

JUNIATA COLLEGE



Huntingdon, Pennsylvania



Audit Report

FOR FISCAL YEAR ENDED MAY 31, 2008

YOUNG, OAKES, BROWN & COMPANY, P.C.

Certified Public Accountants
1210 Thirteenth Street
Altoona, PA 16601

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Young, Oakes, Brown & Company, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Juniata College
Huntingdon, PA 16652

We have audited the accompanying statements of financial position of Juniata College (a nonprofit organization) as of May 31, 2007 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the overall accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Juniata College as of May 31, 2007 and 2008, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Young, Oakes, Brown & Company, P.C.

September 12, 2008

JUNIATA COLLEGE
Statement of Financial Position
As of May 31, 2007 and 2008

	2007	2008
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 20,665,844	\$ 19,869,881
Short-Term Investments	-0-	711,459
Accounts Receivable	1,409,310	4,997,730
Loans Receivable - Students	2,084,397	2,134,700
Pledges Receivable	16,103,618	15,883,865
Unexpended Grants Receivable	530,005	17,326
Accrued Interest Receivable	145,627	145,727
Inventories	305,691	304,559
Prepaid Expenses	823,248	586,214
Long-term Investments	63,757,515	63,656,753
Real Estate Investments	3,780,465	3,741,205
Cash Value Life Insurance	163,644	167,704
Perpetual Insurance Deposit	32,158	32,158
Land, Buildings & Equipment (Less Accumulated Depreciation)	62,301,735	63,566,857
Total Assets	\$ 172,103,257	\$ 175,816,138
 <u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts Payable and Accrued Expenses	\$ 2,413,856	\$ 2,372,102
Accrued Wages, Salaries and Fringes	4,995,744	5,309,776
Student Deposits	472,416	381,095
Deferred Summer School and Conference Income	378,456	799,912
Annuity and Contracts Payable	4,379,097	4,002,509
Amounts Held on Behalf of Others	95,486	84,318
Advances from Federal Government	1,405,328	1,422,181
Long-term Debt - Notes Payable	32,968,000	32,662,981
Grants Refundable	699,401	347,725
Total Liabilities	\$ 47,807,784	\$ 47,382,599
 <u>Net Assets</u>		
Unrestricted	\$ 54,831,045	\$ 54,275,161
Temporarily Restricted (Note 1 b.)	5,573,090	6,783,737
Permanently Restricted (Note 1 b.)	63,891,338	67,374,641
Total Net Assets	\$ 124,295,473	\$ 128,433,539
 Total Liabilities and Net Assets	 \$ 172,103,257	 \$ 175,816,138

See accompanying notes and independent auditor's report.

JUNIATA COLLEGE
Statement of Activities
For the Years Ended May 31, 2007 and 2008

	2007	2008
<u>Changes in Unrestricted Net Assets</u>		
Unrestricted Revenues and Gains:		
Tuition and Fees	\$ 38,730,223	\$ 40,490,187
Scholarship & Grant Allowances:		
Unfunded Scholarships & Grants	(16,489,229)	(16,993,102)
Funded Scholarships & Grants	(1,399,542)	(1,448,703)
Total Scholarships & Grant Allowances	\$ (17,888,771)	\$ (18,441,805)
Net Tuition and Fees	\$ 20,841,452	\$ 22,048,382
Auxiliary Enterprises	8,990,371	8,649,069
Gifts	2,650,670	3,190,965
Allocated Endowment Income	3,597,830	3,385,182
Realized Gains on Investments	1,015,032	477,916
Unrealized Gains (Losses) on Investments	908,820	(835,289)
Sales and Services of Educational Activities	411,809	499,077
Contracts, Grants and Other Exchange Transactions	2,315,406	2,138,163
Other Income and Gains	758,172	780,201
Total Unrestricted Revenue and Gains	\$ 41,489,562	\$ 40,333,666
Net Assets Released From Restrictions	640,266	845,927
Total Unrestricted Revenue and Gains and Other Support	\$ 42,129,828	\$ 41,179,593
Unrestricted Expenses and Losses		
Educational and General		
General Instruction	\$ 12,189,150	\$ 11,252,702
Payments on Contracts and Other Exchange Transactions	2,608,407	2,829,463
Academic Support Services	4,266,598	5,158,305
Student Services	5,767,204	5,981,234
Institutional Support		
General and Administration	5,953,049	5,429,009
Fund Raising	1,210,877	1,302,935
Physical Plant Operations	3,034,547	3,334,167
Interest on Indebtedness	1,560,390	1,378,799
Transfers and Other Eliminations	-0-	525,345
Total Educational and General	\$ 36,590,225	\$ 37,191,959
Auxiliary Enterprises	4,793,852	4,543,517
Total Unrestricted Expenses and Losses	\$ 41,384,077	\$ 41,735,476
Increase (Decrease) in Unrestricted Net Assets	\$ 745,752	\$ (555,883)

See accompanying notes and independent auditor's report.

