Juniata College

Financial Statements

May 31, 2018 and 2017

BAKER TILLY

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Juniata College

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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, 2018 and 2017, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2018 and 2017, 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 16, 2018

Juniata College

Statement of Financial Position
May 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 4,774,619	$ 3,789,263
Accounts receivable:		
Student, net	698,339	621,728
Governmental agencies	372,689	243,610
Other	3,228,918	558,988
Unconditional promises to give	5,115,597	4,208,012
Inventory	332,996	308,990
Prepaid expenses	983,912	792,441
Investments	112,339,719	112,330,985
Bond project fund	-	3,839,655
Real estate investments	3,755,018	3,745,458
Cash surrender value life insurance	4,864,825	3,924,644
Student loans receivable	1,259,550	1,406,778
Funds held in trust by others	4,142,745	3,825,342
Collections	1,656,432	1,641,732
Other assets, net	855,328	-
Plant assets, net	84,927,013	84,600,232
Total assets	$ 229,307,700	$ 225,837,858
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,898,880	$ 820,974
Construction accounts payable	13,562	1,535,139
Accrued payroll and related liabilities	4,043,988	4,018,742
Student deposits and prepayments	430,145	456,142
Deferred revenue	2,225,594	2,291,498
Funds held in custody for others	186,896	244,429
Bonds and notes payable	58,116,969	59,215,494
Obligations under capital lease	138,131	280,909
Postretirement benefits	6,417,964	6,452,395
Annuities payable	2,971,075	2,948,515
Advance from federal government for student loans	616,795	686,971
Total liabilities	77,059,999	78,951,208
Net Assets		
Unrestricted	43,169,522	45,098,674
Temporarily restricted	32,576,755	27,977,907
Permanently restricted	76,501,424	73,810,069
Total net assets	152,247,701	146,886,650
Total liabilities and net assets	$ 229,307,700	$ 225,837,858

See notes to financial statements

Juniata College

Statement of Activities
Year Ended May 31, 2018
(With Comparative Totals for 2017)

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating Revenues					
Tuition and fees (net of scholarship allowances of $34,868,587)	$ 25,567,813	$ -	$ -	$ 25,567,813	$ 27,003,421
Federal, state and local grants and contracts	1,236,330	-	-	1,236,330	1,318,948
Private gifts, grants and bequests	4,242,889	1,526,658	2,416,503	8,186,050	7,858,415
Investment income	508,261	1,421,428	35,769	1,965,458	1,928,074
Endowment return, designated for operations	2,558,489	4,469,940	-	7,028,429	5,903,348
Other income	1,493,345	40,677	-	1,534,022	1,457,254
Auxiliary enterprises	13,005,456	-	-	13,005,456	13,436,733
Net assets released from restrictions, satisfaction of time and purpose restrictions	4,781,783	(4,781,783)	-	-	-
Total operating revenues	53,394,366	2,676,920	2,452,272	58,523,558	58,906,193
Operating Expenses					
Educational and general:					
Instructional	18,979,822	-	-	18,979,822	18,731,495
Research and public service	1,950,105	-	-	1,950,105	2,082,697
Academic support	5,672,210	-	-	5,672,210	5,558,008
Student services	11,159,103	-	-	11,159,103	10,861,660
Institutional support	8,468,858	-	-	8,468,858	9,789,728
Total educational and general	46,230,098	-	-	46,230,098	47,023,588
Auxiliary enterprises	8,857,807	-	-	8,857,807	8,782,988
Total operating expenses	55,087,905	-	-	55,087,905	55,806,576
(Decrease) increase in net assets from operating activities	(1,693,539)	2,676,920	2,452,272	3,435,653	3,099,617
Nonoperating Activities					
Endowment investment (loss) return, net of amount designated for operations	(308,210)	2,140,310	73,455	1,905,555	4,705,998
Gain on funds held in trust by others	-	-	317,403	317,403	264,808
Restoration of underwater endowments	146,612	(146,612)	-	-	-
Change in valuation of split-interest agreements	(74,015)	(71,770)	(151,775)	(297,560)	(289,598)
(Decrease) increase in net assets from nonoperating activities	(235,613)	1,921,928	239,083	1,925,398	4,681,208
Change in net assets	(1,929,152)	4,598,848	2,691,355	5,361,051	7,780,825
Net Assets, Beginning of Year	45,098,674	27,977,907	73,810,069	146,886,650	139,105,825
Net Assets, End of Year	$ 43,169,522	$ 32,576,755	$ 76,501,424	$ 152,247,701	$ 146,886,650

