KPMG

MESSIAH COLLEGE

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

MESSIAH COLLEGE

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Independent Auditors' Report

The Board of Trustees
Messiah College:

We have audited the accompanying statements of financial position of Messiah College as of June 30, 2006 and 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Messiah College at June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the College adopted Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, during 2006.

KPMG LLP

November 17, 2006

MESSIAH COLLEGE

Statements of Financial Position

June 30, 2006 and 2005

Assets		**2006**	**2005**
Cash and cash equivalents	$	25,232,852	20,838,782
Notes and accounts receivable, net		1,823,236	2,136,706
Interest receivable		721,732	93,988
Inventories		656,798	431,748
Prepaid expenses and other assets		526,920	358,913
Investments		119,511,508	109,186,133
Assets held in trust		22,747,572	22,691,474
Loans receivable – students		2,872,617	2,986,725
Deposits with trustee under debt agreements		1,357,439	1,417,153
Funds held in trust by others		3,937,633	3,663,563
Property and equipment, net		111,011,705	113,704,583
Total assets	$	290,400,012	277,509,768
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	4,946,005	5,181,083
Student deposits		1,010,779	927,764
Funds held in custody for others		268,699	258,410
Deferred revenue		416,608	392,793
Annuities payable		19,665,985	19,801,891
Funds held in trust for others		2,688,482	2,719,143
Long-term debt		64,885,516	67,261,050
U.S. government grants refundable		2,473,108	2,518,478
Other Liabilities		1,753,454	—
Total liabilities		98,108,636	99,060,612
Net assets:			
Unrestricted		160,212,784	149,738,463
Temporarily restricted		13,537,158	11,821,125
Permanently restricted		18,541,434	16,889,568
Total net assets		192,291,376	178,449,156
Total liabilities and net assets	$	290,400,012	277,509,768

See accompanying notes to financial statements.

MESSIAH COLLEGE

Statement of Activities

Year ended June 30, 2006
(with comparative data for 2005)

	2006				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2005 total**
Operating revenues and other additions:					
Student tuition and fees	$ 64,171,118	—	—	64,171,118	60,796,680
Less financial aid	(18,963,942)	—	—	(18,963,942)	(17,385,637)
Net tuition and fees	45,207,176	—	—	45,207,176	43,411,043
Government grants and appropriations	1,732,754	—	—	1,732,754	1,753,133
Gifts and grants	965,025	1,377,306	—	2,342,331	3,921,901
Endowment return designated for operations	5,123,647	—	—	5,123,647	5,109,004
Other sources	4,311,701	—	—	4,311,701	3,416,776
Auxiliary enterprises	17,227,448	—	—	17,227,448	17,166,772
Net assets released from restriction	926,152	(926,152)	—	—	—
Total revenues and other additions	75,493,903	451,154	—	75,945,057	74,778,629
Operating expenses and other deductions:					
Educational and general:					
Instructional	26,495,657	—	—	26,495,657	25,888,555
Academic support	8,483,675	—	—	8,483,675	8,058,844
Student services	12,075,534	—	—	12,075,534	11,381,972
Public service	1,225,268	—	—	1,225,268	1,030,175
Auxiliary enterprises	15,374,846	—	—	15,374,846	14,691,415
Institutional support	10,703,568	—	—	10,703,568	10,348,303
Total expenses and other deductions	74,358,548	—	—	74,358,548	71,399,264
Change in operating net assets	1,135,355	451,154	—	1,586,509	3,379,365
Nonoperating revenues, expenses, and other changes:					
Contributions for long-term purposes	4,148,770	700,011	1,098,072	5,946,853	4,873,942
Endowment investment return, net of amount designated for operations	6,360,232	1,450,563	20,940	7,831,735	4,671,412
Other non-operating investment return	577,377	128,792	301,411	1,007,580	669,535
Change in value of split interest agreements	(573,103)	(574,832)	231,443	(916,492)	(844,833)
Loss on debt refunding	—	—	—	—	(1,676,044)
Net assets released from restrictions	439,655	(439,655)	—	—	—
Total nonoperating revenues, expenses, and other changes	10,952,931	1,264,879	1,651,866	13,869,676	7,694,012
Cumulative effect of change in accounting principle	(1,613,965)	—	—	(1,613,965)	—
Total change in net assets	10,474,321	1,716,033	1,651,866	13,842,220	11,073,377
Net assets, beginning of year	149,738,463	11,821,125	16,889,568	178,449,156	167,375,779
Net assets, end of year	$ 160,212,784	13,537,158	18,541,434	192,291,376	178,449,156

See accompanying notes to financial statements.

