# Juniata College

Financial Statements

May 31, 2014

BAKER TILLY

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PARENTEBEARD

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# Independent Auditors' Report

Board of Trustees
Juniata College

## Report on the Financial Statements

We have audited the accompanying financial statements of Juniata College, which comprise the statement of financial position as of May 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Juniata College as of May 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

As part of our audit of the May 31, 2014 financial statements, we also audited the adjustments described in Note 18 that were applied to restate the 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2013 financial statements of the entity other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements as a whole.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Activities for the year ended May 31, 2014 is presented for purposes of additional analysis and is not a required part of the 2014 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2014 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2014 financial statements or to the 2014 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 financial statements for the year ended May 31, 2014, as a whole.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
October 7, 2014

## Juniata College

Statement of Financial Position
May 31, 2014

### Assets

| | |
|---|---|
| Cash and cash equivalents | $ 10,446,065 |
| Accounts receivable: | |
| Student, net | 417,705 |
| Governmental agencies | 429,496 |
| Other | 1,379,540 |
| Contributions receivable, net | 1,806,552 |
| Inventory | 288,401 |
| Prepaid expenses | 561,888 |
| Investments | 102,718,205 |
| Real estate investments | 4,089,563 |
| Cash surrender value life insurance | 1,392,277 |
| Student loans receivable | 2,048,378 |
| Funds held in trust by others | 4,067,578 |
| Deferred financing costs | 606,878 |
| Collections | 1,641,732 |
| Plant assets, net | 74,226,484 |
| Total assets | $ 206,120,742 |

### Liabilities and Net Assets

| | |
|---|---|
| **Liabilities** | |
| Accounts payable | $ 827,574 |
| Construction accounts payable | 1,346,256 |
| Accrued payroll and related liabilities | 3,832,956 |
| Student deposits and prepayments | 536,963 |
| Deferred revenue | 3,366,576 |
| Funds held in custody for others | 176,079 |
| Bonds and notes payable | 42,079,822 |
| Obligations under capital lease | 196,665 |
| Postretirement benefits | 5,830,978 |
| Annuities payable | 2,765,592 |
| Advance from federal government for student loans | 1,446,664 |
| Total liabilities | 62,406,125 |
| **Net Assets** | |
| Unrestricted | 48,489,567 |
| Temporarily restricted | 27,881,469 |
| Permanently restricted | 67,343,581 |
| Total net assets | 143,714,617 |
| Total liabilities and net assets | $ 206,120,742 |

*See notes to financial statements*

## Juniata College

Statement of Activities
Year Ended May 31, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Tuition and fees (net of scholarship allowances of $28,904,373) | $ 27,522,320 | | | $ 27,522,320 |
| Federal, state and local grants and contracts | 708,829 | | | 708,829 |
| Private gifts, grants and bequests | 1,742,489 | $ 1,453,401 | $ 4,403,736 | 7,599,626 |
| Interest and dividends | 412,380 | 1,213,347 | 112,913 | 1,738,640 |
| Other income | 757,932 | 36,248 | | 794,180 |
| Auxiliary enterprises | 12,153,241 | | | 12,153,241 |
| Reclassification due to change in donors intent | | (34,472) | 34,472 | - |
| Net assets released from restrictions, satisfaction of time and purpose restrictions | 5,193,028 | (5,193,028) | | |
| Total operating revenues | 48,490,219 | (2,524,504) | 4,551,121 | 50,516,836 |
| **Operating Expenses** | | | | |
| Educational and general: | | | | |
| Instructional | 16,963,895 | | | 16,963,895 |
| Research and public service | 2,521,439 | | | 2,521,439 |
| Academic support | 5,257,466 | | | 5,257,466 |
| Student services | 9,808,674 | | | 9,808,674 |
| Institutional support | 8,117,250 | | | 8,117,250 |
| Total educational and general | 42,668,724 | | | 42,668,724 |
| Auxiliary enterprises | 6,614,888 | | | 6,614,888 |
| Total operating expenses | 49,283,612 | | | 49,283,612 |
| **(Decrease) Increase in Net Assets from Operating Activities** | (793,393) | (2,524,504) | 4,551,121 | 1,233,224 |
| **Nonoperating Activities** | | | | |
| Realized and unrealized gain on investments | 2,875,573 | 8,798,990 | 458,976 | 12,133,539 |
| Gains on funds held in trust by others | | | 79,678 | 79,678 |
| Restoration of underwater endowments | 1,059,811 | (1,059,811) | | - |
| Change in the valuation of split-interest agreements | | 83,950 | (411,067) | (327,117) |
| Increase in net assets from nonoperating activities | 3,935,384 | 7,823,129 | 127,587 | 11,886,100 |
| **Increase in Net Assets** | 3,141,991 | 5,298,625 | 4,678,708 | 13,119,324 |
| **Net Assets, Beginning of Year, as previously reported** | 45,982,708 | 24,491,303 | 60,121,282 | 130,595,293 |
| **Prior Period Adjustment** | (635,132) | (1,908,459) | 2,543,591 | - |
| **Net Assets, Beginning of Year, as restated** | 45,347,576 | 22,582,844 | 62,664,873 | 130,595,293 |
| **Net Assets, End of Year** | $ 48,489,567 | $ 27,881,469 | $ 67,343,581 | $ 143,714,617 |

