

Swarthmore College
Consolidated Financial Statements
June 30, 2020 and 2019

SWARTHMORE COLLEGE

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Report of Independent Auditors

To the Board of Managers of Swarthmore College

We have audited the accompanying consolidated financial statements of Swarthmore College and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Swarthmore College and its subsidiaries as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers LLP'.

October 6, 2020

SWARTHMORE COLLEGE

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2020 and 2019
(in thousands)

ASSETS	2020	2019
Cash and cash equivalents	\$ 53,841	\$ 25,352
Accounts receivable, net	4,538	1,821
Prepaid expenses and inventories	1,762	2,666
Short term investments	-	15,630
Contributions receivable	18,543	15,010
Student loans receivable, net	214	229
Employee mortgages receivable	8,036	9,694
Assets restricted to investment in property and equipment	25,918	61,816
Property and equipment, net	473,516	443,976
Investments, at fair value		
Endowment	2,103,670	2,131,553
Life income and annuity	40,154	39,641
Other	46,821	37,661
Total assets	\$ 2,777,013	\$ 2,785,049
LIABILITIES		
Accrued compensation	\$ 7,023	\$ 6,940
Payables and other accruals	22,572	23,052
Student deposits	2,563	1,395
Deferred payments and other liabilities	41,721	38,047
Refundable government loan funds	35	105
Bonds payable, net	318,444	331,245
Total liabilities	392,358	400,784
NET ASSETS		
Without donor restrictions	1,020,825	1,028,961
With donor restrictions	1,363,830	1,355,304
Total net assets	2,384,655	2,384,265
Total liabilities and net assets	\$ 2,777,013	\$ 2,785,049

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2020
(in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2020</u>
Operating revenues and other additions			
Net student tuition, fees, room and board	\$ 63,835	\$ -	\$ 63,835
Endowment spending distribution	93,774	3,373	97,147
Other investment income	1,920	-	1,920
Private gifts and grants	7,432	2,017	9,449
Government grants	2,627	-	2,627
Auxiliary activities and other income	8,007	298	8,305
Net assets released from restrictions	5,622	(5,622)	-
Total operating revenues and other additions	183,217	66	183,283
Operating expenses:			
Salaries and wages	83,010	-	83,010
Employee benefits	27,513	-	27,513
Operating expenses	47,759	-	47,759
Depreciation	13,352	-	13,352
Interest expense	9,127	-	9,127
Total operating expenses	180,761	-	180,761
Increase in net assets from operating activities	2,456	66	2,522
Nonoperating activities:			
Net realized and unrealized gain (loss) on investments, net of endowment spending	(6,297)	(15,057)	(21,354)
Gifts and grants	1,179	20,357	21,536
Change in present value of life income funds	-	(1,289)	(1,289)
Maturities of annuity and life income funds	407	(407)	-
Change in other post retirement benefits	(2,170)	-	(2,170)
Other	276	869	1,145
Transfers among net asset classes	(7,627)	7,627	-
Net assets released from restrictions	3,640	(3,640)	-
(Decrease) Increase in net assets from nonoperating activities	(10,592)	8,460	(2,132)
Net (decrease) increase in net assets for the year	(8,136)	8,526	390
Net Assets, June 30, 2019	1,028,961	1,355,304	2,384,265
Net Assets, June 30, 2020	\$ 1,020,825	\$ 1,363,830	\$ 2,384,655

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2019
(in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2019</u>
Operating revenues and other additions			
Net student tuition, fees, room and board	\$ 65,141	\$ -	\$ 65,141
Endowment spending distribution	91,555	3,694	95,249
Other investment income	1,283	-	1,283
Private gifts and grants	6,602	2,534	9,136
Government grants	1,809	-	1,809
Auxiliary activities and other income	10,171	451	10,622
Net assets released from restrictions	<u>5,377</u>	<u>(5,377)</u>	<u>-</u>
Total operating revenues and other additions	<u>181,938</u>	<u>1,302</u>	<u>183,240</u>
Operating expenses:			
Salaries and wages	76,065	-	76,065
Employee benefits	24,933	-	24,933
Operating expenses	57,389	-	57,389
Depreciation	13,035	-	13,035
Interest expense	<u>8,156</u>	<u>-</u>	<u>8,156</u>
Total operating expenses	<u>179,578</u>	<u>-</u>	<u>179,578</u>
Increase in net assets from operating activities	<u>2,360</u>	<u>1,302</u>	<u>3,662</u>
Nonoperating activities:			
Net realized and unrealized gain (loss) on investments, net of endowment spending	10,385	40,879	51,264
Gifts and grants	2,439	3,322	5,761
Change in present value of life income funds	(261)	686	425
Maturities of annuity and life income funds	2,006	(2,006)	-
Change in other post retirement benefits	(23)	-	(23)
Other	2,471	810	3,281
Transfers among net asset classes	4,157	(4,157)	-
Net assets released from restrictions	<u>2,859</u>	<u>(2,859)</u>	<u>-</u>
Increase in net assets from nonoperating activities	<u>24,033</u>	<u>36,675</u>	<u>60,708</u>
Net increase in net assets for the year	<u>26,393</u>	<u>37,977</u>	<u>64,370</u>
Net Assets, June 30, 2018	<u>1,002,568</u>	<u>1,317,327</u>	<u>2,319,895</u>
Net Assets, June 30, 2019	<u>\$ 1,028,961</u>	<u>\$ 1,355,304</u>	<u>\$ 2,384,265</u>

