

Messiah College

Financial Report

June 30, 2008

Messiah College

Table of Contents

June 30, 2008

	<u>Page</u>
Financial Statements	
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6



Independent Auditor's Report

To the Board of Trustees
Messiah College

We have audited the accompanying statements of financial position of Messiah College (College) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Messiah College as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Malvern, Pennsylvania
October 10, 2008

Messiah College

Statements of Financial Position

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$ 19,062,170	\$ 26,251,024
Notes and accounts receivable, net	1,067,050	1,540,207
Promises to give, net	1,834,254	-
Interest receivable	356,578	297,548
Inventories	557,308	517,779
Prepaid expenses and other assets	770,009	590,808
Investments	135,614,886	134,235,052
Assets held in trust	23,699,001	26,195,012
Loans receivable - students	2,935,892	2,831,627
Deposits with trustee under debt agreements	1,230,841	1,306,629
Funds held in trust by others	4,011,026	4,415,088
Property and equipment, net	111,766,895	111,291,946
Total Assets	<u><u>\$302,905,910</u></u>	<u><u>\$309,472,720</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 4,448,469	\$ 5,897,142
Student deposits	1,133,859	1,229,661
Funds held in custody for others	66,663	240,222
Deferred revenue	379,381	359,025
Annuities payable	19,115,620	20,105,115
Funds held in trust for others	2,650,680	3,192,799
Long-term debt	59,939,449	62,459,982
U.S. government grants refundable	2,397,317	2,442,362
Other liabilities	1,931,740	1,826,549
Total Liabilities	<u>92,063,178</u>	<u>97,752,857</u>
Net Assets		
Unrestricted	172,585,857	173,166,125
Temporarily restricted	16,952,672	18,212,910
Permanently restricted	21,304,203	20,340,828
Total Net Assets	<u>210,842,732</u>	<u>211,719,863</u>
Total Liabilities and Net Assets	<u><u>\$302,905,910</u></u>	<u><u>\$309,472,720</u></u>

See notes to financial statements.

Messiah College

Statements of Activities

Years Ended June 30, 2008 and 2007

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Revenues				
Student tuition and fees	\$ 69,117,896	\$ -	\$ -	\$ 69,117,896
Less financial aid	(22,254,578)	-	-	(22,254,578)
Net Tuition and Fees	46,863,318	-	-	46,863,318
Government grants and appropriations	1,333,364	72,586	-	1,405,950
Gifts and grants	1,036,211	1,170,128	-	2,206,339
Endowment return designated for operations	5,900,247	-	-	5,900,247
Other sources	4,471,222	60,132	-	4,531,354
Auxiliary enterprises	18,900,373	-	-	18,900,373
Net assets released from restriction	1,087,772	(1,087,772)	-	-
Total Operating Revenues	79,592,507	215,074	-	79,807,581
Operating Expenses				
Educational program services:				
Instructional	28,193,121	-	-	28,193,121
Academic support	9,019,133	-	-	9,019,133
Student services	12,992,514	-	-	12,992,514
Public service	1,316,700	-	-	1,316,700
Auxiliary enterprises	16,157,318	-	-	16,157,318
Supporting services				
Institutional support	11,179,378	-	-	11,179,378
Total Operating Expenses	78,858,164	-	-	78,858,164
Changes in Operating Net Assets	734,343	215,074	0	949,417
Nonoperating Revenues, Expenses, and Other Changes				
Private gifts and grants	2,179,901	939,097	-	3,118,998
Endowment and life income gifts	24,422	752,201	1,590,259	2,366,882
Endowment investment return, net of amount designated for operations	(4,295,136)	(776,512)	29,369	(5,042,279)
Net outside trust and other non-operating investment return	174,046	-	(404,062)	(230,016)
Investment return of gift annuities	(125,549)	(55,480)	(29,143)	(210,172)
Change in value of split interest agreements	(361,082)	(1,244,892)	(223,048)	(1,829,022)
Loss on disposal of fixed assets	(939)	-	-	(939)
Net assets released from restriction	1,089,726	(1,089,726)	-	-
Total Nonoperating Revenues, Expenses, and Other Changes	(1,314,611)	(1,475,312)	963,375	(1,826,548)
Changes in Net Assets	(580,268)	(1,260,238)	963,375	(877,131)
Net Assets - Beginning	173,166,125	18,212,910	20,340,828	211,719,863
Net Assets - Ending	\$172,585,857	\$16,952,672	\$21,304,203	\$210,842,732

See notes to financial statements.