MESSIAH COLLEGE

Statement of Activities

Year ended June 30, 2005

	2005			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating revenues and other additions:				
Student tuition and fees	$ 60,796,680	—	—	60,796,680
Less financial aid	(17,385,637)	—	—	(17,385,637)
Net tuition and fees	43,411,043	—	—	43,411,043
Government grants and appropriations	1,753,133	—	—	1,753,133
Gifts and grants	3,371,531	550,370		3,921,901
Endowment return designated for operations	5,109,004	—	—	5,109,004
Other sources	3,416,776	—	—	3,416,776
Auxiliary enterprises	17,166,772	—	—	17,166,772
Net assets released from restriction	994,043	(994,043)	—	—
Total revenues and other additions	75,222,302	(443,673)	—	74,778,629
Operating expenses and other deductions:				
Educational and general:				
Instructional	25,888,555	—	—	25,888,555
Academic support	8,058,844	—	—	8,058,844
Student services	11,381,972	—	—	11,381,972
Public service	1,030,175	—	—	1,030,175
Auxiliary enterprises	14,691,415	—	—	14,691,415
Institutional support	10,348,303	—	—	10,348,303
Total expenses and other deductions	71,399,264	—	—	71,399,264
Change in operating net assets	3,823,038	(443,673)	—	3,379,365
Nonoperating revenues, expenses, and other changes:				
Contributions for long-term purposes	2,045,029	1,511,936	1,316,977	4,873,942
Endowment investment return, net of amount designated for operations	3,855,919	805,308	10,185	4,671,412
Other non-operating investment return	304,305	51,499	313,731	669,535
Change in value of split interest agreements	(361,884)	(508,046)	25,097	(844,833)
Loss on debt refunding	(1,676,044)	—	—	(1,676,044)
Change in fair market value of interest rate swap agreement	—	—	—	—
Net assets released from restrictions	125,506	(125,506)	—	—
Total nonoperating revenues, expenses, and other changes	4,292,831	1,735,191	1,665,990	7,694,012
Total change in net assets	8,115,869	1,291,518	1,665,990	11,073,377
Net assets, beginning of year	141,622,594	10,529,607	15,223,578	167,375,779
Net assets, end of year	$ 149,738,463	11,821,125	16,889,568	178,449,156

See accompanying notes to financial statements.

MESSIAH COLLEGE

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Change in net assets	$ 13,842,220	11,073,377
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,976,706	7,989,665
Net realized and unrealized gains on investments	(11,105,252)	(8,809,824)
Gain on sale of property and equipment	—	(57,568)
Loss on debt refunding	—	1,676,044
Cumulative effect of change in accounting principal	1,613,965	—
Contributions for long-term purposes	(5,946,853)	(4,873,942)
Decrease (increase) in notes and accounts receivable	313,470	(434,735)
Increase in inventories	(225,050)	(51,083)
Increase in other assets	(795,751)	(23,457)
Increase (decrease) in accounts payable and accrued expenses	(479,443)	272,858
Increase in funds held in custody for others	10,289	84,413
Increase in student deposits	83,015	5,115
Increase (decrease) in deferred revenue	23,815	(30,101)
Increase (decrease) in funds held in trust for others	(30,661)	93,617
Total adjustments	(8,561,750)	(4,158,998)
Net cash provided by operating activities	5,280,470	6,914,379
Cash flows from investing activities:		
Proceeds from sale of investments	90,259,593	68,597,022
Purchases of investments	(89,809,884)	(66,665,598)
Proceeds from sale of property and equipment	—	361,900
Purchase of property and equipment	(4,985,508)	(5,163,514)
Decrease (increase) in construction funds held by trustee	59,714	79,275
Student loan principal payments received	826,370	493,718
Disbursements for loans to students	(712,262)	(547,058)
Net cash used in investing activities	(4,361,977)	(2,844,255)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	31,209,003
Retirement of long-term debt	—	(30,132,719)
Cash payments for bond issuance costs	—	(863,186)
Principal payments on long-term debt	(2,290,000)	(2,085,000)
Principal payments on capitalized lease liability	—	(54,932)
Contributions for long-term purposes	5,946,853	4,873,942
Decrease in annuities payable	(135,906)	(511,850)
(Decrease) increase in U.S. government grants refundable	(45,370)	11,358
Net cash provided by (used in) financing activities	3,475,577	2,446,616
Net increase in cash and cash equivalents	4,394,070	6,516,740
Cash and cash equivalents, beginning of year	20,838,782	14,322,042
Cash and cash equivalents, end of year	$ 25,232,852	20,838,782
Cash paid for interest during the year	$ 2,748,297	2,816,000

