Swarthmore College

Consolidated Financial Statements
June 30, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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.

PricewaterhouseCoopers LLP

September 23, 2019

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SWARTHMORE COLLEGE

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2019 and 2018
(in thousands)

ASSETS	**2019**	**2018**
Cash and cash equivalents	$ 25,352	$ 34,490
Accounts receivable, net	1,821	1,563
Prepaid expenses and inventories	2,666	2,189
Short term investments	15,630	15,288
Contributions receivable	15,010	18,184
Student loans receivable, net	229	333
Employee mortgages receivable	9,694	11,345
Assets restricted to investment in property and equipment	61,816	1,868
Property and equipment, net	443,976	378,263
Investments, at fair value		
Endowment	2,131,553	2,115,768
Life income and annuity	39,641	41,003
Other	37,661	22,929
Total assets	**$ 2,785,049**	**$ 2,643,223**
LIABILITIES		
Accrued compensation	$ 6,940	$ 6,611
Payables and other accruals	23,052	17,359
Student deposits	1,395	1,068
Deferred payments and other liabilities	38,047	36,504
Refundable government loan funds	105	105
Bonds payable, net	331,245	261,681
Total liabilities	**400,784**	**323,328**
NET ASSETS		
Without donor restrictions	1,028,961	1,002,568
With donor restrictions	1,355,304	1,317,327
Total net assets	**2,384,265**	**2,319,895**
Total liabilities and net assets	**$ 2,785,049**	**$ 2,643,223**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

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

	Without Donor Restrictions	With Donor Restrictions	Total 2019
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
Transfers among net asset classes	1,002	(1,002)	-
Net assets released from restrictions	5,377	(5,377)	-
Total operating revenues and other additions	**182,940**	**300**	**183,240**
Operating expenses:			
Salaries and wages	76,065	-	76,065
Employee benefits	24,388	-	24,388
Operating expenses	57,389	-	57,389
Depreciation	13,035	-	13,035
Interest expense	8,156	-	8,156
Total operating expenses	**179,033**	**-**	**179,033**
Increase in net assets from operating activities	**3,907**	**300**	**4,207**
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	(568)	-	(568)
Other	2,471	810	3,281
Transfers among net asset classes	3,155	(3,155)	-
Net assets released from restrictions	2,859	(2,859)	-
Increase in net assets from nonoperating activities	**22,486**	**37,677**	**60,163**
Net increase in net assets for the year	**26,393**	**37,977**	**64,370**
Net Assets, June 30, 2018	**1,002,568**	**1,317,327**	**2,319,895**
Net Assets, June 30, 2019	**$ 1,028,961**	**$ 1,355,304**	**$ 2,384,265**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2018
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total 2018
Operating revenues and other additions			
Net student tuition, fees, room and board	$ 63,819	$ -	$ 63,819
Endowment spending distribution	78,503	3,390	81,893
Other investment income	1,299	-	1,299
Private gifts and grants	12,158	4,190	16,348
Government grants	2,096	-	2,096
Auxiliary activities and other income	10,166	437	10,603
Transfers among net asset classes	1,561	(1,561)	-
Net assets released from restrictions	4,996	(4,996)	-
Total operating revenue and other additions	**174,598**	**1,460**	**176,058**
Operating expenses:			
Salaries and wages	73,709	-	73,709
Employee benefits	22,846	-	22,846
Operating expenses	52,916	-	52,916
Depreciation	12,501	-	12,501
Interest expense	7,755	-	7,755
Total operating expenses	**169,727**	**-**	**169,727**
Increase in net assets from operating activities	**4,871**	**1,460**	**6,331**
Nonoperating activities:			
Net realized and unrealized gain (loss) on investments, net of endowment spending	57,470	99,859	157,329
Gifts and grants	10,474	8,180	18,654
Change in present value of life income funds	-	10	10
Maturities of annuity and life income funds	812	(812)	-
Change in other post retirement benefits	2,287	-	2,287
Other	901	776	1,677
Transfers among net asset classes	(877)	877	-
Net assets released from restrictions	9,972	(9,972)	-
Increase in net assets from nonoperating activities	**81,039**	**98,918**	**179,957**
Net increase in net assets for the year	**85,910**	**100,378**	**186,288**
Net Assets, June 30, 2017	**916,658**	**1,216,949**	**2,133,607**
Net Assets, June 30, 2018	**$ 1,002,568**	**$ 1,317,327**	**$ 2,319,895**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