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JUNIATA COLLEGE
Statement of Activities
For the Years Ended May 31, 2007 and 2008

	2007	2008
<u>Changes in Temporarily Restricted Net Assets:</u>		
Temporarily Restricted Revenues and Gains		
Investment Income	\$ 70,349	\$ (77,861)
Other Income	-0-	321,953
Gifts	1,832,028	2,241,426
Adjusted Remainder Interest on Life Income Contracts	49,701	(6,840)
Realized Gains on Investments	32,894	238,035
Unrealized Gains (Losses) on Investments	283,332	(78,867)
Net Assets Released from Restrictions	8,944	-0-
	\$ 2,277,248	\$ 2,637,846
Reductions to Temporarily Restricted Net Assets		
Payments to Beneficiaries of Life Income Contracts	\$ 55,414	\$ 52,663
Net Assets Released From Restrictions	640,265	1,069,486
Transfers and Other Eliminations	-0-	336,282
Total Reductions to Temporarily Restricted Net Assets	\$ 695,679	\$ 1,458,431
Increase in Temporarily Restricted Net Assets	\$ 1,581,569	\$ 1,179,415
<u>Changes in Permanently Restricted Net Assets:</u>		
Permanently Restricted Revenues and Gains		
Investment Income	\$ 1,579,570	\$ 1,942,014
Gifts	767,952	5,497,809
Adjusted Remainder Interest on Life Income Contracts	22,300	194,822
Student Loan Income	25,000	19,220
Realized Gains on Investments	4,493,403	2,784,354
Unrealized Gains (Losses) on Investments	4,817,484	(5,054,420)
Net Assets Released from Restrictions	-0-	223,559
Transfers and Other Eliminations	-0-	861,627
	\$ 11,705,708	\$ 6,468,985
Reductions to Permanently Restricted Net Assets		
Endowment Spending	\$ 2,509,110	\$ 2,534,540
Depreciation Expense	81,839	93,687
Interest Expense	68,879	81,548
Payments to Beneficiaries of Life Income Contracts	433,493	437,046
Net Assets Released from Restrictions	8,944	-0-
Total Reductions to Permanently Restricted Net Assets	\$ 3,102,265	\$ 3,146,821
Increase In Permanently Restricted Net Assets	\$ 8,603,443	\$ 3,322,164
Total Increase in Net Assets	\$ 10,930,764	\$ 3,945,696
NET ASSETS - June 1	\$ 113,364,709	\$ 124,295,473
Prior Period Adjustment (Note 15)	\$ -0-	\$ 192,370
NET ASSETS - May 31	\$ 124,295,473	\$ 128,433,539

See accompanying notes and independent auditor's report.

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JUNIATA COLLEGE
Statement of Cash Flows
For the Years Ended May 31, 2007 and 2008