*See notes to financial statements*

## Juniata College

Statement of Cash Flows
Year Ended May 31, 2014

| | |
|---|---|
| **Cash Flows from Operating Activities** | |
| Change in net assets | $ 13,119,324 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 3,386,292 |
| In-kind contributions of collections | (18,000) |
| Realized and unrealized gains on investments | (12,133,539) |
| Gains on funds held in trust by others | (79,678) |
| Private gifts restricted for long-term investment | (4,403,736) |
| Changes in split-interest agreements | 327,117 |
| Changes in assets and liabilities: | |
| Accounts receivable | (489,472) |
| Contributions receivable | 477,695 |
| Inventory | 35,033 |
| Prepaid expenses | 38,736 |
| Accounts payable | (383,021) |
| Accrued payroll and related liabilities | (605,778) |
| Deferred revenue | 2,028,689 |
| Funds held in custody for others | (180,754) |
| Student deposits and prepayments | (47,714) |
| Postretirement benefits | (255,368) |
| Net cash provided by operating activities | 815,826 |
| **Cash Flows from Investing Activities** | |
| Proceeds from sales of investments | 4,276,906 |
| Purchases of investments | (8,333,394) |
| Increase in cash surrender value of life insurance | (632,889) |
| Purchases of plant assets | (2,501,968) |
| Payments on student loans receivable | 371,516 |
| Student loans advanced | (206,575) |
| Net cash used in investing activities | (7,026,404) |
| **Cash Flows from Financing Activities** | |
| Payments on bonds and loans payable and capital leases | (751,778) |
| Proceeds from contributions restricted for long-term investments | 1,392,412 |
| Proceeds of annuity obligations | 64,855 |
| Payments of annuity obligations | (401,665) |
| Net cash provided by financing activities | 303,824 |
| **Net Decrease in Cash and Cash Equivalents** | (5,906,754) |
| **Cash and Cash Equivalents, Beginning of Year** | 16,352,819 |
| **Cash and Cash Equivalents, End of Year** | $ 10,446,065 |
| **Supplemental Disclosure of Cash Flow Information** | |
| Cash paid for interest (excluding capitalized interest of $31,985) | $ 1,435,314 |
| **Supplemental Disclosure of Noncash Operating, Investing and Financing Activities** | |
| Plant assets included in accounts payable | $ 1,346,256 |
| Assets acquired with long-term debt | $ 6,550,000 |

*See notes to financial statements*

## 1. Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

Juniata College (the "College"), is a nonprofit educational institution organized under the laws of the Commonwealth of Pennsylvania established in 1876 to provide higher education to students. The College awards grants-in-aid and scholarships from its unrestricted and temporarily restricted net assets to individuals who meet the College's academic standards. The amounts of such awards are determined primarily based upon the academic performance of each applicant. Additional financial aid is provided to students from federal and state programs in which the College participates and from monies contributed to the College by alumni and friends.

During the year ended May 31, 2014, the College provided student financial aid from internal resources of approximately $27,530,000, which represented 51% of gross tuition and fee revenue. During the year ended May 31, 2014, the College provided student financial aid from monies contributed to the College by alumni and friends of approximately $1,374,000.

The College evaluated subsequent events for recognition or disclosure through October 7, 2014, the date the financial statements were issued.

### Basis of Presentation

The financial statements of the College have been prepared on the accrual basis of accounting.

These financial statements present financial information showing the financial position, the activities, and the cash flows of the College reflecting the presence or absence of donor-imposed restrictions. Accordingly, the amounts of net assets are classified according to the nature of restrictions, as follows:

*Permanently Restricted Net Assets* - Net assets which are subject to donor-imposed restrictions 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.

*Temporarily Restricted Net Assets* - Net assets which are subject to donor-imposed restrictions that will be met when expenditures are made for the designated purposes or with passage of time. The expiration of temporary restrictions on net assets is reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions and temporarily restricted endowment income whose restrictions are not met in the same period as received or earned are reported as increases in temporarily restricted net assets.

*Unrestricted Net Assets* - Net assets not subject to donor-imposed restrictions.

### 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments, with original maturities of three months or less, that are not held for endowment or other long-term purposes. The College maintains its cash accounts in various financial institutions. Portions of the College's cash balances may exceed FDIC insurance coverage at various times throughout the year. Management considers these excesses to be normal business risks.

### Accounts Receivable

Accounts receivable are reported at net realizable value. Accounts receivable are not collateralized. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based on the College's historical losses and periodic review of individual accounts.

### Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk adjusted interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue.

Conditional promises to give are promises for which donor-imposed conditions specify future and uncertain events whose occurrence or failure to occur release the donors from the obligation to transfer assets in the future. If and when such conditions have been substantially met, these promises cease to be conditional, and revenues are recorded, as appropriate.

### Investments

Equity securities with readily determinable fair values and debt securities are valued at fair value based on quoted market prices as reported by the College's investment custodians. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized and unrealized gains and losses arising from the sale or appreciation (depreciation) in fair value of investments, and all income from investments, are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor-imposed stipulations, or by law.

Alternative investments, representing ownership in debt and equity funds, private partnerships, and other alternative investments are based on Net Asset Value ("NAV") provided by external investment managers or on audited financial statements when available. NAV provided by external investment managers are based on estimates, assumptions, and methods that are reviewed by management.

Real estate investments are stated primarily at net book value. Net book value is determined in accordance with the College's policy for plant assets described below.

The College's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the College's investment policy. The degree and concentration of credit risk varies by type of investment. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

### Investment Policy

The College has a formal investment policy that enables it to utilize a portion of investment return for operating purposes. The Board of Trustees sets the level of distribution within the limitation imposed by Pennsylvania statute.

### Funds Held in Trust by Others

Funds held in trust by others represent the College's share of these funds based on the terms of various irrevocable trusts. These funds are not in the possession of the College. Such terms provide that the College is to receive annually a certain percentage of the income earned by the funds which are held in trust. The College does not have access to the principal. The present values of the estimated future cash flows from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts. Because of the irrevocable right of the College to its share of the trusts' earnings, the College reports its share of these trusts on its financial statements as "funds held in trust by others," which are classified as permanently restricted net assets.

### Collections

The College considers its collection of works of art and rare books as inexhaustible because they have cultural, aesthetic or historical value that will be preserved and, therefore, does not depreciate those assets.

