Financial Statements and Report of Independent Certified Public Accountants

Duquesne University of the Holy Spirit

June 30, 2020 and 2019

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Duquesne University of the Holy Spirit

Report on the financial statements

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Grant Thornton LLP

Philadelphia, Pennsylvania
October 12, 2020

Duquesne University of the Holy Spirit

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019
(in thousands)

	2020	2019
Assets		
Cash and cash equivalents	$ 56,358	$ 34,206
Accounts receivable, net	23,783	23,596
Pledges receivable, net	13,109	11,829
Deferred charges and other assets	7,310	7,828
Loans receivable, net	8,899	10,269
Investments	459,223	478,891
Property, plant and equipment, net	281,979	262,406
Right-of-use assets	6,278	5,136
Assets in escrow related to debt service and construction	12,325	35,160
Total assets	$ 869,264	$ 869,321
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	$ 42,648	$ 36,164
Annuities payable	337	396
Deferred revenues and deposits	40,229	39,861
Accumulated postretirement benefits	6,189	5,856
Agency funds	866	1,499
Debt and lease obligations	181,026	188,873
Liabilities associated with investments	3,633	3,813
Conditional asset retirement obligations	3,484	3,250
Federal loan funds	9,727	11,851
Total liabilities	288,139	291,563
Net assets:		
Without donor restrictions	380,736	373,954
With donor restrictions	200,389	203,804
Total net assets	581,125	577,758
Total liabilities and net assets	$ 869,264	$ 869,321

The accompanying notes are an integral part of these financial statements.

Duquesne University of the Holy Spirit

STATEMENTS OF ACTIVITIES

Years ended June 30, 2020 and 2019
(in thousands)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating revenues:				
Tuition and fees, net	$ 227,365	$ -	$ 227,365	$ 223,438
Auxiliary enterprises, net	25,272	-	25,272	33,264
Grants and contracts	2,968	13,401	16,369	17,409
Gifts and pledges	1,021	7,803	8,824	7,368
Endowment earnings distributed for operations	9,497	6,190	15,687	11,595
Working capital earnings distributed for operations	3,764	-	3,764	2,950
Investment income (loss)	1,352	(9)	1,343	1,449
Gain from the sale of property, plant and equipment	6,435	-	6,435	72,954
Other	4,561	-	4,561	5,724
Net assets released from restrictions	27,131	(27,131)	-	-
Total operating revenues	309,366	254	309,620	376,151
Operating expenses:				
Instructional	123,300	-	123,300	123,351
Institutional support	51,610	-	51,610	50,901
Auxiliary enterprises	38,784	-	38,784	42,111
Academic support	39,733	-	39,733	40,359
Student services	20,975	-	20,975	17,787
Public service	3,334	-	3,334	5,860
Research	8,088	-	8,088	7,777
Total operating expenses	285,824	-	285,824	288,146
Excess of operating revenues over operating expenses	23,542	254	23,796	88,005
Nonoperating revenues and expenses:				
Gifts and pledges	(10)	4,019	4,009	4,939
Return on investments	(2,029)	(1,526)	(3,555)	8,545
Endowment earnings distributed for operations	(9,497)	(6,190)	(15,687)	(11,595)
Working capital earnings distributed for operations	(3,764)	-	(3,764)	(2,950)
Net periodic benefit cost other than service cost	(500)	-	(500)	2,248
Costs associated with separation agreements	(960)	-	(960)	(1,189)
Loss on the defeasance of debt	-	-	-	(302)
Other	-	28	28	(314)
Net nonoperating revenues and expenses	(16,760)	(3,669)	(20,429)	(618)
Change in net assets	6,782	(3,415)	3,367	87,387
Net assets, beginning of year	373,954	203,804	577,758	490,371
Net assets, end of year	$ 380,736	$ 200,389	$ 581,125	$ 577,758

The accompanying notes are an integral part of these financial statements.

Duquesne University of the Holy Spirit

STATEMENT OF ACTIVITIES

Year ended June 30, 2019
(in thousands)

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
Tuition and fees, net	$ 223,438	$ -	$ 223,438
Auxiliary enterprises, net	33,264	-	33,264
Grants and contracts	2,972	14,437	17,409
Gifts and pledges	780	6,588	7,368
Endowment earnings distributed for operations	5,717	5,878	11,595
Working capital earnings distributed for operations	2,950	-	2,950
Investment income (loss)	1,455	(6)	1,449
Gain from the sale of property, plant and equipment	72,954	-	72,954
Other	5,724	-	5,724
Net assets released from restrictions	18,494	(18,494)	-
Total operating revenues	367,748	8,403	376,151
Operating expenses:			
Instructional	123,351	-	123,351
Institutional support	50,901	-	50,901
Auxiliary enterprises	42,111	-	42,111
Academic support	40,359	-	40,359
Student services	17,787	-	17,787
Public service	5,860	-	5,860
Research	7,777	-	7,777
Total operating expenses	288,146	-	288,146
Excess of operating revenues over operating expenses	79,602	8,403	88,005
Nonoperating revenues and expenses:			
Gifts and pledges	(7)	4,946	4,939
Return on investments	5,205	3,340	8,545
Endowment earnings distributed for operations	(5,717)	(5,878)	(11,595)
Working capital earnings distributed for operations	(2,950)	-	(2,950)
Net periodic benefit cost other than service cost	2,248	-	2,248
Costs associated with separation agreements	(1,189)	-	(1,189)
Loss on the defeasance of debt	(302)	-	(302)
Other	-	(314)	(314)
Net nonoperating revenues and expenses	(2,712)	2,094	(618)
Change in net assets	76,890	10,497	87,387
Net assets, beginning of year	297,064	193,307	490,371
Net assets, end of year	$ 373,954	$ 203,804	$ 577,758

The accompanying notes are an integral part of this financial statement.

