Juniata College

Financial Statements

May 31, 2017 and 2016

BAKER TILLY

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Independent Auditors' Report

Board of Trustees
Juniata College

We have audited the accompanying financial statements of Juniata College, which comprise the statement of financial position as of May 31, 2017 and 2016, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
October 24, 2017

Juniata College

Statement of Financial Position
May 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 3,789,263	$ 6,362,655
Accounts receivable:		
Student, net	621,728	541,224
Governmental agencies	243,610	264,596
Other	558,988	715,123
Unconditional promises to give	4,208,012	3,022,721
Inventory	308,990	314,474
Prepaid expenses	792,441	996,219
Investments	112,330,985	103,981,388
Bond project fund	3,839,655	14,711,852
Real estate investments	3,745,458	3,863,993
Cash surrender value life insurance	3,924,644	2,997,449
Student loans receivable	1,406,778	1,636,808
Funds held in trust by others	3,825,342	3,560,534
Collections	1,641,732	1,641,732
Plant assets, net	84,600,232	73,030,310
Total assets	$ 225,837,858	$ 217,641,078
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 820,974	$ 308,303
Construction accounts payable	1,535,139	375,592
Accrued payroll and related liabilities	4,018,742	3,972,153
Student deposits and prepayments	456,142	418,875
Deferred revenue	2,291,498	3,040,251
Funds held in custody for others	244,429	275,111
Bonds and notes payable	59,215,494	59,945,945
Obligations under capital lease	280,909	129,861
Postretirement benefits	6,452,395	6,573,163
Annuities payable	2,948,515	2,793,336
Advance from federal government for student loans	686,971	702,663
Total liabilities	78,951,208	78,535,253
Net Assets		
Unrestricted	45,098,674	44,126,033
Temporarily restricted	27,977,907	24,397,208
Permanently restricted	73,810,069	70,582,584
Total net assets	146,886,650	139,105,825
Total liabilities and net assets	$ 225,837,858	$ 217,641,078

See notes to financial statements

Juniata College

Statement of Activities
Year Ended May 31, 2017
(With Comparative Totals for 2016)

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating Revenues					
Tuition and fees (net of scholarship allowances of $34,556,359)	$ 27,003,421	$ -	$ -	$ 27,003,421	$ 28,319,596
Federal, state and local grants and contracts	1,288,591	30,357	-	1,318,948	1,002,407
Private gifts, grants and bequests	3,267,587	1,980,026	2,610,802	7,858,415	8,659,947
Investment income	1,359,683	3,968,596	238,717	5,566,996	1,273,045
Other income	1,409,432	47,822	-	1,457,254	1,449,291
Auxiliary enterprises	13,436,733	-	-	13,436,733	12,874,274
Net assets released from restrictions, satisfaction of time and purpose restrictions	6,712,756	(6,712,756)	-	-	-
Total operating revenues	54,478,203	(685,955)	2,849,519	56,641,767	53,578,560
Operating Expenses					
Educational and general:					
Instructional	18,731,495	-	-	18,731,495	18,188,840
Research and public service	2,082,697	-	-	2,082,697	1,762,568
Academic support	5,558,008	-	-	5,558,008	5,441,325
Student services	10,861,660	-	-	10,861,660	10,397,558
Institutional support	9,789,728	-	-	9,789,728	8,650,303
Total educational and general	47,023,588	-	-	47,023,588	44,440,594
Auxiliary enterprises	8,782,988	-	-	8,782,988	8,524,037
Total operating expenses	55,806,576	-	-	55,806,576	52,964,631
(Decrease) increase in net assets from operating activities	(1,328,373)	(685,955)	2,849,519	835,191	613,929
Nonoperating Activities					
Unrealized gain (loss) on investments	1,791,662	5,049,241	129,521	6,970,424	(3,240,810)
Loss on advance refunding of bonds payable	-	-	-	-	(3,918,527)
Gain (loss) on funds held in trust by others	-	-	264,808	264,808	(577,452)
Restoration of underwater endowments	706,279	(706,279)	-	-	-
Change in valuation of split-interest agreements	(196,927)	(76,308)	(16,363)	(289,598)	(298,027)
Increase (decrease) in net assets from nonoperating activities	2,301,014	4,266,654	377,966	6,945,634	(8,034,816)
Change in net assets	972,641	3,580,699	3,227,485	7,780,825	(7,420,887)
Net Assets, Beginning of Year	44,126,033	24,397,208	70,582,584	139,105,825	146,526,712
Net Assets, End of Year	$ 45,098,674	$ 27,977,907	$ 73,810,069	$ 146,886,650	$ 139,105,825

