PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE

JOHNSTOWN, PENNSYLVANIA

EIN NUMBER: 25-1721929

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE

Single Audit Reporting Package

June 30, 2019 and 2018

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
JUNE 30, 2019 AND 2018

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PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

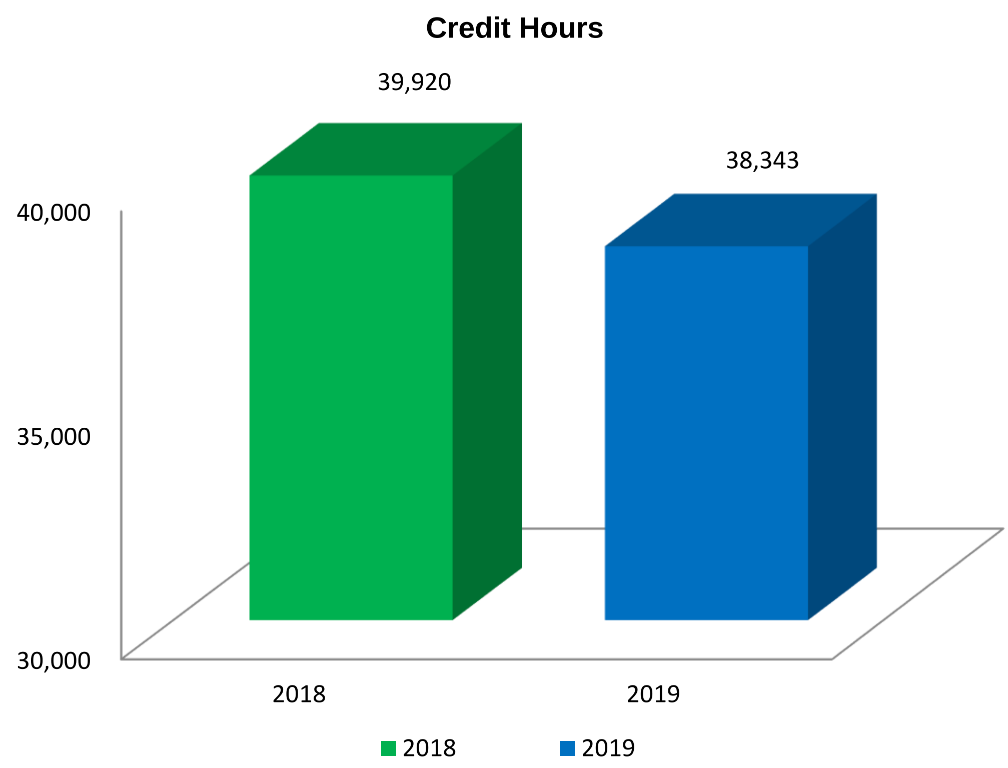
Management's Discussion and Analysis

This section of Pennsylvania Highlands Community College's Annual Financial Statements presents Management's Discussion and Analysis of the College's financial activity for the fiscal years June 30, 2019 and June 30, 2018. This analysis reflects current activities, resulting changes and currently known facts, and should be read in conjunction with the College's Financial Statements, including the notes. Responsibility for the completeness and fairness of this information rests with the College.

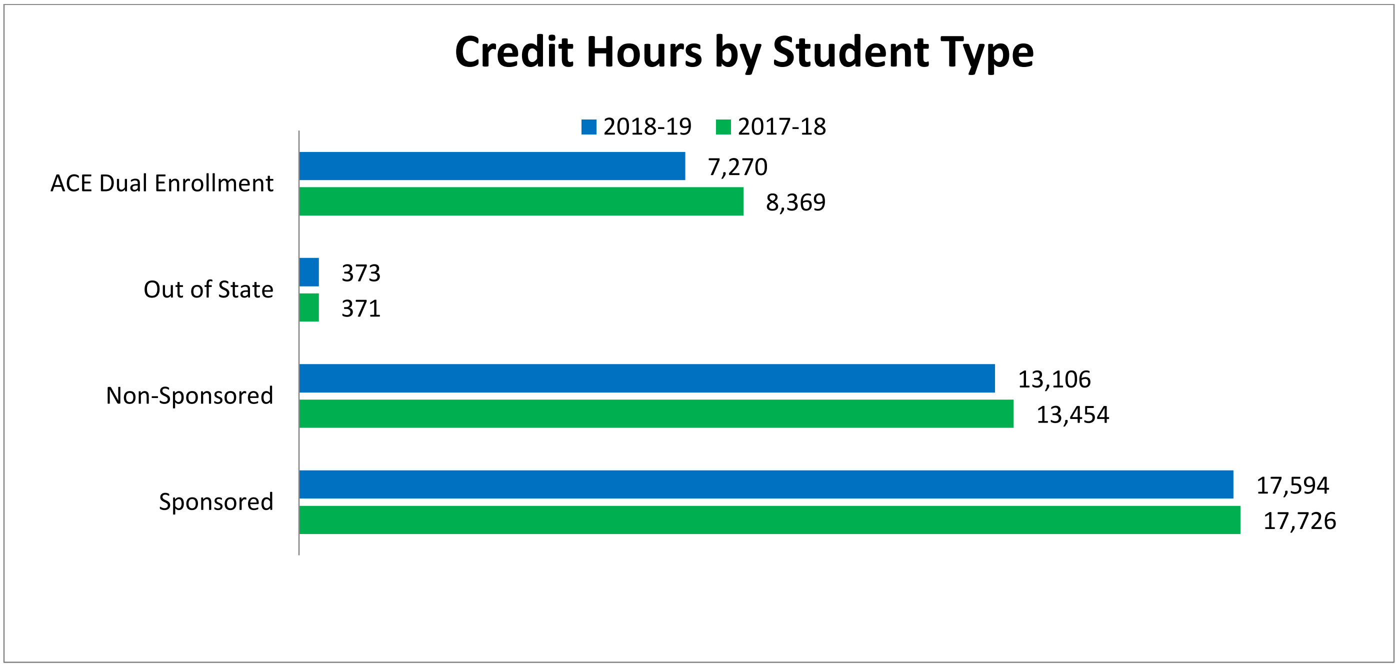
Using This Annual Report

The financial statement format focuses on the College as a whole. The annual report shows both the College's and the College's Foundation financial information. The College Financial Statements are designed to emulate corporate presentation models, whereby all College activities are consolidated. The Statement of Net Position is designed to be similar to bottom line results for the College. This Statement combines current financial resources with capital assets. The Statement of Revenues, Expenses, and Changes in Net Position focus on both the gross costs and the net costs of College activities which are supported mainly by State appropriations, County appropriations, and tuition and fees. This approach is intended to summarize and simplify the user's analysis of the cost of various College services to students and the public.

Enrollment

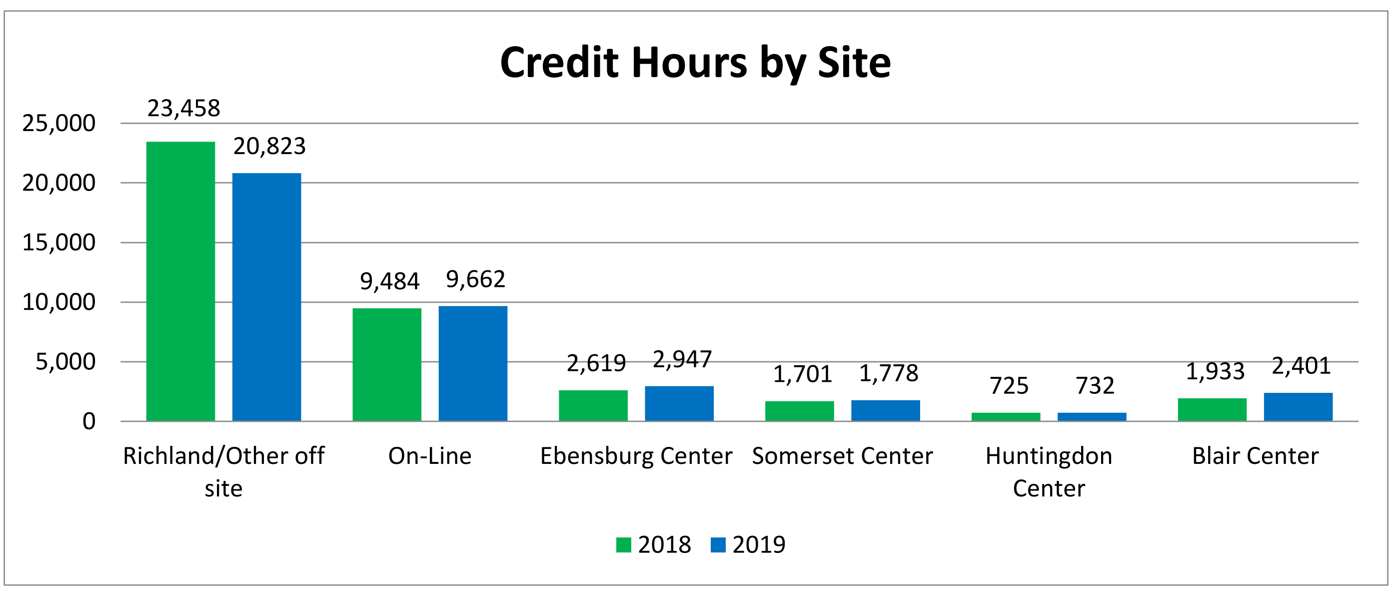


The overall enrollment and credit hours sold decreased 4% in the 2019 fiscal year. Total credit hours sold in 2019 was 38,343 compared to 39,920 in 2018. A further breakdown of the credit hours sold is provided below.



Sponsored credits continue to make up the largest portion of our enrollment with 17,594 credits sold in 2019 compared to 17,726 in 2018. This represents a decrease of 132 credits or a 0.7% decrease for the current fiscal year. Non-Sponsored credits decreased to 13,106 resulting in a decrease of 2.6% for the current fiscal year. Out of State credits sold increased by 2 resulting in an increase of 0.5% for the current fiscal year. The ACE Dual Enrollment program posted a 1,099 credit decrease which is 13.1% below prior year totals.

The following chart breaks out the credits sold by site. Of the 38,343 total credits sold, 20,823 were at the main Richland Campus/Other off Site locations. Richland Campus credits include the ACE Dual Enrollment totals of 7,270 credit hours, and the total Richland Campus credits decreased by 2,635. On Line credits taught increased by 178 from 9,484 credits during 2018 to 9,662 credits in fiscal year 2019. Ebensburg Center, Somerset and Huntingdon credits grew by 328, 77 and 7 respectively with Blair showing the greatest increase of 468 credits for a 24.2% increase for the fiscal year 2019.



Statement of Net Position

The Statement of Net Position presents the financial position at the end of each year. The difference between assets and liabilities is net position, representing a measure of the current financial condition.