### Plant Assets

Plant assets are stated at cost, if purchased, or fair market value at the date of gift, if donated, less accumulated depreciation, computed on a straight-line basis over their estimated useful lives: buildings (40 years); land improvements (20 years); equipment (5-10 years); capital leases (lease term). Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized.

### Student Deposits and Prepayments

Tuition, fees, and room and board from currently enrolled students is billed in advance and is recognized as revenue when earned.

### 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 annuities payable for the present value of the estimated future payments to be made to the donors and/or other beneficiaries.

### Advance from Federal Government for Student Loans

The College is a participant in the Perkins Loan federal program, which make student loans available to eligible participants. This program is funded by both the federal government and the College, with the portion estimated to be allocable to the federal government recorded as a liability in the statement of financial position, and the portion allocable to the College included in unrestricted net assets.

### Nonoperating Activities

For the purpose of the statement of activities, the College considers its changes in unrestricted net assets to be operational changes, except for gains or losses on investments, gains or losses on funds held in trust by others, restoration of underwater endowments and changes in value of split-interest agreements.

### Tuition and Fees

Tuition and fees are presented net of grants-in-aid; scholarships funded from internal resources and private contributions.

### Government Grants

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenues when the College has incurred expenditures in compliance with the contract.

### Advertising Costs

Advertising costs are expensed as incurred and amounted to approximately $460,000.

### Fund-Raising Costs

Fund-raising costs are expensed as incurred and amounted to approximately $1,813,000, and are included in institutional support in the statement of activities.

### Donor-Restricted Gifts

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classifications. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

For contributed property and equipment, and contributions restricted by donors for purchases of property and equipment, if donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, these types of contributions are recorded as unrestricted support.

### Cash Flows

For the purposes of the statement of cash flows, the College considers all highly liquid financial instruments with original maturities of three months or less (excluding certain short-term instruments which are classified as investments) to be cash equivalents.

### Income Taxes

The College is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The College accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in fiscal 2014.

The College’s federal Exempt Organization Business Income Tax Returns remain subject to examination by the Internal Revenue Service for the years subsequent to May 31, 2010.

The College’s policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

### Title IV Requirements

The College participates in Government Student Financial Assistance Programs (“Title IV”) administered by the U.S. Department of Education (“DOE”) for the payment of student tuitions. Substantial portions of the revenue and collection of ending accounts receivable as of May 31, 2014 are dependent upon the College’s continued participation in the Title IV programs.

Institutions participating in the Title IV programs are also required by DOE to demonstrate financial responsibility. DOE determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in the regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring, and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of May 31, 2014 and for the year then ended, the College's composite score exceeded 1.5.

**New Accounting Standards**

The Financial Accounting Standards Board ("FASB") issued ASU 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale of Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This amendment addresses the diversity in practice with regard to the presentation of cash receipts from the sale of donated assets in the statement of cash flows. Under this update, a non-for-profit entity is required to classify cash receipts from the sale of donated financial assets as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. The adoption of this guidance did not have a significant impact on the College's financial position or results of operations.

In April 2013, the FASB issued ASU 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*. This amendment will require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Such services will be required to be measured at the cost recognized by the affiliate for the personnel providing those services. However, if this measurement will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either the cost recognized by the affiliate for the personnel providing that service or the fair value of that service. This update is effective for the College's fiscal year beginning June 1, 2014. The guidance is prospective and management does not believe the adoption of this ASU will have a significant impact on the College's financial position or results of operations.

## 2. Accounts Receivable, Student

Student accounts receivable represent amounts due for tuition, fees, and room and board from currently enrolled and former students. The College extends unsecured credit to students and parents of dependent students in connection with their studies. Some of those students are no longer enrolled in the College.

Student accounts receivable consists of the following at May 31:

| | |
|---|---|
| Accounts receivable | $ 551,538 |
| Allowance for doubtful accounts | (133,833) |
| Total | $ 417,705 |

## 3. Contributions Receivable

Contributions receivable, including unconditional promises, are recognized as revenue when the donor's commitment is received. Unconditional promises to be received after one year are recognized at the estimated present value of future cash flows, net of allowances (fair value).

Contributions receivable at May 31 are as follows:

| | |
|---|---|
| In one year or less | $ 970,046 |
| Between one year and five years | 1,098,602 |
| Thereafter | 34,500 |
| Less: | |
| Discount | (201,514) |
| Allowance for doubtful accounts | (95,082) |
| Total | $ 1,806,552 |

The net present value of these cash flows was determined by using risk-adjusted discount rates between .3% and 6.38% to account for the time value of money for 2014.

Management believes the College's allowance for doubtful collections at May 31, 2014 is adequate based upon information currently known. However, events impacting donors can occur in subsequent years that may cause a material change in the allowance for doubtful collections.

Conditional pledges and bequest intentions totaling approximately $36,841,000 have been excluded from the contributions receivable amounts and are not recorded in the financial statements due to the fact that they are conditional. Restrictions on these conditional pledges and bequest intentions are as follows:

| | |
|---|---|
| Buildings | $ 5,132,000 |
| Budget Relief | 15,244,000 |
| Programming | 3,454,000 |
| Unrestricted | 12,813,000 |
| Unknown | 198,000 |
| Total | $ 36,841,000 |

## 4. Student Loans Receivable

Student loans receivable are carried at estimated net realizable value. Student loans receivable reflected on the statement of financial position includes $823,106 of Perkins Loans and $1,289,760 of College-provided loans, less an allowance for doubtful accounts of $64,488 for May 31, 2014. Loans receivable are carried at the original amount less an estimate made for doubtful collections based on a review of all outstanding amounts on a periodic basis. Management determines this allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Loans that are 30 days or more past due are assessed late fees. Interest and late fees are recorded when received. The credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.