See notes to financial statements

Juniata College

Statement of Activities
Year Ended May 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Tuition and fees (net of scholarship allowances of $31,792,376)	$ 28,319,596	$ -	$ -	$ 28,319,596
Federal, state and local grants and contracts	1,002,407	-	-	1,002,407
Private gifts, grants and bequests	4,888,679	1,344,752	2,426,516	8,659,947
Investment (loss) income	(1,441,152)	(363,706)	3,077,903	1,273,045
Other income	1,419,047	30,244	-	1,449,291
Auxiliary enterprises	12,874,274	-	-	12,874,274
Net assets released from restrictions, satisfaction of time and purpose restrictions	5,080,723	(5,080,723)	-	-
Total operating revenues	52,143,574	(4,069,433)	5,504,419	53,578,560
Operating Expenses				
Educational and general:				
Instructional	18,188,840	-	-	18,188,840
Research and public service	1,762,568	-	-	1,762,568
Academic support	5,441,325	-	-	5,441,325
Student services	10,397,558	-	-	10,397,558
Institutional support	8,650,303	-	-	8,650,303
Total educational and general	44,440,594	-	-	44,440,594
Auxiliary enterprises	8,524,037	-	-	8,524,037
Total operating expenses	52,964,631	-	-	52,964,631
(Decrease) increase in net assets from operating activities	(821,057)	(4,069,433)	5,504,419	613,929
Nonoperating Activities				
Unrealized loss on investments	-	(322,860)	(2,917,950)	(3,240,810)
Loss on advance refunding of bonds payable	(3,918,527)	-	-	(3,918,527)
Loss on funds held in trust by others	-	-	(577,452)	(577,452)
Reclassification of underwater endowments	(477,155)	477,155	-	-
Change in valuation of split-interest agreements	(40,359)	(32,522)	(225,146)	(298,027)
(Decrease) increase in net assets from nonoperating activities	(4,436,041)	121,773	(3,720,548)	(8,034,816)
Change in net assets	(5,257,098)	(3,947,660)	1,783,871	(7,420,887)
Net Assets, Beginning of Year	49,383,131	28,344,868	68,798,713	146,526,712
Net Assets, End of Year	$ 44,126,033	$ 24,397,208	$ 70,582,584	$ 139,105,825

See notes to financial statements

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 7,780,825	$ (7,420,887)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	3,840,960	4,210,561
Realized and unrealized (gain) loss on investments	(10,596,925)	3,911,158
Loss on advance refunding of bonds payable	-	3,904,310
(Gain) loss on funds held in trust by others	(264,808)	577,452
Contributions of plant assets	(190,000)	(1,100,000)
Loss (gain) on disposal of plant assets	91,841	(88,652)
Private gifts restricted for long-term investment	(2,610,802)	(2,426,516)
Changes in split-interest agreements	289,598	298,027
Changes in assets and liabilities:		
Accounts receivable	96,617	(635,542)
Unconditional promises to give	(948,499)	(917,887)
Inventory	5,484	4,625
Prepaid expenses	203,778	(355,899)
Accounts payable	512,671	(166,324)
Accrued payroll and related liabilities	46,589	333,720
Deferred revenue	(748,753)	(197,823)
Funds held in custody for others	(30,682)	33,179
Student deposits and prepayments	37,267	(46,141)
Postretirement benefits	(120,768)	(146,441)
Net cash used in operating activities	(2,605,607)	(229,080)
Cash Flows from Investing Activities		
Proceeds from sales of investments	9,616,510	3,884,380
Purchases of investments	(7,369,182)	(4,329,513)
Increase in cash surrender value of life insurance	(927,195)	(799,829)
Proceeds from sale of plant assets	-	229,177
Purchases of plant assets	(13,696,162)	(2,466,791)
Payments on student loans receivable	302,680	326,193
Student loans advanced	(72,650)	(138,056)
Net cash used in investing activities	(12,145,999)	(3,294,439)
Cash Flows from Financing Activities		
Payments on bonds, notes payable and capital leases	(917,882)	(916,803)
Payments of bond and note financing costs	-	(420,968)
Proceeds from contributions restricted for long-term investments	2,374,010	2,678,768
Proceeds from funds held by trustee used for construction	10,872,197	288,148
Net repayments to federal government for student loans	(15,692)	(744,001)
Proceeds of annuity obligations	174,443	208,930
Payments of annuity obligations	(308,862)	(422,257)
Net cash provided by financing activities	12,178,214	671,817
Net decrease in cash and cash equivalents	(2,573,392)	(2,851,702)
Cash and Cash Equivalents, Beginning of Year	6,362,655	9,214,357
Cash and Cash Equivalents, End of Year	$ 3,789,263	$ 6,362,655
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,530,587	$ 1,376,316
Supplemental Disclosure of Noncash Operating, Investing and Financing Activities		
Plant assets included in accounts payable	$ 1,535,139	$ 375,592
Issuance of bonds payable	$ -	$ 47,542,366
Repayment of bonds payable	$ -	$ 28,638,058
Funding of deposits held by trustee for construction	$ -	$ 15,000,000
Assets acquired under capital lease	$ 348,695	$ -

