	\$ 330,760,394
Less nonfinancial assets	<u>(153,296,094)</u>	<u>(153,346,220)</u>
Financial assets, year-end	<u>\$ 169,045,120</u>	<u>\$ 177,414,174</u>

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

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

	<u>2020</u>	<u>2019</u>
Cash and equivalents	\$ 9,510,874	\$ 5,616,513
Accounts receivable, net	3,126,886	3,036,764
Promises to give, net without restriction and due in one year or less	305,000	218,000
Investments other (without donor or Board restrictions)	<u>7,348,997</u>	<u>10,333,260</u>
	20,291,757	19,204,537
Less restricted or designated resources	<u>8,380,125</u>	<u>7,804,374</u>
	11,911,632	11,400,163
Total financial assets available to meet general expenditures over the next 12 months	11,911,632	11,400,163
Bank lines of credit	<u>15,000,000</u>	<u>15,000,000</u>
	\$ 26,911,632	\$ 26,400,163
Total financial assets and liquidity resources	<u><u>\$ 26,911,632</u></u>	<u><u>\$ 26,400,163</u></u>

As of June 30, 2020 and 2019, the University has liquid assets on hand to cover approximately 100 days of operating expenses. The University's practice is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

The University 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 University 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 University invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the University has committed lines of credit in the amount of \$15 million, which it could draw upon. Additionally, the University has a quasi-endowment of \$88.1 million. Although the University 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 13 for disclosures about the endowment).

13. Endowment and Net Assets Released From Restrictions

The University'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 GAAP, 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.

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The Board of Trustees of the University 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 University 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 University 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 University 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 University
- (7) The investment policies of the University

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the 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 University 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 University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

Commonwealth of Pennsylvania law permits the University 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 University, donor endowment net realized and unrealized gains are recorded in the financial statements as net assets with restrictions until transferred to net assets without donor restrictions. For the years ended June 30, 2020 and 2019, the University'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, 2020 and 2019 amounted to \$2,004,048 and \$1,848,534, respectively.

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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 University to retain as a fund of perpetual duration (i.e., underwater endowments). At June 30, 2020 and 2019 underwater funds reported in net assets with donor restrictions were \$463,386 and \$24,538, respectively.

	2020				
	Without Donor Restrictions	With Donor Restrictions			Total Funds June 30, 2020
		Original Gift	Accumulated Gains (Losses)	Total	
Board-designated funds	\$ 88,106,157	\$ -	\$ -	\$ -	\$ 88,106,157
Donor-restricted funds:					
Underwater fund	-	11,610,626	(463,386)	11,147,240	11,147,240
Other funds	-	24,461,369	6,597,153	31,058,522	31,058,522
Total endowment funds	\$ 88,106,157	\$ 36,071,995	\$ 6,133,767	\$ 42,205,762	\$ 130,311,919

	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

14. Net Assets

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

	2020	2019
Unrestricted promises to give	\$ 313,196	\$ 464,781
Annuity funds	476,513	498,073
Loan funds	837,086	837,086
Funds designated for long-term investment in endowment	88,106,157	94,696,752
Net investment in property and equipment	44,553,753	48,542,227
Designated and other funds available for operations	43,756,386	40,504,716
	\$ 178,043,091	\$ 185,543,635

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

	<u>2020</u>	<u>2019</u>
Unspent balances of restricted gifts:		
The Boyer Center	\$ 37,272	\$ 37,272
School Enrichment	73,128	68,882
Collaboratory (endowment designation)	124,418	135,204
Gender studies (endowment designation)	82,067	89,185
Scholarships and other student assistance	239,468	168,284
Collaboratory (foundation-funded and other sources)	380,769	376,235
Athletic teams	352,080	186,468
Investment Club activities	365,093	351,212
Early Clergy Leadership and Youth Theology	197,406	291,890
Other	988,390	839,107
Net annuities	473,311	382,824
Capital projects	5,412,718	7,211,164
Market appreciation of donor endowment	6,133,767	8,628,408
	<u>\$ 14,859,887</u>	<u>\$ 18,766,135</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 restrictions to be held in perpetuity are restricted as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Investments to be held in perpetuity, the income from which is expendable to support:		
Scholarships and awards	\$ 27,876,926	\$ 26,938,548
Faculty chairs	933,687	933,687
Instruction	45,060	44,810
Faculty development	512,518	512,493
Campus ministries	210,372	204,372
General operations and other purposes	5,904,575	5,763,967
	<u>35,483,138</u>	<u>34,397,877</u>
Total principal of donor endowment	35,483,138	34,397,877
Net annuities held in perpetuity	1,773,368	1,781,309
Beneficial interest in perpetual trusts	3,871,156	3,956,904
Pledges and bequests (endowment designation)	382,372	505,506
	<u>\$ 41,510,034</u>	<u>\$ 40,641,596</u>

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

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15. Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the University. 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.

	2020							Total
	Educational Programs Services					Supporting Services, Institutional Support	Physical Plant	
	Instructional	Academic Support	Student Services	Public Service	Auxiliary Enterprises			
Compensation and benefits	\$ 26,719,032	\$ 4,510,174	\$ 9,574,219	\$ 1,238,857	\$ 2,991,713	\$ 12,500,554	\$ 4,542,719	\$ 62,077,268
Services and supplies	2,420,827	2,628,741	5,437,879	345,071	(325,871)	2,301,460	2,099,533	14,907,640
Depreciation and amortization	1,055,298	796,329	2,143,740	24,477	293,027	502,461	7,257,743	12,073,075
Purchases for resale	138,408	736	5,496	(47)	2,671,136	254,907	-	3,070,636
Utilities	407	55,920	1,064	-	20	185,476	2,792,480	3,035,367
Insurance, maintenance and supplies	163,922	8,090	458,017	30,041	900,120	(385,851)	1,048,237	2,222,576
Interest	996,574	25,781	595,998	-	229,243	-	285,454	2,133,050
Other physical plant	5,425,876	1,063,543	2,884,186	270,393	7,769,278	612,890	(18,026,166)	-
	<u>\$ 36,920,344</u>	<u>\$ 9,089,314</u>	<u>\$ 21,100,599</u>	<u>\$ 1,908,792</u>	<u>\$ 14,528,666</u>	<u>\$ 15,971,897</u>	<u>\$ -</u>	<u>\$ 99,519,612</u>
	2019							
	Educational Programs Services					Supporting Services, Institutional Support	Physical Plant	Total
	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>

16. Contingencies and Commitments

The University 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 University's financial statements.

Amounts received and expended by the University 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 University.

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The University leases real estate for educational, office and residential purposes under the terms of noncancelable agreements classified as operating leases. The University subleases a portion of the space. Future minimum lease payments and anticipated sublease receipts for subsequent fiscal years are as follows:

2021	\$	766,454
2022		776,488
2023		595,988
2024		585,206
2025		596,913
Thereafter		<u>1,809,575</u>
Total	\$	<u>5,130,624</u>

Rent expense for the years ended June 30, 2020 and 2019 amounted to \$1,159,036 and \$1,120,636, respectively.

The University executed a Guaranty Agreement dated October 1, 2018, pursuant to which the University 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 University.

17. Income Taxes

The University qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes.

The University accounts for uncertainties in income taxes in accordance with authoritative guidance, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold at June 30, 2020 and 2019.

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