Student loans are made with funds advanced to the College by the federal government under the Perkins Loan program (the “Program”). Such funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are refundable to the federal government. The federal government’s portion of these funds at May 31, 2014 was $1,446,664.

## 5. Fair Value Measurements, Investments and Other Financial Instruments

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the College for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

The following tables present the financial instruments measured at fair value as of May 31, 2014 by caption on the statement on financial position by the valuation hierarchy defined above:

| | Carrying Value | Total Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Assets - reported at fair value:** | | | | | |
| Cash | $ 681,791 | $ 681,791 | $ 681,791 | $ - | $ - |
| U.S. Treasury obligations | 102,867 | 102,867 | - | 102,867 | - |
| Corporate and foreign bonds | 2,959 | 2,959 | 2,959 | - | - |
| Taxable fixed income funds | 16,107,425 | 16,107,425 | 16,107,425 | - | - |
| Common equity securities: | | | | | |
| Materials | 1,056,916 | 1,056,916 | 1,056,916 | - | - |
| Industrials | 5,787,454 | 5,787,454 | 5,787,454 | - | - |
| Telecommunications | 501,461 | 501,461 | 501,461 | - | - |
| Consumer discretionary | 7,120,147 | 7,120,147 | 7,120,147 | - | - |
| Consumer staples | 2,155,998 | 2,155,998 | 2,155,998 | - | - |
| Energy | 3,071,082 | 3,071,082 | 3,071,082 | - | - |
| Financial | 5,275,019 | 5,275,019 | 5,275,019 | - | - |
| Health care | 5,631,502 | 5,631,502 | 5,631,502 | - | - |
| Information technology | 7,909,838 | 7,909,838 | 7,909,838 | - | - |
| Utilities | 856,088 | 856,088 | 856,088 | - | - |
| Preferred equity securities | 110,080 | 110,080 | 110,080 | - | - |
| Domestic equity mutual funds | 18,975,244 | 18,975,244 | 18,975,244 | - | - |
| Global funds | 2,249,329 | 2,249,329 | 2,249,329 | - | - |
| Balanced equity mutual funds | 4,432,269 | 4,432,269 | 4,432,269 | - | - |
| Closed end equity mutual funds | 96,918 | 96,918 | 96,918 | - | - |
| International mutual funds | 17,195,894 | 17,195,894 | 17,195,894 | - | - |
| Alternative investments: | | | | | |
| Hedge funds: | | | | | |
| Common Sense | 116,458 | 116,458 | - | - | 116,458 |
| Grosvenor | 1,929,309 | 1,929,309 | - | - | 1,929,309 |
| Private equity: | | | | | |
| Praesidian | 889,709 | 889,709 | - | - | 889,709 |
| Recap Metro | 462,448 | 462,448 | - | - | 462,448 |
| Total investments | 102,718,205 | 102,718,205 | 99,217,414 | 102,867 | 3,397,924 |
| Fund held in trust by others | 4,067,578 | 4,067,578 | - | - | 4,067,578 |
| Total assets | $ 106,785,783 | $ 106,785,783 | $ 99,217,414 | $ 102,867 | $ 7,465,502 |
| **Assets disclosed at fair value:** | | | | | |
| Cash and cash equivalents | $ 10,446,065 | $ 10,446,065 | $ 10,446,065 | $ - | $ - |
| Contributions receivable, net | 1,806,552 | 1,806,552 | - | - | 1,806,552 |
| Student loans receivable | 2,048,378 | 2,048,378 | - | 2,048,378 | - |
| Total assets | $ 14,300,995 | $ 14,300,995 | $ 10,446,065 | $ 2,048,378 | $ 1,806,552 |
| **Liabilities disclosed at fair value:** | | | | | |
| Bonds payable - fixed rate | $ 28,820,000 | $ 25,660,657 | $ - | $ 25,660,657 | $ - |
| Bonds payable - variable rate | 13,259,822 | 13,259,822 | - | 13,259,822 | - |
| Construction accounts payable | 1,346,256 | 1,346,256 | 1,346,256 | - | - |
| Annuities payable | 2,765,592 | 2,765,592 | - | - | 2,765,592 |
| Advance from federal government for student loans | 1,446,664 | 1,446,664 | - | 1,446,664 | - |
| Total liabilities | $ 47,638,334 | $ 44,478,991 | $ 1,346,256 | $ 40,367,143 | $ 2,765,592 |

The Level 3 reconciliation at May 31, 2014 is as follows:

| | Alternative Investments | | | |
|---|---|---|---|---|
| | Common Sense | Grosvenor | Praesidian | Recap Metro |
| Balance at May 31, 2013 | $ 1,425,663 | $ 1,752,526 | $ 695,169 | $ 483,225 |
| Activity: | | | | |
| Purchases | | | 172,500 | |
| Sales | (1,301,929) | - | (68,940) | - |
| Net gains (realized and unrealized) | - | 176,783 | 90,980 | - |
| Net losses (realized and unrealized) | (7,246) | - | - | (20,777) |
| Balance at May 31, 2014 | $ 116,488 | $ 1,929,309 | $ 889,709 | $ 462,448 |

The alternative investments represent investments that pursue multiple strategies to diversify risks and reduce volatility. The alternative investments pursue multiple strategies as follows:

- **Common Sense** - Common Sense Investment Management ("CSIM") is a long-short hedge fund-of-funds manager based out of Portland, OR. CSIM has maintained a well-diversified portfolio of hedge funds specializing in the long-short equity space. The target beta of this portfolio has traditionally been less than 0.3 when measured against the S&P 500. As of 12/31/2013, the fund's assets were invested among 23 individual underlying hedge funds.

- **Grosvenor Institutional Partners** - Grosvenor is a multi-strategy hedge fund-of-funds manager based in Chicago, Illinois. Grosvenor invests with around 40 underlying managers in several strategies, including relative value, distressed debt, event driven and others. The investment team of 42 professionals builds the portfolio with the idea of creating an investment that is uncorrelated to traditional asset classes.