The major components of Pennsylvania Highlands Community College's assets, liabilities and net position, as of June 30, 2019 and 2018 are as follows (in thousands):

	2019	2018	$ Change	% Change
Assets				
Cash and cash equivalents	$ 5,375	$ 5,258	$ 117	2.2%
Accounts receivable, net	324	281	43	15.3%
Tenant Construction Allowance	489	0	489	100.0%
Other assets	234	223	11	4.9%
Total Current Assets	6,422	5,762	660	11.5%
Noncurrent Assets				
Capital Assets, net	9,561	10,681	(1,120)	-10.5%
Total Noncurrent Assets	9,561	10,681	(1,120)	-10.5%
Deferred Outflows				
Deferred SERS outflows	61	48	13	27.1%
Total Assets and Deferred Outflows	16,044	16,491	(447)	-2.7%
Liabilities				
Accounts payable	318	595	(277)	-46.6%
Accrued salaries and benefits	734	727	7	1.0%
Lease payable	238	423	(185)	-43.7%
Notes payable	2,025	1,867	158	8.5%
SERS net pension liability	254	247	7	2.8%
Total Liabilities	3,569	3,859	(290)	-7.5%
Deferred Inflows				
Deferred SERS Inflows	157	198	(41)	-20.7%
Unearned Tuition and Fee Revenue	309	288	21	7.3%
Total Deferred Inflows	466	486	(20)	-4.1%
Net Position				
Invested in Capital assets, Net of related debt	7,298	8,391	(1,093)	-13.0%
Unrestricted	3,389	2,458	931	37.9%
Restricted - Expendable	1,322	1,297	25	1.9%
Total Net Position	12,009	12,146	(137)	-1.1%
Total Liabilities, Deferred Inflows, and Net Position	$ 16,044	$ 16,491	$ (447)	-2.7%

Pennsylvania Highlands Community College's Assets and Deferred Outflows:

Cash and cash equivalents include checking accounts for operations and funds deposited in money market and repurchase agreement accounts.

The total receivable amount includes student receivables, various grant, and other receivables, which totaled $324 thousand in fiscal 2019. This is an increase of $43 thousand over the same period last year. The increase is the result of slight increases in student receivables as well as social security tax reimbursements due the College from PDE (Pennsylvania Department of Education).

The Tenant Construction Allowance is an amount due from the property owner of the Blair Center as a result of the leasehold improvements at that site. The funds will be used to offset the costs of construction of the expanded space.

Other Assets include prepaid expenses relating to the monthly rental payments for the Richland Campus; the Ebensburg, Somerset, Huntingdon, Blair and the Central Park Centers; along with monthly health insurance related costs. Other assets increased by $11 thousand over the same period last year. The increase is the result of increases in space lease costs and cost increases in the health insurance plans.

Capital Assets include furniture and equipment, computer software, leasehold improvements, construction interest and bond issue discount costs, purchases, and construction in progress. Capital assets, net, totaled $9.56 million at June 30, 2019 and decreased by $1.12 million over the same period last year. The decrease is a result of annual depreciation costs and capitalizing the construction in progress at the Blair Center.

Deferred Outflows refer to the consumption of net assets that is applicable to a future reporting period. The Deferred SERS (State Employees' Retirement System) outflows, which total $61 thousand at June 30, 2019, represents the College's proportionate share of the total SERS pension plan deferred outflows.

Pennsylvania Highlands Community College's Liabilities and Deferred Inflows:

The College's Total Liabilities and Deferred Inflows decreased by $310 thousand, or 7.1%, to $4.04 million at the end of fiscal year 2019.

Accounts payable decreased by $277 thousand over fiscal year June 30, 2019. The decrease is a result of the pay down of construction payables for the Blair Site renovations.

The Accrued salaries and benefits line is showing an increase of $7 thousand over last year's totals. This increase is a result of changes in staffing levels as well as timing differences in the calculation of the year end accruals.

The Lease payable line shows a decrease of $185 thousand for the current year. This fiscal year-end balance of $238 thousand decreased due to the timing of lease terms as to when old leases are paid off and new replacement equipment leases are obtained.

The Notes payable amount of $2.025 million shows an increase of $1.58 thousand over last year's amount of $1.87 million. This line item includes the amounts due on the Blair construction project. The increase is the result of the current borrowings for the Blair construction project. The loan payments for the Blair Project are funded 50% by the PDE and 50% by the College.

The State Employees' Retirement System (SERS) net pension liability is $254 thousand at June 30, 2019. This signifies the amount by which the College's total pension liability exceeds the pension plan's net assets and has increased by $7 thousand in comparison to the prior year.

Deferred Inflows refer to the acquisition of net assets that are applicable to a future reporting period. The deferred SERS inflow balance of $157 thousand is the college's share of the State Employees' Retirement System (SERS) pension deferred inflows. The Unearned Tuition and Fee revenue totaling $309 thousand is advanced student payments for summer and fall session tuition.

Pennsylvania Highlands Community College Net Position:

Net position represents the residual interest in the College's total assets and deferred outflows after all liabilities and deferred liabilities are deducted. The College's net position totaled $12.146 million in 2018, and decreased $137 thousand, or 1.1% to $12.009 million during the 2019 fiscal year. The decrease is mainly due to a drop in enrollment levels during the year.

The College's net position is reported in three major categories: Invested in Capital assets, Unrestricted and Restricted-Expendable.

The portion of Net Position Invested in Capital Assets, Net of related debt, indicates the College's equity in property, plant and equipment. This decreased $1.093 million from $8.391million in 2018 to $7.298 million in 2019. This decrease is the result of depreciation costs and the completion of the Blair Project.

The portion of Net Position in Restricted-Expendable totaling $1.322 million consists of funds set aside by the Board of Trustees for future capital or operating needs.

The remaining portion of Net Position is classified as Unrestricted for financial statement purposes. The total at June 30, 2019 is $3.389 million, up $931 thousand over the prior year. The increase is due to the net of the increase in asset balances plus the decrease in liabilities at year end. The Unrestricted assets are typically used for continuing College operations.

Pennsylvania Highlands Community College Results of Operations

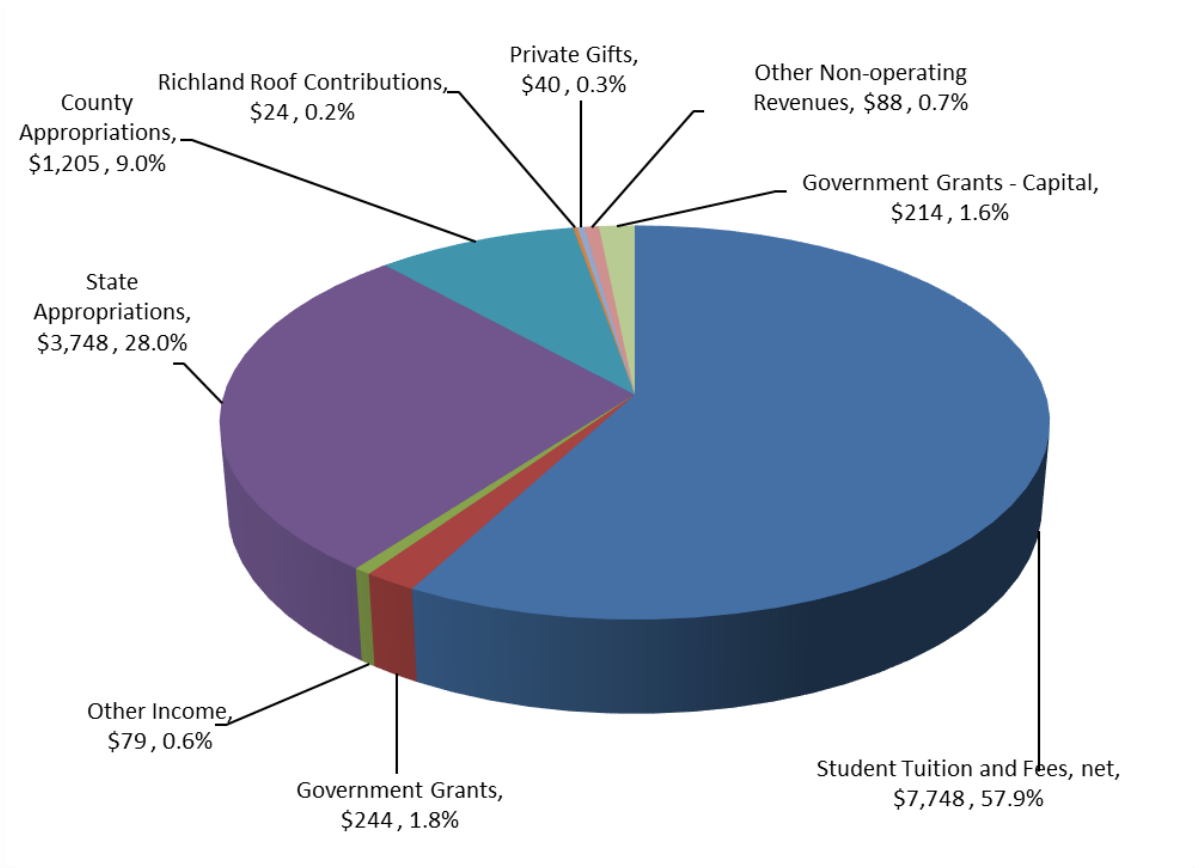
The Statement of Revenues, Expenses and Changes in Net Position is provided to show the results of operations of the year. It provides insight to the College's Operating costs and reflects where the College funds have been administered. As required by Governmental Accounting Standards Board (GASB), certain significant revenues, which are essential to support the operational needs of the College, are required to be recorded as Non-operating revenues. The Non-operating revenues include State appropriations, County appropriations, Student Financial Aid and private gifts.

The following schedule summarizes the operating results of Pennsylvania Highlands for 2019 and 2018 (in thousands):

	2019	2018	$ Change	% Change
Revenues				
Student tuition and fees, net	$ 7,748	$ 7,832	$ (84)	-1.1%
Government grants	244	294	(50)	-17.0%
Other income	79	91	(12)	-13.2%
Total revenues	8,071	8,217	(146)	-1.8%
Expenses				
Instruction	3,815	3,784	31	0.8%
Academic Support	2,086	2,126	(40)	-1.9%
Student Services	2,248	2,094	154	7.4%
Institutional Support	2,314	2,221	93	4.2%
Facilities/Maintenance	1,938	1,884	54	2.9%
Bad debt	82	99	(17)	-17.2%
Depreciation	979	944	35	3.7%
Total operating expenses	13,462	13,152	310	2.4%
Non-operating revenues/(expenses)				
State appropriations	3,748	3,659	89	2.4%
County appropriations	1,205	1,205	0	0.0%
Richland roof contributions	24	159	(135)	-84.9%
Financial Aid Net (expense)	0	0	0	0.0%
Private gifts	40	60	(20)	-33.3%
Interest	(65)	(31)	(34)	-109.7%
Other non-operating revenue	88	68	20	29.4%
Total non-operating revenues(expenses)	5,040	5,120	(80)	-1.6%
Government grants - Capital	214	0	214	100%
Total change in net position	$ (137)	$ 185	$ (322)	-174.1%