Duquesne University of the Holy Spirit

STATEMENTS OF CASH FLOWS

Years ended June 30, 2020 and 2019
(in thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 3,367	$ 87,387
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	18,919	19,956
Realized and unrealized losses (gains) on investments	7,765	(5,734)
Gifts restricted for long-term purposes	(4,222)	(5,768)
Provision for doubtful accounts	840	642
Gain on disposal of property, plant and equipment	(6,450)	(72,751)
Loss on defeasance of debt	-	302
Changes in operating assets and liabilities:		
Increase in receivables	(890)	(14,112)
Decrease (increase) in deferred charges and other assets	518	(1,173)
Increase in accounts payable and accrued liabilities	5,587	6,183
Increase in annuities payable	33	158
Increase in deferred revenues and deposits	368	9,107
(Decrease) increase in agency funds	(633)	466
Increase (decrease) in conditional asset retirement obligations	602	(123)
Net cash provided by operating activities	25,804	24,540
Cash flows from investing activities:		
Purchases of investments	(87,753)	(149,560)
Proceeds from the sale/redemption of investments	99,656	61,621
Change in liabilities associated with investments	(180)	(37)
Deposits with trustee for construction	-	(30,977)
Withdrawals from trustee for construction	21,493	6,808
Deposits of funds held in escrow related to debt service	(460)	(296)
Withdrawals of funds held in escrow related to debt service	1,802	1,214
Receipt of federal loan funds	430	671
Payments of federal loan funds and annuities	(2,646)	(1,513)
Proceeds from the sale of property	9,423	102,077
Expenditures for land, buildings and equipment	(42,524)	(31,226)
Net cash used in investing activities	(759)	(41,218)
Cash flows from financing activities:		
Proceeds from the issuance of new debt	-	30,977
Repayments of long-term borrowings	(7,068)	(13,065)
Collection of gifts restricted for long-term purposes	4,175	10,075
Net cash (used in) provided by financing activities	(2,893)	27,987
Increase in cash and cash equivalents	22,152	11,309
Cash and cash equivalents, beginning of year	34,206	22,897
Cash and cash equivalents, end of year	$ 56,358	$ 34,206
Supplemental disclosures:		
In-kind gifts consisting of contributed services	$ 624	$ 639
Interest paid	$ 6,698	$ 6,571
Accounts payable related to construction in progress	$ 2,317	$ 1,087

The accompanying notes are an integral part of these financial statements.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Organization

Duquesne University of the Holy Spirit (the "University") is a private, Catholic university, organized as a tax-exempt, nonprofit corporation. The University's principal sources of revenue include student tuition and fees, auxiliary revenues, grants, and gifts.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed stipulations. Accordingly, net assets of the University and changes therein are classified and reported as follows:

- *Without donor restrictions* - Net assets that are not subject to donor-imposed stipulations.

- *With donor restrictions* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time. Also included in this category are other net assets with donor restrictions which are subject to donor-imposed stipulations or by law that they be maintained in perpetuity by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Taxes

The University has been determined to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") of 1986. As a result, no provision for taxes has been made in the accompanying financial statements.

The University adopted guidance for uncertainty in income taxes, which provides criteria for the recognition and measurement of uncertain tax positions. This guidance requires that an uncertain tax position should be recognized only if it is "more likely than not" that the position is sustainable based on its technical merits. Recognizable tax positions should then be measured to determine the amount of benefit recognized in the financial statements. The University files U.S. federal, state, and local income tax returns, and no returns are currently under examination. The University continues to evaluate its tax positions pursuant to the principles of such guidance and has determined that there is no material impact on the University's financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of less than three months. Cash equivalents are stated at cost, which approximates fair value.

Concentration of Credit Risk

The University maintains cash and cash equivalent balances with banking institutions and brokerage companies. At June 30, 2020, the amounts on deposit at the banking institutions and the amounts on deposit at the brokerage companies exceeded the amounts that would be covered by the Federal Deposit Insurance Corporation ("FDIC") and the Securities Investor Protection Corporation ("SIPC"), respectively. In management's opinion, the amounts in excess of FDIC and SIPC limits do not pose significant risk to the University.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risks and values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

The COVID-19 pandemic, whose effects first became known in early 2020, is having a broad and negative impact on commerce and financial markets around the world. The extent of the impact of COVID-19 on the University's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the University's consolidated financial position and changes in net assets and cash flows is uncertain and the accompanying consolidated financial statements include no adjustments relating to the effects of this pandemic. The University has and will continue to make every effort to mitigate the current and future financial impacts of COVID-19.

Pledges Receivable

Pledges receivable from fund-raising campaigns are recorded by the University when the unconditional promise to give (pledge) is made and are recorded at fair value using a discount rate commensurate with the risks associated with the pledge.

The allowance for doubtful accounts on pledges receivable is based upon management's judgement, including such factors as prior collection history and type of receivable. The University writes off receivables when they become uncollectible, with the expense presented as an offset to gift revenue, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The following table shows the estimated useful lives of property, plant, and equipment:

Land improvements	10 years
Buildings	40 years
Building improvements	10 - 40 years
Furniture, equipment, and software	5 - 15 years

The University reviews its property, plant, and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. No impairment charges were recorded by the University in 2020 or 2019.

Deferred Revenues and Deposits

Deferred revenues and deposits represent revenues currently received for programs or activities to be conducted primarily in the next fiscal year, such as summer and fall tuition and fees and room and board. Also included in deferred revenues and deposits is deferred revenue related to sponsorship agreements and commitment deposits received from certain vendors, which will be recognized as income over the lives of the related agreements. In addition, included in deferred revenues are funds received related to certain refundable grants. These amounts will be recognized as income as the conditions are met in accordance with the underlying terms of the grants.

The activity and balances for deposits and deferred revenues from contracts with customers are shown in the following table (in thousands).

	Tuition, Fees, Room and Board	Sponsored Projects	Third-Party Vendors/ Sponsorship Agreements	Other	Total
Balance at June 30, 2018	$ 11,841	$ 6,376	$ 12,390	$ 147	$ 30,754
Revenue recognized	(11,841)	(6,440)	(1,850)	(147)	(20,278)
Amounts recorded for future performance obligations	11,045	474	17,822	44	29,385
Balance at June 30, 2019	11,045	410	28,362	44	39,861
Revenue recognized	(11,045)	(834)	(1,664)	(44)	(13,587)
Amounts recorded for future performance obligations	9,788	895	3,103	169	13,955
Balance at June 30, 2020	$ 9,788	$ 471	$ 29,801	$ 169	$ 40,229

Liabilities Associated with Investments

The University invests capital on behalf of a religious entity that shares the University's Catholic ministry and educational missions. Accordingly, the University reports an equal asset and liability in the statements of financial position representing the fair value of investments managed on behalf of the entity.

Tuition and Fee Revenue

The University recognizes revenue from student tuition and fees within the fiscal year in which educational services are provided. Institutional aid, in the form of scholarships and grants-in-aid, includes amounts funded by endowments and gifts, reduces the amount of revenue recognized.

Revenue for tuition and fees for all of the summer terms are recognized as performance obligations are met. Because the summer academic terms span two reporting periods, a portion of the revenue for the summer terms are included in deferred revenue at June 30, 2020 and 2019. Deferred revenues for the summer terms are shown in Note A. Deferred Revenues and Deposits.

The following details the gross and net amounts of tuition and fees for fiscal years ended June 30, 2020 and 2019 (in thousands):

	2020	2019
Tuition and fees	$ 350,166	$ 344,254
Less institutional aid	(122,801)	(120,816)
Tuition and fees, net	$ 227,365	$ 223,438

Auxiliary Services Revenue

Auxiliary services exist to furnish goods or services to students, faculty, staff, or incidentally to the general public. Fees charged for auxiliary services are directly related to, although not necessarily equal to, the cost of the goods or services provided.

Auxiliary services revenue includes activities for student housing and dining facilities, parking services, and other miscellaneous activities. Institutional aid specifically for defraying the cost of room and board reduces the amount of revenue recognized.