See notes to financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Juniata College (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 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 years ended May 31, 2017 and 2016, the College provided student financial aid from internal resources of approximately $31,216,000 and $29,153,000, which represented 51% and 49% of gross tuition and fee revenue, respectively. During the years ended May 31, 2017 and 2016, the College provided student financial aid from monies contributed to the College by alumni and friends of approximately $3,341,000 and $2,640,000, respectively.

The College evaluated subsequent events for recognition or disclosure through October 24, 2017, 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. An allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

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 the Net Asset Values ("NAVs") provided by external investment managers or on audited financial statements when available. The NAVs 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.

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 are billed in advance and are 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 makes 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 unrealized gains or losses on investments, gains or losses on bond refunding, gains or losses on funds held in trust by others, restoration/reclassification 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 $455,000 in 2017 and $420,000 in 2016.

Fund-Raising Costs

Fund-raising costs are expensed as incurred and amounted to approximately $2,582,000 in 2017 and $2,648,000 in 2016, 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 gifts that increase 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, that are not held for endowment or other long-term purposes, 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 (the "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 2017 or 2016.

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, 2017 and 2016 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, 2017 and 2016 and for the years then ended, the College's composite score exceeded 1.5.

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 reporting format.

New Accounting Standards Not Yet Adopted

During May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017 (fiscal year ending May 31, 2019). The College may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016 (fiscal year ending May 31, 2018). The College is currently assessing the effect that Topic 606 (as amended) will have on its results of operations, financial position and cash flows.

During February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For the College, ASU No. 2016-02 is effective for the fiscal year ending May 31, 2020. Early adoption is permitted. The College is currently assessing the effect that ASU No. 2016-02 will have on its results of operations, financial position and cash flows.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. The College is required to implement ASU 2016-14 for the fiscal year ending May 31, 2019, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The College is assessing the impact this standard will have on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for non-public entities for fiscal years beginning after December 15, 2018 (fiscal year ending May 31, 2020), with early adoption permitted. ASU 2016-18 is to be applied retroactively with transition provisions. The College is currently evaluating the effect that ASU 2016-18 will have on its financial statements.

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:

	2017	2016
Accounts receivable	$ 857,339	$ 735,792
Allowance for doubtful accounts	(235,611)	(194,568)
Total	$ 621,728	$ 541,224

3. Unconditional Promises to Give

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). A significant percentage of the outstanding contributions receivable are from current or past board members of the College.

Unconditional promises to give at May 31 are as follows:

	2017	2016
In one year or less	$ 579,523	$ 397,053
Between one year and five years	2,988,802	2,949,860
Thereafter	1,180,000	25,000
Less:		
Discount	(318,840)	(190,101)
Allowance for doubtful accounts	(221,473)	(159,091)
Total	$ 4,208,012	$ 3,022,721

The net present value of these cash flows was determined by using risk-adjusted discount rates between 0.3% and 6.38% to account for the time value of money for 2017 and 2016.

Management believes the College's allowance for doubtful accounts at May 31, 2017 and 2016 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 accounts.