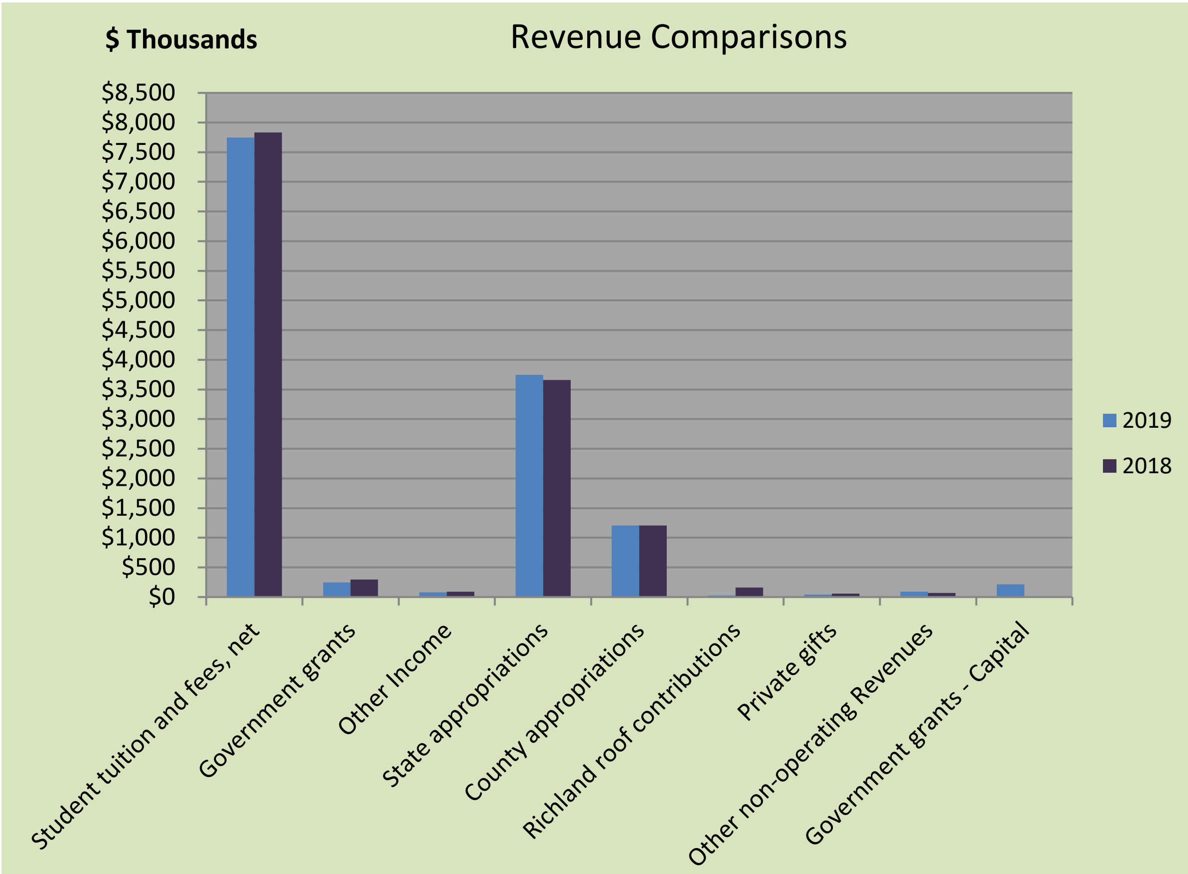
Pennsylvania Highlands Community College Revenues

Categories of both operating and non-operating revenues that support the College's activities in 2019 are as follows (in thousands):



Overall, operating revenues for Fiscal 2019, including Student Tuition and Fees, Other Income and Government Grants, totaled $8.071 million a decrease of $146 thousand over the same period in Fiscal 2018. Government Grants, which includes funds such as the Perkins Grant and the Keystone Education Yields Success (KEYS) Grant provide resources such as tutoring, career services and other student service activities that aid in student learning and success. Non-operating revenues include State appropriations, County appropriations, Financial Aid, along with private gifts and Other non-operating revenue/(expenses), totaled $5.04 million in 2019 compared to $5.12 million in 2018. Government Grants-Capital totaled $214 thousand and provided funds for Computers and Science lab equipment in Blair and for the classroom renovations at the Central Park drop in center.

The following graph compares 2019 revenues against 2018 revenues (in thousands):



Student Tuition and fees, net of scholarship allowances, decreased $84 thousand or .1.1% in 2019 to $7.748 million. The decrease was due to slightly lower enrollment results.

Government grants include grant programs such Perkins, and KEYS. Total revenues from all the grant programs was $244 thousand in 2019 as compared to $294 thousand in 2018.

Other Income totaling $79 thousand**,** includes the commission received on bookstore sales from Follett which totaled just over $50 thousand in 2019 which was even with 2018. This category also includes other items such as specialized testing income, and job fair and college fair income.

State appropriations include operating and capital allocations from the Pennsylvania Department of Education. Overall, State Appropriations totaled $3.748 million in 2019, an increase of $89 thousand over the 2018 amount of $3.659 million. The changes occurred because of slight increases in operating allocations as well as additional capital funding received for the Blair project. The State FICA reimbursement increased $7 thousand from the prior year amounts. The increase in capital allocation amounts received from PDE can be attributed to additional amounts approved for the Huntingdon lease, the Blair lease and Blair construction project.

County appropriations for 2019 remained at the same $1.205 level as 2018. As indicated in the pie chart above, the County contributed 9.0% of the overall operating and non-operating revenues during the year.

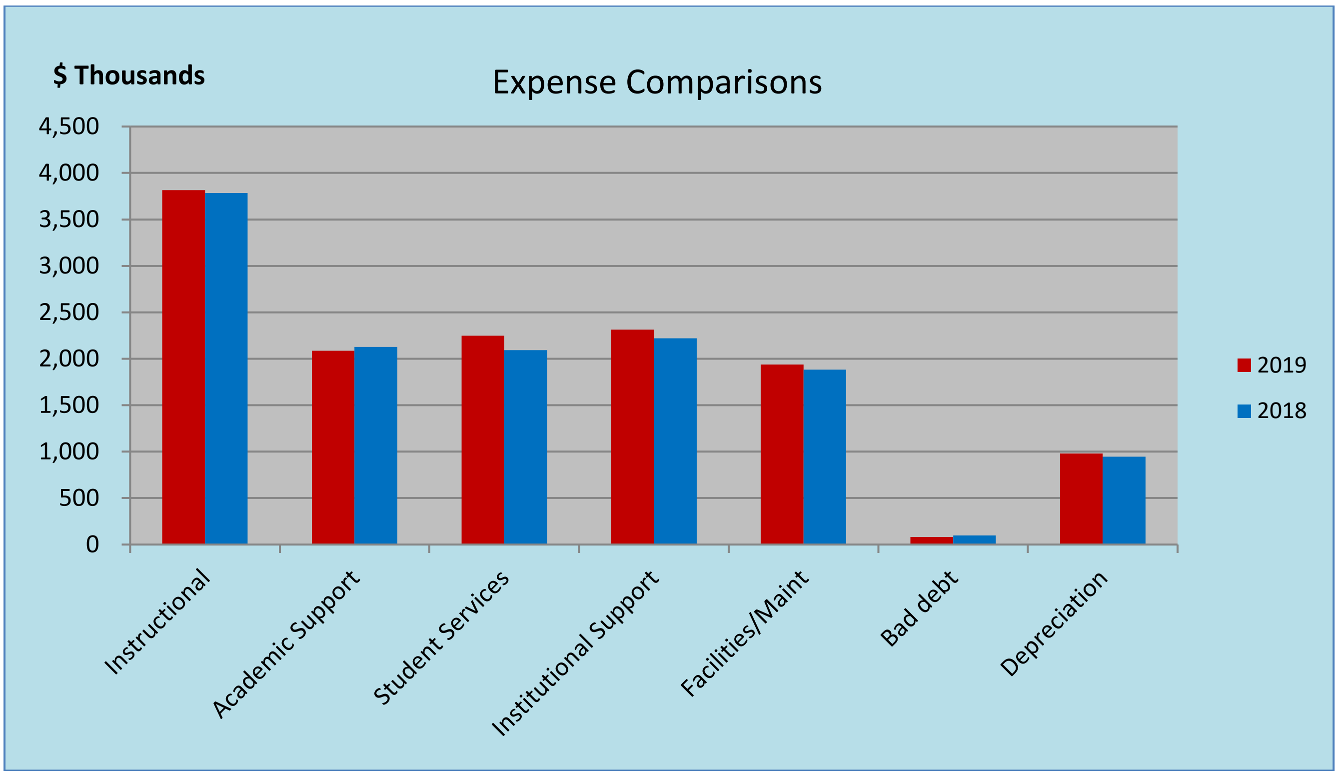
Richland Roof Contributions came to an end in September 2019 as the loan for the roof project was completely paid in full. This is the amount that the Richland School District provided towards the loan payments for the building roof replacement.

Government grants – Capital Government Grant funds used to purchase capital equipment totaled $214 thousand in the 2019 fiscal year- Perkins - $29 thousand, ARC Grant - $145 thousand and the DCED grant totaled $40 thousand.

Pennsylvania Highlands Community College Expenses

Operating expenses for fiscal 2019 increased by $310 thousand over the same period in fiscal 2018. Total operating expenses for 2019 was $13.462 million compared to $13.152 million in 2018. The expenses are classified by function (instructional, academic support, etc.). The majority of the expense increase over last year can be attributed to higher Instructional and Institutional Support related costs resulting from increased operating costs.

The following graph compares 2019 expense categories with 2018 expense categories by functional classification (in thousands):



Instructional expenditures increased over the prior year's amounts. The increase of $31 thousand can mainly be attributed to higher personnel costs, specifically adjunct and faculty overload salaries as a result enrollments throughout the academic year.

Academic Support is showing a decrease in costs over last year. The majority of the $40 thousand decrease is a result of staffing changes and personnel costs in various academic support departments.

Student Services expense of $2.248 million in 2019 is a $154 thousand increase over the $2.094 million amount in 2018. This category includes the administrative costs from the Ebensburg, Somerset, Huntingdon and Blair centers. The costs associated with the athletic programs are included in this category.

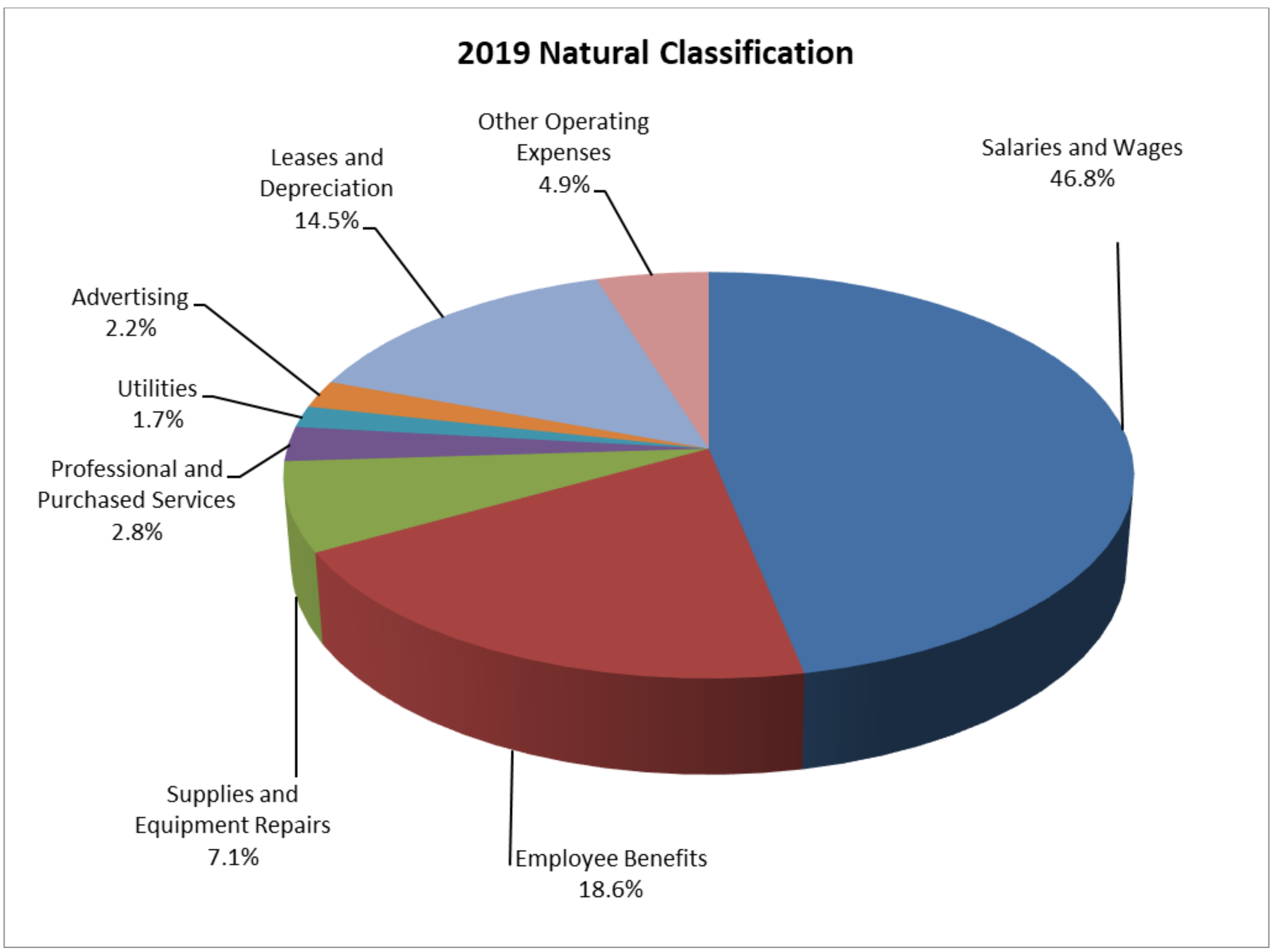
Institutional Support is showing an increase over last year of $93 thousand or a 4.2% increase. A number of factors contributed to the increase in 2019. These include increased costs in institutional memberships, insurance, consulting and professional services fees. Advertising costs for all sites also played a role in the current year increase.