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees	\$ 66,164,782	\$ -	\$ -	\$ 66,164,782
Less financial aid	(20,330,664)	-	-	(20,330,664)
Net Tuition and Fees	45,834,118	-	-	45,834,118
Government grants and appropriations	1,773,300	16,649	-	1,789,949
Gifts and grants	1,388,187	633,444	-	2,021,631
Endowment return designated for operations	5,585,336	-	-	5,585,336
Other sources	4,666,751	111,705	-	4,778,456
Auxiliary enterprises	18,052,979	-	-	18,052,979
Net assets released from restriction	959,437	(959,437)	-	-
Total Operating Revenues	78,260,108	(197,639)	-	78,062,469
Operating Expenses				
Educational program services:				
Instructional	28,005,326	-	-	28,005,326
Academic support	8,644,736	-	-	8,644,736
Student services	12,640,891	-	-	12,640,891
Public service	1,274,423	-	-	1,274,423
Auxiliary enterprises	15,496,607	-	-	15,496,607
Supporting services				
Institutional support	10,884,792	-	-	10,884,792
Total Operating Expenses	76,946,775	-	-	76,946,775
Changes in Operating Net Assets	1,313,333	(197,639)	-	1,115,694
Nonoperating Revenues, Expenses, and Other Changes				
Private gifts and grants	678,014	683,306	-	1,361,320
Endowment and life income gifts	18,895	1,571,178	939,028	2,529,101
Endowment investment return, net of amount designated for operations	10,721,327	2,013,988	13,598	12,748,913
Net outside trust and other non-operating investment return	295,297	-	477,455	772,752
Investment return of gift annuities	363,047	371,672	121,573	856,292
Change in value of split interest agreements	(374,591)	233,247	303,796	162,452
Loss on disposal of fixed assets	(118,037)	-	-	(118,037)
Net assets released from restriction	-	-	-	-
Total Nonoperating Revenues, Expenses, and Other Changes	11,583,952	4,873,391	1,855,450	18,312,793
Changes in Net Assets	12,897,285	4,675,752	1,855,450	19,428,487
Net Assets - Beginning	160,268,840	13,537,158	18,485,378	192,291,376
Net Assets - Ending	\$173,166,125	\$18,212,910	\$20,340,828	\$211,719,863

Messiah College

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Changes in net assets	(\$ 877,131)	\$19,428,487
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	8,221,785	7,820,789
Net realized and unrealized losses/(gains) on investments	3,072,644	(16,862,871)
Loss on sale of property and equipment	939	118,037
Contributions for long-term purposes	(5,485,880)	(3,193,512)
(Increase) decrease in operating assets:		
Notes and accounts receivable	460,995	283,029
Inventories	(39,529)	139,019
Other assets	(788,231)	360,296
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(1,448,673)	951,137
Funds held in custody of others	(173,559)	(28,477)
Student deposits	(95,802)	218,882
Deferred revenue	20,356	(57,583)
Funds held in trust for others	(542,119)	504,317
Other liabilities	-	73,095
Net Cash Provided by Operating Activities	<u>2,325,795</u>	<u>9,754,645</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	54,952,978	267,191,732
Purchase of investments	(56,505,383)	(268,977,299)
Proceeds from sale of property and equipment	538	7,678
Purchase of property and equipment	(8,666,391)	(8,312,280)
Decrease in construction funds held by trustee	75,788	50,810
Student loan principal payments received	404,426	637,258
Disbursements for loans to students	(508,691)	(596,268)
Net Cash Used in Investing Activities	<u>(10,246,735)</u>	<u>(9,998,369)</u>
Cash Flows from Financing Activities		
Principal payments on long-term debt	(2,435,000)	(2,340,000)
Contributions for long-term purposes	4,201,626	3,193,512
Increase (decrease) in annuities payable	(989,495)	439,130
Decrease in U.S. government grants refundable	(45,045)	(30,746)
Net Cash Provided by Financing Activities	<u>732,086</u>	<u>1,261,896</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,188,854)	1,018,172
Cash and Cash Equivalents - Beginning	<u>26,251,024</u>	<u>25,232,852</u>
Cash and Cash Equivalents - Ending	<u>\$19,062,170</u>	<u>\$26,251,024</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 2,774,652</u>	<u>\$ 3,010,587</u>

See notes to financial statements.