STATEMENTS OF CASH FLOWS

for the years ended June 30, 2019 and 2018
(in thousands)

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 64,370	$ 186,288
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	13,035	12,501
Asset impairment	626	584
Amortization of bond premium	(3,282)	(2,981)
Donor restricted gifts	(4,709)	(9,615)
Receipt of contributed securities	(5,400)	(4,533)
Proceeds of contributed securities	2,173	1,121
Net unrealized and realized loss (gains) on investments	(145,755)	(239,749)
Gain on sale of property	-	(191)
Change in student loan reserve	6	3
Return of federal loan funds	-	(71)
Changes in operating assets and liabilities		
Change in accounts receivable, contributions receivable, prepaid expenses and inventories	2,439	490
Change in deferred payments and other liabilities	1,497	(12,026)
Change in student deposits, payables and accruals	(871)	(7,299)
Net cash used by operating activities	**(75,871)**	**(75,478)**
Cash flows from investing activities		
Purchase of property and equipment	(72,152)	(45,180)
Proceeds from sale of property	-	235
Proceeds from sale of investments	1,037,856	895,561
Purchase of investments	(921,553)	(817,845)
Student loans and employee mortgages advanced	(490)	(868)
Payments on students loans and employee mortgages	2,237	1,358
Net cash provided by investing activities	**45,898**	**33,261**
Cash flows from financing activities		
Donor restricted gifts	4,709	9,615
Proceeds from contributed securities designated for purchase of property and equipment and long-term investment	3,227	3,412
Change in assets restricted to investment in property and equipment	(59,948)	45,313
Proceeds from bonds and notes payable	109,942	-
Payments on bonds and notes payable	(37,095)	(10,065)
Net cash provided by financing activities	**20,835**	**48,275**
Change in cash and cash equivalents	**(9,138)**	**6,058**
Cash and cash equivalents, beginning of year	34,490	28,432
Cash and cash equivalents, end of year	**$ 25,352**	**$ 34,490**
Cash paid for interest, net of amounts capitalized	$ 10,442	$ 9,679
Non-cash capital expenditures in accounts payable	7,221	7,068

See accompanying notes to consolidated financial statements.

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 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.

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, non-periodic changes in postretirement benefit obligations, 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 fund cash and cash equivalents 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 from June 30, 2019 and 2018.

Reclassifications
Certain amounts in the 2018 financial disclosures have been reclassified to conform to the 2019 presentation.

New Accounting Pronouncements Adopted
In August 2016, the FASB issued a standard (ASU 2016-14) on Presentation of Financial Statements for Not-for-Profit Entities. This standard revised the not-for-profit financial reporting model. The existing three-categories of net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) were required to be replaced with a model of two categories: net assets without donor imposed restrictions and net assets with donor imposed restrictions, among other requirements. The guidance also enhances disclosures about the composition of net assets, liquidity and expenses by both natural and functional classification.

The College adopted this standard for the Fiscal Year 2019 and applied the changes retrospectively. Additionally, in 2018 the College changed the presentation of expenses in the Consolidated Statement of Activities from a functional to a natural expense classification for comparability with peers and industry practice. The functional categories were changed to better reflect how the College manages its budgets and operations. These changes have been retroactively applied to the 2018 Consolidated Statement of Activities. The College will continue to present the functional expenses within the financial statements (see Note 10) alongside the natural expense classification. There is no impact on net assets or total expenses from these changes.

As a result of the adoption of ASU 2016-14, the College updated the presentation to reclassify net assets and certain prior year amounts were reclassified to conform to the updated presentation.