See accompanying notes to financial statements.

(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.

(a) 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.

(b) 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.

(c) 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.

(d) 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. Net realized and unrealized gains are reflected in the statement of activities.

(e) 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.

(f) 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 4.4% to 7.0%. Assets are recorded at fair value when received. Contributions arising from split interest agreements amounted to $866,053 and $1,476,899 for the years ending June 30, 2006 and 2005, 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. Distribution 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.

(Continued)

(g) ***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.

(h) ***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.

(i) ***Collections***

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

(j) ***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; annuity liabilities; and asset retirement obligation. Actual results could differ from those estimates.

(k) ***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.

(l) ***Cumulative Effect of Change in Accounting Principle***

In March 2005, the FASB issued Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations. Under FIN 47, costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be accrued.

The College has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement costs were estimated using a per square foot estimate. The College recorded site improvements of $396,072, related accumulated depreciation of $256,583, an asset retirement obligation of $1,753,454, and a cumulative effect of change in accounting principle of $1,613,965.

(Continued)

(m) Reclassifications

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

(2) Notes and Accounts Receivable

Notes and accounts receivable consist of the following:

	June 30	
	2006	**2005**
Student balances	$ 1,630,424	1,289,767
Employees and faculty	126,777	136,701
College related organizations	11,957	9,670
Federal and state agencies	78,121	80,935
Other unrelated individuals, companies, and organizations	932,123	1,378,331
	2,779,402	2,895,404
Less allowance for doubtful accounts	(956,166)	(758,698)
	$ 1,823,236	2,136,706

Employee and faculty accounts receivable include $106,398 in 2006 and $119,170 in 2005 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.

(3) Investments and Assets Held in Trust

A summary of investments (including pooled endowment funds) follows:

	June 30	
	2006	**2005**
Money market accounts	$ 10,651,730	2,732,526
Equities and Equity Funds	74,792,397	75,313,426
Fixed income	39,027,811	37,743,032
High yield bonds	3,342,400	2,949,488
Private Equity and Venture Capital	9,648,413	9,497,505
Real Estate	4,796,329	3,641,630
	$ 142,259,080	131,877,607

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, 2006 and 2005, the College's spending policy was 5.0% of the average fair market value of the 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, 2006 and 2005 amounted to $729,636 and $653,964, respectively. The following schedule summarizes the investment return and its classification in the statement of activities:

	2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest, net of expense	$ 2,836,770	—	20,940	2,857,710
Net realized and unrealized gains	9,224,486	1,579,355	301,411	11,105,252
Total return on investments	12,061,256	1,579,355	322,351	13,962,962
Investment return designated for current operations	(5,123,647)	—	—	(5,123,647)
Investment return in excess of amounts designated for current operations	$ 6,937,609	1,579,355	322,351	8,839,315

	2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest, net of expense	$ 2,180,589	36,398	20,472	2,237,459
Net realized and unrealized gains	7,088,639	820,409	303,444	8,212,492
Total return on investments	9,269,228	856,807	323,916	10,449,951
Investment return designated for current operations	(5,109,004)	—	—	(5,109,004)
Investment return in excess of amounts designated for current operations	$ 4,160,224	856,807	323,916	5,340,947

(Continued)

(4) Property and Equipment

Property and equipment consists of the following:

		June 30			
		2006			
	Useful lives	Acquired Value	Less Accum. Depreciation	Book Value	2005
Land		$ 2,117,923	—	2,117,923	2,117,923
Improvements	20 years	8,897,371	(6,135,661)	2,761,710	3,254,853
Buildings	10 – 40 years	131,531,955	(44,485,667)	87,046,288	89,882,818
Equipment	4 – 20 years	50,397,133	(33,181,785)	17,215,348	14,968,339
Construction in progress		1,870,436	—	1,870,436	3,480,650
		$ 194,814,818	(83,803,113)	111,011,705	113,704,583

Depreciation expense totaled $8,062,239 and $7,929,500 for the years ended June 30, 2006 and 2005, respectively.