Messiah College

Notes to Financial Statements

June 30, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies

Messiah College is a Christian college of the liberal and applied arts and sciences. It was founded in 1909 by the Brethren in Christ Church. The main campus is located in Grantham, Pennsylvania. The College is accredited by the Middle States Association of Colleges and Secondary Schools.

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

Basis of Presentation

Net assets and revenues, gains, expenditures, and losses are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

Permanently Restricted

Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on these assets. Such assets primarily include the College's donor endowment funds. Assets of endowment funds, except those separately invested by donor request, are pooled on a market value basis.

Temporarily Restricted

Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

Unrestricted

Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of trustees or may otherwise be limited by contractual agreements with outside parties.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenditures are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Nonoperating activities represent transactions affecting net assets associated with endowment and capital-related contributions, gains or losses on investments (net of board established endowment spending), change in value of split interest agreements, and other activities that are nonoperating in nature.

Note 1 - Summary of Significant Accounting Policies (Continued)

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Intentions to give are not recorded until the contribution is made. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of the fund raising activity.

Contributions and endowment income with donor-imposed restrictions that are met in the same year as received or earned are reported as unrestricted revenues. Contributions and endowment income with donor-imposed restrictions that are not met in the same year as received or earned are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when an expenditure is incurred that satisfies the donor-imposed restriction. Contributions restricted for the acquisition of plant and equipment are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets when the asset is placed in service.

Cash Equivalents

The College considers certificates of deposit and other short-term savings instruments with original maturities of 90 days or less to be cash equivalents.

Promises to Give

The College reports promises to give (pledges) in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. SFAS No. 116 requires the College to record unconditional promises to give as revenue when the promise is made.

Promises to give for contributions, less an allowance for uncollectible amounts, are discounted to reflect the time value of money. Contributions upon receipt are considered available for unrestricted use unless specifically restricted by the donor.

Conditional Promises and Indications of Intentions to Give

Pursuant with the College's policy and in conformity with SFAS No. 116, the College does not recognize conditional promises as revenue until the condition is met. At June 30, 2008 the College has begun to raise funds toward major renovations to its worship and performing arts center. If it receives the funding and construction begins, a donor has made a conditional promise to give in the amount of \$6 million that would be available for the project.

Note 1 - Summary of Significant Accounting Policies (Continued)

Conditional Promises and Indications of Intentions to Give (Continued)

A donor's indication of an intention to give at a future date is not recognized as revenue until the intention is communicated as an unconditional promise to give. Various donors have expressed intentions to make contributions to the College in the amount of \$1.7 million and \$2.7 million as of June 30, 2008 and 2007, respectively.

Investments

Investments in fixed income and marketable equity securities with readily determinable fair values are reported at fair value, based upon values determined by management in conjunction with external investment managers or quoted market prices. Alternative investments, which include interests in limited partnerships invested in venture capital and private equities, are valued by management based on information provided by valuation committees, and are subject to an annual independent audit. Investments in real estate are valued at fair value based on amounts determined through independent appraisal. Absolute return strategies, which include limited partnership interests invested predominantly in marketable securities across global capital markets, are valued by an independent administrator and are subject to an independent annual audit. Net realized and unrealized gains are reflected in the statement of activities.

Property and Equipment

Property and equipment purchases with an individual cost greater than \$3,000 and a useful life of 2 or more years and groups of purchases that exceed \$5,000 are generally recorded at cost at date of acquisition or fair value at date of donation in the case of gifts. Depreciation is recorded using the straight-line method over the estimated useful lives of all depreciable assets.

Annuity and Trust Funds

Annuity funds represent funds received by the College on the condition that the College pay stipulated amounts for a specified term to individuals designated in the annuity agreement. Annuities are recorded at the net present value of expected future payments to beneficiaries over the annuitant's life expectancy using a discount rate ranging from 3.6% to 11.0%. Assets are recorded at fair value when received. Contributions arising from split interest agreements amounted to \$863,956 and \$1,601,583 for the years ending June 30, 2008 and 2007, respectively.