(dollars in thousands)

Net assets as of June 30, 2018 were reclassified as follows:

	ASU 2016-14 Classifications		
Net Asset Classification	**Without Donor Restrictions**	**With Donor Restrictions**	**Total 2018 Net Assets**
As previously presented:			
Unrestricted	$ 1,002,568	$ -	$ 1,002,568
Temporarily restricted		1,093,198	1,093,198
Permanently restricted		224,129	224,129
Total net assets	$ 1,002,568	$ 1,317,327	$ 2,319,895

In June 2018, the FASB issued an amendment to the *Topic 958 – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This standard provides specific guidance on accounting for contributions in order to evaluate whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions and whether a contribution is conditional. The College elected to recognize a restricted contribution directly into net assets without donor restrictions when the restriction is met in the same period the revenue is recognized. This standard is for applicable for fiscal years beginning after June 15, 2018. The College adopted this new standard on a modified prospective basis for the Fiscal Year 2019. It did not have a material impact on the private gift and grants recognized in the Consolidated Statement of Activities.

In May 2014, the FASB issued a standard *Topic 606 – Revenue from Contracts with Customers*. This standard is a comprehensive accounting model for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. Within the revenue model, revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. This standard is for fiscal years beginning after December 15, 2017. The College adopted the provisions of this standard as of July 1, 2018 and there was no material impact to the financial statements as a result of adoption. We have in accordance with the standard adjusted the presentation of tuition revenue to be net of discounts to students in the form of financial aid. Following the adoption of the standard, we continue to recognize revenue from students as services are provided which corresponds to the related academic term.

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 standard is effective for fiscal years beginning after December 15, 2018. The College will adopt this standard for the Fiscal Year 2020 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.

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 for fiscal years beginning after December 15, 2018. The College will adopt this standard for the Fiscal Year 2020 and is in process of evaluating the impact of the adoption of the standard to its consolidated financial statements.

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. This standard is for fiscal years beginning after December 15, 2021. 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 and $584 for the years ended June 30, 2019 and 2018.

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 and 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. Student scholarships that are in excess of tuition and fees is applied as a discount to room and board revenue.

(dollars in thousands)

For 2019 and 2018 the student tuition, fees, room and board net of institutional aid was as follows.

	2019	2018
Student tuition and fees	$ 86,579	$ 83,217
Room and board	22,716	22,155
Less student aid	(44,154)	(41,554)
Net student tuition, fees, room and board	$ 65,141	$ 63,818

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 0.95% to 2.17%.

Conditional contributions including bequest intensions 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 $1,610 as of June 30, 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 $3,122 and $2,938 as of June 30, 2019 and 2018, 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 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.

(dollars in thousands)

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, 2019, the date of the financial statements, through September 23, 2019, the date of the issuance of the financial statements. The College had no reportable subsequent events between June 30, 2019 and September 23, 2019.

2. Contributions Receivable

Contributions receivable at June 30, 2019 and 2018 were as follows:

	2019	2018
Due in:		
Less than one year	$ 7,712	$ 8,379
One to five years	5,691	9,498
More than five years	2,308	1,289
	15,711	19,166
Unamortized discount	(397)	(651)
Allowance for doubtful contributions	(304)	(331)
	$ 15,010	$ 18,184

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 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.

(dollars in thousands)

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, 2019 and 2018 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, 2019 and 2018 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 policy minimum of 3.5% and a maximum of 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, 2019	2,499,266	$ 855.00	$ 39.04
June 30, 2018	2,516,091	$ 849.01	$ 33.50

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 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. There were no underwater endowment funds for June 30, 2019 and 2018.

(dollars in thousands)

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 Management of Institutional Funds Act (UMIFA) 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 ($10,137 and $12,760 for 2019 and 2018) as released from donor restriction.