Facilities/Maintenance costs increased $54 thousand from $1.884 million in 2018 to $1.938 million in 2019. This represents a 2.9% increase over the previous year. A large part of the increase is from the Blair Center which incurred higher space lease costs. The acquisition of the Downtown lease also played a part in the increases for the year.

Bad debt expense consists of the estimated amount of the current student receivables that the College will not be able to collect. The estimate is based on a detailed review of the outstanding receivables at year end and actual historical amounts of accounts that were written off. The College's provision for uncollectible accounts (bad debt) decreased $17 thousand from $99 thousand in 2018 to $82 thousand in 2019. The bad debt expense is directly related to the overall tuition and fee revenue and as the dollar amounts for tuition and fee revenue increases/decreases, so does the corresponding bad debt expense. Further analysis shows that the bad debt expense, as a percent of total tuition and fee revenue remained consistent, decreasing marginally from 1.26% in 2018 to 1.06% in 2019.

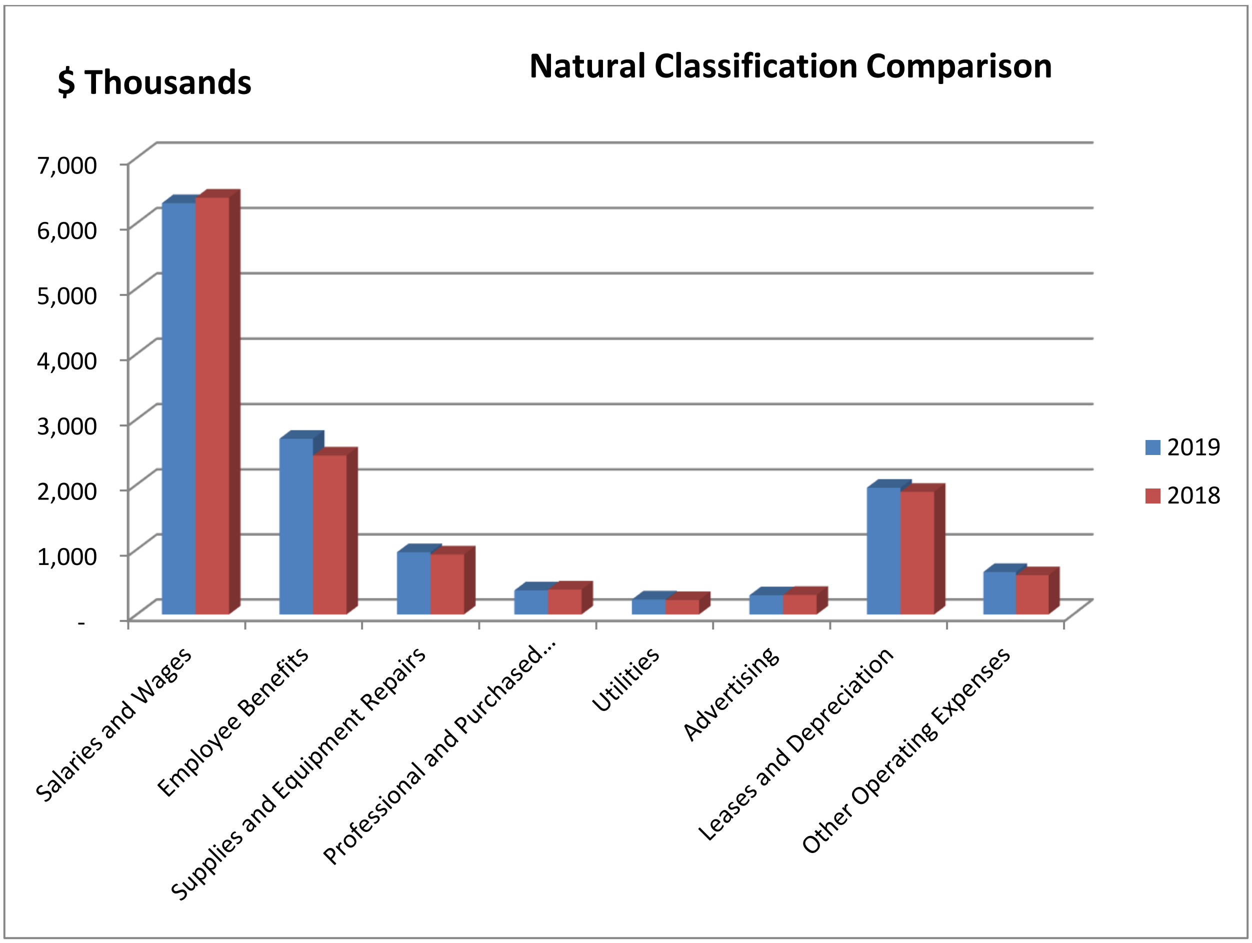
Depreciation expense is showing an increase in 2019 of $35 thousand or 3.7% above 2018 amounts. This increase is due to the completion of the Blair Center the normal depreciation cycles of when assets are purchased and when capital equipment leases are renewed.

The following chart breaks down the College's 2019 operating expenses by natural classification including salaries, utilities, leasing costs and other operating costs. The graph shows the distribution percentage of each natural classification. This graph does not include the student financial aid activity.



Employee related expenses including salaries and wages and employee benefits made up a total of 65.4% of the overall operating expenses of the College for fiscal year 2019. The Leases and Depreciation classification, totaling 14.5% of the operating costs, is the next highest amount. This includes the annual building rental costs for all of our education sites. Supplies and Equipment Repairs totaled 7.1% of the operating costs and include departmental supplies and equipment and building maintenance costs. Professional and Purchased Services totaled 2.8% and Other Operating expenses totaled 4.9% of the overall operating expenses for fiscal 2019. The remaining classifications of Utilities and Advertising had combined expenditures totaling 3.9% of the College's operating costs.

The following graph further compares fiscal year 2019 and 2018 expenses by natural classification. The graph shows that overall expenses remained fairly consistent during 2019 and 2018. There are slight decreases in the Salaries and Wages as employee benefits shows slight increases. Supplies, Advertising, Depreciation and Other Operating Expenses each remained fairly consistent over the previous year which was attributed to conservative spending due to lower than anticipated enrollment results.



Pennsylvania Highlands Community College Cash Flows

The Statement of Cash Flows presents the significant sources and uses of cash (composed of operating checking accounts and money market accounts).

A summary comparison of cash flows for 2019 and 2018 is as follows (in thousands).

	2019	2018	$ Change
Cash Flows			
Cash received from operations	$ 8,676	$ 8,122	$ 554
Cash payments for operations	(12,903)	(12,057)	(846)
Net cash used by operations	(4,227)	(3,935)	(292)
Net cash provided by noncapital financing activities	4,363	4,302	61
Net cash (used) by capital financing activities	(19)	101	(120)
Net increase/(decrease) in cash	117	468	(351)
Cash and cash equivalents, beginning of year	5,258	4,789	469
Cash and cash equivalents, end of year	$ 5,375	$ 5,257	$ 118

Cash and cash equivalents increased $117 thousand from $5.257 million in 2018 to $5.375 million in 2019. The College used $4.227 million in operating activities which was offset by $4.363 million of cash provided by noncapital financing activities. Noncapital financing activities include State and County operating appropriations and cash received for other than capital purposes that are used to support operational activities.

Net cash used by capital financing activities include amounts received for capital purposes from PDE capital allocations, Cambria County capital allocations, liquidation of investments (bond funds) and net proceeds from lines of credit. This category also includes cash spent on the purchase of capital assets, interest expense on lines of credit and principal payments on capital leases and the bond issue.

Pennsylvania Highlands Community College Foundation

As required by GASB 61 regulations, the College has also included the financial information from the College's Foundation. The major components of Pennsylvania Highlands Community College Foundation's assets, liabilities and net assets, as of June 30, 2019 and 2018 are as follows:

	2019	2018	$ Change	% Change
Assets				
Cash and cash equivalents	$ 131,111	$ 133,664	$ (2,553)	-1.9%
Investments	898,701	436,279	462,422	106.0%
Promises to give	7,912	11,913	(4,001)	-33.6%
Other Current Assets	250	250	-	100.0%
Total Current Assets	1,037,974	582,106	455,868	78.3%
Noncurrent Assets				
Long-term Investments-Restricted	326,793	700,230	(373,437)	-53.3%
Total Noncurrent Assets	326,793	700,230	(373,437)	-53.3%
Total Assets	1,364,767	1,282,336	82,431	6.4%
Liabilities				
Accounts payable	23,638	1,132	22,506	100.0%
Total Liabilities	23,638	1,132	22,506	100.0%
Net Assets				
Unrestricted	607,148	568,727	38,421	6.8%
Temporarily restricted	456,653	455,545	1,108	0.2%
Permanently restricted	277,328	256,932	20,396	7.9%
Total Net Assets	1,341,129	1,281,204	59,925	4.7%
Total Liabilites and Net Assets	$1,364,767	$ 1,282,336	$ 82,431	6.4%

The Foundation has experienced an increase in Total Assets of $82,431 or 6.4% over last year's total. The largest part of this increase is attributed to gains and increases in the Investments categories.

Total Liabilities were $23,638 and is attributable to amounts due to the College at year end.

Total Net Assets increased $59,925 during the 2019 fiscal year. Unrestricted assets increased $38,421 while Temporarily Restricted assets increased $1,108 and Permanently Restricted net assets increased $20,396 for the same period.