The College is also a beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as a change in value of split-interest agreements and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Note 1 - Summary of Significant Accounting Policies (Continued)

U.S. Government Grants Refundable

Funds provided by the United States Government under the Federal Perkins Loan Program and the Nursing Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statement of financial position.

Income Taxes

The College is an organization described under Internal Revenue Code Section 501(c)(3), and therefore is exempt from income taxes on activities related to its exempt purpose.

In addition, income from certain activities not directly related to the College's tax-exempt purpose is subject to federal income tax as unrelated business income.

Collections

The College does not record its collections in the financial statements. The College owns the Ernest L. Boyer, Sr. Archives, which were originally valued at \$500,000 when the archives were donated to the College. The College has made a commitment to preserve the archives and uses them as a resource for students at the College.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions relating to the reporting of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of property, plant, and equipment; valuation allowances for receivables; and annuity liabilities, and asset retirement obligation. Actual results could differ from those estimates.

Financial Instruments and Credit Risk

The College's principal financial instruments subject to credit risk are its cash, fixed income investments, and receivables. The degree and concentration of credit risk varies by the type of investment. Receivables result primarily from tuition and fees, which are due from individuals, most of whom reside in the local geographic area of the College.

The College maintains cash balances in high credit financial institutions in excess of the \$100,000 federally insured limit by the Federal Deposit Insurance Corporation (FDIC). The exposure to the College at June 30, 2008 and 2007 was \$18,755,013 and \$25,020,805, respectively. Historically, the College has not experienced any losses and management believes it is not exposed to any significant credit risk.

Messiah College

Notes to Financial Statements

June 30, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investments in the near term would materially affect the amounts reported in the statement of financial position and the statement of activities.

Functional Expenses

Depreciation of plant assets, interest on long-term debt, and expenses incurred for the operation and maintenance of plant facilities are allocated to program and supporting activities based upon proportional occupancy of campus buildings.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

Note 2 - Notes and Accounts Receivable

Notes and accounts receivable consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Student balances	\$2,923,259	\$2,972,667
Employees and faculty	113,119	145,914
College related organizations	22,424	36,457
Federal and state agencies	20,066	39,843
Other unrelated individuals, companies, and organizations	<u>443,314</u>	<u>675,204</u>
	3,522,182	3,870,085
Less allowance for doubtful accounts	<u>(2,455,132)</u>	<u>(2,329,878)</u>
	<u>\$1,067,050</u>	<u>\$1,540,207</u>

Employee and faculty accounts receivable include \$108,065 in 2008 and \$136,537 in 2007 that were advanced by the College for graduate loans. These amounts are forgiven at the rate of 10% per year for every year of postgraduate service to the College.

Student balances and the related allowance for doubtful accounts as of June 30, 2007 have been adjusted to include aged student balances which have been fully reserved for. Although assumed to be uncollectible, they are maintained on the system to prevent the former student from accessing their transcripts or other records which the College will not release until these balances are paid in full.

Messiah College

Notes to Financial Statements

June 30, 2008 and 2007

Note 3 - Promises to Give

The College has recognized promises to give which are recorded at their net present value using a discount rate ranging from 2.61% to 3.32% which equal to the appropriate Treasury note rate as of June 30 of the year in which the promises to give were made. The promises to give have been made primarily for capital and operating purposes, and are expected to be received as of June 30 as follows:

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 1,168,000	\$ -
One to five years	730,000	-
Total Promises to Give	1,898,000	-
Less: Unamortized discounts	63,746	-
Less: Allowance for uncollectibles	-	-
Present Value of Promises to Give	<u>\$1,834,254</u>	<u>\$ -</u>

Note 4 - Investments

A summary of investments (including pooled donor endowment funds) follows as of June 30:

	<u>2008</u>	<u>2007</u>
Money market accounts	\$ 5,945,267	\$ 9,708,781
Equities and equity funds	70,810,810	80,933,017
Fixed income	54,749,891	44,281,878
High yield bonds	-	165,277
Private equity and venture capital	8,591,165	9,768,710
Real estate	13,365,321	9,603,971
Absolute return strategies	5,851,433	5,968,430
	<u>\$159,313,887</u>	<u>\$160,430,064</u>

Messiah College

Notes to Financial Statements

June 30, 2008 and 2007

Note 4 - Investments (Continued)