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

STATEMENTS OF CASH FLOWS

for the years ended June 30, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 390	\$ 64,370
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	13,352	13,035
Asset impairment	-	626
Amortization of bond premium	(3,112)	(3,282)
Donor restricted gifts	(14,512)	(4,709)
Receipt of contributed securities	(5,075)	(5,400)
Proceeds of contributed securities	756	2,173
Net unrealized and realized loss (gains) on investments	(72,969)	(145,755)
Change in student loan reserve	31	6
Return of federal loan funds	(70)	-
Changes in operating assets and liabilities		
Change in accounts receivable, contributions receivable, prepaid expenses and inventories	(5,347)	2,439
Change in deferred payments and other liabilities	3,674	1,497
Change in student deposits, payables and accruals	(4,700)	(871)
Net cash used by operating activities	(87,582)	(75,871)
Cash flows from investing activities		
Purchase of property and equipment	(37,482)	(72,152)
Proceeds from sale of investments	1,053,504	1,037,856
Purchase of investments	(946,694)	(921,553)
Student loans and employee mortgages advanced	(266)	(490)
Payments on students loans and employee mortgages	1,970	2,237
Net cash provided by investing activities	71,032	45,898
Cash flows from financing activities		
Donor restricted gifts	14,512	4,709
Proceeds from contributed securities designated for purchase of property and equipment and long-term investment	4,319	3,227
Change in assets restricted to investment in property and equipment	35,898	(59,948)
Proceeds from bonds and notes payable	-	109,942
Payments on bonds and notes payable	(9,690)	(37,095)
Net cash provided by financing activities	45,039	20,835
Change in cash and cash equivalents	28,489	(9,138)
Cash and cash equivalents, beginning of year	25,352	34,490
Cash and cash equivalents, end of year	\$ 53,841	\$ 25,352
Cash paid for interest	\$ 13,504	\$ 10,442
Non-cash capital expenditures in accounts payable	5,471	7,221

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019
(dollars in thousands)

1. Summary of Significant Accounting and Reporting Policies

Reporting Entity

Swarthmore College (the College) is a private, not-for-profit college of liberal arts and engineering located in Swarthmore, Pennsylvania. The College was incorporated in 1864 and founded by the Society of Friends. A Board of Managers governs the College. The College information presented in the consolidated financial statements comprises all the accounts of the College, including its institutes, centers and programs. Intercompany balances and transactions between the College and its subsidiaries have been eliminated in consolidation.

The consolidated financial statements of Swarthmore College include a wholly-owned, for-profit company, Marjay Productions, Inc., which was a bequest from a donor. The purposes of Marjay Productions, Inc. are to hold copyrights of the donor's works and to receive royalties. Its financial operations are immaterial to Swarthmore College as a whole.

The consolidated financial statements of Swarthmore College also include a wholly-owned, for-profit, sole member Pennsylvania Limited Liability Corporation named Parrish LLC. The purpose of Parrish LLC is to operate an inn and restaurant facility in the Borough of Swarthmore, PA. Its financial operations are immaterial to Swarthmore College as a whole.

Basis of Presentation

The College's consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and reporting practices of not-for-profit entities. The statements have been prepared with the adopted principles of the Accounting Standards Codification (ASC) 958, Not-for-Profit Entities, which requires classification of net assets into two categories according to donor-imposed restrictions. The principles require that net assets, revenues, gains, expenses and losses be classified as either net assets without donor imposed restrictions or net assets with donor imposed restrictions.

Net assets without donor restriction

This classification includes all revenues, gains, expenses and losses not restricted by donors. All operating expenses are reported as decreases in net assets without donor restriction since the use of restricted contributions require the release of the restriction. Periodically donor restrictions related to net assets may be clarified or changed; such changes are reflected as fund transfers in the period in which they are identified.

Net assets with donor restrictions

This classification of net assets are subject to donor-imposed restrictions that are either maintained in perpetuity or that will be met either by actions of the College or by the passage of time. Generally, a donor imposed restriction is a stipulation that specifies the use of a contributed assets only for specific purposes. Some donor-imposed restrictions are temporary in nature, including gifts for capital projects or buildings not yet placed in service; annuity and life income gifts and pledges. Other donor-imposed restrictions are perpetual or permanent in nature, such as donor-restricted endowment funds.

Investment gains and losses

The investment gains and losses are reported as increases or decreases without donor restrictions unless their use is restricted by explicit donor stipulation. Appropriation by the College Board of Managers is a requirement for the use of investment income and gains for operations.

Notes to the consolidated financial statements (continued)
(dollars in thousands)

Operating activities

Operating Results in the consolidated statement of activities reflect all transactions increasing or decreasing net assets without donor restrictions except those items associated with long-term investment, capital gifts, changes in postretirement benefit obligations with the exception of service costs, losses on extinguishment of debt, and other nonrecurring transactions.

Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. Significant estimates include the valuation of alternative investments, allowance for doubtful accounts and accrued employee benefits. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents are readily convertible to cash and have an original maturity date of three months or less from the date purchased. Pooled endowment funds contain cash equivalents and short term investments that are held for investment purposes are classified as investments (see Note 3).

Short Term Investments

Short term investments are certificates of deposits with an FDIC insured banking institution that have a maturity date of greater than three months. There were no outstanding certificates of deposit as of June 30, 2020.

Reclassifications

Certain amounts in the 2019 financial disclosures have been reclassified to conform to the 2020 presentation.

New Accounting Pronouncements Adopted

In November 2016, the FASB issued an amendment to the *Topic 230 – Statement of Cash Flows* related to Restricted Cash. This standard provides specific guidance on the treatment of restricted cash on the Statement of Cash Flows. This standard is effective for fiscal years beginning after December 15, 2018. The College has adopted this standard for the Fiscal Year 2020 and there were no material changes from the adoption of the standard to its consolidated financial statements.

In March 2017, the FASB issued an amendment to the *Topic 715-07 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This accounting standard update changes the reporting of service cost components of defined benefit and other postretirement plans. This standard is for fiscal years beginning after December 15, 2018. The College has adopted this standard for the Fiscal Year 2020 and the adoption has resulted in the reclassification of the service costs within the Statement of Activities for June 30, 2020 and 2019.

Accounting Pronouncements not yet adopted

In February 2016, the FASB issued a standard *Topic 842 – Leases*. This standard requires lessees to recognize assets and liabilities for the rights and obligations created by leases with terms in excess of 12 months. The recognition, measurement and presentation arising from a lease will primarily depend on classification as a financing or operating lease. The effective date for this standard was deferred by FASB for an additional year. The College will adopt this standard for the Fiscal Year 2021 and we expect adoption of this standard will not result in a material increase in lease-related assets and liabilities on our Consolidated Statement of Financial Position, Statements of Activities or Cash Flows.