	2007	2008
Cash Flows from Operating Activities		
Change in Net Assets	\$ 10,930,764	\$ 3,945,696
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation	\$ 2,732,587	\$ 2,792,915
Net Realized & Unrealized (Gains) Losses on Investments	(11,550,964)	2,468,271
	\$ (8,818,377)	\$ 5,261,186
Change in Assets and Liabilities		
Accounts Receivable	\$ (633,713)	\$ (3,588,420)
Notes Receivable	65,237	(50,303)
Pledges Receivable	1,325,033	219,753
Accrued Interest Receivable	(38,251)	(100)
Inventories	(17,134)	1,132
Prepaid Expenses & Other Assets	294,000	237,034
Cash Value of Life Insurance	(11,821)	(4,060)
Accounts Payable & Accrued Expense	183,134	277,963
Grants Administered	(214,234)	161,003
Student Deposits	83,099	(91,321)
Deferred Income	(93,660)	421,456
Total Adjustments	\$ 941,690	\$ (2,415,863)
Net Cash Provided by Operating Activities	\$ 3,054,077	\$ 6,791,019
Cash Flows from Investing Activities		
Acquisition of Investments	\$ (54,070,251)	\$ (50,244,208)
Proceeds from Sales of Investments	63,437,963	47,876,699
Acquisition of Property & Equipment	(2,851,544)	(4,018,777)
Net Cash Used in Investing Activities	\$ 6,516,168	\$ (6,386,286)
Cash Flows from Financing Activities:		
New Borrowings	\$ -0-	\$ 999,981
Principal Paid on Long-Term Indebtedness	(1,305,000)	(1,305,000)
Increase (Decrease) in Annuities Payable	161,152	(184,218)
Net Cash Provided from Financing Activities	\$ (1,143,848)	\$ (489,237)
Net Increase (Decrease) in Cash	\$ 8,426,397	\$ (84,504)
Cash and Cash Equivalents - June 1	12,239,447	20,665,844
Cash and Cash Equivalents - May 31	\$ 20,665,844	\$ 20,581,340
 <i>Cash Paid for Interest During the Year:</i>	 \$ 1,487,858	 \$ 1,454,623

See accompanying notes and independent auditor's report.

JUNIATA COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2007 and 2008

Note 1: Summary of Significant Accounting Policies

The significant accounting policies followed by the College are described below to enhance the usefulness of the financial statements to the reader.

a. Nature of Operations

The College, which is a nonprofit educational institution organized under the laws of the Commonwealth of Pennsylvania, was established in 1876 to provide higher education to students. The primary revenue sources include tuition and fees from students.

b. Basis of Presentation

The College recognizes Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Made," and SFAS No. 117, "Financial Statements of Not-for-Profit Organizations." SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. SFAS No. 116 requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the College to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. A description of the three net asset categories follows:

Unrestricted net assets include all net assets that are not subject to donor imposed restrictions.

Temporarily restricted net assets include net assets subject to donor imposed stipulations that may or will be met either by actions of the College and/or the passage of time and are available for the following purposes:

- Gifts and other unexpended revenues available for scholarships;
- Gifts and other unexpended revenues available for research;
- Gifts and other unexpended revenues available for instruction, library automation, and other support;
- Gifts and other unexpended revenues available for construction projects;
- Federally funded fixed assets for use with government grants

Permanently restricted net assets include net assets subject to donor imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes. They consist of the following:

- Donor Restricted Loan Funds
- Remainder Interest Trusts
- Annuity and Life Income Funds
- Endowment Funds

Government grants which are restricted to various uses are reflected as unrestricted since these funds are received and spent during the same year as permitted by SFAS No. 116.

c. Accrual Basis

The College's financial statements have been prepared on the accrual basis.

- d. Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- e. Endowment Investment Income
Unit Basis of Valuation is a method of allocating pooled investment income by prorating it to the funds making up the pool. The use of this system eliminates the need for keeping records of the income and changes in the securities of each individual endowment fund. Each endowment was assigned an initial number of units at June 30, 1974 by dividing the book value of the endowment by \$1,000, i.e., each unit valued at \$1,000. Future unit values are determined periodically by dividing the market value of the pooled assets by the number of units in existence. Unit additions and withdrawals in the pool are determined by dividing the book value of the endowment gift and related earnings by the most recently determined unit value to arrive at the number of units. During the years ended May 31, 2007 and 2008, endowment income from securities included \$1,182,966 and \$1,524,397 in interest and dividends \$5,660,268 and \$2,869,090 in realized gains; and \$5,067,893 and (\$5,025,501) in unrealized (losses) gains, respectively.
- f. Endowment Spending Policy
The spending rate from the Endowment for current operations of the College shall be within the range of 3.5% and 6% of the 5-year moving average of the fiscal year-end market values, subject to the limitations, if any, of Pennsylvania law. The above notwithstanding, the dollar change in spending from one fiscal year to the next will never be less than 0% nor more than 6%. The Committee on Investments will review and determine the actual spending rate annually. For fiscal year 2007-08, spending was 5.2% of a 5-year moving average. For fiscal year 2008-09, spending will be 5.1% of a 5-year moving average of the previous 5 years' year-end market values.
- g. Cash and Cash Equivalents
Cash and cash equivalents consist of cash held in checking and money market accounts with maturities of less than 90 days. At year end and during the year, the College's cash balances were deposited in several banks. Management believes the College is not exposed to any significant credit risk on cash and cash equivalents. The College is required to maintain a sinking fund with respect to the Huntingdon County General Authority Series 2001 bonds payable. As of May 31, 2007 and 2008, the amount of cash restricted by this indenture was \$164,706 and \$50,902, respectively.
- h. Inventories
Inventories are valued at cost, determined using a first-in, first-out basis.
- i. Pledges Receivable
These amounts, less an appropriate allowance, are recorded at their estimated fair value. Each year, new pledge commitments received in that year are discounted to fair value using the 2 ½ year Treasury Bill rate applicable to each year end.
- j. Investments
Investments are stated at fair market value. Real estate investments are stated primarily at cost. Securities not publicly traded are stated at cost which approximates market. The net realized and unrealized gains (losses) on investments are reflected in the Statement of Activities.
- k. Property and Equipment
Property and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts.

Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Equipment purchased or received as a gift with an estimated useful life of less than ten years is not capitalized. A summary of depreciable lives follows:

	<u>Years</u>
Buildings, Residences, and Other Structures	40
Equipment	10

i. Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts and unexpended grants receivable, inventories and prepaids approximate fair value because of the short maturity of these financial instruments. Investment securities are carried at fair values provided by an external investment custodian as quoted market values. Pledges receivable are carried at their present value of future cash flow less a 5% allowance as established by management.

A reasonable estimate of the fair value of the notes receivable from students under government loan programs and advances from the Federal Government for student loans could not be made because the notes receivable are not salable and can only be assigned to the U.S. Government or its designees; the fair value of notes receivable from students under College loan programs approximates carrying value.

The carrying amount of notes payable approximates fair value because these financial instruments bear interest at variable rates which approximate current market rates for notes with similar maturities and credit quality. The postretirement benefits liability is carried at an amount determined by an external actuarial firm.

m. Life Income Agreements

The College's life income agreements with donors consist of charitable remainder trusts, charitable gift annuities, and pooled income fund agreements for which the College serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries.

n. Leases

The College leases certain office equipment and vehicles. They are expensed as incurred using the operating method.

o. Concentrations of Credit and Market Risk

Financial instruments that potentially expose the College to concentrations of credit and market risk consist primarily of cash equivalents, pledges receivable, and investments. Cash equivalents are maintained at high-quality financial institutions, and, while certain amounts exceed Federally-insured amounts, credit exposure is considered limited at any one financial institution by management. The College has not experienced any losses on its cash equivalents. The College's investments do not represent significant concentrations of market risk inasmuch as the College's investment portfolio is adequately diversified among issuers.

p. Income Tax Status

The College is recognized as an organization exempt from Federal income tax under Section 501(c) (3) of the Internal Revenue Code (the "Code") whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax. The College does not have any unrelated business income.

q. Advertising Costs

The College recognizes all of its advertising costs as the expenses are incurred.

r. Estimated Liability for Health Care Claims

Accrued liabilities include the estimated cost of claims for medical and prescription drug benefits not covered by insurance. A substantial portion of the College's medical and prescription drug benefit costs are self-insured through significant self-pay deductibles. All the self-insured liability regarding the aforementioned claims are included in the liability section of the balance sheet as other accrued liabilities. The liability for unpaid losses and loss expense are estimated by the third party administrator using individual case-basis valuations. Those estimates are subject to the effect of trends in measuring loss severity. Although considerable variability is inherent in such estimates, management believes that the liabilities accrued for losses and loss expenses are adequate. The estimates are continually reviewed and adjusted as necessary, as experience develops, or new information becomes known and such adjustments are included in current operating results. An estimate of claims incurred but not reported has been included in the \$244,561 and \$166,345 accruals as of May 31, 2007 and 2008, respectively.

s. Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

Note 2: Loans Receivable

Loans receivable reflected on the Statement of Financial Position includes \$1,615,371 and \$1,681,892 of Perkins Loans and \$467,467 and \$362,632 of Juniata College-provided loans, less an allowance for doubtful accounts of \$49,691 and \$49,691 for May 31, 2007 and 2008, respectively.

Advances from the Federal Government under the Perkins Loan program are distributable to the Federal Government upon liquidation of the fund and, thus, are reflected as a \$1,405,328 (2007) and \$1,422,181 (2008) liability on the Statement of Financial Position.