The following schedule summarizes the operating results of Pennsylvania Highlands Community College Foundation for 2019 and 2018:

	2019	2018	$ Change	% Change
Operating Revenues				
In-kind revenues	$ 28,436	$ 35,934	$ (7,498)	-20.9%
Contributions	63,781	146,355	(82,574)	-56.4%
Fundraising	20,142	17,063	3,079	18.0%
Total Operating Revenues	112,359	199,352	(86,993)	-43.6%
Operating Expenses				
Institutional support	29,960	60,200	(30,240)	-50.2%
Scholarships and grants	33,819	34,177	(358)	-1.0%
In-kind expenses	28,436	35,934	(7,498)	-20.9%
Other operating expense	30,584	31,179	(595)	-1.9%
Total Operating Expenses	122,799	161,490	(38,691)	-24.0%
Non-operating Revenue/(Expenses)				
Interest and dividends	15,703	26,142	(10,439)	-39.9%
Unrealized gains and losses	54,662	64,447	(9,785)	-15.2%
Total Non-operating Rev/(Exp)	70,365	90,589	(20,224)	-22.3%
Total Change in Net Assets	$ 59,925	$ 128,451	$ (68,526)	-53.3%

Operating Revenues have decreased $86,993 or 43.6% from last year. Contributions to the Foundation posted the largest decrease and account for nearly 56% of the decrease over 2018. In-Kind revenues and Fundraising revenues were both lower in comparison to the prior year.

Operating Expenses also decreased over fiscal year 2018. Total operating expenses went from $161,490 in 2018 to $122,799 in 2019, a decrease of $38,691. This was the result of lower institutional support expenditures relating to the Downtown project.

Non-operating revenues/ (expenses) decreased by $20,224 in 2019. The decrease is attributed to lower investment earnings. In all, Net Assets decreased $68,526 in fiscal year 2019 due to decreased contributions and decreases in institutional support and other operating expenses.

Other Fiscal 2019 Highlights

The Blair Center expansion project was completed during 2019. The expansion project includes the renovation of an additional 14,000 square feet of state of the art instructional and student services space including science labs, computer labs and student lounge space. The center will be offering classes in the newly renovated areas beginning in the Fall 2019 Semester.

During 2018, the College opened a drop-in center located in Downtown Johnstown providing services that include placement testing, financial aid counseling and career coaching for individuals interested in learning more about educational opportunities. The center also offers meeting space and workforce training space for local businesses. During 2019, the Downtown Center was remodeled to include the addition of a dedicated classroom/instructional area.

During 2019, the college was awarded and successfully administered two separate grants to assist with both the Blair expansion project and the remodel of the Downtown Center. One grant was from the Appalachian Regional Commission and provided approximately $145,000 to outfit the Blair computer and science labs as part of the expansion. The other grant was from the Department of Community and Economic Development and provided $40,000 towards the remodel and buildout of classroom space at the Central Park center in downtown Johnstown.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pennsylvania Highlands Community College
Johnstown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Pennsylvania Highlands Community College, a component unit of Cambria County, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Pennsylvania Highlands Community College's 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 those risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the Pennsylvania Highlands Community College as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the College's proportionate share of net pension liability and schedule of College contributions, on pages I through XVI, 24 and 25 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Pennsylvania Highlands Community College's basic financial statements. The schedule of expenses by functional classification - primary institution, page 26, is also presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, pages 27 and 28, is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements.

The schedule of expenses by functional classification – primary institution and schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2019, on our consideration of the Pennsylvania Highlands Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pennsylvania Highlands Community College's internal control over financial reporting and compliance.

Wessel & Company

WESSEL & COMPANY
Certified Public Accountants

October 11, 2019

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2019	2018	2019	2018
ASSETS				
Current Assets				
Cash and cash equivalents (Note 3)	$ 5,375,085	$ 5,257,540	$ 131,111	$ 133,664
Short-term investments (Note 3)	-	-	898,701	436,279
State appropriations receivable	64,688	61,461	-	-
Accounts receivable - other	51,137	10,410	-	-
Students receivable - net of allowance for doubtful accounts (Note 2)	136,676	155,864	-	-
Grants receivable	70,885	53,509	-	-
Tenant construction allowance	489,300	-	-	-
Promises to give	-	-	7,912	11,913
Prepaid expenses	234,506	223,151	-	-
Other current assets	-	-	250	250
Total Current Assets	6,422,277	5,761,935	1,037,974	582,106
Noncurrent Assets				
Long-term investments - Restricted (Note 3)	-	-	326,793	700,230
Capital assets - net of accumulated depreciation (Note 4)	9,561,414	10,681,355	-	-
Total Noncurrent Assets	9,561,414	10,681,355	326,793	700,230
Deferred Outflows				
Deferred SERS outflows (Note 10)	60,705	48,121	-	-
Total Deferred Outflows	60,705	48,121	-	-
Total Assets and Deferred Outflows	$ 16,044,396	$ 16,491,411	$ 1,364,767	$ 1,282,336
LIABILITIES				
Current Liabilities				
Accounts payable	$ 224,674	$ 474,137	$ 23,638	$ 1,132
Accrued salaries	304,874	291,656	-	-
Accrued compensated absences	430,415	434,878	-	-
Other accrued liabilities	93,252	120,625	-	-
Current portion - Long-term debt (Note 6)	250,771	303,885	-	-
Capital lease obligations - Current portion (Note 5)	135,454	183,102	-	-
Total Current Liabilities	1,439,440	1,808,283	23,638	1,132
Noncurrent liabilities				
Capital lease obligations - Long-term (Note 5)	102,806	239,528	-	-
SERS net pension liability	253,657	247,202	-	-
Long-term debt (Note 6)	1,773,651	1,563,533	-	-
Total Noncurrent Liabilities	2,130,114	2,050,263	-	-
Total Liabilities	3,569,554	3,858,546	23,638	1,132
Deferred Inflows:				
Deferred SERS inflows (Note 10)	156,752	197,976	-	-
Unearned tuition and fee revenue	308,611	288,558	-	-
Unearned capital revenue	-	-	-	-
Total Deferred Inflows	465,363	486,534	-	-
NET POSITION				
Net investment in capital assets	7,298,732	8,391,307	-	-
Unrestricted	3,389,096	2,457,555	607,148	568,727
Restricted - Expendable	1,321,651	1,297,469	456,653	455,545
Restricted - Nonexpendable	-	-	277,328	256,932
Total Net Position	12,009,479	12,146,331	1,341,129	1,281,204
Total Liabilities, Deferred Inflows and Net Position	$ 16,044,396	$ 16,491,411	$ 1,364,767	$ 1,282,336

See Independent Auditor's Report and
Accompanying Notes to Financial Statements

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2019	2018	2019	2018
REVENUES				
Operating Revenues:				
Student tuition and fees - net of scholarship allowances of $72,310 and $59,922, respectively	$ 7,748,383	$ 7,832,270	$ -	$ -
Other Income	79,234	90,871	-	-
Government grant revenue	243,794	293,851	-	-
In-kind revenues	-	-	28,436	35,934
Contributions	-	-	63,781	146,355
Fundraising	-	-	20,142	17,063
Total Operating Revenues	8,071,411	8,216,992	112,359	199,352
EXPENSES				
Operating Expenses:				
Instruction	3,815,167	3,784,241	-	-
Academic support	2,085,988	2,126,139	-	-
Student services	2,247,988	2,093,538	-	-
Institutional support	2,313,857	2,220,954	29,960	60,200
Operations and maintenance of facility	1,938,137	1,883,396	30,584	31,179
Provision for uncollectible accounts	82,021	98,931	-	-
Depreciation and amortization	978,887	944,161	-	-
Scholarships and grants	-	-	33,819	34,177
In-kind expenses	-	-	28,436	35,934
Total Operating Expenses	13,462,045	13,151,360	122,799	161,490
Operating (Loss)/Income	(5,390,634)	(4,934,368)	(10,440)	37,862
NONOPERATING REVENUES/(EXPENSES)				
State appropriations				
Operating (Note 6)	2,847,321	2,746,062	-	-
Capital	673,361	681,842	-	-
Other appropriations	227,762	231,796	-	-
Financial Aid revenue	6,822,952	6,925,125	-	-
Financial Aid (expenses)	(6,822,952)	(6,925,125)	-	-
County appropriations	1,205,000	1,205,000	-	-
Richland roof contributions	24,063	158,521		
Private gifts	39,595	60,200	-	-
Interest on capital assets - Related debt	(65,128)	(31,207)	-	-
Interest and dividends	-	-	15,703	26,142
Unrealized gains and losses	-	-	54,662	64,447
Other nonoperating revenue/(expense)	87,725	67,993	-	-
Net Nonoperating Revenues/(Expenses)	5,039,699	5,120,207	70,365	90,589
Income Before Other Revenues/(Expenses)	(350,935)	185,839	59,925	128,451
OTHER REVENUES:				
Government grants - Capital	214,083	-	-	-
Total Other Revenues	214,083	-	-	-
Change in Net Position	(136,852)	185,839	59,925	128,451
Net Position - Beginning of year	12,146,331	11,960,492	1,281,204	1,152,753
Net Position - End of year	$ 12,009,479	$ 12,146,331	$ 1,341,129	$ 1,281,204

See Independent Auditor's Report
and Accompanying Notes to Financial Statements

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2019	2018	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:				
Payment received from tuition and fees	$ 7,767,571	$ 7,845,059	$ -	$ -
Payment received from tenant construction allowance	489,300	-	-	-
Payment received from government grants	226,418	277,125	-	-
Payment received from contributions	-	-	87,924	157,400
Payments to suppliers	(6,584,135)	(5,648,493)	(38,038)	(94,697)
Payments to employees	(6,319,589)	(6,386,149)	-	-
Payments for scholarships	-	-	(33,819)	(34,177)
Payments from other expenses	193,064	(22,496)	-	-
Net Cash (Used In)/Provided By Operating Activities	(4,227,371)	(3,934,954)	16,067	28,526
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	3,071,856	2,969,400	-	-
Local appropriations	1,205,000	1,205,000	-	-
Payments received from financial aid	6,805,576	6,908,400	-	-
Payments made for financial aid	(6,805,576)	(6,908,400)	-	-
Other (payments)/receipts	86,593	127,988	-	-
Net Cash Provided By Financing Activities	4,363,449	4,302,388	-	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Capital grants	214,083	-	-	-
Purchases of capital assets	(348,246)	(2,387,317)	-	-
State Capital appropriations	673,361	681,842	-	-
Local Capital appropriations	24,063	158,521	-	-
Tenant construction allowance	(489,300)	-	-	-
Loss on disposal of capital assets	-	(995)	-	-
Interest paid on capital debt	(65,128)	(31,207)	-	-
Principal incurred on long-term debt	157,004	1,481,737	-	-
Principal (paid)/incurred on capital leases obligations	(184,370)	198,839	-	-
Net Cash (Used In)/Provided By Financing Activities	(18,533)	101,420	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investments, net	-	-	(18,620)	8,710
Net Cash (Used In)/Provided By Investing Activities	-	-	(18,620)	8,710
Net Increase/(Decrease) in Cash and Cash Equivalents	117,545	468,854	(2,553)	37,236
Cash and Cash Equivalents - Beginning of Year	5,257,540	4,788,686	133,664	96,428
Cash and Cash Equivalents - End of Year	$ 5,375,085	$ 5,257,540	$ 131,111	$ 133,664

See Independent Auditor's Report
and Accompanying Notes to Financial Statements

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2019	2018	2019	2018
Reconciliation of Operating (Loss)/Income to Change in Net Cash from Operating Activities:				
Operating (loss)/income	$ (5,390,634)	$ (4,934,368)	$ (10,440)	$ 37,862
Adjustments to reconcile change in net position to change in net cash from operating activities:				
Depreciation expense	978,887	944,161	-	-
Changes in assets, deferred outflows, liabilities and deferred inflows:				
Student receivables	19,188	12,789	-	-
Grants receivable	(17,376)	(16,726)	-	-
Tenant construction allowance	489,300	-	-	-
Promises to give, net	-	-	4,001	(10,156)
Prepaid expenses	(11,355)	(23,480)	-	-
Other assets	-	-	-	250
Accounts payable	(249,463)	99,727	22,506	570
Accrued salaries	13,218	8,126	-	-
Compensated absences	(4,463)	(15,190)	-	-
Other accrued liabilities	(27,373)	4,443	-	-
Unearned tuition and fee revenue	(27,300)	(14,436)	-	-
Total Adjustments	1,163,263	999,414	26,507	(9,336)
Net Cash (Used In)/Provided By Operating Activities	$ (4,227,371)	$ (3,934,954)	$ 16,067	$ 28,526

Supplemental Disclosures:

Accounting policies note

The Organization considers all highly liquid investments with a maturity of three (3) months or less when purchased to be "cash equivalents."