A summary of investment activity for fiscal years 2019 and 2018 is as follows:

	Endowment funds	Annuity and Life Income funds	Other	2019 Total	2018 Total
Investments, beginning of the year	$ 2,115,768	$ 41,003	$ 22,929	$ 2,179,700	$ 2,017,871
Contributions	4,278	1,556		5,834	6,022
Maturities of annuity and life income funds		(3,547)		(3,547)	(2,622)
Other		835	1,431	2,266	893
Transfers in	3,478		13,424	16,902	3,817
Transfers out	(34,930)			(34,930)	(3,929)
	(27,174)	(1,156)	14,855	(13,475)	4,181
Investment return	146,528	1,389	(123)	147,794	247,804
Investment management fees	(8,320)			(8,320)	(6,579)
	138,208	1,389	(123)	139,474	241,225
Payments to annuity and life income beneficiaries		(1,595)		(1,595)	(1,684)
Endowment spending distribution					
Without Donor Restrictions	(91,555)			(91,555)	(78,503)
With Donor Restrictions	(3,694)			(3,694)	(3,390)
	(95,249)	(1,595)	-	(96,844)	(83,577)
Investments, end of year	$ 2,131,553	$ 39,641	$ 37,661	$ 2,208,855	$ 2,179,700

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.

(dollars in thousands)

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

	Investments Measured at NAV	Level I	Level II	Level III	Total
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	$ 1,292,615	$ 637,273	$ 276,383	$ 2,584	$ 2,208,855

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:

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

A summary of investments, measured by the fair value hierarchy at June 30, 2018 were as follows:

(dollars in thousands)

	Investments Measured at NAV	Level I	Level II	Level III	Total
Endowment					
Cash and Cash Equivalents	$ -	$ 170,036	$ -	$ -	$ 170,036
Fixed Income	41,796	84,544			126,340
Public Equity	317,460	270,931	312,676		901,067
Real Assets	206,102	25,182	24,222		255,506
Private Equity	385,741				385,741
Alternative Strategies	277,078				277,078
Total Endowment	1,228,177	550,693	336,898	-	2,115,768
Life income		41,003			41,003
Other		20,073	358	2,498	22,929
Total Investments	$ 1,228,177	$ 611,769	$ 337,256	$ 2,498	$ 2,179,700

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, 2018 is as follows:

	Fair Value June 30, 2017	Investment return	Purchases	Sales	Fair Value June 30, 2018
Other Investments	$ 2,615	$ 11	$ 310	$ (438)	$ 2,498

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

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, 2019 and 2018:

	2019 Unfunded Commitments	2018 Unfunded Commitments
Private equity	$ 323,938	$ 279,964
Real Assets	184,347	171,316
Alternative Strategies	67,468	57,999
Total unfunded commitments	$ 575,753	$ 509,279

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.

(dollars in thousands)

	2019	2018
Cash and cash equivalents	$ 25,352	$ 34,490
Short term investments	15,630	15,288
Accounts receivable to be collected within 12 months, net	1,504	1,563
Student loans receivable to be collected within 12 months, net	110	121
Employee mortgage loans to be collected within 12 months	526	514
Contributions receivable without donor restriction to be collected within 12 months	355	463
Board-approved endowment distribution for current operations	97,081	95,079
Financial assets available at year end for current use	$ 140,558	$ 147,518

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, the College maintains no working capital lines of credit, but 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 $823 million at June 30, 2019 and $840 million at June 30, 2018. Management estimates as of June 30, 2019 the College's investments of $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, 2019 and 2018 consisted of the following:

	2019	2018
Land	$ 5,757	$ 5,757
Buildings and improvements	483,020	469,882
Construction in progress	105,904	43,244
Equipment	15,961	15,221
Works of art, historical treasures and similar assets	4,726	4,680
	615,368	538,784
Accumulated depreciation	(171,392)	(160,521)
	$ 443,976	$ 378,263

Interest payments totaling $2,353 and $1,116 were capitalized in 2019 and 2018, respectively.

(dollars in thousands)

6. Deferred Payments and Other Liabilities

Deferred payments and other liabilities at June 30, 2019 and 2018 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.