Note 3: Investments in Securities

Securities purchased are initially recorded at cost in all funds but are adjusted for amortization of premiums and discounts on bonds in the Pooled Income Fund only. All securities received through gifts are recorded at market value at the date of constructive receipt. Market values are used as the carrying value for financial statement purposes. As of May 31, 2007 and 2008, the securities held by the various funds are comprised of the following:

2008	TOTAL		BONDS		STOCKS	
	Cost	Market	Cost	Market	Cost	Market
Endowment-Pooled	\$51,585,413	\$58,475,082	\$15,836,980	\$15,527,667	\$35,748,433	\$42,947,415
Charitable Rem. Annuity Trusts	\$644,955	\$557,257	\$192,699	\$192,656	\$452,256	\$364,601
Charitable Rem. Unistrusts	\$3,082,153	\$3,652,516	\$175,134	\$159,580	\$2,907,019	\$3,492,936
Pooled Income	\$730,594	\$847,996	\$130,000	\$123,621	\$600,594	\$724,375
Plant Fund	\$2,959	\$2,959	\$2,959	\$2,959	-0-	-0-
Current Fund	\$107,818	\$120,943	-0-	-0-	\$107,818	\$120,943
Grand Total	\$56,153,892	\$63,656,753	\$16,337,772	\$16,006,483	\$39,816,120	\$47,650,270

2007	TOTAL		BONDS		STOCKS	
	Cost	Market	Cost	Market	Cost	Market
Endowment-Pooled	\$46,046,937	\$57,939,156	\$11,860,357	\$11,754,450	\$34,186,581	\$46,185,706
Charitable Rem. Annuity Trusts	\$648,429	\$619,628	\$192,699	\$189,537	\$455,730	\$430,091
Charitable Rem. Unitrusts	\$3,164,405	\$3,986,913	\$256,402	\$2,243,877	\$2,908,003	\$3,743,037
Pooled Income	\$904,373	\$1,092,559	\$130,000	\$123,115	\$774,373	\$969,444
Plant Fund	\$93,740	\$2,959	\$2,959	\$2,959	90,781	-0-
Current Fund	\$108,291	\$116,300	-0-	-0-	\$108,291	\$116,512
Grand Total	\$50,966,175	\$63,757,515	\$12,442,417	\$12,312,938	\$38,523,759	\$51,444,790

Note 4: Property and Equipment

Property and equipment values are summarized as follows at May 31, 2007 and May 31, 2008:

	<u>2007</u>	<u>2008</u>
Land	\$ 1,940,603	\$ 1,940,603
Buildings and Improvements	81,552,877	85,017,675
Equipment	<u>20,678,524</u>	<u>21,178,075</u>
	\$ 104,172,004	\$ 108,136,353
Less: Accumulated Depreciation	<u>(41,870,269)</u>	<u>(44,569,496)</u>
	<u>\$ 62,301,735</u>	<u>\$ 63,566,857</u>

Depreciation expense on these assets was \$2,650,748 and \$2,699,228 for 2007 and 2008, respectively.

In addition to these assets, the Endowment-Pooled and Gift Annuity Funds reflect investments in Real Estate as follows:

	<u>2007</u>	<u>2008</u>
Land	\$ 639,167	\$ 639,167
Rental Properties	<u>3,747,484</u>	<u>3,801,911</u>
	\$ 4,386,651	\$ 4,441,078
Less: Accumulated Depreciation	<u>(606,186)</u>	<u>(699,873)</u>
	<u>\$ 3,780,465</u>	<u>\$ 3,741,205</u>

Depreciation expense on these rental properties was \$81,839 and \$93,687 for 2007 and 2008, respectively.

Note 5: Retirement Plan

The Juniata College Retirement Plan covers all eligible employees who have both completed one year of service and have attained age thirty, and optional participation is available after one year of service regardless of age. Each participant in the Plan contributes a percentage of his regular monthly compensation through a monthly payroll deduction or reduction. The College also contributes an additional percentage on behalf of the employees. The contributions are invested in individual annuity contracts with the Teachers Insurance and Annuity Association/College Retirement Equities Fund. Participants in the Plan normally retire at the end of the contract year in which they attain age 65. In the

event of death, prior to retirement, the value of a participant's annuity accumulation is payable to his/her named beneficiary. Authorization for amendment to the Plan requires action by the Board of Trustees upon a recommendation by the President of the College. The College's contributions to this Plan were \$1,414,039 and \$1,485,629 for the fiscal years ending May 31, 2007 and 2008, respectively.