Notes to the consolidated financial statements (continued)
(dollars in thousands)

In August 2018, the FASB issued an amendment to the *Topic 715-20 Changes to the Disclosure Requirements for Defined Benefit Plans*. This accounting standard update changes the disclosure requirements for defined benefit and other postretirement plans. The College will adopt this standard for the Fiscal Year 2022 and is in process of evaluating the impact of the adoption of the standard to its consolidated financial statements.

Investments

Refer to the Investments Footnote 3 for the accounting and reporting policy for investments.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Expenditures for new construction, major renovations and equipment are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of building (60 years), building improvements (25 years), land improvements (15 years) and equipment (5 years). Construction in progress is depreciated over the useful life of the respective assets once the asset is put into service. Operating expenses associated with the operation and maintenance of plant assets, as well as interest and depreciation expense, are allocated on the basis of square footage utilized by the functional classification of expense.

Works of art, historical treasures and similar assets are recognized at their estimated fair value at the time of gift based upon appraisals or similar valuations. All material items, whether contributed or purchased, have been capitalized. Works of art, historical treasures and similar assets are not subject to depreciation.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. Two academic buildings scheduled for demolition due to construction of a new academic building had accelerated depreciation recognized as an impairment of \$626 for the year ended June 30, 2019.

Assets restricted to investment in property and equipment

Assets restricted to investment in property and equipment consist primarily of proceeds of tax-exempt bonds issued for the benefit of the College and limited by terms of the indentures to use for qualified capital projects. These assets consist of cash equivalents and short-term investments, recorded at cost, which approximates fair value. Contributions restricted for the acquisition of property and equipment are also reported as assets restricted to investment in property and equipment until the contribution is utilized for their intended purpose.

Tuition, fees and scholarships

Revenue from student tuition and fees are recognized into revenue in the fiscal year for which educational services are provided. Tuition discounts in the form of scholarships and financial aid grants are reported as a reduction of revenues. Room and board revenue is recognized over the period it is earned as housing services and food services are provided. The College applies institutional aid as a discount to qualified tuition and fees.

Notes to the consolidated financial statements (continued)
(dollars in thousands)

For 2020 and 2019 the student tuition, fees, room and board net of institutional aid was as follows.

	<u>2020</u>	<u>2019</u>
Student tuition and fees	\$ 91,149	\$ 86,579
Room and board	19,722	22,716
Less student aid	<u>(47,036)</u>	<u>(44,154)</u>
Net student tuition, fees, room and board	<u>\$ 63,835</u>	<u>\$ 65,141</u>

Contributions

Contributions of cash and other assets, including unconditional promises to give, are recognized as revenues in the period received. Contributions with donor-imposed restrictions that are not met in the same year as received or earned are reported as net assets with donor restrictions and are reclassified to net assets without donor restrictions when the donor stipulated restrictions are met or purpose restrictions are satisfied. Contributions of assets other than cash are reported at their estimated fair value. Conditional promises to give are not recognized until the conditions are substantially met. Donated assets are recorded at estimated fair value at the date of the gift.

Contributions receivable are unconditional promises, recorded at present value net of any allowance for uncollectible contributions. The present value of pledges are determined using the applicable market rate in the period contributions are recognized, which ranges from 0.33% to 2.17%.

Conditional contributions including bequest intentions are not recognized as assets and if received, will be recorded as revenue in the period the condition is met. The College has federal awards which are considered conditional grants. Conditional grants from federal sponsored projects amounted to \$4,234 and \$1,610 as of June 30, 2020 and 2019.

Compensated Absences

Accrued compensation includes vacation time earned by hourly and staff employees, but not yet taken as of fiscal year-end. A staff employee is entitled to receive pay in lieu of vacation upon termination. Employees may accrue a maximum of 240 hours of vacation. Accrued vacation payable amounted to \$3,389 and \$3,122 as of June 30, 2020 and 2019, respectively.

College Housing Programs

For employees who meet certain eligibility requirements, the College has rental, mortgage and financing assistance programs. The goal of the programs is to attract and retain excellent faculty and staff. Beginning on January 1, 2018, the College's Mortgage Loan program was replaced with a forgivable subordinated loan program, the Home Purchase Assistance Program. The College will continue to service the former program's existing College-issued mortgages. These loans and mortgages are collateralized by deeds of trust on properties in the Philadelphia region. Management evaluates current economic conditions and collection history to determine if an allowance is necessary. Currently, there are no associated allowances for the receivables held under either program.

The former College Mortgage Loan program provided 20, 25, 30 or 40 year monthly amortizing first mortgages for homes within a specified distance to campus for faculty, instructional staff and other staff members who meet certain eligibility requirements. Mortgages are to be paid off within 360 days

Notes to the consolidated financial statements (continued)
(dollars in thousands)

of the termination of employment for any reason (death, retirement or severance). The interest rate on such mortgage loans is reviewed and updated on a quarterly basis.

The College Home Purchase Assistance program is a 10 year forgivable, subordinate loan of up to 10% of the appraised value (subject to a cap) for homes that are considered a primary residence within a specified distance to campus for faculty, instructional staff and other staff members who meet certain eligibility requirements. Subordinate loans are to be paid off in full within 360 days of the termination of employment for any reason (death, retirement or severance). There is no interest charged on the loan.

The College owns a number of houses and apartments which are rented to faculty, instructional staff and other staff members who meet certain eligibility requirements in the Borough of Swarthmore and surrounding campus communities.

Subsequent Events

The College evaluated the period from June 30, 2020, the date of the financial statements, through October 6, 2020, the date of the issuance of the financial statements. The College had no reportable subsequent events between June 30, 2020 and October 6, 2020.

2. Contributions Receivable

Contributions receivable at June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Due in:		
Less than one year	\$ 9,130	\$ 7,712
One to five years	6,572	5,691
More than five years	3,305	2,308
	<u>19,007</u>	<u>15,711</u>
Unamortized discount	(258)	(397)
Allowance for doubtful contributions	(206)	(304)
	<u>\$ 18,543</u>	<u>\$ 15,010</u>

3. Investments

The College reports all investments at fair value. The fair value of marketable equity and fixed income securities (which include both domestic and foreign issues) is generally based upon a combination of published market prices at the close of business on the last day of the fiscal year and exchange rates. The fair value of investments for which published market prices are not available is based upon estimated values using discounted cash flow analysis or other industry standard methodologies.