Conditional pledges and bequest intentions totaling approximately $55,572,000 in 2017 and $43,734,000 in 2016 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:

	2017	2016
Buildings	$ 4,625,000	$ 4,132,000
Budget relief	27,547,000	21,650,000
Programming	4,819,000	3,441,000
Unrestricted	18,384,000	14,314,000
Unknown	197,000	197,000
Total	$ 55,572,000	$ 43,734,000

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 $634,970 and $685,644 of Perkins Loans and $812,429 and $1,001,225 of College-provided loans, less an allowance for doubtful accounts of $40,621 and $50,061 for May 31, 2017 and 2016, respectively. 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, in part, 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, 2017 and 2016 was $686,971 and $702,663, respectively.

5. Fair Value Measurements, Investments and Other Financial Instruments

The College measures its funds held in trust by others and investments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. 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. The framework that the authoritative guidance established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined 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 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the College for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the same term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The following tables present the financial instruments measured at fair value as of May 31, 2017 and 2016 by caption on the statement of financial position by the valuation hierarchy defined above:

	2017			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Assets Reported at Fair Value:				
U.S. Treasury obligations	$ -	$ 96,652	$ -	$ 96,652
Corporate and foreign bonds	-	1,058,509	-	1,058,509
Taxable fixed income funds	24,425,081	-	-	24,425,081
Non-taxable fixed income funds	69,875	-	-	69,875
Common equity securities:				
Materials	1,530,143	-	-	1,530,143
Industrials	5,693,662	-	-	5,693,662
Telecommunications	949,950	-	-	949,950
Consumer discretionary	7,513,800	-	-	7,513,800
Consumer staples	3,445,111	-	-	3,445,111
Energy	1,527,900	-	-	1,527,900
Financial	5,414,085	-	-	5,414,085
Health care	4,962,994	-	-	4,962,994
Information technology	8,951,497	-	-	8,951,497
Utilities	874,637	-	-	874,637
Preferred equity securities	111,456	-	-	111,456
Domestic funds	16,735,902	-	-	16,735,902
Global funds	2,883,624	-	-	2,883,624
Balanced equity mutual funds	4,399,769	-	-	4,399,769
International mutual funds	14,997,877	-	-	14,997,877
Total investments by valuation hierarchy	$ 104,487,363	$ 1,155,161	-	105,642,524
Alternative investments reported at net asset value				6,688,461
Total investments				112,330,985
Fund held in trust by others			3,825,342	3,825,342
Total assets			$ 3,825,342	$ 116,156,327

	2016			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Assets Reported at Fair Value:				
U.S. Treasury obligations	$ -	$ 101,872	$ -	$ 101,872
Corporate and foreign bonds	-	1,040,727	-	1,040,727
Taxable fixed income funds	17,241,040	-	-	17,241,040
Common equity securities:				
Materials	1,335,832	-	-	1,335,832
Industrials	5,928,703	-	-	5,928,703
Telecommunications	1,134,056	-	-	1,134,056
Consumer discretionary	7,375,427	-	-	7,375,427
Consumer staples	2,436,255	-	-	2,436,255
Energy	2,838,648	-	-	2,838,648
Financial	5,613,646	-	-	5,613,646
Health care	5,647,127	-	-	5,647,127
Information technology	6,584,093	-	-	6,584,093
Utilities	1,008,993	-	-	1,008,993
Preferred equity securities	521,731	-	-	521,731
Domestic funds	18,061,590	-	-	18,061,590
Global funds	2,117,564	-	-	2,117,564
Balanced equity mutual funds	4,643,204	-	-	4,643,204
International mutual funds	13,744,111	-	-	13,744,111
Total investments by valuation hierarchy	$ 96,232,020	$ 1,142,599	-	97,374,619
Alternative investments reported at net asset value				6,606,769
Total investments				103,981,388
Fund held in trust by others			3,560,534	3,560,534
Total assets			$ 3,560,534	$ 107,541,922

The Level 3 reconciliation is as follows:

	Funds Held in Trust by Others
Balance at May 31, 2015	$ 4,137,986
Net gains (realized and unrealized, net of unrestricted distributions of $468,961 reported as contributions in the statement of activities)	(577,452)
Balance at May 31, 2016	3,560,534
Net gains (realized and unrealized, net of unrestricted distributions of $73,378 reported as contributions in the statement of activities)	264,808
Balance at May 31, 2017	$ 3,825,342

Valuation Methodologies

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in methodologies used at May 31, 2017 and 2016.