See notes to financial statements

Juniata College

Statement of Activities
Year Ended May 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Tuition and fees (net of scholarship allowances of $34,556,359)	$ 27,003,421	$ -	$ -	$ 27,003,421
Federal, state and local grants and contracts	1,288,591	30,357	-	1,318,948
Private gifts, grants and bequests	3,267,587	1,980,026	2,610,802	7,858,415
Investment income	426,869	1,341,987	159,218	1,928,074
Endowment return, designated for operations	752,531	5,150,817	-	5,903,348
Other income	1,409,432	47,822	-	1,457,254
Auxiliary enterprises	13,436,733	-	-	13,436,733
Net assets released from restrictions, satisfaction of time and purpose restrictions	6,712,756	(6,712,756)	-	-
Total operating revenues	54,297,920	1,838,253	2,770,020	58,906,193
Operating Expenses				
Educational and general:				
Instructional	18,731,495	-	-	18,731,495
Research and public service	2,082,697	-	-	2,082,697
Academic support	5,558,008	-	-	5,558,008
Student services	10,861,660	-	-	10,861,660
Institutional support	9,789,728	-	-	9,789,728
Total educational and general	47,023,588	-	-	47,023,588
Auxiliary enterprises	8,782,988	-	-	8,782,988
Total operating expenses	55,806,576	-	-	55,806,576
(Decrease) increase in net assets from operating activities	(1,508,656)	1,838,253	2,770,020	3,099,617
Nonoperating Activities				
Endowment investment return, net of amount designated for operations	1,971,945	2,525,033	209,020	4,705,998
Gain on funds held in trust by others	-	-	264,808	264,808
Restoration of underwater endowments	706,279	(706,279)	-	-
Change in valuation of split-interest agreements	(196,927)	(76,308)	(16,363)	(289,598)
Increase in net assets from nonoperating activities	2,481,297	1,742,446	457,465	4,681,208
Change in net assets	972,641	3,580,699	3,227,485	7,780,825
Net Assets, Beginning of Year	44,126,033	24,397,208	70,582,584	139,105,825
Net Assets, End of Year	$ 45,098,674	$ 27,977,907	$ 73,810,069	$ 146,886,650