The fair value of limited partnerships in private equity and real estate and other similar nonmarketable investment vehicles is carried at the net asset value (“NAV”) or capital account balance at the measurement date as determined by the investment managers or the most current NAV or capital account balance adjusted for subsequent cash flows. The NAV of such investments is generally estimated by external investment managers, including general partners. Although certain investments may be sold in secondary market transactions, the secondary market is not active and therefore it is reasonably possible that if the College were to sell its interest in a fund in the secondary market, the transaction could be materially different than the reported fair value. The College performs additional

Notes to the consolidated financial statements (continued)
(dollars in thousands)

due diligence and reviews these for reasonableness. The College has assessed factors including, but not limited to, managers' audited financial statements, price transparency, valuation policies, redemption conditions and restrictions.

Endowment investments include the College's permanent, term, and quasi-endowment funds. Although quasi-endowment funds have been established by the Board of Managers for the similar purposes as endowment funds, any portion of quasi-endowment funds may be expended upon approval by the Board of Managers.

Annuity, unitrust and life income funds periodically pay either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate at a designated time, usually upon the death of the last designated income beneficiary. The College's remainder interest is then available for use by the College as designated by either the donor or the Board of Managers. The actuarial liability for the charitable gift annuities as of June 30, 2020 and 2019 is based on the present value of future payments discounted at rates that vary by participant from 1.2% to 11.6% based upon the 2012 IAR Mortality Table. The actuarial liability for the unitrusts as of June 30, 2020 and 2019 is based on the present value of future payments discounted at rates that vary by trust from 5% to 9% of the Annuity 2000 Mortality Table. The fair value of life income assets, invested in Level 1 equity or debt securities, are measured at fair value on a recurring basis at quoted market prices.

The endowment objective established by the Board of Managers is to provide a sustainable level of distribution in support of the College's annual operating budget while preserving the real purchasing power of the endowment before gifts. The endowment provides significant support of the College's operations; therefore, endowment policies seek to achieve stability and sustained growth in this support. The Board of Managers sets the level of distribution of endowment return annually.

The College has a unitization system for the management of endowments. All endowments are invested in a single pool of investment assets. Each separate endowment owns units in the investment pool, and the College determines the fair value of a unit on a quarterly basis. Gifts to an endowment fund create new units at the unit value in effect at the time of the gift. Changes in the unit value reflect changes in the fair value of endowment assets. Such changes arise from investment income, gains and losses and from the annual distribution to support each endowment's intended purpose. The Board of Managers sets the approved distribution annually, with a spending rate budget guideline between 3.5% and 5.0%. The College follows endowment spending guidelines for its unitized investments, including quasi-endowment that provides for regular increases in spending while preserving the long-term purchasing power of the endowment. Earnings available for spending are shown in operating revenue, and the balance of realized and unrealized gains or loss is shown as non-operating revenue.

The following table shows the endowment distribution for the year and unit value for the investment pool at June 30, 2019 and 2018 respectively:

	Number of Units	Fair Value	Income Distribution
June 30, 2020	2,540,191	\$ 830.42	\$ 39.10
June 30, 2019	2,499,266	\$ 855.00	\$ 39.04

The fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the gifts (i.e. underwater deficits). The College has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless

Notes to the consolidated financial statements (continued)
(dollars in thousands)

otherwise precluded by donor intent or relevant laws and regulation. When a donor endowment deficit exists, it is classified as a deficit with donor restrictions. For June 30, 2020 there were underwater endowment funds of \$45. There were no underwater endowment funds for June 30, 2019.

	2020	2019
Fair value of underwater endowment funds	\$ 2,648	\$ -
Historic dollar value	<u>2,693</u>	<u>-</u>
Total deficit of underwater endowment funds	<u>\$ (45)</u>	<u>\$ -</u>

Net realized and unrealized gains on assets with restrictions that are permanent in nature are reported as a nonoperating activities. The Commonwealth of Pennsylvania has not adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) rather, the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act) governs the investment, use and management of the College's endowment funds. Commonwealth of Pennsylvania law permits the College to appropriate for expenditure each year a portion of these net realized gains up to 7% of the average of the past three years' fair value of resources required to be maintained in perpetuity. Pursuant to this Commonwealth of Pennsylvania law, the Board of Managers has approved the reclassification of net realized gains (\$12,112 and \$10,137 for 2020 and 2019) as released from donor restriction.

A summary of investment activity for fiscal years 2020 and 2019 is as follows:

	Endowment funds	Annuity and Life Income funds	Other	2020 Total	2019 Total
Investments, beginning of the year	\$ 2,131,553	\$ 39,641	\$ 37,661	\$ 2,208,855	\$ 2,179,700
Contributions	8,468	1,904		10,372	5,834
Maturities of annuity and life income funds		(1,605)		(1,605)	(3,547)
Other		869	56	925	2,266
Transfers in	6,702		9,095	15,797	16,902
Transfers out	<u>(20,741)</u>			<u>(20,741)</u>	<u>(34,930)</u>
	<u>(5,571)</u>	<u>1,168</u>	<u>9,151</u>	<u>4,748</u>	<u>(13,475)</u>
Investment return	81,291	892	9	82,192	147,794
Investment management fees	<u>(6,456)</u>			<u>(6,456)</u>	<u>(8,320)</u>
	<u>74,835</u>	<u>892</u>	<u>9</u>	<u>75,736</u>	<u>139,474</u>
Payments to annuity and life income beneficiaries		(1,547)		(1,547)	(1,595)
Endowment spending distribution					
Without Donor Restrictions	(93,774)			(93,774)	(91,555)
With Donor Restrictions	<u>(3,373)</u>			<u>(3,373)</u>	<u>(3,694)</u>
	<u>(97,147)</u>	<u>(1,547)</u>	<u>-</u>	<u>(98,694)</u>	<u>(96,844)</u>
Investments, end of year	<u>\$ 2,103,670</u>	<u>\$ 40,154</u>	<u>\$ 46,821</u>	<u>\$ 2,190,645</u>	<u>\$ 2,208,855</u>

Notes to the consolidated financial statements (continued)
(dollars in thousands)

The generally accepted hierarchy for fair value measurements is based on the transparency of information used in the valuation of an asset or liability as of the measurement date. In determining fair value, valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. Certain investments that are measured at fair value using the net asset value per share or its equivalent (NAV) as a practical expedient have been categorized separately in the fair value hierarchy.