Investments: The valuation methodology of utilizing closing prices in an active exchange market, which are considered Level 1 inputs, was applied to mutual funds, fixed income funds and equity securities. U.S. Treasury obligations and corporate and foreign bonds are valued based on quoted prices of similar assets, with similar terms, in actively traded markets and are measured using Level 2 inputs.

Alternative Investments: The College measures the fair value for these alternative investments based on the NAVs as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the Fund's measurement date, the NAVs are adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in the NAVs, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the College sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment. In accordance with Subtopic 820-10, investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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 the following unfunded commitments:

	2017	2016
Patriot Financial II	$ 468,966	$ 1,000,000
Praesidian Capital	292,394	292,394

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

- Grosvenor Institutional Partners - Grosvenor is a multi-strategy hedge fund-of-funds manager based in Chicago, Illinois. Grosvenor invests with approximately 40 underlying managers in several strategies, including relative value, distressed debt, event driven and others. The investment team of 38 professionals builds the portfolio with the idea of creating an investment that is uncorrelated to traditional asset classes. The College has monies invested in this alternative investment for fiscal years 2017 and 2016.

- Patriot Financial Partners II - Patriot is a firm out of Philadelphia specializing in regional banks, both privately and publicly traded. The over $200 mm fund has invested in 15 portfolio companies to date. This fund attempts to identify small financial institutions that require capital for expansion or current operations. The fund's general partner will typically take a board seat to better identify opportunities for efficiencies or growth in an attempt to increase operating margins and price-to-book metrics for later sale, either in the public markets or as a takeover by another institution. The College has monies invested in this alternative investment for fiscal years 2017 and 2016 and has an unfunded commitment as disclosed above.

- 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 and acquisition financing, management and sponsored buyouts or recapitalizations and 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. The College has monies invested in this alternative investment for fiscal years 2017 and 2016 and has an unfunded commitment as disclosed above.

- RECAP Current Income Fund - RECAP is a New York, NY based manager of private real estate partnerships. The partnership has raised $60 mm of limited partner equity to acquire well-leased, well-located rental apartments with the goal of generating current returns to the investors with stable quarterly distributions. The fund is currently fully invested in five operating rental apartment properties and is producing current income. The College has monies invested in this alternative investment for fiscal years 2017 and 2016.

- RECAP Metropolitan - This fund is run by the same firm as currently manages the RECAP Current Income Fund. The current portfolio has two 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. As of May 31, 2017, the College has no monies invested in this alternative investment.

Funds held in trust by others: The fair value is based on the College's interest in the earnings 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.

Investment Return (Loss)

The College's total investment return (loss) is comprised of the following components at May 31:

	2017	2016
Interest and dividend income	$ 2,261,402	$ 2,341,031
Investment fees	(320,907)	(397,638)
Net realized gain (loss) on investments	3,626,501	(670,348)
Net investment income	5,566,996	1,273,045
Unrealized gain (loss) on investments	6,970,424	(3,240,810)
Net investment return (loss)	$ 12,537,420	$ (1,967,765)

6. Plant Assets

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

	2017	2016
Land	$ 3,008,978	$ 2,818,978
Buildings	115,090,838	108,707,311
Equipment	20,779,584	18,039,073
Land improvements	1,410,418	1,412,985
Construction in progress	7,297,533	1,442,752
Total	147,587,351	132,421,099
Less accumulated depreciation	(62,987,119)	(59,390,790)
Total	$ 84,600,232	$ 73,030,310

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 $3,733,000 in 2017 and $3,637,000 in 2016.

The College is renovating and constructing new space on various buildings across campus. In connection with these projects, the College had approximately $2,830,000 (including retainage payable of $400,941) of outstanding commitments as of May 31, 2017.

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

	2017	2016
Land	$ 889,239	$ 889,239
Rental properties	4,106,706	4,106,706
Total	4,995,945	4,995,945
Less accumulated depreciation	(1,250,487)	(1,131,952)
Total	$ 3,745,458	$ 3,863,993

Depreciation expense on these rental properties was approximately $119,000 and $125,000 in 2017 and 2016, respectively.

Non-depreciable assets, such as collections, totaled $1,641,732 as of May 31, 2017 and 2016.