	2019	2018
Conditional gift liability	$ 885	$ -
Charitable gift annuity liabilities	8,166	8,051
Life income and unitrusts	6,533	6,951
Postretirement health benefit	15,036	14,468
Employees and former employees	6,321	5,945
Conditional asset retirement obligation	1,106	1,089
	$ 38,047	$ 36,504

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, 2019 and 2018 are as follows:

	2019	2018
Change in accumulated postretirement benefit obligation		
Postretirement benefit obligation at beginning of year		
Actives not fully eligible to retire	$ 7,964	$ 9,079
Actives fully eligible to retire	4,127	4,811
Retirees	2,377	2,865
Total	14,468	16,755
Service cost	545	715
Interest cost	520	619
Actuarial (gain) / loss	(215)	(3,358)
Benefits paid	(282)	(262)
Postretirement benefit obligation at end of year		
Actives not fully eligible to retire	7,792	7,964
Actives fully eligible to retire	4,592	4,127
Retirees	2,652	2,377
Total	$ 15,036	$ 14,468

(dollars in thousands)

	2019	2018
Change in plan assets		
Employer contribution	$ 282	$ 262
Benefits paid	(282)	(262)
Fair value of plan assets at end of year	$ -	$ -
Funded status		
Postretirement benefit obligation at end of year	$ 15,036	$ 14,468
Fair value of plan assets at end of year	-	-
Funded status end of year	15,036	14,468
Current liability	450	534
Non-current liability	14,586	13,934
Total	$ 15,036	$ 14,468

	2019	2018
Components of the net periodic postretirement benefit cost		
Service cost	$ 545	$ 715
Interest cost	520	619
Amortization of actuarial (gain) / loss	(187)	40
Total	$ 878	$ 1,374
OPEB changes other than net periodic postretirement benefit cost		
New actuarial (gain) / loss	$ (215)	$ (3,358)
Amortization of unrecognized amounts	187	(40)
Total	$ (28)	$ (3,398)
Unrecognized amounts in the following year:		
Net actuarial (gain) / loss	$ (1,755)	$ (1,727)
Total	$ (1,755)	$ (1,727)
Amortization amounts in following year (estimate)		
Net actuarial (gain) / loss	$ (25)	$ (27)
Total	$ (25)	$ (27)

(dollars in thousands)

	2019	2018
Assumptions and effects		
Medical trend rate next year	5.75 %	6.00 %
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	3.37 %	4.07 %
Discount rate used to value net periodic postretirement benefit cost	4.07 %	3.75 %
Effect of a 1% increase in health care cost trend rate on:		
Interest cost plus service cost	$ 215	$ 278
Accumulated postretirement benefit obligation	$ 2,634	$ 2,459
Effect of a 1% decrease in health care cost trend rate on:		
Interest cost plus service cost	$ (170)	$ (217)
Accumulated postretirement benefit obligation	$ (2,123)	$ (2,036)
Measurement date	6/30/2019	6/30/2018

Year Beginning July 1st	Estimated Future Benefit Payment
2019	450
2020	495
2021	552
2022	610
2023	647
2024 - 2028	3,990

(dollars in thousands)

7. Bonds and Letters of Credit

Balances of bonds and notes payable outstanding at June 30, 2019 and 2018 were:

	Effective Interest Rate	Maturity Dates	2019 Principal	2018 Principal
Swarthmore Borough Authority				
2011 Revenue Bonds	2.27%	9/15/2018	$ -	$ 26,665
2011B Revenue Bonds	2.40%	2019-2021	12,300	12,630
2011C Revenue Bonds	2.85%	2019-2021	26,180	29,545
2013 Revenue Bonds	3.86%	2019-2043	37,420	39,585
2015 Revenue Bonds	3.65%	2019-2045	52,225	53,165
2016A Revenue Bonds	1.81%	2019-2030	53,530	56,810
2016B Revenue Bonds	2.95%	2019-2046	20,690	21,040
2018 Revenue Bonds	3.64%	2023-2049	93,000	-
			295,345	239,440
Unamortized Bond Premium				
Less: Deferred financing costs			37,498	23,342
			(1,598)	(1,101)
Total Bonds payable			$ 331,245	$ 261,681

The College bond ratings by Moody's and Standard & Poor's were Aaa/AAA for the years ended June 30, 2019 and 2018. 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.