- Level I- Quoted prices are available in active markets for identical investments as of the measurement date.
- Level II- Pricing inputs, other than exchange-quoted prices in active markets, are either directly or indirectly observable as of the measurement date. Certain investments with structures similar to registered mutual funds may have readily determinable fair value if the NAV is determined, published and used as the basis for transactions.
- Level III- Pricing inputs are unobservable and there is minimal (if any) market data.

The College's investment objectives guide its asset allocation policy and are achieved by investing with external investment management firms who utilize different investment strategies and operate through a variety of investment vehicles, including separate accounts, commingled funds managed by investment companies and limited partnerships. The College has investments in seven asset categories. Cash and Cash Equivalents are investments in short-term cash and money market instruments. These are able to be liquidated immediately or within 30 days. Fixed Income includes investment in fixed income securities, such as U.S. Treasury bonds and Treasury Inflation-Protected securities. Public Equity includes investment in publicly-traded stocks of domestic and international companies. Real Assets include investments in real estate and natural resources. Private Equity includes investments in buyouts, venture capital and distressed companies. Alternative Strategies includes investment in corporate direct lending, financial assets and distressed debt and investments in multi-strategy hedge funds.

A summary of investments, measured by the fair value hierarchy at June 30, 2020 were as follows:

	Investments Measured at NAV	Level I	Level II	Level III	Total
Endowment					
Cash and Cash Equivalents	\$ -	\$ 118,965	\$ -	\$ -	\$ 118,965
Fixed Income	-	86,096			86,096
Public Equity	290,352	260,589	262,532		813,473
Real Assets	219,581	6,860	-		226,441
Private Equity	544,531				544,531
Alternative Strategies	314,164				314,164
Total Endowment	1,368,628	472,510	262,532	-	2,103,670
Life income		40,154			40,154
Other		42,385	2,014	2,422	46,821
Total Investments	<u>\$ 1,368,628</u>	<u>\$ 555,049</u>	<u>\$ 264,546</u>	<u>\$ 2,422</u>	<u>\$ 2,190,645</u>

Notes to the consolidated financial statements (continued)
(dollars in thousands)

Changes to the reported amounts of investments measured at fair value on a recurring basis using significant unobservable (Level III) inputs as of June 30, 2020 is as follows:

	<u>Fair Value</u> <u>June 30, 2019</u>	<u>Investment</u> <u>return</u>	<u>Purchases</u>	<u>Sales</u>	<u>Fair Value</u> <u>June 30, 2020</u>
Other Investments	\$ 2,584	\$ 2	\$ 248	\$ (412)	\$ 2,422

A summary of investments, measured by the fair value hierarchy at June 30, 2019 were as follows:

	<u>Investments</u> <u>Measured</u> <u>at NAV</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Endowment					
Cash and Cash Equivalents	\$ -	\$ 192,436	\$ -	\$ -	\$ 192,436
Fixed Income	40,526	88,598			129,124
Public Equity	265,586	261,488	251,244		778,318
Real Assets	227,081	21,874	23,298		272,253
Private Equity	471,344				471,344
Alternative Strategies	288,078				288,078
Total Endowment	1,292,615	564,396	274,542	-	2,131,553
Life income		39,641			39,641
Other		33,236	1,841	2,584	37,661
Total Investments	<u>\$ 1,292,615</u>	<u>\$ 637,273</u>	<u>\$ 276,383</u>	<u>\$ 2,584</u>	<u>\$ 2,208,855</u>

Changes to the reported amounts of investments measured at fair value on a recurring basis using significant unobservable (Level III) inputs as of June 30, 2019 is as follows:

	<u>Fair Value</u> <u>June 30,</u> <u>2018</u>	<u>Investment</u> <u>return</u>	<u>Purchases</u>	<u>Sales</u>	<u>Fair Value</u> <u>June 30, 2019</u>
Other Investments	\$ 2,498	\$ 11	\$ 288	\$ (213)	\$ 2,584

For the fiscal years ended June 30, 2019 and 2018 there were no transfers between levels within the fair value hierarchy.

Notes to the consolidated financial statements (continued)
(dollars in thousands)

The College has commitments to various limited partnerships. The College expects the majority of these funds to be called over the next four years with liquidity to be received over the next fifteen years. The following tables disclose the significant terms of the agreements with investment managers or funds by major category and value of outstanding commitments at June 30, 2020 and 2019:

	2020	2019
	Unfunded	Unfunded
	Commitments	Commitments
	<u> </u>	<u> </u>
Private equity	\$ 350,090	\$ 323,938
Real Assets	166,508	184,347
Alternative Strategies	<u>82,784</u>	<u>67,468</u>
Total unfunded commitments	<u>\$ 599,382</u>	<u>\$ 575,753</u>

4. Liquidity and Availability

The following reflects the College's available financial assets as of the balance sheet date, reduced by amounts not available for use within one year because of contractual or donor-imposed restrictions or internal designations.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 53,841	\$ 25,352
Short term investments	-	15,630
Accounts receivable to be collected within 12 months, net	4,538	1,504
Student loans receivable to be collected within 12 months, net	71	110
Employee mortgage loans to be collected within 12 months	393	526
Contributions receivable without donor restriction to be collected within 12 months	477	355
Board-approved endowment distribution for current operations	<u>107,479</u>	<u>97,081</u>
Financial assets available at year end for current use	<u>\$ 166,799</u>	<u>\$ 140,558</u>

The College has various sources of internal liquidity at its disposal including, cash, cash equivalents, marketable debt and equity securities. As part of the College's liquidity management during the Covid-19 pandemic, the College has secured a \$25 million revolving line of credit. The College maintains capital allocations which provides liquidity of assets available to meet general expenditures as liabilities and other obligation come due. General expenditures consist of funding for the College's operating budget including debt obligation payments and funding for the annual capital renewal and replacement expenditures. The College's endowment funds consist of donor-restricted and quasi endowment funds. Income from donor-restricted endowments is restricted for specific purposes and therefore is not available for general expenditure. Although the College does not intend to spend from its quasi endowment funds other than amounts distributed as part of the annual budget approval process, amounts from quasi endowment funds could be made available by the Board of Managers if necessary. The College's quasi endowment funds value was \$805 million at June 30, 2020 and \$823 million at June 30, 2019. Management estimates as of June 30, 2020 and 2019 the College's

Notes to the consolidated financial statements (continued)
(dollars in thousands)

investments of \$808 million and \$874 million have liquidity of under 30 days, while still subject to donor and endowment distribution restrictions.