Revenues for auxiliary services are recognized as performance obligations are met over the academic term. Because the summer terms span two reporting periods, a portion of the revenue for the summer terms are included in deferred revenue at June 30, 2020 and 2019. Deferred revenues for the summer terms are shown in Note A. Deferred Revenues and Deposits.

The following details the gross and net amounts of auxiliary services revenue for fiscal years ended June 30, 2020 and 2019 (in thousands):

	2020	2019
Auxiliary enterprises	$ 37,118	$ 47,180
Less auxiliary institutional aid	(11,846)	(13,916)
Auxiliary enterprises, net	$ 25,272	$ 33,264

Gifts and Grants

The University reports gifts and grants of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (i.e., when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The University reports gifts of land, buildings, and equipment as net assets without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when donated assets are placed in service.

The University receives sponsored project funding from various governmental, corporate, and private organizations, which are recorded as grants and contracts revenue. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or it may be a nonreciprocal transaction in which the resources provided are for the benefit of the University, the funding organization's mission, or the public at large. Contracts are generally without donor restrictions.

Revenues from exchange transactions are recognized as performance obligations are satisfied, which in some cases are as related costs are incurred.

Revenues from non-exchange transactions (contributions) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied.

Investments and Investment Income

In accordance with guidance on accounting for certain investments held by not-for-profit organizations, investments are recorded at fair value. A summary of the inputs used in valuing the University's investments as of June 30, 2020 and 2019 is included in Note B.

Interest income, unrealized gains and losses on investments, and realized gains and losses from the sale of investments are accounted for in the statements of activities in the net asset classification that holds the investments, except for income and gains and losses derived from investments of endowment and funds functioning as endowment, which are accounted for in the net asset classification designated by the donor or by law.

Federal Student Loan Program

The University administers and contributes a portion of the total funds available for various student loan programs, including Perkins, Nursing, Health Profession, and Nursing Faculty Loans. The loan programs are financed primarily by the U.S. government. Loans are made to qualified students and are reported as loans receivable, net in the statements of financial position. Upon termination of the programs, the amounts representing net government advances (federal loan funds), which are reflected as a liability of approximately $9.7 million and $11.9 million at June 30, 2020 and 2019, respectively, will be returned to the government.

Fair Value

The estimated fair value of all financial instruments has been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in developing fair value estimates. Accordingly, the estimates included herein are not necessarily indicative of amounts the University could realize in current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value amounts. All other financial instruments, other than investments as discussed above, are recorded at historical cost, which approximates fair value.

In determining fair value, the University uses various approaches, including Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*, which establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset based on market data obtained from sources independent of the organization. Unobservable inputs reflect an organization's estimates about the assumptions market participants would use in pricing an asset and are developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 - Valuations based on quoted market prices in active markets for identical assets that the organization has the ability to access. As valuations are based on quoted market prices that are readily available in an active market, valuations of these products do not entail a significant degree of judgment;

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly; and

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The University also reports under the FASB update for *Investments in Certain Entities that Calculate Net Asset Value ("NAV") per Share (or its Equivalent)*, which permits, as a practical expedient, the University to measure the fair value of an investment that is within the scope of the update on the basis of the net asset value per share of the investment or its equivalent determined as of the University's fiscal year end. Under this approach, certain attributes for the investment, such as restrictions and transaction prices from principal-to-principal or brokered transactions, are not considered in measuring the fair value of an investment.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the liquidity of markets and other characteristics particular to the transaction. To the extent that a valuation is based on models or inputs that are less observable in the market, the determination of fair value requires more judgment.

The University uses prices and inputs that are current as of the measurement date, which are obtained through multiple third-party custodians from independent pricing services.

Guarantees and Commitments

In the ordinary course of business, the University enters into contracts with third parties pursuant to which the third parties provide services on behalf of the University. In many of the contracts, the University agrees to indemnify the third-party service provider under certain circumstances. The terms of the indemnity vary from contract to contract, and the amount of the indemnification liability, if any, cannot be determined. The University also has minimum purchase requirements related to certain utility contracts that have been met annually through June 30, 2020.

Pursuant to its bylaws, the University provides indemnification to directors, officers, and, in some cases, employees and agents against certain liabilities incurred as a result of their service on behalf of or at the request of the University and also advance on behalf of covered individual costs incurred in defending against certain claims, if any, subject to written undertakings by each such individual to repay all amounts so advanced if it is ultimately determined that the individual is not entitled to indemnification.

Insurance Liabilities

The University is self-insured through an agreement with third-party providers to provide medical coverage for all full-time University employees. A liability for estimated incurred but unreported claims has been recorded in accounts payable and accrued expenses at June 30, 2020 and 2019, based upon a third-party evaluation of claims and management's analysis of past claims history. The third-party evaluation of claims includes assumptions and methods that were reviewed by University management.

The University is also self-insured for certain other activities, principally workers' compensation. Liabilities have been established based on third-party estimates using the University's historical loss experience. The self-insurance accrual is subject to periodic adjustment by the University based on actual loss experience factors.

Nonoperating Activities

Nonoperating activities include gifts and pledges related to endowments and earnings on funds functioning as endowments, bequests, annuity and loan activity restricted in perpetuity, return on investments less amounts distributed, and net periodic benefit costs other than service costs. They also include items such as costs associated with separation agreements and losses on the defeasance of bonds.

NOTE B - INVESTMENTS

A summary of the University's investments measured at fair value at June 30, 2020 and 2019, based on level within the fair value hierarchy, is as follows (in thousands):

	2020	2019
Level 1 - Quoted Prices in Active Markets		
Equity securities - all cap	$ 1,847	$ 2,018
Mutual funds:		
Money market	5,538	22,980
Large cap	100,852	94,856
Small cap	8,971	11,253
Global and international	11,690	26,672
Other	6,208	5,592
Receivable for investments redeemed	-	1,060
	135,106	164,431
Level 2 - Significant Observable Inputs		
Debt securities issued by U.S. Treasury and other U.S. agencies	16,023	16,586
Debt issued by foreign government	1	1
Corporate debt securities	19,576	13,853
Asset-backed securities	2,480	752
	38,080	31,192
Total investments measured at fair value	173,186	195,623
Investments measured at net asset value	286,037	283,268
Total investment assets	$ 459,223	$ 478,891

Investments reflected in the statements of financial position as of June 30, 2020 and 2019 are summarized as follows (in thousands):

	2020	2019
Endowment and funds functioning as endowment	$ 366,728	$ 382,437
Long-term working capital	81,127	85,537
Investments managed for others	3,633	3,813
Annuities	4,338	4,414
Deferred compensation and other	3,397	2,690
Total	$ 459,223	$ 478,891

As of June 30, 2020 and 2019, there were no significant concentrations of investments as no individual investment exceeded 10% of total assets.

Descriptions of the valuation techniques applied to the major categories of investments measured at fair value are outlined below.

- The fair value of common, preferred, and foreign stocks and exchange-traded notes is valued using quoted market prices in active markets.