See notes to financial statements

Juniata College

Statement of Cash Flows
Years Ended May 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 5,361,051	$ 7,780,825
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	4,523,556	3,840,960
Realized and unrealized gain on investments	(8,933,984)	(10,596,925)
Gain on funds held in trust by others	(317,403)	(264,808)
Contributions of plant assets	(14,700)	(190,000)
Loss on disposal of plant assets	-	91,841
Private gifts restricted for long-term investment	(2,416,503)	(2,610,802)
Changes in split-interest agreements	297,560	289,598
Changes in assets and liabilities:		
Accounts receivable	(2,875,620)	96,617
Unconditional promises to give	(420,699)	(948,499)
Inventory	(24,006)	5,484
Prepaid expenses	(191,471)	203,778
Other assets	(1,051,257)	-
Accounts payable	1,077,906	512,671
Accrued payroll and related liabilities	25,246	46,589
Deferred revenue	(65,904)	(748,753)
Funds held in custody for others	(57,533)	(30,682)
Student deposits and prepayments	(25,997)	37,267
Postretirement benefits	(34,431)	(120,768)
Net cash used in operating activities	(5,144,189)	(2,605,607)
Cash Flows from Investing Activities		
Proceeds from sales of investments	18,614,107	9,616,510
Purchases of investments	(9,818,308)	(7,369,182)
Increase in cash surrender value of life insurance	(940,181)	(927,195)
Purchases of plant assets	(5,951,168)	(13,696,162)
Payments on student loans receivable	275,288	302,680
Student loans advanced	(128,060)	(72,650)
Net cash provided by (used in) investing activities	2,051,678	(12,145,999)
Cash Flows from Financing Activities		
Payments on bonds, notes payable and capital leases	(1,324,282)	(917,882)
Payments of bond financing costs	(21,947)	-
Proceeds from contributions restricted for long-term investments	1,929,617	2,374,010
Proceeds from funds held by trustee used for construction	3,839,655	10,872,197
Repayments to federal government for student loans	(70,176)	(15,692)
Proceeds of annuity obligations	71,124	174,443
Payments of annuity obligations	(346,124)	(308,862)
Net cash provided by financing activities	4,077,867	12,178,214
Net increase (decrease) in cash and cash equivalents	985,356	(2,573,392)
Cash and Cash Equivalents, Beginning of Year	3,789,263	6,362,655
Cash and Cash Equivalents, End of Year	$ 4,774,619	$ 3,789,263
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest (excluding capitalized interest of $175,534 and $319,195, respectively)	$ 1,856,759	$ 1,530,587
Supplemental Disclosure of Noncash Operating, Investing and Financing Activities		
Plant assets included in accounts payable	$ 13,562	$ 1,535,139
Issuance of bonds payable	$ 8,125,000	$ -
Bond discount	$ (214,005)	$ -
Repayment of note payable	$ 7,750,000	$ -
Payment of bond financing costs	$ 160,995	$ -
Assets acquired under capital lease	$ 32,269	$ 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 not-for-profit 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, 2018 and 2017, the College provided student financial aid from internal resources of approximately $32,942,000 and $31,216,000, which represented 55% and 51% of gross tuition and fee revenue, respectively. During the years ended May 31, 2018 and 2017, the College provided student financial aid from monies contributed to the College by alumni and friends of approximately $1,927,000 and $3,341,000, respectively.

The College evaluated subsequent events for recognition or disclosure through October 16, 2018, the date the financial statements were issued, and determined no events necessitated recognition or disclosure.

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 for which 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 private gifts, grants and bequests. 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 of which 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.

Investments received as gifts are recorded at 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.

Other Assets

Branding and logo costs are considered other assets and are amortized on a straight-line basis over 10 years. For the year ended May 31, 2018, the College incurred amortization expense of $195,929.

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

The statement of activities includes a performance measure of operations labeled as "change in net assets from operating activities". In addition to revenues and expenses generated from the College's operations, this measure also includes net assets released from restrictions and endowment investments designated for operations. Excluded from this measure are endowment investment returns, net of the amount designated for operations, gains and losses on funds held in trust by others, change in the valuation of split-interest agreements, and other losses not considered operating in nature.

Tuition and Fees

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

Government Grants and Contracts

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 $261,000 in 2018 and $455,000 in 2017.

Fund-Raising Costs

Fund-raising costs are expensed as incurred and amounted to approximately $1,727,000 in 2018 and $2,582,000 in 2017, 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 at May 31, 2018 and 2017.

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, 2018 and 2017 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, 2018 and 2017 and for the years then ended, the College's composite score exceeded 1.5.

Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 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 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 statement of financial position. 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.

During 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. 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.

During June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. For not-for-profit entities that have conduit debt, ASU 2018-08 is effective for fiscal years beginning after June 15, 2018. The College is currently assessing the impact that ASU 2018-08 will have on its results of operations, financial position and cash flows.

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:

	2018	2017
Accounts receivable	$ 962,365	$ 857,339
Allowance for doubtful accounts	(264,026)	(235,611)
Total	$ 698,339	$ 621,728

3. Unconditional Promises to Give

Unconditional promises to give 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:

	2018	2017
In one year or less	$ 357,925	$ 579,523
Between one year and five years	3,881,561	2,988,802
Thereafter	1,697,064	1,180,000
Less:		
Discount	(551,711)	(318,840)
Allowance for doubtful accounts	(269,242)	(221,473)
Total	$ 5,115,597	$ 4,208,012

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 2018 and 2017.