NOTE 1 ORGANIZATION AND NATURE OF OPERATIONS

Reporting Entity

The Pennsylvania Highlands Community College, the ”College”, was formed in 1993 pursuant to the Community College Act of 1963, as amended, with the County of Cambria as its local sponsor. The College provides post-secondary education to residents of Cambria County and surrounding areas, emphasizing technical training and job skills. The College operates using existing facilities, locations, and faculties to deliver services throughout the region, with locations in Johnstown, Richland, Ebensburg, Somerset, Huntingdon, and Blair. The College is governed by a sixteen (16) member Board. The Board is comprised of representatives from private, for-profit companies, education, and non-profit organizations. The Cambria County Commissioners appoint twelve (12) members to the Board of Trustees. In addition, the College established three (3) separate advisory committees to oversee the Somerset, Blair and Huntingdon county regions. Three (3) additional members are board-appointed, one from each of these locations. The Student Senate President also services as a voting member bringing the total board membership to sixteen (16) members.

As defined by GASB Statement No. 61, “The Financial Reporting Entity,” the College is financially accountable to Cambria County. Based upon this criteria, the College is considered a component unit of Cambria County.

The criteria for including organizations as component units within the College’s reporting entity include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The College holds the corporate powers of the organization
- The College appoints a voting majority of the organization’s board
- The College is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the College
- There is fiscal dependency by the organization on the College

Based on the aforementioned criteria, the following component unit is included within the College's reporting entity as a discretely presented component unit:

- The Pennsylvania Highlands Community College Foundation, which provides scholarships and funding to support the mission of the College.

The Pennsylvania Highlands Community College Foundation, “the Foundation”, is a legally separate, tax exempt foundation. The Foundation was established for the purpose of providing scholarships to the College's students and providing funding for the benefit of the College. The Foundation is governed by a Board of Directors. Although the College does not control the timing or amount of receipts from the Foundation, the majority of the resources that are held are used for the benefit of the College. Certain disclosures about the Foundation are not included because the Foundation has been audited separately and a report has been issued under a separate cover. The audited financial statements are available at the College.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

The basic financial statements of the College have been prepared in conformity with generally accepted accounting principles (GAAP) as well as those prescribed by the Pennsylvania Department of Education. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the College's accounting policies are described below.

Measurement Focus, Basis of Accounting

For financial reporting, the College is considered a special-purpose government unit engaged only in business-type activities. Accordingly, the College's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when an obligation is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Net Position

Net position is classified into four (4) categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College reports its net position as follows:

- *Net investment in capital assets* – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are included as a component of invested in capital assets, net of related debt.

- *Unrestricted net position* – Unrestricted net position represents resources derived from student tuition and fees, state and local appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the College to meet current expenses for any purpose.

- *Restricted net position*, expendable – This includes resources for which the College Board of Trustees has committed for a specific purpose and for which the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. As of June 30, 2019 and 2018, this balance amounted to $1,321,651 and $1,297,469, respectively. This balance consists of the following:

  Operating Reserve: The target amount in this category is fifteen percent (15%) of budgeted expenses. The Operating Reserve may be used in the event of a financial emergency including an interruption of cash flow, unanticipated shortfalls in revenue, or unanticipated increases in expenditures. As of June 30, 2019 and 2018, this balance amounted to $1,031,681 and $1,012,805, respectively.

Emergency Capital Reserve: These funds may be used for unexpected significant repairs or replacement of major building systems. The Emergency Capital Reserve has a target balance of $250,000. As of June 30, 2019 and 2018, this balance amounted to $187,410 and $183,981, respectively.

Long-Term Capital Reserve: These funds are set aside for the future acquisition of a main campus for Cambria County students. The target amount for this reserve is undetermined. As of June 30, 2019 and 2018, this balance amounted to $102,560 and $100,683, respectively.

- *Restricted net position*, nonexpendable – This includes funds in which the donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained in perpetuity and invested for the purpose of producing present and future income, which may be expended or added to principal.

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided based on collection history and based on management's judgment. The allowance for doubtful accounts is evaluated annually and amounted to $133,173 and $133,480 for the years ending June 30, 2019 and 2018, respectively.

Capital Assets

Capital assets include leasehold improvements, equipment and computer software. Capital assets are defined by the College as assets with an initial unit cost of $5,000 or more and have an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as progress is made.

The College capital assets are depreciated using the straight-line method over the following useful lives (see Note 4 for further detail).

	Estimated Useful Life
Leasehold Improvements	Life of lease
Equipment	3-12 years
Signage	10 years
Computer software	4 years

In accordance with provisions of the Community College Act of 1964, as amended, title to capital assets rests with the College in trust for the County.

Investments

Investments are reported at fair value based on quoted market prices.

Compensated Absences

The College records a liability for employees' paid time off earned but not taken. These estimates are based on interpretation of current collective bargaining agreements. The College considers this liability current and due within one year.

Students' Deposits and Unearned Revenue

Student tuition and fees are recognized in the fiscal year when twenty percent (20%) of the session or semester occurs, in accordance with requirements established by the Pennsylvania Department of Education. Deposits and advance payments received for tuition and fees related to the College's summer programs and tuition billed for the following academic year are deferred and recorded as revenues earned.

Classification of Revenues

- *Operating Revenues* - The statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues. For this purpose, operating revenues, such as tuition and fees, result from exchange transactions associated with the principal activities of the College. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values (1) such as student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) most federal, state, local and nongovernmental grants and contracts; and (4) sales and service of educational activities.

- *Nonoperating Revenues* - Nonoperating revenues arise from exchange transactions not associated with the College's principal activities (such as investment income) and from all nonexchange transactions (such as state appropriations and financial aid). A majority of the College's funding is through an agreement with the Commonwealth of Pennsylvania (the State). The College receives funding from the State for operating and capital expenditures, which includes debt service and lease expenses. The operating expense funding is based on the reimbursement rate for each equivalent full-time student. The funding is received quarterly during the fiscal year based on submitted budgets. Amounts received in excess of allowable amounts are deferred and repaid to the State or are adjusted in the subsequent fiscal year's funding. In addition, further adjustments may occur as a result of the requirement for an audit by the Pennsylvania Department of Education.

- In addition, the College receives a County appropriation, which is determined annually by the County Commissioners.

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the student's behalf.

Federal Financial Assistance Programs

The College participates in various federally funded programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *OMB Compliance Supplement.*

Income Taxes

The College is considered an activity of the Commonwealth of Pennsylvania and is tax-exempt. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The PHCC Foundation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Component Unit Accounting Policies

- *Financial Statement Presentation* - The discrete financial statement presentation of the Foundation follows the FASB ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities, which was adopted in the current year. Under the ASU, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

- *Contributions* - Contributions are accounted for following FASB ASC 958-310, Accounting for Contributions Received and Contributions Made. In accordance with the FASB ASC 958-310, contributions received are recorded as with donor restrictions or without donor restrictions, depending on the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are classified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

- *Investments* - Investments are accounted for following FASB ASC 320-10 Accounting for Certain Investments Held by Not-for-Profit Organizations. Under FASB ASC 320-10, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net position in the Statement of Activities.

- *Support to College* - The Foundation provided scholarships and other support to the College of $84,951 and $94,377 in fiscal years 2019 and 2018, respectively.

Pension Plan

The College follows GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. For cost-sharing plans, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan) – the collective net pension liability. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

New GASB Pronouncements

GASB Statement No. 83, *Certain Asset Retirement Obligations,* is effective for period beginning after June 15, 2018. The adoption of this statement had no effect on previously reported amounts.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* is effective for periods beginning after June 15, 2018. The adoption of this statement had no effect on previously reported amounts.

Pending Changes in Accounting Principles

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* The College is required to adopt Statement No. 84 for its fiscal year 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases.* The College is required to adopt Statement No. 87 for its fiscal year 2021 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* The College is required to adopt Statement No. 89 for its fiscal year 2021 financial statements.

In August 2018, the GASB issued Statement No. 90, Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61. The College is required to adopt Statement No. 90 for its fiscal year 2020 financial statements.

In May 2019, the GASB issued Statement No. 91, Conduit Debt Obligations. The College is required to adopt Statement No. 91 for its fiscal year 2022 financial statements.

The College has not completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 3 CASH, CASH EQUIVALENTS AND SHORT-TERM AND LONG-TERM INVESTMENTS

Cash and investments as of June 30, 2019 and 2018, are classified in the accompanying financial statements as follows:

	College		Foundation*	
	2019	2018	2019	2018
Statement of net position:				
Cash and investments	$ 5,375,085	$ 5,257,540	$ 621,817	$ 569,943
Restricted cash and investments	---	---	734,788	700,230
	$ 5,375,085	$ 5,257,540	$1,356,605	$1,270,173

Cash and investments as of June 30, 2019 and 2018, consist of the following:

	College		Foundation*	
	2019	2018	2019	2018
Statement of net position:				
Cash on hand	$ ---	$ ---	$ ---	$ ---
Deposits with financial institutions	5,375,085	5,257,540	131,111	133,664
Investments	---	---	1,225,494	1,136,509
	$ 5,375,085	$ 5,257,540	$1,356,605	$1,270,173

Fair Value of Financial Instruments

The College Foundation applies GAAP to fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP established a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The College Foundation investments are presented in the financial statements at fair market value, which is determined based on “Quoted Prices in Active Markets for Identical Assets (Level 1).”

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity date of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Organization has no policy in regards to managing interest rate risk.

Concentration of Credit Risk

The Organization does not have a policy on the amount that can be invested in any one issuer. The College does not hold investments at June 30, 2019, in any one issuer that represent five percent (5%) or more of the College's total investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Organization has no formal policy in regards to managing custodial credit risk.

Organization investments at June 30, 2019, by the following investment types were uncollateralized, which includes deposits collateralized by securities held by the pledging financial intuition or by its trust department or agent, but not in the Organization's name:

	College	Foundation
Deposits with financial institutions	$ 5,120,754	$ 1,225,494
US Treasury Obligation	---	---
	$ 5,120,754	$ 1,225,494

NOTE 4 CAPITAL ASSETS

The following is a summary of the capital asset categories for fiscal year 2019:

	Balance June 30, 2018	(Transfers)/ Additions	Retirements	Balance June 30, 2019
Equipment	$ 4,412,960	$ 260,471	$ ---	$ 4,673,431
Computer software	240,166	---	---	240,166
Leasehold improvements	12,881,535	1,924,823	---	14,806,358
Construction-in-progress	2,344,646	(2,326,348)	---	18,298
Total Cost	19,879,307	(141,054)	---	19,738,253
Less Accumulated Depreciation:				
Equipment	(3,844,497)	(230,224)	---	(4,074,721)
Computer software	(234,230)	(3,363)	---	(237,593)
Leasehold improvements	(5,119,225)	(745,300)	---	(5,864,525)
Total Accumulated Depreciation	(9,197,952)	(978,887)	---	(10,176,839)
Net Capital Assets	$ 10,681,355	$ (1,119,941)	$ ---	$ 9,561,414

NOTE 5 LEASE COMMITMENTS

Capital Leases

The College leases equipment under agreements classified as capital leases. The cost for such property amounted to $734,313 and $734,313 and the accumulated amortization amounted to $495,704 and $312,126 at June 30, 2019 and 2018, respectively. Amortization expense amount to $183,578 and $179,323 for fiscal years 2019 and 2018, respectfully.