- Mutual funds are open-ended Securities and Exchange Commission registered funds with daily quoted market prices. The mutual funds allow investors to sell their interests to the fund at the published daily quoted market prices, with no restrictions on redemptions.

- Government securities, government agency securities, corporate fixed-income securities, and asset-backed mortgage securities, including residential mortgage-backed securities and commercial mortgage-backed securities, are valued based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

- Limited liability partnerships are partnerships created and administered by a general partner who invests either directly in a specified investment strategy or indirectly through other limited liability partnerships in so called “fund of funds.” The underlying investments of these funds can be actively traded securities in the case of certain hedge fund strategies or illiquid and privately held equity investment, as in the case of private equity investments. The partnership documents outline the terms and conditions by which the general partner administers the partnership and its investments. Each limited partner owns a specified share of the partnership. These partnerships cannot be marketed to the public and are restricted, by regulation, to qualified investors. The underlying investments of these partnerships include many different types of investments, including interest rate swaps, commercial paper, foreign currency, private equity, short-term interest in common stock, and convertible bonds. These investments are carried at fair value as of June 30, 2020 and 2019, based on estimates developed by the management of the investment entities investing in the funds. These valuations include assumptions and methods that are reviewed by University management. The valuation of the partnership interest typically is performed at least quarterly by the general partner through unaudited statements and validated through annual audited financial statements. In certain partnerships, the readily available data on market values allows for monthly valuation of the partnership interest. As such, the fair value of these partnerships is measured using the net asset value as calculated by the custodian.

The University believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2020 and 2019. As the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

There has been no significant change in valuation techniques of investments during the year.

Interest, dividends, and realized and unrealized gains, net, are included as a component of both operating and nonoperating items.

Investment income for the years ended June 30, 2020 and 2019, exclusive of earnings on idle receipts, escrow funds and other deposits with trustees, consisted of the following (in thousands):

	2020	2019
Interest and dividends	$ 4,201	$ 2,804
Realized gains on marketable securities, net	1,028	4,373
Unrealized (losses) gains on marketable securities, net	(8,794)	1,362
Total	$ (3,565)	$ 8,539

The following table summarizes the investments valued at net asset value by strategy type (in thousands):

Description	2020 Number of Funds	2020 Fair Value	2019 Number of Funds	2019 Fair Value	Unfunded Commitment at June 30, 2020	Redemption Terms	Redemption Notice Period
Hedge funds	24	$ 264,326	24	$268,972	$ -	Daily, semi-monthly, monthly, quarterly, annually	1-93 days
Private equity	18	21,711	16	14,296	73,067	See below	
Total	42	$ 286,037	40	$283,268	$ 73,067		

Investments held by the University may be subject to restrictions related to the initial investment that limit the University's ability to redeem capital from such investments during a specified period of time subsequent to the University's investment of capital in such funds, typically known as a lock-up period. Capital available for redemption after the lock-up period has expired may also be subject to limits, which restrict the available redemption period, and require prior written notice, potentially limiting the University's ability to respond quickly to changes in market conditions. As of June 30, 2020, there is one fund with a market value of $4.8 million with lock-up expiring in fiscal year 2021.

Private equity investments cannot be redeemed upon request. Instead, the nature of these investments is that distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets of these funds would be liquidated over approximately one to ten years.

NOTE C - ENDOWMENT AND FUNDS FUNCTIONING AS ENDOWMENT

Endowment and funds functioning as endowment related activity (including amounts for pledges with donor restrictions) during the years ended June 30, 2020 and 2019, are as follows (in thousands):

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 212,318	$ 171,152	$ 383,470
Investment return:			
Investment income	2,196	1,185	3,381
Net realized and unrealized gains	(3,513)	(2,774)	(6,287)
Total	(1,317)	(1,589)	(2,906)
Contributions	-	3,984	3,984
Appropriation of endowment assets for expenditure	(9,394)	(6,177)	(15,571)
Additional authorized amounts	1	-	1
Change in endowment net assets	(10,710)	(3,782)	(14,492)
Endowment net asset, end of year	$ 201,608	$ 167,370	$ 368,978

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 139,436	$ 168,773	$ 308,209
Investment return:			
Investment income	1,450	833	2,283
Net realized and unrealized gains	2,822	2,508	5,330
Total	4,272	3,341	7,613
Contributions	-	4,916	4,916
Appropriation of endowment assets for expenditure	(5,717)	(5,878)	(11,595)
Additional authorized amounts	74,327	-	74,327
Change in endowment net assets	72,882	2,379	75,261
Endowment net asset, end of year	$ 212,318	$ 171,152	$ 383,470

The endowment and funds functioning as endowment net asset composition by type of fund at June 30, 2020 and 2019 is composed of the following (in thousands):

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Scholarship	$ 37,705	$ 85,321	$ 123,026
Operational purposes	163,903	81,713	245,616
Total	$ 201,608	$ 167,034	$ 368,642

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Scholarship	$ 39,445	$ 85,625	$ 125,070
Operational purposes	172,873	85,165	258,038
Total	$ 212,318	$ 170,790	$ 383,108

The University maintains a total return spending policy, which was 4.25% of the average fair market value of the previous 16 quarters ending December 31, 2018 and 2017, for the years ended June 30, 2020 and 2019, respectively. The University has adopted PA Trust Law Act 141, which requires a release of between 2% and 7%. Separating spending policy from investment policy permits asset allocation decisions to be made independently of the need for current income. The University's investment policy has a primary objective to achieve annualized total return, through appreciation and income, equal to or greater than the rate of inflation plus any spending and administrative expenses. This allows the University to maintain purchasing power of the investment pool. The assets are managed in a manner that will meet the primary investment objective, while attempting to limit volatility in the portfolio's market value, thereby limiting volatility in the year-to-year spending. The policy allows for a range of asset classes, including global equity and debt securities, real assets and alternative investments. The University includes its interest in perpetual trusts in endowment and funds functioning as endowment. Changes in the value of the endowment and funds functioning as endowment are included in the nonoperating section of the statements of activities along with the changes in long-term working capital, value of annuities and loan funds restricted in perpetuity.

From time to time, the fair value of assets of individual donor-restricted endowment funds may fall below the level required to be maintained in perpetuity in accordance with the applicable donor gift document, creating an "underwater" endowment fund. There were 51 endowment funds with underwater deficiencies totaling $0.6 million as of June 30, 2020, and six endowment funds with underwater deficiencies totaling $0.03 million as of June 30, 2019.

The University is one of 15 designated institutions of higher learning and other charitable organizations named as beneficiaries of The Dietrich Foundation (the “Foundation”) created by William S. Dietrich II pursuant to an Amended and Restated Declaration of Trust dated August 23, 2011. The Foundation came into existence as a Pennsylvania charitable trust on October 6, 2011 and was granted exemption from Federal income tax under Section 501(c)(3) of the IRC, specifically as a Type I charitable supporting organization under Section 509(a)(3). The Foundation’s primary mission is to provide ongoing and increasing financial support to a number of educational institutions, largely in the greater Pittsburgh area, including the University. The Foundation is governed by a board of nine trustees. Five of the trustees are Educational Institutions Trustees.