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.

(dollars in thousands)

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 June 29, 2011, the College issued $26,665 aggregate principal amount of 2011 Revenue Bonds (2011 Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used to refund the 2001 Revenue Bonds, par value of $29,320, which were scheduled to mature on September 15, 2031 and to fund the costs of issuing the 2011 Bonds. On September 15, 2018, the 2011 Revenue Bonds matured and the College repaid $26,665 aggregate principal.

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, expiring 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, expiring on December 16, 2019.

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

	Principal	Interest	Total
2019-2020	$ 9,690	$ 13,504	$ 23,194
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

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 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 $6,507 in 2019 and $6,289 in 2018.

(dollars in thousands)

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 $1,098 and $1,043 at June 30, 2019 and 2018 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, 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	$ 1,028,961	$ 1,355,304	$ 2,384,265

(dollars in thousands)

Net assets at June 30, 2018 were designated or allocated to:

Nature of Net Assets	**Without Donor Restrictions**	**With Donor Restrictions**	**Year Ended June 30, 2018 Total Net Assets**
Undesignated	$ 22,902	$ -	$ 22,902
Donor-Restricted		30,931	30,931
Annuity and life income funds	17,272	10,252	27,524
Student loans	1,299		1,299
Donor-restricted endowment funds:			
General College support		317,387	317,387
Scholarships		358,486	358,486
Professorships		339,984	339,984
Academic support		193,879	193,879
Other		66,095	66,095
Quasi endowment funds	839,936		839,936
Net Investment in property and equipment	121,159	312	121,471
Total	$ 1,002,568	$ 1,317,326	$ 2,319,894

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, 2019 there were no 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, 2019 and 2018 were $213,860 and $209,422.

(dollars in thousands)

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment total, June 30, 2017	$ 784,174	$ 1,171,358	$ 1,955,532
Contributions	354	5,069	5,423
Transfers	(5,470)	3,942	(1,528)
Investment return	145,960	98,853	244,813
Investment management fees	(6,579)	-	(6,579)
Endowment spending distribution	(78,503)	(3,390)	(81,893)
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

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.

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

	Instruction	Academic Support	Student Services	Institutional Support	Auxiliary Activities	Research and Public Service	Operations and Maintenance	Total
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

(dollars in thousands)

Functional expenses for the years ended June 30, 2018 are as follows:

	Instruction	Academic Support	Student Services	Institutional Support	Auxiliary Activities	Research and Public Service	Operations and Maintenance	Total
Salaries and wages	$ 31,097	$ 9,243	$ 6,771	$ 13,532	$ 3,106	$ 2,228	$ 7,732	$ 73,709
Employee benefits	8,793	2,787	1,964	4,714	1,221	516	2,851	22,846
Operating Expenses	6,076	9,890	5,749	9,454	9,453	2,679	9,615	52,916
Allocations:								
Operations and maintenance	5,355	2,635	1,198	556	10,107	347	(20,198)	-
Depreciation	3,314	1,631	742	344	6,256	214	-	12,501
Interest expense	2,056	1,011	460	214	3,881	133	-	7,755
Total Operating Expenses	$ 56,691	$ 27,197	$ 16,884	$ 28,814	$ 34,024	$ 6,117	$ -	$ 169,727

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 Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act impacts the College in several ways, including new excise taxes on net investment income, increases to unrelated business taxable income (UBTI), changes to the net operating loss rules, repeal of the alternative minimum tax, and the computation of UBTI separately for each unrelated trade or business.

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 the years June 30, 2019 at the 1.4% excise tax rate for the tax year 2018. The current liability of the excise tax was $1,824. As of June 30, 2019 there was no deferred excise tax expense resulting from net unrealized gains (and losses) on investments.

Marjay Productions, Inc. is a for-profit corporation subject to federal income taxes under the Internal Revenue Code. Through June 30, 2019, 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, 2019, 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, 2019 and 2018, the College had outstanding commitments for construction contracts and purchase orders of $34,893 and $80,239, respectively.