5. Property and Equipment

Property and equipment at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 5,783	\$ 5,757
Buildings and improvements	493,687	483,020
Construction in progress	137,236	105,904
Equipment	16,466	15,961
Works of art, historical treasures and similar assets	<u>4,726</u>	<u>4,726</u>
	657,898	615,368
Accumulated depreciation	<u>(184,382)</u>	<u>(171,392)</u>
	<u>\$ 473,516</u>	<u>\$ 443,976</u>

Interest payments totaling \$1,164 and \$2,353 were capitalized in 2020 and 2019, respectively.

6. Deferred Payments and Other Liabilities

Deferred payments and other liabilities at June 30, 2020 and 2019 consisted of the present value of future payments due to or on behalf of employees and former employees under retirement and postretirement programs, donors under annuity and life income programs, conditional asset retirement obligations and conditional gifts.

	<u>2020</u>	<u>2019</u>
Conditional gift liability	\$ 885	\$ 885
Charitable gift annuity liabilities	8,665	8,166
Life income and unitrusts	7,291	6,533
Postretirement health benefit	17,852	15,036
Employees and former employees	5,904	6,321
Conditional asset retirement obligation	<u>1,124</u>	<u>1,106</u>
	<u>\$ 41,721</u>	<u>\$ 38,047</u>

The College currently provides a postretirement health benefit in the form of a monthly stipend for the payment of medical premiums to all employees who meet certain eligibility requirements.

The components of the postretirement health benefit as of June 30, 2020 and 2019 are as follows:

Notes to the consolidated financial statements (continued)
(dollars in thousands)

	<u>2020</u>	<u>2019</u>
Change in accumulated postretirement benefit obligation		
Postretirement benefit obligation at beginning of year		
Actives not fully eligible to retire	\$ 7,792	\$ 7,964
Actives fully eligible to retire	4,592	4,127
Retirees	<u>2,652</u>	<u>2,377</u>
Total	15,036	14,468
Service cost	646	545
Interest cost	499	520
Actuarial (gain) / loss	1,967	(215)
Benefits paid	<u>(296)</u>	<u>(282)</u>
Postretirement benefit obligation at end of year		
Actives not fully eligible to retire	10,210	7,792
Actives fully eligible to retire	5,029	4,592
Retirees	<u>2,613</u>	<u>2,652</u>
Total	<u>\$ 17,852</u>	<u>\$ 15,036</u>
	<u>2020</u>	<u>2019</u>
Change in plan assets		
Employer contribution	\$ 296	\$ 282
Benefits paid	<u>(296)</u>	<u>(282)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status		
Postretirement benefit obligation at end of year	\$ 17,851	\$ 15,036
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Funded status end of year	<u>17,851</u>	<u>15,036</u>
Current liability	495	450
Non-current liability	<u>17,357</u>	<u>14,586</u>
Total	<u>\$ 17,852</u>	<u>\$ 15,036</u>

Notes to the consolidated financial statements (continued)
(dollars in thousands)

	<u>2020</u>	<u>2019</u>
Components of the net periodic postretirement benefit cost		
Service cost	\$ 646	\$ 545
Interest cost	499	520
Amortization of actuarial (gain) / loss	<u>(25)</u>	<u>(187)</u>
Total	<u>\$ 1,120</u>	<u>\$ 878</u>
OPEB changes other than net periodic postretirement benefit cost		
New actuarial (gain) / loss	\$ 1,967	\$ (215)
Amortization of unrecognized amounts	<u>25</u>	<u>187</u>
Total	<u>\$ 1,992</u>	<u>\$ (28)</u>
Unrecognized amounts in the following year:		
Net actuarial (gain) / loss	<u>\$ 237</u>	<u>\$ (1,755)</u>
Total	<u>\$ 237</u>	<u>\$ (1,755)</u>
Amortization amounts in following year (estimate)		
Net actuarial (gain) / loss	<u>\$ -</u>	<u>\$ (25)</u>
Total	<u>\$ -</u>	<u>\$ (25)</u>

	<u>2020</u>	<u>2019</u>
Assumptions and effects		
Medical trend rate next year	5.50 %	5.75 %
Ultimate trend rate	5.00 %	5.00 %
Year ultimate trend rate is achieved	2022	2022
Discount rate used to value end of year accumulated postretirement benefit obligation	2.50 %	3.37 %
Discount rate used to value net periodic postretirement benefit cost	3.37 %	4.07 %
Effect of a 1% increase in health care cost trend rate on:		
Interest cost plus service cost	\$ 237	\$ 215
Accumulated postretirement benefit obligation	\$ 3,441	\$ 2,634
Effect of a 1% decrease in health care cost trend rate on:		
Interest cost plus service cost	\$ (185)	\$ (170)
Accumulated postretirement benefit obligation	\$ (2,774)	\$ (2,123)
Measurement date	6/30/2020	6/30/2019

Notes to the consolidated financial statements (continued)
(dollars in thousands)

<u>Year Beginning July 1st</u>	<u>Estimated Future Benefit Payment</u>
2020	\$ 495
2021	551
2022	609
2023	645
2024	686
2025 - 2029	4,213

7. Bonds and Letters of Credit

Balances of bonds and notes payable outstanding at June 30, 2020 and 2019 were:

	<u>Effective Interest Rate</u>	<u>Maturity Dates</u>	<u>2020 Principal</u>	<u>2019 Principal</u>
Swarthmore Borough Authority				
2011B Revenue Bonds	2.40%	2020-2021	\$ 11,955	\$ 12,300
2011C Revenue Bonds	2.85%	2020-2021	23,840	26,180
2013 Revenue Bonds	3.86%	2020-2043	35,160	37,420
2015 Revenue Bonds	3.65%	2020-2045	51,245	52,225
2016A Revenue Bonds	1.81%	2020-2030	50,135	53,530
2016B Revenue Bonds	2.95%	2020-2046	20,320	20,690
2018 Revenue Bonds	3.64%	2023-2049	93,000	93,000
			<u>285,655</u>	<u>295,345</u>
Unamortized Bond Premium				
Less: Deferred financing costs			34,236	37,498
			<u>(1,447)</u>	<u>(1,598)</u>
Total Bonds payable			<u>\$ 318,444</u>	<u>\$ 331,245</u>

The College bond ratings by Moody's and Standard & Poor's were Aaa/AAA for the years ended June 30, 2020 and 2019. Deferred financing costs represent bond issuance costs that are amortized over the period to bond maturity. Amortization of bond premiums is based on an effective-interest method.

On July 10, 2018 the College issued \$93,000 aggregate principal of the 2018 Revenue Bonds (2018 Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used to fund various tax exempt capital projects and to fund the costs for issuing the 2018 Bonds.

On August 4, 2016, the College issued \$21,375 aggregate principal amount of 2016 Revenue Bonds, Series B (2016B Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used fund various tax-exempt capital projects, and to fund the costs of issuing the 2016B Bonds.

Notes to the consolidated financial statements (continued)
(dollars in thousands)

On July 19, 2016, the College issued \$59,975 aggregate principal amount of 2016 Revenue Refunding Bonds, Series A (2016A Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used to advance refund the 2006A Revenue Bonds, par value of \$74,305, which were scheduled to mature on September 15, 2030, and to fund the costs of issuing the 2016A Bonds.

On July 14, 2015, the College issued \$54,940 aggregate principal amount of 2015 Revenue Bonds (2015 Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used to fund various tax-exempt capital projects and to fund the costs of issuing the 2015 Bonds.

On July 31, 2013, the College issued \$47,340 aggregate principal amount of 2013 Revenue Bonds (2013 Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used to refund the 2008 Revenue Bonds, par value of \$25,360, which were scheduled to mature on September 15, 2013, to refund the 2009 Revenue Bonds, par value of \$8,525, which were scheduled to mature on September 15, 2013 and to fund various tax-exempt capital projects and to fund the costs of issuing the 2013 Bonds.

On December 21, 2011, the College issued \$14,380 aggregate principal amount of 2011B Revenue Bonds (2011B Revenue Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used for various tax-exempt capital projects and to fund the costs of issuing the 2011B Bonds.

On December 21, 2011, the College issued \$46,280 aggregate principal amount of taxable 2011C Revenue Bonds (2011C Revenue Bonds) through the Swarthmore Borough Authority. The proceeds were used for general operations, to advance refund a portion of the 2002 Revenue Bonds, par value of \$19,665 and to fund the costs of issuing the 2011C Bonds.

On August 21, 2014, the College took out a letter of credit in the amount of \$2.4 million as required by the Pennsylvania Department of Public Transportation related to a road construction project. On March 15, 2018, the letter of credit was amended to \$0.5 million. The letter of credit expired on December 27, 2019.

On October 12, 2016, the College took out a letter of credit in the amount of \$0.2 million as required by the Pennsylvania Department of Public Transportation related to a parking lot construction project. On April 27, 2018, the letter of credit was amended to \$42 thousand. The letter of credit expired on December 16, 2019.

Debt service payments for the next five fiscal years on all borrowings are as follows:

	Principal	Interest	Total
2020-2021	\$10,070	\$13,087	\$23,157
2021-2022	39,305	12,095	51,400
2022-2023	8,355	11,114	19,469
2023-2024	8,725	10,687	19,412
2024-2025	9,110	10,241	19,351

8. Retirement Benefits

Retirement benefits for all eligible employees of the College are individually funded and vested under a defined contribution Sec. 403(b) retirement plan with Teachers Insurance and Annuity Association of

Notes to the consolidated financial statements (continued)
(dollars in thousands)

America (TIAA), or Vanguard Group of Investment Companies. Under this arrangement, the College makes monthly contributions as defined in the Plan to the accounts of all employees. The College's contributions under this Plan are included in operating expenses and were \$6,843 in 2020 and \$6,507 in 2019.

The College has a Sec. 457 non-qualified deferred compensation plan for senior management employees. Participants elect to defer compensation, which is invested with the Teachers Insurance and Annuity Association of America (TIAA) or the Vanguard Group of Investment Companies and is considered College property until the employee withdraws the funds due to emergency, termination or retirement. The participants' contributions are subject to the general creditors of the College, so the invested asset is offset by a corresponding liability in the amounts of \$1,166 and \$1,098 at June 30, 2020 and 2019 respectively. The College does not record transaction activity as revenue or expense. The investments are reported at fair value.

9. Net assets

Net assets at June 30, 2020 were designated or allocated to:

Nature of Net Assets	Without Donor Restrictions	With Donor Restrictions	Year Ended
			June 30, 2020
			Total Net Assets
Undesignated	\$ 6,920	\$ -	\$ 6,920
Donor-Restricted		33,153	33,153
Annuity and life income funds	15,146	10,670	25,816
Student loans	1,336		1,336
Donor-restricted endowment funds:			
General College support		351,749	351,749
Scholarships		356,523	356,523
Professorships		329,234	329,234
Academic support		195,059	195,059
Other		65,638	65,638
Quasi endowment funds	805,467		805,467
Net Investment in property and equipment	191,956	21,804	213,760
Total	<u>\$ 1,020,825</u>	<u>\$ 1,363,830</u>	<u>\$ 2,384,655</u>

Notes to the consolidated financial statements (continued)
(dollars in thousands)

Net assets at June 30, 2019 were designated or allocated to:

Nature of Net Assets	Without Donor Restrictions	With Donor Restrictions	Year Ended
			June 30, 2019 Total Net Assets
Undesignated	\$ 9,405	\$ -	\$ 9,405
Donor-Restricted		29,659	29,659
Annuity and life income funds	16,537	10,043	26,580
Student loans	1,316		1,316
Donor-restricted endowment funds:			
General College support		342,680	342,680
Scholarships		363,471	363,471
Professorships		338,885	338,885
Academic support		196,789	196,789
Other		66,782	66,782
Quasi endowment funds	822,946		822,946
Net Investment in property and equipment	178,757	6,995	185,752
Total	<u>\$ 1,028,961</u>	<u>\$ 1,355,304</u>	<u>\$ 2,384,265</u>

Certain amounts have been transferred out of net assets without donor restrictions and into net assets with donor restrictions as a result of donor restrictions on matching gifts, unspent investment return added to principal, and clarifications of donors' restrictions.