Management believes the College's allowance for doubtful accounts at May 31, 2018 and 2017 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 $68,411,000 in 2018 and $55,572,000 in 2017 have been excluded from unconditional promises to give 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:

	2018	2017
Buildings	$ 4,634,000	$ 4,625,000
Budget relief	27,429,000	27,547,000
Programming	10,705,000	4,819,000
Unrestricted	25,451,000	18,384,000
Unknown	192,000	197,000
Total	$ 68,411,000	$ 55,572,000

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 $639,578 and $634,970 of Perkins Loans and $655,861 and $812,429 of College-provided loans, less an allowance for doubtful accounts of $35,889 and $40,621 at May 31, 2018 and 2017, 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, 2018 and 2017 was $616,795 and $686,971, 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, 2018 and 2017 by caption on the statement of financial position by the valuation hierarchy defined above:

	2018			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Assets Reported at Fair Value:				
U.S. Treasury obligations	$ -	$ 89,603	$ -	$ 89,603
Corporate and foreign bonds	-	672,508	-	672,508
Taxable fixed income funds	21,956,225	-	-	21,956,225
Non-taxable fixed income funds	67,960	-	-	67,960
Common equity securities:				
Materials	938,775	-	-	938,775
Industrials	5,112,402	-	-	5,112,402
Telecommunications	700,696	-	-	700,696
Consumer discretionary	7,504,528	-	-	7,504,528
Consumer staples	3,567,199	-	-	3,567,199
Energy	2,609,345	-	-	2,609,345
Financial	6,082,757	-	-	6,082,757
Health care	5,149,700	-	-	5,149,700
Information technology	10,639,089	-	-	10,639,089
Utilities	1,066,724	-	-	1,066,724
Domestic funds	16,924,247	-	-	16,924,247
Balanced equity mutual funds	6,690,113	-	-	6,690,113
International mutual funds	16,575,905	-	-	16,575,905
Total investments by valuation hierarchy	$ 105,585,665	$ 762,111	-	106,347,776
Alternative investments reported at net asset value				5,991,943
Total investments				112,339,719
Fund held in trust by others			4,142,745	4,142,745
Total assets			$ 4,142,745	$ 116,482,464

	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

The Level 3 reconciliation is as follows:

	Funds Held in Trust by Others
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
Net gains (realized and unrealized, net of unrestricted distributions of $86,822 reported as contributions in the statement of activities)	317,403
Balance at May 31, 2018	$ 4,142,745

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, 2018 and 2017.

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of those financial instruments.

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. Investments measured at fair value using the net asset value per share (or its equivalent) as practical and 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:

	2018	2017
Patriot Financial Partners II	$ 318,966	$ 468,966
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 2018 and 2017.

- Patriot Financial Partners II - Patriot is a Philadelphia based firm 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 2018 and 2017 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 2018 and 2017 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 2018 and 2017.

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

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

	2018	2017
Interest and dividend income	$ 2,312,688	$ 2,261,402
Investment fees	(347,230)	(320,907)
Net realized gain on investments	5,282,251	3,626,501
Net investment income	7,247,709	5,566,996
Unrealized gain on investments	3,651,733	6,970,424
Net investment return	$ 10,899,442	$ 12,537,420

6. Plant Assets

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

	2018	2017
Land	$ 3,008,978	$ 3,008,978
Buildings	124,269,832	115,090,838
Equipment	21,752,508	20,779,584
Land improvements	2,814,913	1,410,418
Construction in progress	202,979	7,297,533
Total	152,049,210	147,587,351
Less accumulated depreciation	(67,122,197)	(62,987,119)
Total	$ 84,927,013	$ 84,600,232

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 $4,135,000 in 2018 and $3,733,000 in 2017.

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

	2018	2017
Land	$ 900,863	$ 889,239
Rental properties	4,224,533	4,106,706
Total	5,125,396	4,995,945
Less accumulated depreciation	(1,370,378)	(1,250,487)
Total	$ 3,755,018	$ 3,745,458

Depreciation expense on these rental properties was approximately $120,000 and $119,000 in 2018 and 2017, respectively.

Non-depreciable assets, such as collections, totaled $1,656,432 and $1,641,732 as of May 31, 2018 and 2017, respectively.