Note 6: Other Postretirement Benefits

Juniata College provides certain healthcare and life insurance benefits for retired employees. Employees become eligible for those benefits if they reach early retirement age while working for the College and meet certain eligibility requirements. The College's postretirement benefit programs provide for specific benefits based on the retiree's age and years of service with the College.

The data below were developed using the following actuarial assumptions:

	2007	2008
Discount Rate:	7.5%	7%
Medical Trend Rate:	5%	5%
Turnover:	Moderate	Moderate
Utilization:	50% - 85%	50%-85%

In accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the College records the expected cost of these benefits as expense during the years that employees render service. The following tables set forth the postretirement benefit amounts recognized in the accompanying consolidated financial statements as of May 31, 2007 and May 31, 2008:

	2007	2008
Accumulated postretirement benefit obligation	\$3,128,026	3,108,327
Unrecognized net transition liability		
Unrecognized prior service (assets) cost	90,941*	75,992
Unrecognized net loss (gain)	(838,101)	(670,897)
Accrued postretirement benefit cost included in the accompanying Statement of Financial Position	\$2,380,866**	\$2,513,422**
Net periodic postretirement benefit cost includes the following components:		
Normal service cost-benefits during the period	\$65,514	\$67,619
Interest cost on postretirement benefit obligation	191,157	\$198,443
Net amortization and deferral	23,371	\$20,322
Net periodic postretirement benefit cost	\$280,042	\$286,384

*The College has indicated that, going forward, it intends to provide a wrap to Medicare Part D (Part D will be fully paid by the employees).

**This represents the difference between the net periodic postretirement benefit cost and the actual payments for the years ending May 31.

Note 7: Bonds & Note Payable

A summary of the College's debt service obligations are as follows:

	Balance <u>5/31/07</u>	Additional Borrowing <u>07-08</u>	Principal Retired <u>07-08</u>	Balance <u>5/31/08</u>
Huntingdon County General Authority:				
Series 2001	\$19,730,000		(\$705,000)	\$19,025,000
Series 2004	\$5,738,000		-0-	\$5,738,000
Note 2007	-0-	\$999,981	-0-	\$999,981
PA Higher Educational Facilities Authority:				
Series 2002	\$ 7,500,000		(\$600,000)	\$6,900,000
Total	\$32,968,000	\$999,981	(\$1,305,000)	\$32,662,981

The principal debt service requirements for the five upcoming fiscal years are as follows:

	<u>HCGA</u>			<u>PA HEFA</u>	<u>Totals</u>
	<u>2001</u>	<u>2004</u>	<u>2007</u>	<u>2002</u>	
2008-2009	\$ 740,000			\$ 600,000	\$ 1,340,000
2009-2010	775,000		\$906,000	700,000	2,381,000
2010-2011	815,000	\$13,000	93,981	600,000	1,521,981
2011-2012	855,000	192,000		600,000	1,647,000
2012-2013	895,000	203,000		600,000	1,698,000
Thereafter	14,945,000	5,330,000		3,800,000	24,075,000
Totals	\$19,025,000	\$5,738,000	\$999,981	\$6,900,000	\$32,662,981

Pursuant to a Trust Indenture dated May 1, 2001, between the Huntingdon County General Authority (HCGA) and a bank, HCGA issued \$23.4 million of Series 2001 bonds on behalf of the College. In order to secure the required payments under the terms of the bonds payable arrangement, the College delivered an irrevocable letter of credit. This letter of credit is secured by revenues of the College. A sinking fund was also required by the Indenture. Proceeds from this issue were used on construction of the new science building and related equipment, campus infrastructure, various campus site improvements, other capital projects and the payment of costs of issuance. An interest rate swap at 3.74% is in place for the period May 2, 2006 to May 1, 2011. Standard and Poor's rates the 2001 bonds as "AAA/A-1".

Pursuant to a Trust Indenture dated June 1, 2002, between the Pennsylvania Higher Educational Facilities Authority (PA HEFA) and a bank, PA HEFA issued \$10.7 million of Series 2002 J1 bonds on behalf of the College. The 2002 J1 bonds were issued to refinance \$10 million of previously existing debts, to finance \$500,000 of modifications to the central heating plant and to cover the \$200,000 costs of issuance. In order to secure the required payments, the College delivered an irrevocable letter of credit. This letter of credit is secured by the revenues of the College. Currently the interest rate varies on a weekly basis. Moody's rates the 2002 bonds as "A2/VMIG1".