Leases that expire for real property are anticipated to be renewed or replaced by other leases. During the term of the equipment lease, the College will evaluate the cost/benefit of continuing the lease versus exercising the purchase and other options contained therein.

The following is a summary of the capital leases as of June 30, 2019:

	Balance @ 6/30/18	Increase	Decrease	Balance @ 6/30/19	Amount Due In One Year
Capital Lease Obligations	$ 422,630	$ ---	$ (184,370)	$ 238,260	$135,454

Future Minimum Capital Lease Payments

The following is a schedule of future minimum capital lease as of June 30, 2019:

Year Ending June 30:	Principal	Interest
2020	$ 135,454	$ 4,517
2021	99,242	1,699
2022	3,282	1,481
2023	282	2
Total Future Minimum Lease Payments	$ 238,260	$ 7,699

Interest rates on substantially all leases ranged from 2.00% to 6.88%.

Operating Leases

The College leases offices and classrooms under operating leases. The lease term for the Main Campus is for twenty (20) years with one five (5) year renewal term at the option of the College. The annual rent for the main campus facility is $330,000. The lease term for the Ebensburg Education Center is for five (5) years with annual rent of $306,000. The lease term for the Huntingdon site is for ten (10) years with one five (5) year renewal at the option of the College; the annual rent is $32,254. The lease term for the Somerset site is five (5) years with an annual rent of $49,152. The lease term for the Blair site is for ten (10) years with an annual rent of $206,424 for the first five (5) years and an annual rent of $225,192 for the last five (5) years. The lease term for the Central Park site is three (3) years with an annual rent of $30,000.

Total lease expense incurred under all operating leases for fiscal years ending June 30, 2019 and 2018 amounted to $971,097 and $935,256, respectively.

Future Minimum Operating Lease Payments

The following is a schedule of future minimum operating lease payments as of June 30, 2019:

Year Ending June 30:	Operating
2020	$ 953,832
2021	926,332
2022	925,331
2023	894,945
2024	588,945
Thereafter	1,464,877
Total Future Minimum Lease Payments	$ 5,754,262

NOTE 6 LONG-TERM OBLIGATIONS

The following is a description of the long-term obligations as reported in the financial statements at June 30, 2019 and 2018:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
General Oblig. Notes Series of 2014	$ 47,885	$ ---	$ (47,885)	$ ---	$ ---
General Oblig. Notes Series of 2017	1,819,533	451,916	(247,027)	2,024,422	250,771
	$ 1,867,418	$ 451,916	$ (294,912)	$ 2,024,422	$ 250,771

General Obligations Notes, Series of 2014

During fiscal year 2014, the State Public School Building Authority issued a loan to the College to a maximum amount of $1,500,000. As of June 30, 2019, the loan has been paid off. The loan was issued by the Authority on behalf of Pennsylvania Highlands Community College to finance the roof project at the Richland Campus.

The College had an obligation to pay the required debt service on the Commonwealth of Pennsylvania State Public School Building Authority, Series of 2014, which was due semi-annually through March 15, 2019, at interest of 2.00%. The principal of the general obligation note was subject to prepayment at any time, in whole or part, plus accrued interest up to the date of the prepayment, at the option of the College.

General Obligations Note, Series of 2017

During fiscal year 2018, the State Public Building Authority issued a loan to the College to a maximum amount of $2,500,000 to finance the Blair Center expansion project.

The College has an obligation to pay the required debt service on the Commonwealth of Pennsylvania State Public School Building Authority, Series of 2017, which is due quarterly through June 15, 2027, at an interest rate of 2.75%. The principal of the general obligation note is subject to prepayment at any time, in whole or part, plus accrued interest up to the date of the prepayment, at the option of the College.

Debt Maturity

An analysis of debt service requirements to maturity on these obligations is as follows:

Debt Service Payment Dates	Principal Requirements	Interest Requirements	Total Debt Service Requirements
2017 Series – General Obligation Notes Years Ending June 30:			
2020	$ 250,771	$ 52,605	$ 303,376
2021	257,881	45,495	303,376
2022	265,046	38,330	303,376
2023	272,411	30,966	303,377
2024	279,917	23,459	303,376
Thereafter	698,396	12,431	710,827
	$ 2,024,422	$ 203,286	$ 2,227,708

NOTE 7 LINE OF CREDIT

The College maintains a $2,200,000 secured revolving line of credit agreement with a financial institution. The line is secured by the College's public funds and accounts receivable. There are no amounts outstanding on the line of credit at June 30, 2019. The line is due on demand and bears interest at the Wall Street Journal prime rate. The interest rate at June 30, 2019, was 5.50%. The current agreement expires on December 6, 2020.

NOTE 8 DEFINED CONTRIBUTION PENSION PLAN

The College has a qualified defined contribution pension plan available to all full time employees who are eligible. For June 30, 2019 and 2018, the College contributed ten percent (10%) for administrators and faculty and 8% for support staff of the employees' eligible wages. The College contributions to the plan amounted to $533,200 and $521,630 for fiscal years ending June 30, 2019 and 2018, respectively.

The College does not provide any other post-retirement benefit (OPEB) other than pension benefits; therefore GASB 45 does not apply.

NOTE 9 DEFINED BENEFIT PENSION PLAN – SERS

Summary of Significant Accounting Policies

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pennsylvania State Employees' Retirement System (SERS) and additions to/deductions from SERS fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description

SERS is the administrator of a cost-sharing multi-employer defined benefit pension plan established by the Commonwealth of Pennsylvania to provide pension benefits for employees of state government and certain independent agencies. Membership in SERS is mandatory for most state employees. Certain other employees are not required to become members, but are given the option to participate.

Benefits provided

SERS provides retirement, disability, and death benefits. Member retirement benefits are determined by taking years of credited service, multiplied by final average salary, multiplied by two percent (2%), multiplied by class of service multiplier.

Contributions

Section 5507 of the State Employees' Retirement Code (SERC), requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. However, Act 2010-120 imposes rate increase collars (limits on annual rate increases) on employer contributions. The collar was 4.5% and will remain at that rate until no longer needed.

The College's contractually required contribution rate for fiscal year ended June 30, 2019 and 2018, was 34.73% and 41.05%, respectively. Total contributions to the pension plan from the College were $24,572 and $35,818 for the years ended June 30, 2019 and 2018, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the College reported a liability of $253,657 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by actuarial valuation as of that date. The allocation percentage assigned to each employer was based on a projected contribution method. Additional details of the methodology can be found in SERS financial statements. At December 31, 2018, the College's proportion was 0.0012 percent, which was a 0.0002 percent decrease from its proportion measured as of December 31, 2017.

For the year ended June 30, 2019, the College recognized pension gain of $(47,353). At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 3,807	$ 2,748
Changes in assumptions	6,759	---
Net difference between projected and actual investment earnings	24,678	---
Changes in proportions	7,140	151,640
Difference between employer contributions and proportionate share of total contributions	5,652	2,364
Contributions subsequent to the measurement date	12,669	---
	$ 60,705	$ 156,752

$12,669 reported as deferred outflows of resources related to pensions resulting from the College’s contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	$ (46,463)
2021	(29,182)
2022	(28,124)
2023	(3,006)
2024	(1,941)

Actuarial assumptions

The following methods and assumptions were used in the December 31, 2018 and 2017 actuarial valuations. These methods and assumptions were applied to all periods included in the measurement:

- Actuarial cost method........... Entry Age
- Investment return .... 7.25%, net of expenses including inflation
- Projected salary increases ... Average of 5.60%, with a range of 3.70%-8.90%

- Asset valuation method .... Fair Market Value
- Inflation 2.60%
- Mortality rates....................... Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement
- Cost of living adjustment ...... Ad hoc

The following method was used in the December 31, 2017 actuarial valuations.

- Amortization method .... Straight line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits

Some of the methods and assumptions mentioned above are based on the 18th Investigation of Actuarial Experience, which was published in March 2016, and analyzed experience from 2011 through 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16%	7.25%
Global Public Equity	48%	5.15%
Real Estate	12%	5.26%
Multi-Strategy	10%	4.44%
Fixed Income	11%	1.26%
Cash	3%	---
	100%	

Discount rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at actuarially determined rates as set by statute. Based on those assumptions, SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore, the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the College's proportionate share of the net pension liability to changes in the discount rate

The following presents the 2018, 2017 and 2016 net pension liability for the College's proportionate share, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage-point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
2018	$ 311,470	$ 253,657	$ 204,114
2017	313,776	247,202	190,173
2016	547,982	442,797	352,721

The following presents the 2015, 2014 and 2013 net pension liability for the College's proportionate share, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage-point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
2015	$ 494,577	$ 398,150	$ 315,469
2014	611,063	472,223	362,475
2013	563,650	439,035	323,060

Pension plan fiduciary net position

Detailed information about SERS' fiduciary net position is available in SERS separately issued financial statements which can be obtained from SERS management at *www.sers.pa.gov.*

NOTE 10 DEFINED BENEFIT PENSION PLAN – PSERS

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least five hundred (500) hours of service in the school year, and part-time per diem public school employees who render at least eighty (80) days of service in the school year in any of the reporting entities in Pennsylvania.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

At December 31, 2018, the College's proportion was 0.0003 percent, which resulted in an insignificant net pension liability and is therefore not recorded in the College's financial statements.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Litigation

The nature of the educational industry is such that, in the normal course of operations, the College is exposed to various risks of loss related to torts, alleged negligence, acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; and an occasional dispute or grievance. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher educational system. Management is of the opinion that any outcome resulting from these actions would not have a material effect on the College's financial position.

Collective Bargaining Agreements

The College entered into two separate collective bargaining agreements with the Pennsylvania Highlands Community College PA Federation of Teachers with one agreement covering Faculty and the other agreement covering Supporting Staff employees. These agreements outline wages, hours and other terms and conditions of employment for Faculty and Support Staff positions. In addition, these agreements detail the definition of seniority, grievance procedures as well as employee benefits such as medical, life and disability insurance, paid time off and retirement benefits.

The term of the Faculty agreement is five (5) years for the period July 1, 2017 through June 30, 2022. A new Support Staff agreement was approved for three (3) years for the period July 1, 2016 through June 30, 2019.

Bookstore Management Agreement

The College contracted with a management service company to maintain inventory for the bookstore and facilitate the operations of the bookstore on a daily basis. Under the terms of the contract the College is to be paid an annual commission of no less than $40,000. The commissions are to be paid based on 8.25% of all gross revenues up to $1,000,000, then 8.75% of all gross revenues between $1,000,000 to $1,250,000, and then 9.25% of all gross revenues in over $1,250,000.