The Foundation is expected to make annual distributions that will be allocated among the pre-specified supporting organizations, which are divided into two primary groups: (a) six educational institutions, which collectively shall receive 90% of the annual distribution amount, and (b) nine other charitable organizations or component funds of such charitable organizations, which collectively shall receive 10% of the annual distribution amount. The University is included in the 90% group. As of June 30, 2020, the University’s distribution share was 2.5%.

The distributions to the University have been recorded as contribution revenue with donor restrictions as received and held in an endowment fund restricted in perpetuity designated by Dietrich Foundation Endowment Fund. The endowed fund will be managed in accordance with the University’s generally applicable investment and disbursement policies in effect for its other endowments restricted in perpetuity. Distributions made from the endowed fund will be used for the purpose authorized by the Foundation’s trustees. Distributions of $0.7 million were received in fiscal years 2020 and 2019.

NOTE D - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of June 30, 2020 and 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction not financed with debt, were as follows (in thousands):

	2020
Cash and cash equivalents	$ 56,358
Accounts and pledges receivable, net	36,892
Investments	459,223
Total financial assets	552,473
Add: authorized spending amount without donor restrictions for the next 12 months	11,326
Less: investments in board-designated endowments and long-term working capital	(282,735)
Less: financial assets with contractual or donor-imposed restrictions	(202,957)
Less: accounts receivable collectible beyond one year	(12,613)
Less: investments and other financial assets held for others	(8,642)
Financial assets available to meet cash needs for general expenditures within one year	$ 56,852

		2019
Cash and cash equivalents	$	34,206
Accounts and pledges receivable, net		35,425
Investments		478,891
Total financial assets		548,522
Add: authorized spending amount without donor restrictions for the next 12 months		10,379
Less: investments in board-designated endowments and long-term working capital		(297,856)
Less: financial assets with contractual or donor-imposed restrictions		(206,561)
Less: accounts receivable collectible beyond one year		(13,483)
Less: investments and other financial assets held for others		(10,459)
Financial assets available to meet cash needs for general expenditures within one year	$	30,542

As part of the University's liquidity management, financial assets are structured to be available as general expenditures, liabilities, and other obligations come due. In addition, cash in excess of daily requirements is invested in short-term, cash-equivalent investments. The University's $20 million line of credit expired in May 2020. The University closed on a one-year, $30 million line of credit in September 2020. Additionally, the University has quasi-endowment and working capital investments of $283 million. Although the University does not intend to spend from these investments other than the amounts authorized as part of its spending policy, amounts from these investments could be made available if necessary with Board of Directors approval. However, the quasi-endowment, donor-restricted endowment and working capital all contain investments with lock-up provisions that would reduce the total investments that could be made available within one year (see Note B for disclosure about investments).

NOTE E - RECEIVABLES

Accounts receivable at June 30, 2020 and 2019 consist of the following (in thousands):

		2020		2019
Student accounts receivable, net of allowance for doubtful accounts of $1,698 and $1,691 in 2020 and 2019, respectively	$	7,130	$	5,536
Grants and contracts receivable		1,430		2,050
Other accounts receivable, net of allowance for doubtful accounts of $2,290 and $2,315 in 2020 and 2019, respectively		15,223		16,010
Accounts receivable, net	$	23,783	$	23,596

After unsuccessful collection of past-due student accounts by two collections agencies for a 29-month period, the University will write the balance off.

Pledges receivable at June 30, 2020, and 2019 consist of the following (in thousands):

	2020	2019
Less than one year	$ 3,227	$ 2,625
One to five years	7,410	6,800
More than five years	6,365	6,313
Total pledges receivable	17,002	15,738
Less present value adjustment	(2,491)	(2,543)
Present value of pledges receivable	14,511	13,195
Less allowance for doubtful pledges	(1,402)	(1,366)
Pledges receivable, net	$ 13,109	$ 11,829

Contributions receivable over more than one year are discounted to fair value using an appropriate discount rate ranging from 1.2% to 3.4% applicable to the year in which the pledge was received.

Fund-raising costs were $4.5 million and $5.3 million for the years ended June 30, 2020 and 2019, respectively.

Loans Receivable

The University makes uncollateralized loans to students based on financial need. Loans are funded through federal government loan programs or institutional resources. At June 30, 2020 and 2019, student loans represented 1.0% and 1.2% of total assets, respectively.

At June 30, 2020 and 2019, student loans consisted of the following (in thousands):

	2020	2019
Federal government programs	$ 9,865	$ 11,242
Institutional programs	454	513
	10,319	11,755
Less allowance for doubtful loans:		
Beginning of year	(1,486)	(1,094)
Decrease (increase)	66	(392)
End of year	(1,420)	(1,486)
Loans receivable, net	$ 8,899	$ 10,269

The University participates in the following federal revolving loan programs: Perkins, Nursing, Health Profession, and the Nurse Faculty Loan Programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Outstanding loans canceled under the programs result in a reduction of the funds available for loans and a decrease in the liability to the government.

The past-due principal amounts under the student loan programs at June 30, 2020 and 2019 are as follows (in thousands):

	2020	2019
1 - 60 days past due	$ 107	$ 49
60 - 90 days past due	143	213
90+ days past due	1,411	1,547
Total past due	$ 1,661	$ 1,809

NOTE F - PROPERTY, PLANT AND EQUIPMENT AND CONDITIONAL ASSET RETIREMENT OBLIGATIONS

The University's investment in property, plant, and equipment at June 30, 2020 and 2019, consists of the following (in thousands):

	2020	2019
Land and land improvements	$ 46,682	$ 38,827
Building and building improvements	428,067	420,745
Furniture, equipment and software	84,971	83,871
Construction in progress	27,578	11,009
	587,298	554,452
Less accumulated depreciation	(305,319)	(292,046)
Property, plant and equipment, net	$ 281,979	$ 262,406

Depreciation expense was $20.8 million and $21.6 million for the years ended June 30, 2020 and 2019, respectively.

In June of 2020, the University closed on the sale of St. Martin's Hall and entered into a strategic partnership with Radnor Property Group ("Radnor") and Harrison Street Real Estate Capital ("Harrison Street") both of which are unrelated parties to the University, which will provide an enhanced, high-quality living experience for University students living in St. Martin's Hall. The sale of St. Martin's Hall resulted in the retirement of property, plant and equipment with a net book value of $2.5 million, the settlement of an asset retirement obligation of $0.4 million and the recognition of a gain on sale of $6.4 million.

In May of 2019, the University closed on the sale of its Tri Generation facility to a subsidiary of Clearway Energy, Inc. ("Clearway"), and the parties have entered into a 40-year energy services agreement. The strategic partnership creates an arrangement to interconnect the Duquesne System, owned and operated by Clearway, to a neighboring Clearway system. The connection will make operating both facilities more efficient and provide back-up capacity if either system needs to shut down for maintenance or other reasons. The new arrangement will also monetize excess steam capacity currently produced by the plant on Duquesne's campus, unlocking economic value for the University.