Commonwealth of Pennsylvania law permits the College to allocate to income each year a portion of endowment net realized gains. Pennsylvania legislation was enacted which limited the amount that may be spent to a maximum of 7.0% of a three-year moving average of the market value of the endowed assets. Since endowment net realized and unrealized gains may eventually be expended by the College, donor endowment net realized and unrealized gains are recorded in the financial statements as temporarily restricted net assets until transferred to unrestricted net assets. For the years ended June 30, 2008 and 2007, the College's spending policy was 5.0% of the average fair market value of the donor endowed assets as of the three most recent fiscal year end dates. Based upon this formula, total distributed income for the years ended June 30, 2008 and 2007 amounted to \$982,198 and \$860,718, respectively. The following schedule summarizes the investment return and its classification in the statement of activities:

	June 30, 2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Dividends and interest, net of expense	\$ 3,169,892	\$ -	\$ 29,369	\$ 3,199,261
Net realized and unrealized gains	(1,516,284)	(831,992)	(433,205)	(2,781,481)
Return on long-term investments	1,653,608	(831,992)	(403,836)	417,780
Total Return on Investments	1,653,608	(831,992)	(403,836)	417,780
Investment return designated for current operations	(5,900,247)	-	-	(5,900,247)
Investment Return in Excess (Deficit) of Amounts Designated for Current Operations	<u>\$(4,246,639)</u>	<u>\$(831,992)</u>	<u>\$(403,836)</u>	<u>\$(5,482,467)</u>

Messiah College

Notes to Financial Statements

June 30, 2008 and 2007

Note 4 - Investments (Continued)

	June 30, 2007			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividends and interest, net of expense	\$ 3,555,846	\$ -	\$ 13,598	\$ 3,569,444
Net realized and unrealized gains	<u>13,409,161</u>	<u>2,385,660</u>	<u>599,028</u>	<u>16,393,849</u>
Return on long-term investments	<u>16,965,007</u>	<u>2,385,660</u>	<u>612,626</u>	<u>19,963,293</u>
Total Return on Investments	16,965,007	2,385,660	612,626	19,963,293
Investment return designated for current operations	<u>(5,585,336)</u>	<u>-</u>	<u>-</u>	<u>(5,585,336)</u>
Investment Return in Excess (Deficit) of Amounts Designated for Current Operations	<u>\$11,379,671</u>	<u>\$2,385,660</u>	<u>\$612,626</u>	<u>\$14,377,957</u>

Investment return in excess (deficit) of amounts designated for current operations is included in the statement of activities under the following captions:

	<u>2008</u>	<u>2007</u>
Endowment investment return, net of amount designated for operations	(\$5,042,279)	\$12,748,913
Net outside trust and other non-operating investment return	(230,016)	772,752
Investment return of gift annuities	<u>(210,172)</u>	<u>856,292</u>
	<u>(\$5,482,467)</u>	<u>\$14,377,957</u>

Messiah College

Notes to Financial Statements

June 30, 2008 and 2007

Note 5 - Property and Equipment

Property and equipment consists of the following at June 30:

	Useful Lives	2008			2007
		Acquired Value	Less Accum. Depreciation	Book Value	
Land		\$ 2,147,923	\$ -	\$ 2,147,923	\$ 2,147,923
Improvements	20 years	11,026,684	(6,045,022)	4,981,662	4,159,304
Buildings	10 - 20 years	139,327,594	(52,792,709)	86,534,885	84,105,263
Equipment	4 - 20 years	51,835,640	(37,762,880)	14,072,760	15,030,075
Construction in progress		4,029,665	-	4,029,665	5,849,381
		<u>\$208,367,506</u>	<u>\$(96,600,611)</u>	<u>\$111,766,895</u>	<u>\$111,291,946</u>

Depreciation and accretion expense totaled \$8,307,318 and \$7,979,418 for the years ended June 30, 2008 and 2007, respectively.