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% (4.41% at May 31, 2018). At May 31, 2018 and 2017, 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:

	2018	2017
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.	$ 4,133,000	$ 4,662,000
Revenue Note, Series 2013 (issued through Huntingdon County General Authority), refunded in May 2018.	-	7,975,000
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 the gross 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 is determined by the lender monthly. Collateralized by the gross revenues of the College.	4,347,588	4,742,823
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 is determined by the lender monthly. Collateralized by the gross revenues of the College.	7,690,000	7,690,000
Revenue Bonds, Series 2018 QQ1 (issued through Huntingdon County General Authority), due in varying annual installments beginning April 2025 through April 2039, fixed interest ranging from 3% to 4%. Collateralized by the gross revenues of the College.	8,125,000	-
	57,600,588	58,374,823
Deferred financing costs	(603,493)	(530,924)
Unamortized bond premium	1,119,874	1,371,595
Total	$ 58,116,969	$ 59,215,494

The aggregate future scheduled principal payments on bonds and notes payable at May 31, 2018 is as follows:

Years ending May 31:	
2019	$ 926,235
2020	1,030,235
2021	1,036,235
2022	1,035,235
2023	1,236,235
Thereafter	52,336,413
Total	$ 57,600,588

Interest expense was approximately $1,857,000 in 2018 and $1,531,000 in 2017. 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. Capitalized interest was $175,534 and $319,195 in 2018 and 2017, respectively.

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

9. Capital Leases

The College leases computer equipment under capital leases, which expire in 2022. 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, 2018:

Cost of equipment under capital lease	$ 380,964
Accumulated amortization	(236,673)
Total	$ 144,291

Minimum future lease payments under capital leases as of May 31, 2018 are as follows:

Years ending May 31:	
2019	$ 122,292
2020	10,685
2021	7,814
2022	2,881
Total minimum lease payments	143,672
Amount representing interest	5,541
Present value of minimum lease payments	$ 138,131

Interest rates on the capital leases as of May 31, 2018 range from 3.04% to 8.3%, 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, 2018 and 2017. Total rents paid under these operating leases approximated $205,000 and $193,000 for the years ended May 31, 2018 and 2017, respectively. Future minimum rental payments required under these leases by year and in the aggregate at May 31, 2018 follow:

Years ending May 31:	
2019	$ 225,322
2020	211,312
2021	173,128
2022	51,483
Total	$ 661,245

11. Pension Plan

The College sponsors a defined contribution pension plan. Pension expense related to this plan was approximately $1,995,000 in 2018 and $1,990,000 in 2017.

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 the Medicare Supplement Plan and the Medicare Part D Plan. For three retirees and the spouse of another, the College pays the full premium of Medicare Supplement Plan.

The postretirement benefit obligations relate to the following categories of participants at May 31, 2018 and 2017:

	2018	2017
Retirees	$ 4,075,110	$ 3,989,116
Actives fully eligible	1,980,242	1,872,477
Actives not fully eligible	362,612	590,802
Total	$ 6,417,964	$ 6,452,395

Net periodic postretirement benefit cost consists of the following at May 31, 2018 and 2017:

	2018	2017
Service cost	$ 9,678	$ 14,609
Interest cost	250,795	259,052
Amortization of net actuarial loss	220,226	289,246
Total	$ 480,699	$ 562,907
Actual cost (cash flow)	$ 341,835	$ 327,832

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

Years ending May 31:	
2019	$ 335,112
2020	341,238
2021	344,393
2022	367,376
2023	374,511

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, 2018 and 2017.

The following table sets forth the change in benefit obligation and the amounts recognized in the statement of financial position at May 31, 2018 and 2017:

	2018	2017
Change in accumulated postretirement benefit obligation:		
Benefit obligation, beginning of year	$ 6,452,395	$ 6,573,163
Service cost	9,678	14,609
Interest cost	250,795	259,052
Change due to change in experience	2,536	80,713
Change in actuarial assumptions	44,395	(147,310)
Benefits paid	(341,835)	(327,832)
Accumulated postretirement benefit obligation, end of year	6,417,964	6,452,395
Change in plan assets:		
Fair value of plan assets, beginning of year	-	-
Fair value of plan assets, end of year	-	-
Funded status	$ (6,417,964)	$ (6,452,395)
Accumulated postretirement benefit cost	$ (6,417,964)	$ (6,452,395)

The discount rate used to determine the accumulated postretirement benefit obligation and the net periodic postretirement benefit cost was 4.0% in 2018 and 2017.