The sale of the Tri Generation facility resulted in the retirement of property, plant and equipment with a net book value of $22.3 million and the recognition of a gain on the sale of $73.0 million.

Substantially all property, plant and equipment are pledged under the University's debt agreements.

NOTE G - DEBT AND LEASE OBLIGATIONS

Long-term debt at June 30, 2020 and 2019, consists of the following (in thousands):

	Rate	2020	2019
University revenue and refunding bonds:			
1998 Series Bond	4.25 - 5.50%	$ -	$ 1,250
2011 Series A Bonds	3.00 - 5.50	8,545	9,710
2013 Series A Bonds	2.50 - 5.00	26,985	28,440
2014 Series A Bonds	2.00 - 5.00	24,275	26,125
2016 Series Bonds	2.25 - 5.00	55,445	56,755
2018 Series Bonds	5.00	17,760	17,760
2019 Series A Bonds	4.00 - 5.00	18,690	18,690
2019 Series B Bonds	4.12	10,000	10,000
		161,700	168,730
Lease obligations		6,194	5,074
Gross debt		167,894	173,804
Plus net unaccreted bond premium		13,990	16,005
Less deferred bond costs		(858)	(936)
Debt		181,026	188,873
Less debt service reserves and accounts		-	(1,696)
Net debt		$ 181,026	$ 187,177

Principal payments in future years are as follows (in thousands):

Year ending June 30,	Debt	Finance Leases	Operating Leases	Total
2021	$ 7,380	$ 25	$ 1,593	$ 8,998
2022	7,790	14	1,511	9,315
2023	8,180	-	1,261	9,441
2024	8,590	-	954	9,544
2025	9,020	-	234	9,254
Thereafter	145,520	-	1,047	146,567
	186,480	39	6,600	193,119
Less present value discount	-	(1)	(444)	(445)
Total	$ 186,480	$ 38	$ 6,156	$ 192,674

The schedule above includes the principal payments on the University's new revenue bonds, Series A and Series B of 2020, disclosed in Note M.

The University adopted ASC Topic 842 related to leases for the year ended June 30, 2019. The lessor arrangements create right-of-use assets and lease liabilities.

As of June 30, 2020, the University is a party to 32 operating leases and four finance leases as the lessee. The discount rate used for leases is the stated rate for the lease or the U.S. Treasury rate. Many of the University's leases provide for options to renew subsequent to the current term. The options to renew the leases were not considered when assessing the value of the right-of-use asset if the University was not reasonably certain that it would assert its option to renew the lease.

Quantitative information regarding the University's leases for the year ended June 30, 2020 is as follows (in thousands):

	Finance Leases	Operating Leases
Lease cost	$ 39	$ 1,450
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	$ 2	$ 1,452
Financing cash flows	37	-
Right of use assets obtained in exchange for new lease liabilities	$ -	$ 2,151
Right of use assets disposed or adjusted modifying lease liabilities	$ -	$ 108
Weighted-average remaining lease term (in years)	1.56	5.74
Weighted average discount rate	4.07%	1.81%

University Revenue and Refunding Bonds ("1998 Series") - In March 1998, the Allegheny County Higher Education Building Authority (the "Authority") issued $18.6 million of revenue refunding bonds to provide for the advance refunding of the remaining principal amount outstanding of the University's Revenue Bonds 1991 Series B, 1991 Series C, and the 1992 Series and to provide for bond issuance costs. These bonds are insured by Ambac.

The bonds mature annually in principal amounts ranging from $0.7 million to $0.9 million beginning in fiscal year 1999 and ended in fiscal year 2011, with original payments of $1.9 million, $3.4 million, and $3.3 million in fiscal 2013, 2016, and 2020, respectively. The fiscal 2013, 2016, and 2020 maturities are subject to mandatory debt service payments beginning in fiscal year 2012 and ending in fiscal year 2020 in amounts ranging from $0.6 million to $1.3 million.

Approximately $0.4 million of costs related to the issuance of these bonds has been deferred and is being amortized over the life of the bonds. In addition, approximately $0.3 million of the original issue premium is being accreted over the life of the bonds. All debt issuance costs are recorded in debt and lease obligations on the statement of financial position.

In connection with the issuance of these bonds, the University has agreed to certain covenants with which it must comply. The covenants provide that (1) the University cannot incur additional debt in excess of 2% of unrestricted gross revenues, unless the maximum annual debt service requirements on all outstanding long-term debt and the long-term debt to be incurred does not exceed 12% of the unrestricted gross revenues, and (2) the debt service coverage ratio on additional long-term debt is not less than 1.15 for the preceding fiscal year. Additionally, these bond covenants provide that the University cannot incur additional long-term debt in any amount, unless (1) the sum of the total debt service payments made during the preceding fiscal year and the maximum annual debt service requirements on the new long-term debt is less than 10% of the University's unrestricted operating revenues for the preceding fiscal year, and (2) the balance of the University's endowment is greater than 50% of all outstanding and proposed long-term debt.

The University Revenue Bonds 1998 Series were retired on March 2, 2020.

University Revenue Bonds ("Series A of 2011") - In February 2011, the Authority issued $53.5 million of revenue bonds to provide for a portion of (a) constructing, equipping, and furnishing an approximately 400-bed student housing facility on the University's main campus; (b) projects comprising the first phase of the University's 10-year housing renewal plan, including the renovation and improvement of the Duquesne Towers student housing facility; (c) miscellaneous capital expenditures now being incurred and expected to be incurred at the University's main campus over the next two years; (d) funding any interest during construction; and (e) to provide for bond issuance costs.

These bonds mature annually in principal amounts ranging from $15,000 to $14.5 million beginning in fiscal 2013 and ending in fiscal 2031.

Approximately $0.2 million of costs related to the issuance of these bonds has been deferred and is being amortized over the life of the bonds. In addition, approximately $0.5 million of original issue discount is being amortized over the life of the bonds. All debt issuance costs are recorded in debt and lease obligations on the statement of financial position.

In connection with the issuance of these bonds, the University has agreed to certain covenants with which it must comply. The covenants provide that the University cannot incur additional long-term debt in any amount, unless (1) debt service requirements on all long-term debt during the fiscal year, plus the maximum annual debt service requirements on the proposed additional long-term debt is less than 10% of the University's unrestricted operating revenues during the previous fiscal year, and (2) the University's expendable resources are greater than 50% of all outstanding and proposed long-term debt; however, that such test shall not be required to be met if the additional long-term debt is being incurred to refund existing long-term debt and the maximum annual debt service requirements on the proposed long-term debt are less than or equal to the maximum annual debt service requirements on the existing long-term debt. In May 2016, the outstanding bonds were partially defeased in connection with the Series of 2016 bonds described below.