Note 6 - Net Assets

Temporarily restricted net assets available for the following purposes at June 30:

	2008	2007
Unspent balances of restricted gifts:		
Enable students to understand Christian vocation	\$ 798,615	\$ 519,368
The Boyer Center	172,183	222,360
Gender studies	104,692	116,134
Collaboratory (endowment designation)	120,000	120,000
Scholarships and other student assistance	396,106	122,640
Collaboratory (foundation-funded and other sources)	130,184	331,275
Other	493,582	523,112
Net annuities	5,340,812	6,377,135
Capital projects	891,673	597,749
Market appreciation of donor endowment	8,504,825	9,283,137
Total	<u>\$16,952,672</u>	<u>\$18,212,910</u>

Messiah College

Notes to Financial Statements

June 30, 2008 and 2007

Note 6 - Net Assets (Continued)

Permanently restricted net assets are restricted as follows at June 30:

	<u>2008</u>	<u>2007</u>
Investments to be held in perpetuity, the income from which is expendable to support:		
Scholarships and awards	\$10,094,032	\$ 8,839,532
Faculty chairs	997,951	964,169
Instruction	19,885	15,995
Faculty development	442,343	436,477
Campus ministries	124,964	122,644
General operations and other purposes	3,359,795	3,078,191
Total Principal of Donor Endowment	15,038,970	13,457,008
Net annuities	2,254,207	2,468,732
Funds held in trust by others	4,011,026	4,415,088
Total Permanently Restricted Net Assets	<u>\$21,304,203</u>	<u>\$20,340,828</u>

Net annuities and funds held in trust by others are primarily restricted to use for scholarships and instruction.

Note 7 - Long-Term Debt

Long-term debt consists of the following at June 30:

	<u>2008</u>	<u>2007</u>
1995 Messiah College Revenue Bonds	\$ 1,860,000	\$ 2,270,000
2001 Messiah College Revenue Bonds	23,600,000	23,600,000
2003 Messiah College Revenue Bonds	11,215,000	11,215,000
2005 Messiah College Revenue Bonds	22,630,000	24,655,000
Unamortized discount on bonds payable	(88,861)	(97,270)
Unamortized premium on bonds payable	723,310	817,252
	<u>\$59,939,449</u>	<u>\$62,459,982</u>

Note 7 - Long-Term Debt (Continued)

1995 Messiah College Revenue Bonds

The 1995 Revenue Bonds have interest rates ranging from 5.0% to 5.125% and mature in varying amounts from October 1, 2008 to October 1, 2015. The bonds are callable on or after October 1, 2007 at a redemption price of 100% of the principal amount. The bonds are secured by a lien on the College's unrestricted revenues.

Bond discount and issuance costs relating to the 1995 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized costs amounted to \$48,385 and \$55,029 at June 30, 2008 and 2007, respectively.

2001 Messiah College Revenue Bonds

The 2001 Revenue Bonds have a variable rate (ranging from 3.19% to 3.99% at June 30, 2008), with principal maturing in varying amounts from November 1, 2016 through November 1, 2031. The bonds are collateralized by two letters of credit equal to 102.33% of the principal balance outstanding. The fees on the letters of credit were 0.24% during the current fiscal year. Both letters of credit have a renewal date of March 8, 2010, with an option to request a one-year extension. The bond agreement contains a restriction on the College's ratio of total debt to unrestricted net assets.

Bond discounts and issuance costs relating to the 2001 Revenue Bonds are being amortized over the term of the bonds on a straight line-basis. The unamortized net costs amounted to \$40,476 and \$42,211 at June 30, 2008 and 2007, respectively.

2003 Messiah College Revenue Bonds

The 2003 Revenue Bonds have interest rates ranging from 5.25% to 5.50% with principal maturing in various amounts from November 1, 2016 through November 1, 2022. The bonds are secured by a lien on the College's unrestricted revenues, and the bond agreement contains a restriction on the amount of net revenues available for debt service.

Bond premiums and issuance costs relating to the 2003 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net premium amounted to \$70,438 and \$75,352 at June 30, 2008 and 2007, respectively.

Messiah College

Notes to Financial Statements

June 30, 2008 and 2007

Note 7 - Long-Term Debt (Continued)

2005 Messiah College Revenue Bonds

The 2005 Revenue Bonds have interest rates of 5.0% with principal maturing in various amounts from November 1, 2008 through November 1, 2015. The bonds are secured by a lien on the College's unrestricted revenues, and the bond agreement contains a restriction on the amount of net revenues available for debt service.

Bond premiums and issuance costs relating to the 2005 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net premium amounted to \$652,872 and \$741,900 at June 30, 2008 and 2007, respectively.