7. Line of Credit

The College has a $3,000,000 unsecured demand line of credit available from a bank. Interest is paid monthly at one-month London Interbank Offered Rate (“LIBOR”) plus 2.5% (3.48% at May 31, 2017). At May 31, 2017 and 2016, no amounts were outstanding under this line of credit.

8. Bonds and Notes Payable

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

	2017	2016
Revenue Note, Series 2004 (issued through Huntingdon County General Authority), due in varying annual installments through May 2024, fixed interest at 2.65%. Collateralized by the gross revenues of the College.	$ 4,662,000	$ 4,787,000
Revenue Note, Series 2013 (issued through Huntingdon County General Authority), due in varying annual installments beginning April 2015 through April 2039. The note bears 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 (1.87% at May 31, 2017). The note has optional tender dates the month of April in the years 2020, 2027 and 2034. Collateralized by the gross revenues of the College.	7,975,000	8,175,000
Revenue Bonds, Series 2016 OO2 (issued through Huntingdon County General Authority), due in varying annual installments beginning May 2033 through May 2046, fixed interest ranging from 3.0% to 5.0%. Collateralized by all unrestricted revenues of the College.	33,305,000	33,305,000
Revenue Note, Series 2016 U1 (issued through Huntingdon County General Authority), due in varying annual installments beginning May 2017 through May 2029, at fixed interest at 2.46% through May 2023 and, for the remainder of the term, a variable interest rate equal to the LIBOR rate plus 170 basis points converted to a bank qualified tax-exempt rate. The variable rate will be determined by the lender monthly. Collateralized by the gross revenues of the College.	4,742,823	5,138,058
Revenue Note Series 2016 U2 (issued through Huntingdon County General Authority), due in varying annual installments beginning May 2027 through May 2032, fixed interest at 2.6% through May 2023 and, for the remainder of the term, a variable interest rate equal to the LIBOR rate plus 170 basis points converted to a non-bank qualified tax-exempt rate. The variable rate will be determined by the lender monthly. Collateralized by the gross revenues at the College.	7,690,000	7,690,000
	58,374,823	59,095,058
Deferred financing costs	(530,924)	(558,424)
Unamortized bond premium	1,371,595	1,409,311
Total	$ 59,215,494	$ 59,945,945

The aggregate future scheduled principal payments on bonds and notes payable at May 31, 2017 is as follows:

Years ending May 31:	
2018	$ 1,161,772
2019	1,188,772
2020	1,317,772
2021	1,048,772
2022	1,047,772
Thereafter	53,450,634
Total	$ 59,215,494

Interest expense was approximately $1,531,000 in 2017 and $1,389,000 in 2016. 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.

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

In May 2016, the College entered into the Series 2016 OO2 Revenue Bonds for the purpose of financing various capital projects, and to advance refund the Series 2010A Revenue Bonds. These funds were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the advance refunded bonds. In conjunction with the creation of the trust, the Huntington County General Authority released the College from its obligation relating to the advance refunded bonds. Accordingly, the assets and the advance refunded bonds are not reflected in the accompanying statement of financial position as of May 31, 2017 or 2016. The effect of this refunding, a nonoperating loss of $3,918,527 was recorded during the year ended May 31, 2016, and represents the excess of the reacquisition price of the new debt over the net carrying amount of the extinguished debt.

9. Capital Leases

The College leases computer equipment under capital leases, which expire in 2019. 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, 2017:

Cost of equipment under capital lease	$ 887,898
Accumulated amortization	(619,907)
Total	$ 267,991

Minimum future lease payments under capital leases as of May 31, 2017 are as follows:

Years ending May 31:	
2018	$ 176,623
2019	111,607
Total minimum lease payments	288,230
Amount representing interest	(7,321)
Present value of minimum lease payments	$ 280,909

Interest rates on the capital leases as of May 31, 2017 range from .97% to 3.04%, which were 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, 2017 and 2016. Total rents paid under these operating leases approximated $193,000 and $155,000 for the years ended May 31, 2017 and 2016, respectively. Future minimum rental payments required under these leases by year and in the aggregate at May 31, 2017 follow:

Years ending May 31:	
2018	$ 189,535
2019	84,150
2020	70,140
2021	31,956
Total	$ 375,781

11. Pension Plan

The College sponsors a defined contribution pension plan. Pension expense related to this plan was approximately $1,990,000 in 2017 and $1,890,000 in 2016.