University Revenue Bonds ("Series A of 2013") - In March 2013, the Authority issued $39.4 million of revenue bonds to provide for a portion of (a) renovations to the University's Duquesne Towers, St. Ann's Hall, and Libermann Hall; (b) other miscellaneous capital expenditures from the University's capital program; (c) the advance refunding of the Authority's outstanding University Revenue Bonds Series A of 2004; and (d) to provide for bond issuance costs.

These bonds mature annually in principal ranging from $0.6 million to $2.5 million beginning in fiscal 2014 and ending in fiscal 2034.

Approximately $0.2 million of costs related to the issuance of these bonds has been deferred and is being amortized over the life of the bonds. In addition, approximately $3.5 million of original issue premium is being amortized over the life of the bonds. All debt issuance costs are recorded in debt and lease obligations on the statement of financial position.

These bonds carry substantially the same covenants as the Series of 2011 bonds.

University Revenue Bonds ("Series A of 2014") - In December 2014, the Authority issued $39.2 million of revenue bonds to provide for a portion of (a) the advance refunding of the Authority's outstanding University Revenue Bonds Series A of 2005, (b) the advance refunding of the Authority's outstanding University Revenue Bonds Series B of 2005, (c) the advance refunding of the Authority's outstanding Revenue Bonds Series A of 2007, and (d) to provide for bond issuance costs.

These bonds mature annually in principal ranging from $1.0 million to $3.8 million beginning in fiscal 2015 and ending in fiscal 2033.

Approximately $0.3 million of costs related to the issuance of these bonds has been deferred and is being amortized over the life of the bonds. In addition, approximately $4.5 million of original issue premium is being amortized over the life of the bonds. All debt issuance costs are recorded in debt and lease obligations on the statement of financial position.

These bonds carry substantially the same covenants as the Series of 2011 bonds. In June 2019, the outstanding bonds were partially defeased in connection with the sale of the Tri Generation facility.

University Revenue Bonds ("Series of 2016") - In May 2016, the Authority issued $58.0 million of revenue bonds to provide for a portion of (a) the advance refunding of the Authority's outstanding University Revenue Bonds Series of 2008, (b) the advance refunding of the Authority's outstanding University Revenue Bonds Series A of 2011, and (c) to provide for bond issuance costs.

These bonds mature annually in principal ranging from $0.1 million to $7.8 million beginning in fiscal 2019 and ending in fiscal 2033.

Approximately $0.3 million of costs related to the issuance of these bonds has been deferred and is being amortized over the life of the bonds. In addition, approximately $9.8 million of original issue premium is being amortized over the life of the bonds. All debt issuance costs are recorded in debt and lease obligations on the statement of financial position.

These bonds carry substantially the same covenants as the Series of 2011 bonds. In June 2019, the outstanding bonds were partially defeased in connection with the sale of the Tri Generation Facility.

University Revenue Bonds ("Series of 2018") - In May 2018, the Authority issued $17.8 million of revenue bonds to provide for a portion of (a) upgrades and replacements to various mechanical systems, including HVAC, elevators, electrical switchgear, pneumatic controls, fan coil units, fire protection and sprinkler systems in the Koren Building, Fisher Hall, School of Law, College Hall, Richard King Mellon Hall of Science, Rockwell Hall, Libermann Hall, Gumberg Library, Administration Building and St. Ann Hall; (b) renovations to Rockwell Hall, Assumption Hall, St. Ann Hall, Richard King Mellon Hall of Science office and the Des Places Living Learning Centers; (c) roof replacements to Duquesne Union and Trinity Hall; (d) other miscellaneous capital expenditures on the main campus of the University; (e) funding capital interest; (f) funding of any necessary reserves; and (g) to provide for bond issuance costs.

These bonds mature annually in principal ranging from $3.6 million to $10.0 million beginning in fiscal 2032 and ending in fiscal 2034.

Approximately $0.2 million of costs related to the issuance of these bonds has been deferred and is being amortized over the life of the bonds. In addition, approximately $2.5 million of original issue premium is being amortized over the life of the bonds. All debt issuance costs are recorded in debt and lease obligations on the statement of financial position.

In connection with the issuance of these bonds, the University has agreed to certain covenants with which it must comply. The covenants provide that the University cannot incur additional long-term debt in any amount, unless (1) debt service requirements on all long-term debt during the fiscal year, plus the maximum annual debt service requirements on the proposed additional long-term debt, is less than 12% of the University's unrestricted operating revenues during the previous fiscal year, and (2) the University's expendable resources are greater than 50% of all outstanding and proposed long-term debt; however, that such test shall not be required to be met if the additional long-term debt is being incurred to refund existing long-term debt.

University Revenue Bonds ("Series A of 2019") - In March 2019, the Authority issued $18.7 million of revenue bonds to finance all or a portion of the costs of (a) financing capital expenditures related to the renovation of the A.J. Palumbo Center, (b) financing other miscellaneous capital expenditures on the main campus of the University, and (c) paying the costs of issuance of the Bonds.

These bonds mature annually in principal ranging from $4.4 million to $5.0 million beginning in fiscal 2036 and ending in fiscal 2039.

Approximately $0.1 million of costs related to the issuance of these bonds has been deferred and is being amortized over the life of the bonds. In addition, approximately $2.6 million of original issue premium is being amortized over the life of the bonds. All debt issuance costs are recorded in debt and lease obligations on the statement of financial position.

These bonds carry substantially the same covenants as the Series of 2018 bonds.

University Revenue Bonds ("Series B of 2019") - In March 2019, the Authority issued $10.0 million of taxable revenue bonds. The bonds were issued for the same purpose as the Series A of 2019 bonds.

These bonds mature in principal $10.0 million in fiscal 2035.

Approximately $0.1 million of costs related to the issuance of these bonds has been deferred and is being amortized over the life of the bonds. All debt issuance costs are recorded in debt and lease obligations on the statement of financial position.

These bonds carry substantially the same covenants as the Series of 2018 bonds.

The University was in compliance with all debt covenants as of June 30, 2020.