- **Praesidian Capital** - Praesidian is a private mezzanine debt fund. The firm is based out of New York, NY and focuses solely on private debt offerings to small-to-mid sized businesses in need of financing capital for either: growth & acquisition financing, management & sponsored buyouts or recapitalizations & refinancings. A typical loan will either have first lien and/or equity options as well as a high current coupon. The investment pool currently holds positions in about a dozen separate financing transactions.

- **RECAP Metropolitan** - RECAP is a New York, NY based manager of private real estate partnerships. The current portfolio has half a dozen remaining portfolio properties. The investment thesis for this fund is to be able to purchase multi-family units, several near universities, upgrade the properties and the performance thereof and resell those properties at a multiple while creating positive operating cash flows during the holding period.

The College has a policy which permits investments that do not have a readily determinable fair value, and as such, has elected to use the net asset value per share ("NAV") as calculated on the reporting entity's measurement date as the fair value of the investment. The College measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the College as of the valuation date. In using the NAV as practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date of NAV as well as any unfunded commitments.

The College may redeem shares in whole or in part per the investment's offering memorandum which typically requires up to a 90 days prior written notice as of the last business day of each quarter. There are various hold back provisions which lapse after audited financial statements are issued ranging from 5% to 10%. The College has one unfunded commitments related to the Praesidian Capital in the amount of $652,392 as of May 31, 2014.

**Valuation Methodologies**

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value and for financial instruments disclosed at fair value. There have been no changes in methodologies used at May 31, 2014.

*Cash and cash equivalents, accounts receivables, accounts payable, accrued and other liabilities and contributions receivable to be received in less than one year*: The carrying amounts approximate fair value because of the short maturity of those financial instruments.

*Contributions receivable to be received in more than one year*: The fair value is estimated based on future cash flows discounted at rates between .3% and 6.38%.

*Investments*: The valuation methodology of utilizing closing prices in an active exchange market was applied to mutual funds, fixed income fund and equity securities. The alternative investments were measured using Level 3 inputs at May 31, 2014. For measurement purposes, it was determined that the reported Net Asset Value was relevant for use as an input to the fair value measurement. This determination was made based on evidence gathered via the initial due diligence and ongoing monitoring of the fund. U.S. government and agency obligations are valued based on quoted prices of similar assets, with similar terms, in actively traded markets and are measured using Level 2 inputs.

*Student loans receivable and advance from federal government for student loans*: The fair value of these loans receivable and advances from the federal government are based upon management's best estimate of the indicated future cash flows and interest rates required by market participants.

*Bond and notes payable*: The carrying value of the bonds and notes approximate fair value as a result of the variable interest rate feature of the bond series. The fair value of fixed rate bonds payable was estimated using discounted cash flow analysis based on the College's incremental borrowing rate for debt instruments with comparable maturities.

*Annuities payable*: The fair value is estimated on the present value of future benefits to be paid discounted over the beneficiaries actuarially determined life expectance.

*Funds held in trust by others*: The fair value is based on the College's interest in the earning of the trust applied to the fair value of the underlying assets in the trust, which approximates the present value of the estimated cash flows expected from the trust in perpetuity.

**Investments Return**

The College's total investment return is comprised of the following components at May 31, 2014:

| | |
|---|---|
| Interest and dividend income | $ 1,970,908 |
| Investment fees | (232,268) |
| Net interest and dividend income | 1,738,640 |
| Net realized gain on investments | 4,016,766 |
| Unrealized appreciation on investments | 8,116,773 |
| Net investment return | $ 13,872,179 |

## 6. Plant Assets

The composition of plant assets was as follows at May 31, 2014:

| | |
|---|---|
| Construction in progress | $ 543,973 |
| Land | 2,008,978 |
| Buildings | 106,596,943 |
| Equipment | 16,036,570 |
| Land improvements | 1,384,471 |
| Total | 126,570,935 |
| Less accumulated depreciation | (52,344,451) |
| Total | $ 74,226,484 |

The College provides for depreciation using the straight-line method based on lives, which, in the opinion of management, are adequate to allocate asset costs over their productive years. Depreciation expense was approximately $3,173,000 in 2014.

In addition to these assets, the College's endowment owns investments in real estate as follows:

| | | |
|---|---|---|
| Construction in progress | $ | 35,803 |
| Land | | 859,397 |
| Rental properties | | 4,346,719 |
| Total | | 5,241,919 |
| Less accumulated depreciation | | (1,152,356) |
| Total | $ | 4,089,563 |

Depreciation expense on these rental properties was approximately $113,000 in 2014.

Non-depreciable assets, such as collections, totaled $1,641,732 as of May 31, 2014.

## 7. Line of Credit

The College has a $3,000,000 unsecured demand line of credit available from a bank. At May 31, 2014, no amounts were outstanding under this line of credit. No amounts were drawn under the line of credit during the year ended May 31, 2014.

## 8. Bonds and Notes Payable

Bonds and notes payable at May 31, 2014 are comprised of the following:

| | | |
|---|---|---|
| Revenue Note, Series 2004 (issued through Huntingdon County General Authority), due in varying annual installments through May 2024, fixed interest at 3.56% through tender option date of November 30, 2014. In July 2014, the financing agreement was amended as of November 30, 2014. Effective, November 30, 2014, the tax exempt interest rate shall remain a fixed rate equal to 2.65% per annum. The bank has irrevocably rescinded its right to exercise the tender option on November 30, 2014. Collateralized by the gross revenues of the College. | $ | 5,120,000 |
| Revenue Note, Series 2007 (issued through Huntingdon County General Authority), due in varying annual installments through October 2030, variable interest rate based on LIBOR (.93% at May 31, 2014). The interest rate resets on the first business day of each month. The note is subject to tender option October 1, 2017. Collateralized by the gross revenues of the College. | | 5,859,822 |
| Revenue Bonds, Series 2010A (issued through Huntingdon County General Authority), due in varying annual installments beginning May 2017 through May 2030, fixed interest rates ranging from 3.5% to 5%. Collateralized by all unrestricted receipts, revenues, income, gains and other monies of the College. | | 23,500,000 |
| Revenue Bonds, Series 2010B (issued through Huntingdon County General Authority -federally taxable), subject to mandatory sinking fund redemption in varying annual installments beginning May 2011 through maturity at May 2016, fixed interest at 4.4%. Collateralized by all unrestricted receipts, revenues, income, gains and other monies of the College. | | 200,000 |
| Revenue Note, Series 2013 (issued through Huntingdon General Authority), due in varying annual installments beginning April 2015 through April 2039, variable interest rate based on LIBOR + 178 basis points (1.29% at May 31, 2014) through construction period. The variable rate will be determined by the lender daily. Beginning on the amortization date, November 1, 2014 or sooner as notified by the borrower, and on each rate adjustment date thereafter the note will bear interest at the Lender's then effective three, five or seven year cost of funds plus 1.78% converted to a bank qualified tax exempt rate. The note has an optional tender dates the month of April in the years 2020, 2027 and 2034. Collateralized by the gross revenues of the College. | | 7,400,000 |
| Total | $ | 42,079,822 |

The aggregate future scheduled principal payments on bonds and notes payable at May 31, 2014 is as follows:

| | |
|---|---|
| Years ending May 31: | |
| 2015 | $ 822,765 |
| 2016 | 752,765 |
| 2017 | 1,373,765 |
| 2018 | 1,842,765 |
| 2019 | 1,914,765 |
| Thereafter | 35,372,997 |
| Total | $ 42,079,822 |

Interest expense was approximately $1,430,000 in 2014. 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. There was approximately $32,000 of interest capitalized for the year ended May 31, 2014.

The College is required to meet certain financial covenants under the debt agreements.

## 9. Capital Leases

The College leases computer equipment under a capital lease, which expires in 2016. The assets and liabilities under capital lease are recorded at the present value of the minimum lease payments. The assets are included in plant assets and are amortized over the lease terms. Amortization of assets under capital lease is included in depreciation expense.

The cost and accumulated amortization of equipment under capital lease were as follows at May 31, 2014:

| | |
|---|---|
| Cost of equipment under capital lease | $ 291,726 |
| Accumulated amortization | (105,346) |
| Total | $ 186,380 |

Minimum future lease payments under capital lease as of May 31, 2014 are as follows:

| | |
|---|---|
| Years ending May 31: | |
| 2015 | $ 106,056 |
| 2016 | 106,056 |
| Total minimum lease payments | 212,112 |
| Amount representing interest | (15,447) |
| Present value of minimum lease payments | $ 196,665 |

Interest rates on the capital lease as of May 31, 2014 was 7.37%, which was imputed based upon the lower of the College’s incremental borrowing rate at the inception of the lease or the lessor’s implicit rate of return.

### 10. Operating Leases

The College leases office equipment and vehicles under operating leases having non-cancelable lease terms exceeding one year at May 31, 2014. Total rents paid under these operating leases approximated $183,664 for the year ended May 31, 2014. Future minimum rental payments required under these leases by year and in the aggregate at May 31, 2014 follow:

| | |
|---|---|
| Years ending May 31: | |
| 2015 | $ 178,257 |
| 2016 | 145,384 |
| 2017 | 127,761 |
| 2018 | 36,516 |
| 2019 | 15,837 |
| Total | $ 503,755 |

### 11. Pension Plan

The College sponsors a defined contribution pension plan. Pension expense related to this plan was approximately $1,793,000 in 2014.

### 12. Postretirement Benefits

The College provides postretirement benefits for early retirees. For medical and prescription drug coverage, the College's share of premium is 2.5% for each year of service up to 50%. If a member was less than age 50 as of January 1, 1997, the member's years of service was frozen as of January 1, 1999. For individuals past age 65, the College continues to pay the same percentage of premium as pre-65 for a Medicare Supplement Plan provided by the College. In addition, the College pays $30/month for retirees to select their own Medicare Part D Plan. For grandfathered retirees, the College pays the full premium of Medicare Supplement Plan and Medicare Part D Plan; for another, the full premium of Medicare Supplement Plan; and for two retirees and spouse of another, the full premium of Medicare Supplement Plan.

The postretirement benefit obligations relate to the following categories of participants at May 31, 2014:

| | |
|---|---|
| Retirees | $ 3,280,388 |
| Actives fully eligible | 1,768,833 |
| Actives not fully eligible | 781,757 |
| Total | $ 5,830,978 |

Net periodic postretirement benefit cost consists of the following at May 31, 2014:

| | |
|---|---|
| Service cost | $ 25,144 |
| Interest cost | 248,639 |
| Amortization of prior service cost | (1,247) |
| Amortization of net actuarial loss | 214,152 |
| Total | $ 486,688 |
| Actual cost (cash flow) | $ 312,644 |

The expected benefits to be paid in the next five fiscal years are as follows: $319,806 in 2015, $334,961 in 2016, $339,310 in 2017, $338,669 in 2018, and $330,863 in 2019. There are no contributions in excess of expected benefits scheduled to be paid during the next fiscal year ending May 31, 2014.

The measurement date used to determine the benefit obligation information was May 31, 2014.