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 three 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, 2017 and 2016:

	2017	2016
Retirees	$ 3,989,116	$ 3,934,552
Actives fully eligible	1,872,477	1,937,649
Actives not fully eligible	590,802	700,962
Total	$ 6,452,395	$ 6,573,163

Net periodic postretirement benefit cost consists of the following at May 31, 2017 and 2016:

	2017	2016
Service cost	$ 14,609	$ 20,163
Interest cost	259,052	261,941
Amortization of net actuarial loss	289,246	283,410
Total	$ 562,907	$ 565,514
Actual cost (cash flow)	$ 327,832	$ 310,312

The estimated future benefit payments over the next 5 fiscal years are as follows:

Years ending May 31:	
2018	$ 341,725
2019	335,556
2020	340,198
2021	341,810
2022	359,404

There are no contributions in excess of expected benefits scheduled to be paid during the next 5 fiscal years.

The measurement date used to determine the benefit obligation information was May 31, 2017 and 2016.

The following table sets forth the change in benefit obligation and the amounts recognized in the statement of financial position at May 31, 2017 and 2016:

	2017	2016
Change in accumulated postretirement benefit obligation:		
Benefit obligation, beginning of year	$ 6,573,163	$ 6,719,604
Service cost	14,609	20,163
Interest cost	259,052	261,941
Change due to change in experience	80,713	(388,196)
Change in actuarial assumptions	(147,310)	269,963
Benefits paid	(327,832)	(310,312)
Accumulated postretirement benefit obligation, end of year	6,452,395	6,573,163
Change in plan assets:		
Fair value of plan assets, beginning of year	-	-
Fair value of plan assets, end of year	-	-
Funded status	$ (6,452,395)	$ (6,573,163)
Accumulated postretirement benefit cost	$ (6,452,395)	$ (6,573,163)

The discount rates used to determine the accumulated postretirement benefit obligation and the net periodic postretirement benefit cost were 4.0% in 2017 and 2016.

The assumed health care cost trend rates at May 31, 2017 and 2016 were as follows:

	2017	2016
Health care cost trend rate assumed for next year	5.0 %	5.5 %
Rate to which the cost trend rate is assumed to decline	3.3 %	3.3 %
Year that the rate reaches the ultimate trend rate	2075	2075

Sensitivity to Health Care Cost Trend Rate

The following is a sensitivity analysis of the annual net periodic postretirement benefits cost and the accumulated postretirement benefits obligation to changes in the health care cost trend rate. The table below presents the annual net periodic postretirement benefits cost and the accumulated postretirement benefits obligation calculated using the health care cost trend rate of 5.0% as well as what the annual net periodic postretirement benefits cost and the accumulated postretirement benefits obligation would be if it were to be calculated using a health care cost trend rate that is 1 percentage point lower (4.0%) or 1 percentage point higher (6.0%) than the current rate:

	2017		
	1% Decrease (4.0%)	Current Rate (5.0%)	1% Increase (6.0%)
Annual net periodic postretirement benefits cost	$ 534,735	$ 562,907	$ 597,190
Accumulated postretirement benefits obligation	$ 5,803,072	$ 6,452,395	$ 7,235,758

	2016		
	1% Decrease (4.5%)	Current Rate (5.5%)	1% Increase (6.5%)
Annual net periodic postretirement benefits cost	$ 536,197	$ 565,514	$ 601,317
Accumulated postretirement benefits obligation	$ 5,889,055	$ 6,573,163	$ 7,405,033

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

	2017	2016
Rates of Retirement	2% at ages 55-61; 35% at age 62; 25% at ages 63-64; 40% at ages 65-69; and 100% at age 70	2% at ages 55-61; 35% at age 62; 25% at ages 63-64; 40% at ages 65-69; and 100% at age 70
Mortality		RP-2014 Total Mortality Table, Incorporated into the table are rates projected generationally using Scale MP-2016 to reflect mortality improvement.

Employer contributions which are equivalent to benefits paid under the Plan were approximately $328,000 in 2017 and $310,000 in 2016.