NOTE H - FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses by functional and natural classification for the fiscal years ended June 30, 2020 and 2019, are shown below (in thousands):

2020

	Instructional	Institutional Support	Auxiliary Services	Academic Support	Student Services	Public Service	Research	Subtotal	Allocated Expenses	Total
Salaries	$ 67,589	$ 20,958	$ 10,257	$ 18,828	$ 7,847	$ 1,090	$ 2,915	$ 129,484	$ 10,427	$ 139,911
Benefits	20,093	7,156	4,418	5,968	2,591	249	623	41,098	1,282	42,380
Supplies, services, and other	11,508	13,404	16,525	7,168	6,436	1,343	2,968	59,352	13,847	73,199
Utilities	-	-	-	-	-	-	-	-	5,072	5,072
Depreciation	-	-	-	-	-	-	-	-	20,522	20,522
Interest expense	-	-	-	-	-	-	-	-	4,740	4,740
Subtotal	99,190	41,518	31,200	31,964	16,874	2,682	6,506	229,934	55,890	285,824
Allocated costs	24,110	10,092	7,584	7,769	4,101	652	1,582	55,890	(55,890)	-
Total operating expenses	$ 123,300	$ 51,610	$ 38,784	$ 39,733	$ 20,975	$ 3,334	$ 8,088	$ 285,824	$ -	$ 285,824

2019

	Instructional	Institutional Support	Auxiliary Services	Academic Support	Student Services	Public Service	Research	Subtotal	Allocated Expenses	Total
Salaries	$ 67,550	$ 20,705	$ 10,737	$ 18,288	$ 7,757	$ 1,513	$ 2,627	$ 129,177	$ 11,063	$ 140,240
Benefits	20,719	7,564	4,801	5,962	2,632	324	565	42,567	1,441	44,008
Supplies, services, and other	12,850	13,458	18,983	8,835	4,192	2,967	3,183	64,468	5,756	70,224
Utilities	-	-	-	-	-	-	-	-	6,409	6,409
Depreciation	-	-	-	-	-	-	-	-	21,966	21,966
Interest expense	-	-	-	-	-	-	-	-	5,299	5,299
Subtotal	101,119	41,727	34,521	33,085	14,581	4,804	6,375	236,212	51,934	288,146
Allocated costs	22,232	9,174	7,590	7,274	3,206	1,056	1,402	51,934	(51,934)	-
Total operating expenses	$ 123,351	$ 50,901	$ 42,111	$ 40,359	$ 17,787	$ 5,860	$ 7,777	$ 288,146	$ -	$ 288,146

Certain costs such as depreciation expense, utilities, interest expense and other operating costs have been allocated among the functional areas. These costs are primarily allocated based on direct costs.

NOTE I - RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFIT OBLIGATION

The University participates in single-employer contributory retirement plans, which provide for the purchase of annuities and various mutual funds for academic, administrative, salaried, and other hourly employees. The employee is responsible for a 5% pretax contribution, while the University contributes 8% on behalf of the employee. The University also participates in a multi-employer noncontributory retirement plan for certain union employees, which is funded at the rate of $0.87 per hour worked up to a maximum of 40 hours per week. The University annually funds the retirement costs under both plans, which amounted to $8.1 million and $8.6 million for the years ended June 30, 2020 and 2019, respectively.

The University provides certain health care benefits to certain retired employees. These postretirement benefits are unfunded and generally are based on employees' years of service and compensation levels. The University is required to make an accrual of the expected costs of these benefits over the period in which the employees render the service.

Net periodic benefit costs for the years ended June 30, 2020 and 2019 include the following components (in thousands):

	2020	2019
Service cost for fiscal year	$ -	$ 177
Interest cost for fiscal year	191	315
Census and claims gain during fiscal year	(137)	(195)
Loss (gain) due to assumption changes	510	670
Change in liability due to plan experience	87	(512)
Curtailment of postretirement benefit plan	-	(2,252)
Net periodic costs	$ 651	$ (1,797)
Actual postretirement benefit payments (funded on a pay-as-you-go basis)	$ 318	$ 317

Using a measurement date of June 30, the following assumptions at June 30, 2020 and 2019, were used to determine the periodic benefit costs:

	2020	2019
Discount rate	2.30%	3.40%
Healthcare trend rate (post-65)	6.00%	6.00%
Long-term trend rate	4.50%	4.50%
Terminal trend year	2027	2026

A one-percentage-point increase in the assumed medical cost trend rates for each future year increases annual postretirement benefit expense by $200 and the accumulated postretirement benefit obligation by $6,000. A one-percentage-point decrease in the assumed medical cost trend rates for each future year decreases annual postretirement benefit expense by $200 and the accumulated postretirement benefit obligation by $6,000.

For the years ended June 30, 2020 and 2019, the following is a reconciliation of beginning and ending balances of the benefit obligation (in thousands):

	2020	2019
Accumulated postretirement benefit obligation, beginning of year	$ 5,856	$ 7,970
Service cost for fiscal year	-	177
Interest cost for fiscal year	191	315
Benefit payments for fiscal year	(318)	(317)
Expected accumulated postretirement benefit obligation, end of year	5,729	8,145
Census and claims gain during fiscal year	(137)	(195)
Loss (gain) due to assumption changes	510	670
Change in liability due to plan experience	87	(512)
Curtailment of postretirement benefit plan	-	(2,252)
Actual accumulated postretirement benefit obligation, end of year	$ 6,189	$ 5,856

Using a measurement date of June 30, the following assumptions at June 30, 2020 and 2019, were used to determine the end-of-year benefit obligation:

	2020	2019
Discount rate	2.30%	3.40%
Healthcare trend rate	6.00%	6.00%
Long-term trend rate	4.50%	4.50%
Terminal trend year	2027	2026

Expected benefits to be paid in future years are as follows (in thousands):

Year ending June 30,	Amount
2021	$ 409
2022	422
2023	418
2024	420
2025	419
2026 - 2030	1,971
Total	$ 4,059

NOTE J - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at June 30, 2020 and 2019, consist of the following (in thousands):

	2020	2019
Board-designated funds (quasi-endowment)	$ 201,608	$ 212,415
Undesignated funds	179,128	161,539
Total net assets without donor restrictions	$ 380,736	$ 373,954

NOTE K - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2020 and 2019, consist of funds subject to purpose or time restriction and funds restricted in perpetuity.

Funds subject to donor restrictions consist of the following (in thousands):

	2020	2019
Funds subject to purpose or time restriction:		
Endowment gains	$ 44,928	$ 52,709
Restricted gifts and pledges:		
Operational purposes	16,942	13,010
Capital projects	10,238	10,874
Scholarships	1,566	1,647
Total restricted gifts and pledges	28,746	25,531
Restricted grants and contracts:		
Private	3,088	5,965
Local	3	2
Total net assets subject to purpose or time restriction	$ 76,765	$ 84,207
Funds restricted in perpetuity:		
Endowment and funds functioning as endowment	$ 120,167	$ 116,994
Pledges	1,939	1,087
	122,106	118,081
Annuity investments	336	362
	122,442	118,443
Loan funds	1,182	1,154
Total net assets restricted in perpetuity	$ 123,624	$ 119,597
Total net assets with donor restrictions	$ 200,389	$ 203,804

NOTE L - CONTINGENCIES

The University is a defendant in certain legal proceedings arising out of the normal conduct of its business. In the opinion of management, based upon discussion with counsel, the ultimate outcome of these matters will not have a material adverse effect on the financial position or activities of the University.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The University's management believes disallowances, if any, will not have a material effect on the University's financial position.

NOTE M - SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 12, 2020, the date the financial statements were issued.

On August 27, 2020, the University closed on the following bond issues:

- $8,945,000 Allegheny County Higher Education Building Authority University Revenue Bonds, Series A of 2020 (Duquesne University)

- $15,835,000 Allegheny County Higher Education Building Authority University Taxable Revenue Bonds, Series B of 2020 (Duquesne University)