The following table sets forth the change in benefit obligation and the amounts recognized in the statement of financial position at May 31, 2014:

| | |
|---|---|
| Change in accumulated postretirement benefit obligation: | |
| Benefit obligation, beginning of year | $ 6,086,347 |
| Service cost | 25,144 |
| Interest cost | 248,639 |
| Change due to change in experience | (391,622) |
| Change in actuarial assumptions | 175,114 |
| Benefits paid | (312,644) |
| Accumulated postretirement benefit obligation, end of year | 5,830,978 |
| Change in plan assets: | |
| Fair value of plan assets, beginning of year | - |
| Fair value of plan assets, end of year | - |
| Funded status | $ (5,830,978) |
| Accumulated postretirement benefit cost | $ 5,830,978 |

The discount rate used in determining end of year 2014 accumulated postretirement benefit obligation was 4.25%. The discount rate used in determining the fiscal year expense was 4.25%. The assumed healthcare cost trend rate used was 7% in 2014 and 2015, decreasing gradually in future years to an ultimate rate of 3.7% by fiscal year 2099.

Increasing the assumed healthcare cost trend rate by one percentage point for all future years has the effect of increasing the annual net periodic postretirement benefit cost for 2014 by $31,467 and increasing the accumulated postretirement benefit obligation as of May 31, 2014, by $656,572. Conversely, decreasing the healthcare cost trend rate by a percentage point for all future years has the effect of decreasing the annual net periodic postretirement benefit cost for 2014 by $26,168 and decreasing the accumulated postretirement benefit obligation as of May 31, 2014 by $550,249.

The following were other significant assumptions used in the valuations as of May 31, 2014:

| | |
|---|---|
| Rates of Retirement | 2% at ages 55-61;<br>35% at age 62; 25% at ages 63-64;<br>40% at ages 65-69;<br>and 100% at age 70 |
| Mortality | IRS 2014 Static Table. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement. |

Employer contributions which are equivalent to benefits paid under the Plan were approximately $313,000 in 2014.

## 13. Net Assets

Unrestricted net assets are available for the following purposes as of May 31, 2014:

| | |
|---|---|
| Investment in plant | $ 27,189,356 |
| Other endowment | 24,597,948 |
| Reserves and operating funds | (3,297,737) |
| Total | $ 48,489,567 |

Temporarily restricted net assets are related to, or restricted for, the following as of May 31, 2014:

| | |
|---|---|
| Gifts available for capital purposes | $ 16,299 |
| Gifts available for scholarship and other academic purposes | 2,609,368 |
| Accumulated income and gains or permanently restricted endowment funds | 23,915,987 |
| Gift annuity, pooled income, and charitable trusts | 1,339,815 |
| Total | $ 27,881,469 |

Permanently restricted net assets are related to the following as of May 31, 2014:

| | |
|---|---|
| Investments held in perpetuity by donor stipulations or Pennsylvania law, the income from which is generally available for scholarships | $ 60,018,219 |
| Funds held in trust | 4,067,570 |
| Loan funds held in perpetuity | 1,664,591 |
| Seed money | 304,087 |
| Gift annuity, pooled income and charitable trusts | 1,289,114 |
| Total | $ 67,343,581 |

Net assets are released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by the donors. Net assets released from restrictions consisted of the following for the year ended May 31, 2014:

| | |
|---|---|
| Endowment spending policy | $ 2,650,655 |
| Scholarships, academics and grants | 1,584,827 |
| Matured annuity contracts | 957,546 |
| Total | $ 5,193,028 |

## 14. Endowment Funds

The College's endowment consists of approximately 530 donor-restricted individual funds established primarily for scholarships. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the College has interpreted Pennsylvania law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Callan Associates Median Balanced Fund Database while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 7.40% net of fees annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Commonwealth of Pennsylvania law permits the College to allocate to income each year a portion of endowment return. The law allows non-profit organizations to spend a percentage of the market value of their endowment funds, including realized and unrealized gains. The percentage, which by law must be between 2% and 7%, is elected annually by the Board of Trustees. The endowment market value is determined based on an average spanning three years. The College's policy for fiscal years 2014 and 2013 allowed for a payout no larger than 6% and not less than 3.5% of the average of the past 5 years of the endowment's closing market values. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of 6.8% annually. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets for the fiscal year ended May 31, 2014:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, May 31, 2013 | $ 20,949,818 | $ 17,868,161 | $ 56,511,175 | $ 95,329,154 |
| Investment return: | | | | |
| Investment income | 372,286 | 1,120,114 | | 1,492,400 |
| Net realized and unrealized appreciation | 2,864,672 | 8,619,062 | | 11,483,734 |
| Total investment return | 3,236,958 | 9,739,176 | - | 12,976,134 |
| Contributions | 161,059 | 19,116 | 1,392,412 | 1,572,587 |
| Transfers from other funds | - | - | 2,114,632 | 2,114,632 |
| Appropriation of endowment assets for expenditure | (809,698) | (2,650,655) | - | (3,460,353) |
| Restoration of under water endowments | 1,059,811 | (1,059,811) | - | - |
| Endowment net assets, May 31, 2014 | $ 24,597,948 | $ 23,915,987 | $ 60,018,219 | $ 108,532,154 |

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or law requires the College to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were $1,888,636. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

## 15. Government Grants and Student Aid

The government grants and student aid amounts reported do not include funds credited to students under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent. Had these amounts been included, revenues and expenses would have increased by $3,111,843 in 2014.

## 16. Commitments and Contingencies

The nature of the educational industry is such that, from time to time, claims will be presented against the College on account of alleged negligence, acts of discrimination, breach of contract, or disagreements arising from the interpretation of laws and regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services. Management of the College believes that these claims and their resolution will not have a significant impact on the College's financial position.

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

The College owns property constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the property. The College has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate this property and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the property and sufficient information becomes available to estimate the liability it will be recognized at that time.