Pursuant to a Financing Agreement dated November 30, 2004, between the Huntingdon County General Authority and a bank, the HCGA issued a \$6.0 million Revenue Note on behalf of the College. The proceeds of this tax exempt bank loan were used on construction of an addition to Oller Hall and related equipment, renovations to Oiler Hall, other capital projects, and the payment of cost of issuance. The interest is 3.56% through the tender option date of November 30, 2014.

Pursuant to a Financing Agreement dated October 1, 2007, between the Huntingdon County General Authority and a bank, the HCGA issued a \$8.0 million or the amount advanced Revenue Note on behalf of the College. The proceeds of this tax exempt bank loan will be used for construction and renovation of Founders Hall, renovation of Good Hall, construction of a new 8 lane track, other capital projects, and the payment of cost of issuance. The College will pay interest only at a LIBOR-based rate until the completion of the Founders Hall project, which is expected to be on or around June, 2009, at which time the College will have the opportunity to convert to a fixed rate for the life of the loan. The College expects to advance no more than \$7 million dollars of this note. The maturity date is October 1, 2030. The tables above only reflect the amounts advanced through May 31, 2008.

The College capitalizes interest incurred on the cost of property, plant and equipment constructed for its own use along with related loan fees and costs. This amount is offset by interest earned on the arbitraging of the undisbursed funds of the HCGA bond issue. Total interest expense for the years ended May 31, 2007 and 2008 was \$903,707 and \$1,560,390 and \$1,378,799, respectively.

Note 8: Pledges Receivable

Unconditional promises are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges are recorded after discounting to the present value of the future cash flows.

Unconditional promises are expected to be realized in the following periods:

	<u>5/31/07</u>	<u>5/31/08</u>
In One Year or Less	\$2,631,063	\$3,775,965
Between One Year and Five Years	10,344,431	9,031,825
More Than Five Years	<u>7,935,655</u>	<u>7,964,656</u>
Face Value Pledges	20,911,149	20,772,446
Less: Discount	<u>(3,959,972)</u>	<u>(4,052,588)</u>
Present Value of Pledges	16,951,177	16,719,858
Less: Allowance for Uncollectibles	<u>(847,559)</u>	<u>(835,993)</u>
Pledges Receivable	<u>\$16,103,618</u>	<u>15,883,865</u>

At May 31, 2007 and 2008 management estimated that 5% of the present value of the pledges receivable will be uncollectible.

Included in the pledge information is a Support Agreement between the College and The William J. von Liebig Foundation, Inc. It provides for annual payments to the College through 2015, for a face value of \$13.8 million (present valued at \$11.2 million) at May 31, 2008. Approximately \$1.2 million is restricted for program support in the sciences; the remaining \$12.6 million "may be used for any lawful charitable educational purpose of the College."

Note 9: Contributed Property and Services

The College receives donated property and services throughout the year. For the years ended May 31, 2007 and 2008, a total of \$63,084 and \$81,823, respectively, were recorded as revenue as a result of these gifts. Those items meeting the College's capitalization policy are depreciated over their useful lives. Gifts of collectibles and collections are capitalized and not depreciated.

Note 10: Commitments and Contingencies

Certain Federally-funded financial aid programs are routinely subject to special audit. The reports on the examinations, which are conducted pursuant to specific regulatory requirements by the auditors for the College, are required to be submitted to both the College and the U.S. Department of Education. Such agency has the authority to determine liabilities, as well as to limit, suspend, or terminate Federal student aid programs.

Other Federal programs are also subject to audit. Such audits could result in claims against the resources of the College. No provision has been made for any liabilities which may arise from such audits since the amounts, if any, cannot be determined at this date.

The Trustees entered into an employment agreement with the College's President for an eight-year term beginning July 1, 2003, along with a related deferred compensation plan. Annual compensation will be determined by the Trustees, and participation in the deferred compensation plan is contingent upon continuation as an employee. Since there is generally no obligation due the employee in the event of a termination, no liability is recorded in the financial statements.