The assumed health care cost trend rates at May 31, 2018 and 2017 were as follows, based on the Society of Actuaries Long-Run Medical Cost Trend Model:

	2018	2017
Health care cost trend rate assumed for next year	5.25 %	5.0 %
Rate to which the cost trend rate is assumed to decline	3.65 %	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 5.25% 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 (4.25%) or 1 percentage point higher (6.25%) than the current rate:

	2018		
	1% Decrease (4.25%)	Current Rate (5.25%)	1% Increase (6.25%)
Annual net periodic postretirement benefits cost	$ 455,000	$ 480,699	$ 511,683
Accumulated postretirement benefits obligation	$ 5,783,909	$ 6,417,964	$ 7,179,039

	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

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

	2018	2017
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	Adjusted RP-2014 Total Mortality Table, incorporated into the table are rates projected generationally using Scale MP-2017 to reflect mortality improvement.	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 $341,000 in 2018 and $328,000 in 2017.

13. Net Assets

Unrestricted net assets are available for the following purposes as of May 31, 2018 and 2017:

	2018	2017
Investment in plant	$ 16,157,767	$ 19,608,158
Board designated endowment	28,819,331	28,535,359
Reserves and operating funds	(1,807,576)	(3,044,843)
Total	$ 43,169,522	$ 45,098,674

Temporarily restricted net assets are related to, or restricted for, the following as of May 31, 2018 and 2017:

	2018	2017
Gifts available for capital purposes	$ 2,485,775	$ 1,571,285
Gifts available for scholarship and other academic purposes	3,325,900	3,019,711
Accumulated income and gains on permanently restricted endowment funds	25,421,947	22,195,337
Gift annuity, pooled income, and charitable trusts	1,343,133	1,191,574
Total	$ 32,576,755	$ 27,977,907

Permanently restricted net assets are related to the following as of May 31, 2018 and 2017:

	2018	2017
Investments held in perpetuity by donor stipulations and Pennsylvania law, the income from which is generally available for scholarships	$ 68,298,665	$ 65,918,126
Funds held in trust by others	4,142,745	3,825,342
Loan funds held in perpetuity	1,457,725	1,467,196
Seed money	808,000	823,651
Gift annuity, pooled income and charitable trusts	1,794,289	1,775,754
Total	$ 76,501,424	$ 73,810,069

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, 2018 and 2017:

	2018	2017
Endowment spending policy	$ 3,832,029	$ 4,850,986
Scholarships, academics and grants	945,637	1,825,263
Matured annuity contracts	4,117	36,507
Total	$ 4,781,783	$ 6,712,756

14. Endowment Funds

The College's endowment consists of 571 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 2018 and 2017 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, 2018 and 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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
Transfers from other funds	-	-	-	-
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
Investment return:				
Investment income	455,111	1,322,618	-	1,777,729
Net realized and unrealized appreciation	2,239,632	6,511,343	-	8,750,975
Total investment return	2,694,743	7,833,961	-	10,528,704
Contributions	-	8,801	2,380,539	2,389,340
Appropriation of endowment assets for expenditure	(2,557,383)	(4,469,540)	-	(7,026,923)
Restoration of under water endowments	146,612	(146,612)	-	-
Endowment net assets, May 31, 2018	$ 28,819,331	$ 25,421,947	$ 68,298,665	$ 122,539,943

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 $1,553,824 at May 31, 2018 and $1,700,436 at May 31, 2017. 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 $3,383,000 in 2018 and $3,558,000 in 2017.

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 properties 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 these properties and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of any of the properties 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, 2018 and 2017 are as follows:

	2018	2017
Compensation:		
Salaries	$ 22,334,199	$ 22,271,889
Benefits	10,367,046	10,057,765
Other	4,382,396	6,084,155
Depreciation	4,254,969	3,732,641
Auxiliary cost of sales	3,314,410	3,373,316
Utilities	2,038,372	1,927,732
Interest on indebtedness	1,901,967	1,530,587
Programming	1,700,057	1,590,567
Software, office and instructional supplies	1,553,465	1,902,390
Student employees	1,226,065	1,351,866
Travel	1,172,072	1,169,288
Equipment repair and maintenance	842,887	814,380
Total	$ 55,087,905	$ 55,806,576