13. Net Assets

Unrestricted net assets are available for the following purposes as of May 31, 2017 and 2016:

	2017	2016
Investment in plant	$ 19,608,158	$ 20,153,375
Other endowment	28,535,359	25,423,634
Reserves and operating funds	(3,044,843)	(1,450,976)
Total	$ 45,098,674	$ 44,126,033

Temporarily restricted net assets are related to, or restricted for, the following as of May 31, 2017 and 2016:

	2017	2016
Gifts available for capital purposes	$ 1,571,285	$ 1,053,517
Gifts available for scholarship and other academic purposes	3,019,711	3,055,366
Accumulated income and gains or permanently restricted endowment funds	22,195,337	19,329,126
Gift annuity, pooled income, and charitable trusts	1,191,574	959,199
Total	$ 27,977,907	$ 24,397,208

Permanently restricted net assets are related to the following as of May 31, 2017 and 2016:

	2017	2016
Investments held in perpetuity by donor stipulations and Pennsylvania law, the income from which is generally available for scholarships	$ 65,918,126	$ 63,274,525
Funds held in trust by others	3,825,342	3,560,534
Loan funds held in perpetuity	1,467,196	1,374,533
Seed money	823,651	1,026,833
Gift annuity, pooled income and charitable trusts	1,775,754	1,346,159
Total	$ 73,810,069	$ 70,582,584

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 years ended May 31, 2017 and 2016:

	2017	2016
Endowment spending policy	$ 5,150,817	$ 4,397,480
Scholarships, academics and grants	1,525,432	677,240
Matured annuity contracts	36,507	6,003
Total	$ 6,712,756	$ 5,080,723

14. Endowment Funds

The College's endowment consists of 557 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 7.0% 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 2017 and 2016 allowed for a payout no larger than 6% of the average of the past 12 calendar quarters of the endowment's closing market values. In establishing this policy, the College considered the long-term expected return on its endowment.

Changes in endowment net assets for the fiscal years ended May 31, 2017 and 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2015	$ 27,112,450	$ 23,863,569	$ 61,474,976	$ 112,450,995
Investment return:				
Investment income	444,882	1,260,260	-	1,705,142
Net realized and unrealized depreciation	(1,903,104)	(1,877,053)	-	(3,780,157)
Total investment loss	(1,458,222)	(616,793)	-	(2,075,015)
Contributions	213,345	-	1,799,549	2,012,894
Transfers from other funds	400,000	2,675	-	402,675
Appropriation of endowment assets for expenditure	(366,784)	(4,397,480)	-	(4,764,264)
Reclassification of under water endowments	(477,155)	477,155	-	-
Endowment net assets, May 31, 2016	25,423,634	19,329,126	63,274,525	108,027,285
Investment return:				
Investment income	438,961	1,211,158	-	1,650,119
Net realized and unrealized appreciation	2,719,015	7,502,149	-	10,221,164
Total investment return	3,157,976	8,713,307	-	11,871,283
Contributions	-	10,001	2,643,601	2,653,602
Appropriation of endowment assets for expenditure	(752,531)	(5,150,817)	-	(5,903,348)
Restoration of under water endowments	706,280	(706,280)	-	-
Endowment net assets, May 31, 2017	$ 28,535,359	$ 22,195,337	$ 65,918,126	$ 116,648,822

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 $1,700,436 at May 31, 2017 and $2,406,716 at May 31, 2016. 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 including the Pennsylvania Higher Education Assistance Agency Program and the Pell Grants Program. 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 approximately $3,558,000 in 2017 and $3,067,000 in 2016.

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 years ended May 31 2017 and 2016 were:

	2017	2016
Compensation:		
Salaries	$ 22,271,889	$ 21,457,578
Benefits	10,057,765	9,291,791
Other	4,678,243	4,470,169
Depreciation	3,732,641	3,636,714
Auxiliary cost of sales	3,373,316	3,300,521
Utilities	1,927,732	1,897,649
Software, office and instructional supplies	1,902,390	1,656,445
Programming	1,590,567	1,488,078
Interest on indebtedness	1,530,587	1,386,646
Professional services	1,405,912	1,127,479
Student employees	1,351,866	1,299,214
Travel	1,169,288	1,170,992
Equipment repair and maintenance	814,380	781,355
Total	$ 55,806,576	$ 52,964,631

18. Subsequent Event

As of October 1, 2017, the Perkins Program has been discontinued. Eligible students, who received a disbursement prior to September 30, 2017 for the 2017-2018 award year, are eligible to receive subsequent disbursements.