The College provides a benefit to certain employees known as a sabbatical leave. Under this leave, faculty are eligible, with approval, for a semester of compensated absence after having worked six years of full time service and then every six years after the sabbatical. Cabinet members are eligible, with approval, for a three month leave after ten years of service on the President's Cabinet. The employee is compensated during the sabbatical leave but is not required to perform any duties for the College. Although this benefit vests to the employees, they are not entitled to compensation for the value of the benefit upon termination or retirement. The College is reviewing the provisions of Financial Accounting Standards Board Statement No. 43, Accounting for Compensated Absences, and more specifically, Emerging Issues Task Force (EITF) Issue No. 06-2. The EITF addresses this issue and requires, under certain circumstances, that a liability be accrued over the requisite service period to recognize the sabbatical. For the years ended May 31, 2007 and 2008, the College incurred \$302,650 and \$428,691 in sabbatical leave expense which is included in these financial statements. The College intends to recognize the effects of EITF, if any, during the upcoming fiscal year.

Note 11: Leases

The College has leased certain office equipment and vehicles which are expensed as incurred utilizing the operating method. During the years ended May 31, 2007 and 2008, some \$106,570 and \$196,894 in rents were expensed. The scheduled lease payments to be made by the College over the upcoming five years are as follows:

Fiscal Year:	
2008-09	\$196,894
2009-10	\$171,530
2010-11	\$12,511
2011-12	\$ -0-
2012-13	\$ -0-

Note 12: Interest Rate Swap

The College has an interest rate swap agreement with a bank which is considered a derivative instrument designated as a cash flow hedging instrument. The objective of the swap agreement is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable rate debt. The swap agreement is a contract to exchange variable rate for fixed rate payments over the life of the swap agreement without the exchange of the underlying notional amount. The notional amount of the swap agreement is used to measure the interest to be paid or received and do not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreement. The net cash paid or received

under the swap agreement is recognized as an adjustment to interest expense. The College does not utilize interest rate swaps or other financial instruments for trading or other speculative purposes.

At May 31, 2008, the College has the following interest rate swap in effect:

Notional Amount	\$21,150,000
Strike Rate	3.74%
Period	5/1/06 to 5/1/11

The fair value of the interest rate swap agreement, which is the amount that the College would receive or pay to terminate the swap agreement at the reporting date, is not significant. There were no carrying amounts related to the swap agreement recorded on the accompanying statement of financial position nor was there any net gain or loss recognized in the statement of activities for 2008.

Note 13: Funds Held in Trust by Others

The College is an income beneficiary of all or a portion of six perpetual trusts held and administered by various financial institutions. The College receives its share of distributions from the trusts annually and recognizes these amounts as contributions upon receipt. For the years ended May 31, 2007 and 2008, the College received \$95,727 and \$64,915 from these trusts. The present values of the estimated future cash receipts from the trusts are not recognized as assets, nor are the contributions considered as revenue at the dates the trusts were established. Since one or more of the trusts contains assets that cannot be readily valued, the College has elected to not reflect any estimated value of these trusts on its Statement of Financial Position.

Note 14: Environmental Matters

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations" which clarified the reporting requirements of SFAS No. 143, "Accounting for Asset Retirement Obligations." FIN No. 47 requires the recognition of a liability for the fair value of a conditional asset retirement obligation when the obligation is incurred – generally upon the acquisition, construction, development and/or through the normal operation of the asset, if the fair value of the liability can be reasonably estimated. A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty about the timing and/or method of settlement is required to be factored into the measurement of the liability when sufficient information exists.

The College adopted FIN No. 47 effective July 1, 2005 and the resulting prior period adjustment to the Net Assets was a decrease of \$573,310 and the creation of a corresponding liability for a similar amount for the year ended May 31, 2008. For the years ended May 31, 2007 and 2008, the College recognized accretion expense (an increase to this liability) of \$34,435 and \$35,138, respectively.

Note 15: Prior Period Adjustment

As of June 1, 2007, the College changed its method of calculating the Adjusted Present Value of Payment Streams in the Gift Annuity Fund. Under previous accounting practices, this liability was recorded when the gift annuity contract was created by the donor. The College did not make annual adjustments to this amount even though the liability was actually decreasing. The intention of this change is to update the information annually so that the Fund is more fairly presented and following certain guidelines promulgated by state law for these types of contracts. The change resulted in an increase of the Gift Annuity Fund of \$31,232 of Temporarily Restricted and \$161,139 Permanently Restricted net assets as of June 1, 2007. These amounts have been reflected as "Prior Period Adjustments" in the Statement of Activities for the year ended May 31, 2008.