The approximate aggregate amount of principal maturities of debt outstanding at June 30, 2008 for the five subsequent fiscal years follows:

	<u>Amount</u>
2009	\$2,550,000
2010	2,685,000
2011	2,820,000
2012	2,965,000
2013	3,120,000

Note 8 - Line of Credit

The College had an unsecured line of credit with a local bank in the amount of \$1,000,000 each of the years ended June 30, 2008 and 2007. There were no amounts outstanding under the line of credit at June 30, 2008 or 2007. Interest is at the prime rate less 1/4% which was 4.75% at June 30, 2008.

Note 9 - Retirement Plan

The College sponsors a retirement program through a national teacher's retirement plan. All classes of employees are eligible to participate on a voluntary basis after attaining age 21. The College and the employee each contribute a percentage of the employee's base salary for the purchase of individually owned, immediately vested and fully funded individual accounts. Retirement expense related to this plan amounted to \$2,082,478 and \$2,068,384 for the years ended June 30, 2008 and 2007, respectively.

Messiah College

Notes to Financial Statements

June 30, 2008 and 2007

Note 10 - Expenses

Expenses, by natural classification, were as follows for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Salaries and wages	\$33,618,720	\$32,873,684
Benefits	10,792,424	10,550,981
Total Compensation	44,411,144	43,424,665
Repair and maintenance	2,317,749	2,266,933
Professional services	5,988,681	5,567,475
Supplies and minor equipment	1,577,794	2,080,935
Purchases for resale	4,441,137	4,129,151
Utilities	3,421,485	3,474,294
Travel	2,503,356	2,573,556
Insurance and taxes	610,437	615,704
Depreciation and accretion	8,307,318	7,979,418
Interest	2,608,343	2,932,371
Other	2,670,720	1,902,273
Total Expenses	<u>\$78,858,164</u>	<u>\$76,946,775</u>

Total direct fund raising expenses were approximately \$1,744,931 and \$1,875,872 for the years ended June 30, 2008 and 2007, respectively.

Note 11 - Lease Commitments

The College leases real estate in the city of Harrisburg, Pennsylvania for residential, educational, and office purposes under the terms of a non-cancelable agreement classified as an operating lease, which expires July 31, 2022. Future minimum lease payments for subsequent fiscal years are as follows:

	<u>Amount</u>
2009	\$216,580
2010	221,583
2011	230,250
2012	255,254
2013	243,330

Lease payments commenced on August 1, 2007, and rent expense for the fiscal year ended June 30, 2008 was \$194,337.

Messiah College

Notes to Financial Statements

June 30, 2008 and 2007

Note 12 - Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments*. The estimated fair values that differ from the carrying amount have been determined by the College using available market information. The estimates are not necessarily indicative of the amounts the College could realize in a current market exchange.

Cash, Receivables, and Current Obligations

The carrying amount of cash and cash equivalents, notes and accounts receivable, accounts payable, and accrued expenses approximates fair value because of the short maturity of these financial instruments. Promises to give are discounted at an interest rate, which approximates their fair value. Obligations under split-interest annuity agreements are discounted based on life expectancy and recorded at net present value which approximates fair value. A reasonable estimate of fair value of student loans receivable under government loan programs could not be made because the notes are not salable and can only be assigned to the U.S. Government or its designees.

Investments, Excluding Real Estate

The fair values of investments in debt and equity securities are based upon values provided by external investment managers or quoted market prices. See note 4 for fair values of investments.

Long-Term Debt

The book value and approximate fair value of long-term debt instruments at June 30, 2008 are presented below, based on discounted cash flows at rates currently available for similar debt instruments of comparable maturities:

	<u>Book Value</u>	<u>Fair Value</u>
1995 Messiah College Revenue Bonds	\$ 1,860,000	\$ 1,883,566
2001 Messiah College Revenue Bonds	23,600,000	23,600,000
2003 Messiah College Revenue Bonds	11,215,000	11,628,742
2005 Messiah College Revenue Bonds	22,630,000	23,599,318

Note 13 - Commitments

The College has committed to deposit \$28,920,000 into venture capital and private equity investment funds. As of June 30, 2008, \$22,364,683 has been invested into the funds. The dates on which the College must invest the remaining \$6,555,317 are unknown at this time.

Messiah College

Notes to Financial Statements

June 30, 2008 and 2007

Note 14 - Legal Matters

The College is involved in several legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the College's financial position, results of operations, or liquidity.

Amounts received and expended by the College under various federal and state programs are subject to audit by governmental entities. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the College.