## 17. Expenses

Expenses by natural classification for the year ended May 31, 2014 were:

| | |
|---|---|
| Compensation: | |
| Salaries | $ 19,858,064 |
| Benefits | 7,948,119 |
| Auxiliary cost of sales | 2,906,700 |
| Depreciation | 3,172,974 |
| Interest on indebtedness | 1,430,210 |
| Equipment repair and maintenance | 1,194,408 |
| Utilities | 2,111,802 |
| Student employees | 1,328,960 |
| Professional services | 973,921 |
| Programming | 1,505,217 |
| Travel | 1,241,903 |
| Software, office and instructional supplies | 1,677,501 |
| Other | 3,933,833 |
| Total | $ 49,283,612 |

## 18. Prior Period Adjustment

The 2013 financial statements of the College were restated in 2014 to correct an error. Beginning net assets were adjusted between net asset classifications. Unrestricted net assets were reduced by $635,132, temporarily restricted net assets were reduced by $1,908,459 and permanently restricted net assets were increased by $2,543,591. The adjustment resulted from the College reevaluating certain split interest agreements and the ultimate disposition of these funds. The College determined some individual agreements were more accurately presented as permanently restricted net assets as opposed to temporarily restricted net assets. Furthermore, there are certain individual split interest agreements that have a negative net asset balance which require use of unrestricted funds to fulfill these deficits. This resulted in reducing unrestricted net assets in the amount of $635,132. These split interest agreements are excluded from the endowment spending policy until the contract matures. Therefore, there is no effect on endowment disclosures.

The adjustment did not change total net assets and there was no effect on the prior year change in net assets in total. The effect of these corrections on the change in each class of net assets in 2013 is not reasonably determinable; however the College does not believe those amounts would be material.

## 19. Subsequent Event

### Series 2004

Per the agreement, there was a tender option date of November 30, 2014. In July 2014, the College amended the financing agreement with the Authority and PNC Bank (the "Bank") as of November 30, 2014.

Effective on and as of November 30, 2014, the tax-exempt rate shall mean a fixed rate equal to 2.65% per annum. The Bank has irrevocably rescinded its exercise of the Tender Option for November 30, 2014 and the Bank shall not have any right to tender the Authority Note to the Borrower for purchase.

## Juniata College

Schedule of Activities
Year Ended May 31, 2014

| | Operations | Other Unrestricted | Net Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|---|---|
| **Operating Revenues** | | | | | | |
| Tuition and fees (net of scholarship allowances of $28,904,373) | $ 28,419,814 | $ (897,494) | $ 27,522,320 | $ - | $ - | $ 27,522,320 |
| Federal, state and local grants and contracts | 14,151 | 694,678 | 708,829 | - | - | 708,829 |
| Private gifts, grants and bequests | 1,057,224 | 685,265 | 1,742,489 | 1,453,401 | $ 4,403,736 | 7,599,626 |
| Interest and dividends | 17,459 | 394,921 | 412,380 | 1,213,347 | 112,913 | 1,738,640 |
| Other income | 185,901 | 572,031 | 757,932 | 36,248 | - | 794,180 |
| Auxiliary enterprises | 11,992,008 | 161,233 | 12,153,241 | - | - | 12,153,241 |
| Reclassification due to change in donors intent | - | - | - | (34,472) | 34,472 | - |
| Net assets released from restrictions, satisfaction of time and purpose restrictions | (638,204) | 5,831,232 | 5,193,028 | (5,193,028) | - | - |
| Total operating revenues | 41,048,353 | 7,441,866 | 48,490,219 | (2,524,504) | 4,551,121 | 50,516,836 |
| **Operating Expenses** | | | | | | |
| Educational and general: | | | | | | |
| Instructional | 13,600,364 | 3,363,531 | 16,963,895 | - | - | 16,963,895 |
| Research and public service | 617,540 | 1,903,899 | 2,521,439 | - | - | 2,521,439 |
| Academic support | 4,486,306 | 771,160 | 5,257,466 | - | - | 5,257,466 |
| Student services | 8,730,828 | 1,077,846 | 9,808,674 | - | - | 9,808,674 |
| Institutional support | 7,769,609 | 347,641 | 8,117,250 | - | - | 8,117,250 |
| Total educational and general | 35,204,647 | 7,464,077 | 42,668,724 | | | 42,668,724 |
| Auxiliary enterprises | 5,382,369 | 1,232,519 | 6,614,888 | - | - | 6,614,888 |
| Total operating expenses | 40,587,016 | 8,696,596 | 49,283,612 | - | - | 49,283,612 |
| **Increase (Decrease) in Net Assets from Operating Activities** | 461,337 | (1,254,730) | (793,393) | (2,524,504) | 4,551,121 | 1,233,224 |
| **Nonoperating Activities** | | | | | | |
| Realized and unrealized gain on investments | - | 2,875,573 | 2,875,573 | 8,798,990 | 458,976 | 12,133,539 |
| Gains on funds held in trust for others | - | - | - | - | 79,678 | 79,678 |
| Restoration of underwater endowments | - | 1,059,811 | 1,059,811 | (1,059,811) | - | - |
| Change in the valuation of split-interest agreements | - | - | - | 83,950 | (411,067) | (327,117) |
| Increase in net assets from operating activities | - | 3,935,384 | 3,935,384 | 7,823,129 | 127,587 | 11,886,100 |
| **Increase in Net Assets** | 461,337 | 2,680,654 | 3,141,991 | 5,298,625 | 4,678,708 | 13,119,324 |
| **Net Assets, Beginning of Year, as Previously Reported** | 187,176 | 45,795,532 | 45,982,708 | 24,491,303 | 60,121,282 | 130,595,293 |
| **Prior Period Adjustment** | (187,176) | (447,956) | (635,132) | (1,908,459) | 2,543,591 | - |
| **Net Assets, Beginning of Year, as Restated** | - | 45,347,576 | 45,347,576 | 22,582,844 | 62,664,873 | 130,595,293 |
| **Net Assets, End of Year** | $ 461,337 | $ 48,028,230 | $ 48,489,567 | $ 27,881,469 | $ 67,343,581 | $ 143,714,617 |

*See notes to financial statements*