As of June 30, 2020 there was \$45 donor-related endowment funds for which the fair value of assets is less than the level required by donor stipulations. The corpus of true endowment funds that are part of the donor-restricted endowment funds as of June 30, 2020 and 2019 were \$223,173 and \$213,860.

Notes to the consolidated financial statements (continued)
(dollars in thousands)

Changes to the reported amount of the College's endowment funds and associated appreciation as of June 30 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment total, June 30, 2018	\$ 839,936	\$ 1,275,832	\$ 2,115,768
Contributions	243	4,035	4,278
Transfers	(23,804)	(7,648)	(31,452)
Investment return	106,446	40,082	146,528
Investment management fees	(8,320)	-	(8,320)
Endowment spending distribution	(91,555)	(3,694)	(95,249)
Endowment total, June 30, 2019	822,946	1,308,607	2,131,553
Contributions	229	8,239	8,468
Transfers	(15,861)	1,822	(14,039)
Investment return	98,383	(17,092)	81,291
Investment management fees	(6,456)	-	(6,456)
Endowment spending distribution	(93,774)	(3,373)	(97,147)
Endowment total, June 30, 2020	<u>\$ 805,467</u>	<u>\$ 1,298,203</u>	<u>\$ 2,103,670</u>

10. Functional Expenses

The College's functional expenses are presented in accordance with the functions attributable to one or more program or administration of the College. Each functional classification is categorized related to the underlying operations by natural classification. Allocation of depreciation, plant operations and management, utilities, debt interest expense are allocated to programs based on the square footage assigned to College programs.

Notes to the consolidated financial statements (continued)
(dollars in thousands)

Functional expenses for the years ended June 30, 2020 are as follows:

	Research and Operations							Total
	Instruction	Academic Support	Student Services	Institutional Support	Auxiliary Activities	Public Service	and Maintenance	
Salaries and wages	\$ 33,173	\$ 11,555	\$ 8,290	\$ 15,345	\$ 3,407	\$ 2,930	\$ 8,310	\$ 83,010
Employee benefits	10,718	3,366	2,329	5,749	1,559	617	3,175	27,513
Operating Expenses	6,076	7,743	4,781	9,766	7,567	2,129	9,697	47,759
Allocations:								
Depreciation	4,012	1,643	830	347	6,304	216	-	13,352
Operations and Maintenance	6,365	2,607	1,317	550	10,000	343	(21,182)	-
Interest expense	2,738	1,122	566	251	4,302	148	-	9,127
Total Operating Expenses	\$ 63,082	\$ 28,036	\$ 18,113	\$ 32,008	\$ 33,139	\$ 6,383	\$ -	\$ 180,761

Functional expenses for the years ended June 30, 2019 are as follows:

	Research and Operations							Total
	Instruction	Academic Support	Student Services	Institutional Support	Auxiliary Activities	Public Service	and Maintenance	
Salaries and wages	\$ 31,563	\$ 10,169	\$ 7,313	\$ 13,470	\$ 3,229	\$ 2,523	\$ 7,798	\$ 76,065
Employee benefits	9,347	2,914	2,178	5,160	1,291	587	2,911	24,388
Operating Expenses	7,058	9,623	5,445	10,625	9,737	2,889	12,012	57,389
Allocations:								
Depreciation	3,917	1,604	810	339	6,154	211	-	13,035
Operations and Maintenance	6,828	2,796	1,412	590	10,727	368	(22,721)	-
Interest expense	2,430	995	503	280	3,817	131	-	8,156
Total Operating Expenses	\$ 61,143	\$ 28,101	\$ 17,661	\$ 30,464	\$ 34,955	\$ 6,709	\$ -	\$ 179,033

11. Income Tax

The College has been granted tax-exempt status as a non-profit organization under Section 501(c) (3) of the Internal Revenue Code, and accordingly, files federal tax Form 990 (Return of Organization Exempt from Income Tax) annually. The College also files federal tax Form 990-T (Exempt Organizations Business Income Tax Return).

The College is subject to federal excise taxes imposed on private colleges and universities if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal law which includes interest, dividends, and net realized gains on the sale of investments. The College is subject to the excise tax for 2020 and 2019 at a 1.4% excise tax rate for the tax year ended December 31, 2020 and 2019. The current liability of the excise tax for June 30, 2020 and 2019 is \$1,446 and \$1,824, respectively. As of June 30, 2020 and 2019 there were no deferred excise tax expenses resulting from net unrealized gains (and losses) on investments.

Notes to the consolidated financial statements (continued)
(dollars in thousands)

Marjay Productions, Inc. is a for-profit corporation subject to federal income taxes under the Internal Revenue Code. Through June 30, 2020, this corporation has no significant outstanding tax obligations.

Parrish LLC is a for-profit corporation subject to federal income taxes under the Internal Revenue Code. Through June 30, 2020, this wholly-owned, sole member Pennsylvania Limited Liability Corporation has not generated any taxable income.

In accordance with the guidance on accounting for uncertainty in income taxes, management regularly evaluates its tax positions and does not believe the College has any uncertain tax positions that require disclosure or adjustment in the financial statements. The College continually monitors and evaluates its activities for unrelated business income activity.

12. Commitments and Contingencies

In the ordinary course of business, the College occasionally becomes involved in legal proceedings. While any legal proceeding or litigation has an element of uncertainty, management believes that the outcome of all current pending or threatened actions will not have a material adverse effect on the business or financial condition of the College. As of June 30, 2020 and 2019, the College had outstanding commitments for construction contracts and purchase orders of \$24,059 and \$34,893, respectively.