NOTE 12 SUBSEQUENT EVENTS

Capital Lease

The State Public Building Authority issued a revolving loan to the College to a maximum amount of $148,921 to finance the purchase of network equipment upgrades on July 15, 2019. As of October 11, 2019, $148,921 has been drawn on this loan.

Subsequent events have been evaluated for Pennsylvania Highlands Community College through October 11, 2019, and for Pennsylvania Highlands Community College Foundation through October 11, 2019, which is the date that financial statements were available to be issued.

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SERS PENSION PLAN
LAST 10 FISCAL YEARS*

	2019	2018	2017	2016	2015	2014
College's proportion of the net pension liability (asset)	0.0012%	0.0014%	0.0023%	0.0022%	0.0032%	0.0032%
College's proportionate share of the net pension liability (asset)	$ 253,657	$ 247,202	$ 442,797	$ 398,150	$ 472,223	$ 439,035
College's covered-employee payroll	$ 70,753	$ 87,264	$ 131,416	$ 128,839	$ 182,226	$ 61,788
College's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	358.51%	283.28%	336.94%	309.03%	259.14%	710.55%
Plan fiduciary net position as a percentage of the total pension liability	56.4%	63.00%	57.80%	58.90%	64.80%	66.72%

Note: The net pension liability was determined by actuarial valuations as of December 31, 2018, 2017, 2016, 2015, 2014 and 2013. The years presented in this schedule are all of the years in which information is available.

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
SCHEDULE OF COLLEGE CONTRIBUTIONS
SERS PENSION PLAN
LAST 10 FISCAL YEARS

	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 24,572	$ 35,818	$ 35,257	$ 28,113	$ 18,994	$ 9,465
Contributions in relation to the contractually required contribution	(24,572)	(35,818)	(35,257)	(28,113)	(18,994)	(9,465)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
College's covered-employee payroll	$ 70,753	$ 87,264	$ 131,416	$ 128,839	$ 182,226	$ 61,788
Contributions as a percentage of covered-employee payroll	34.73%	41.05%	26.83%	21.82%	10.42%	15.32%

Note: The years presented in this schedule are all of the years in which information is available.

See Independent Auditor's Report
and Accompanying Notes to Financial Statements

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
SCHEDULE OF EXPENSES BY FUNCTIONAL CLASSIFICATION - PRIMARY INSTITUTION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

2019

FUNCTIONAL CLASSIFICATION	Salaries and Wages	Fringe Benefits	Supplies, Equip, and Repairs	Professional & Purchased Services	Utilities	Advertising	Leases and Depreciation	Other Expense	Total
Instruction	$ 2,674,146	$ 999,920	$ 85,336	$ 45,468	$ -	$ -	$ -	$ 10,297	$ 3,815,167
Academic support	948,906	448,093	611,803	4,400	-	-	-	72,786	2,085,988
Student services	1,284,045	626,011	120,764	56,878	-	-	-	160,290	2,247,988
Institutional support	999,539	457,445	45,067	238,152	-	295,420	-	278,234	2,313,857
Operations and maintenance of facility	397,969	168,530	95,216	26,027	229,529	-	971,102	49,764	1,938,137
Provision for uncollectible accounts	-	-	-	-	-	-	-	82,021	82,021
Depreciation and amortization	-	-	-	-	-	-	978,887	-	978,887
Total Operating Expenses	$ 6,304,605	$ 2,699,999	$ 958,186	$ 370,925	$ 229,529	$ 295,420	$ 1,949,989	$ 653,392	$ 13,462,045

2018

FUNCTIONAL CLASSIFICATION	Salaries and Wages	Fringe Benefits	Supplies, Equip, and Repairs	Professional & Purchased Services	Utilities	Advertising	Leases and Depreciation	Other Expense	Total
Instruction	$ 2,755,582	$ 897,810	$ 79,957	$ 37,120	$ -	$ 468	$ -	$ 13,304	$ 3,784,241
Academic support	1,014,629	427,106	604,441	6,949	-	-	-	73,014	2,126,139
Student services	1,225,049	575,264	109,582	49,505	-	-	-	134,138	2,093,538
Institutional support	1,006,718	375,309	41,572	255,566	-	299,654	-	242,135	2,220,954
Operations and maintenance of facility	386,541	169,526	87,543	34,670	220,721	-	942,459	41,936	1,883,396
Provision for uncollectible accounts	-	-	-	-	-	-	-	98,931	98,931
Depreciation and amortization	-	-	-	-	-	-	944,161	-	944,161
Total Operating Expenses	$ 6,388,519	$ 2,445,015	$ 923,095	$ 383,810	$ 220,721	$ 300,122	$ 1,886,620	$ 603,458	$ 13,151,360

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019
(Page 1 of 2)

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Period	Grant/Contract Number	Program or Award Amount	Total Received For the Year	Accrued or (Deferred) Revenue at 6/30/18	Revenue Recognized	Federal Expenditures	Accrued or (Deferred) Revenue at 6/30/19
APPALACHIAN REGIONAL COMMISSION									
Appalachian Regional Commission (ARC)	23.001	4/18-9/18	PA-19208-302-18	$ 147,558	$ 145,091	$ -	$ 145,091	145,091	-
Total Appalachian Regional Commission					**145,091**	**-**	**145,091**	**145,091**	**-**
U.S. DEPARTMENT OF EDUCATION									
Student Financial Assistance Cluster:									
Federal Direct Student Loan	84.268	7/17-6/18	P268K184857	3,120,088	214,094	-	214,094	214,094	-
Federal Direct Student Loan	84.268	7/18-6/19	P268K194857	3,317,007	2,985,950	-	2,985,950	2,985,950	-
									-
Federal Pell Grant (PELL)	84.063	7/17-6/18	P063P174857	2,798,431	165,268	-	165,268	165,268	-
Federal Pell Grant (PELL)	84.063	7/18-6/19	P063P184857	2,510,431	2,327,539	-	2,327,539	2,327,539	-
Federal Work Study (FWS)	84.033	7/16-6/17	P033A168511	35,954	200	200	-	-	-
Federal Work Study (FWS)	84.033	7/17-6/18	P033A178511	20,235	20,235	340	19,895	19,895	-
Federal Work Study (FWS)	84.033	7/18-6/19	P033A188511	35,954	8,307	-	8,307	8,307	-
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007	7/17-6/18	P007A168511	58,557	5,061	-	5,061	5,061	-
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007	7/18-6/19	P007S168511	70,000	62,478	-	62,478	62,478	-
Total Student Financial Assistance Cluster					5,789,132	540	5,788,592	5,788,592	-
Passed through Pennsylvania Department of Education:									
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	7/18-6/19	381-19-0020	148,171	135,823	-	148,171	148,171	12,348
Total U.S. Department of Education					**5,924,955**	**540**	**5,936,763**	**5,936,763**	**12,348**
VETERANS BENEFITS ADMINISTRATION									
Vocational Rehabilitation for Disabled Veterans	64.116	7/18-6/19			9,874	-	9,874	9,874	-
Post 9/11 Veterans Educational Assistance	64.027	7/18-6/19			113,697	(5,259)	116,500	116,500	(2,456)
Total Veterans Benefits Administration					**123,571**	**(5,259)**	**126,374**	**126,374**	**(2,456)**
U.S. DEPARTMENT OF LABOR AND INDUSTRY									
Passed through Pennsylvania Department of Labor and Industry:									
Office of Vocational Rehabilitation	84.126A Letter of Understanding	7/18-6/19			27,676	1,234	26,442	26,442	-
Trade Adjustment	17.245	7/18-6/19			45,067	-	45,067	45,067	-
Total U.S. Department of Labor and Industry					**72,743**	**1,234**	**71,509**	**71,509**	**-**

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019
(Page 2 of 2)

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Period	Grant/Contract Number	Program or Award Amount	Total Received For the Year	Accrued or (Deferred) Revenue at 6/30/18	Revenue Recognized	Federal Expenditures	Accrued or (Deferred) Revenue at 6/30/19
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE									
AmeriCorps	94.006	7/18-6/19			8,052	-	8,052	8,052	-
Total Corporation for National and Community Service					**8,052**	**-**	**8,052**	**8,052**	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Passed through the PA Department of Human Services									
KEYS Grant	93.558	7/18-6/19		72,609	75,165	36,664	72,609	72,609	34,108
Total U.S. Department of Health and Human Services					**75,165**	**36,664**	**72,609**	**72,609**	**34,108**
U.S. DEPARTMENT OF AGRICULTURE									
Passed through the PA Department of Public Welfare									
KEYS Grant	10.561	7/18-6/19		26,003	21,644	7,856	26,003	26,003	12,215
Total U.S. Department of Agriculture					**21,644**	**7,856**	**26,003**	**26,003**	**12,215**
Total Expenditures of Federal Awards					**$ 6,371,221**	**$ 41,035**	**$ 6,386,401**	**$ 6,386,401**	**$ 56,215**

NOTE: Pennsylvania Highlands Community College did not provide federal funds to subrecipients during the year ended June 30, 2019.

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

NOTE 1 GENERAL INFORMATION/BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards presents the activities of the federal financial assistance programs of the Pennsylvania Highlands Community College (the College). Financial award received directly from federal agencies, as well as financial assistance passed through other government agencies or nonprofit organizations, are included in the schedule.

NOTE 2 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Pennsylvania Highlands Community College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

NOTE 3 ADMINISTRATIVE EXPENSES

The expenditures in the accompanying Schedule of Expenditures of Federal Awards include an allocation of administrative expenses. Those allocations are based upon amounts permitted under each individual financial assistance program. For the year ended June 30, 2019, Pennsylvania Highlands Community College did not elect to use the ten percent (10%) de minimus indirect cost rate as allowed in the Uniform Guidance, section 414.

NOTE 4 AMOUNTS PASSED TO SUBRECIPIENTS

Pennsylvania Highlands Community College did not provide federal awards to subrecipients during the year ended June 30, 2019.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Pennsylvania Highlands Community College
Johnstown, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the Pennsylvania Highlands Community College as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Pennsylvania Highlands Community College's basic financial statements, and have issued our report thereon dated October 11, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pennsylvania Highlands Community College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pennsylvania Highlands Community College's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pennsylvania Highlands Community College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pennsylvania Highlands Community College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wessel & Company

WESSEL & COMPANY
Certified Public Accountants

October 11, 2019

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Board of Trustees
Pennsylvania Highlands Community College
Johnstown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Pennsylvania Highlands Community College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Pennsylvania Highlands Community College's major federal programs for the year ended June 30, 2019. Pennsylvania Highlands Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statues, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Pennsylvania Highlands Community College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pennsylvania Highlands Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Pennsylvania Highlands Community College's compliance.

Opinion on Each Major Federal Program

In our opinion, Pennsylvania Highlands Community College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the Pennsylvania Highlands Community College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pennsylvania Highlands Community College's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wessel & Company

WESSEL & COMPANY
Certified Public Accountants

October 11, 2019

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PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	_____ Yes	X No
• Significant deficiency(ies) identified?	_____ Yes	X None reported
Noncompliance material to financial statements noted?	_____ Yes	X No

Federal Awards

Internal control over major federal programs:		
• Material weakness(es) identified?	_____ Yes	X No
• Significant deficiency(ies) identified?	_____ Yes	X None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	X No

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.063, 84.033, 84.007, 84.268	Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X Yes	_____ No

FINDINGS – FINANCIAL STATEMENT AUDIT

NONE

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2018

NONE

PENNSYLVANIA HIGHLANDS COMMUNITY COLLEGE

CORRECTIVE ACTION PLAN

June 30, 2019

NONE NECESSARY