(5) Contributions Receivable, Conditional Promises Received, and Donors Intentions to Give

Various donors have expressed intentions to make contributions to the College in the amount of $2.3 million and $6.3 million as of June 30, 2006 and 2005, respectively. None of these amounts represent legally binding pledges, and therefore they have not been reflected in the financial statements at June 30, 2006 and 2005.

(6) Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2006 and 2005:

	June 30	
	2006	2005
Unspent balances of restricted gifts:		
Enable students to understand Christian vocation	$ 830,847	849,466
Scholarships	109,673	243,320
Gender studies	102,169	—
Other	549,420	402,427
Collaboratory (endowment designation)	120,000	120,000
Collaboratory (foundation-funded and other sources)	354,254	—
Net annuities	4,201,039	4,249,327
Capital projects	607	138,000
Market appreciation of donor endowment	7,269,149	5,818,585
Total	$ 13,537,158	11,821,125

Permanently restricted net assets at June 30, 2006 and 2005, the income from which is restricted to:

	June 30	
	2006	2005
Investments to be held in perpetuity, the income from which is expendable to support:		
Scholarships and awards	$ 8,336,040	7,700,957
Faculty chairs	947,659	932,487
Instruction	22,000	22,000
Faculty development	432,318	422,828
Campus ministries	120,119	115,018
General operations and other purposes	2,713,814	2,288,853
Total prinipal of donor endowment	12,571,950	11,482,143
Net annuities	2,031,851	1,743,862
Funds held in trust by others	3,937,633	3,663,563
Total permanently restricted net assets	$ 18,541,434	16,889,568

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

(7) Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2006	2005
1995 Messiah College Revenue Bonds	$ 2,270,000	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	26,995,000	29,285,000
Unamortized discount on bonds payable	(105,678)	(114,087)
Unamortized premium on bonds payable	911,194	1,005,137
	$ 64,885,516	67,261,050

(a) 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, 2007 to October 1, 2015. The bonds are callable on or after October 1, 2006 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 $61,733 and $68,407 at June 30, 2006 and 2005, respectively.

(b) 2001 Messiah College Revenue Bonds

The 2001 Revenue Bonds have a variable rate (ranging from 3.19% to 3.99% during 2006), 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 103% of the principal balance outstanding. The fees on the letters of credit were 0.50% during the current fiscal year. One letter of credit has a renewal date of November 1, 2006, and the second letter of credit has been extended through November 15, 2008. The bond related agreements contain 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 $43,945 and $45,680 at June 30, 2006 and 2005, respectively.

(c) 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 $80,266 and $85,180 at June 30, 2006 and 2005, respectively.

(d) 2005 Messiah College Revenue Bonds

The 2005 Revenue Bonds have interest rates ranging from 4.0% to 5.0% with principal maturing in various amounts from November 1, 2006 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 $830,928 and $919,956 at June 30, 2006 and 2005, respectively.

The approximate aggregate amount of principal maturities of debt outstanding at June 30, 2006 for the five subsequent fiscal years follows:

2007	$	2,340,000
2008		2,435,000
2009		2,550,000
2010		2,685,000
2011		2,820,000

(Continued)

(8) 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 $1,973,729 and $1,870,843 for the years ended June 30, 2006 and 2005, respectively.

(9) 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, 2006 and 2005. There were no amounts outstanding under the line of credit at June 30, 2006 or 2005.

(10) Expenses

Expenses, by natural classification, for the years ended June 30, 2006 and 2005 were as follows:

		2006	2005
Salaries and wages	$	31,510,063	30,258,676
Benefits		9,626,637	9,402,267
Total compensation		41,136,700	39,660,943
Repair and maintenance		2,183,996	2,156,680
Professional services		5,455,458	4,252,594
Supplies and minor equipment		2,102,720	2,371,730
Purchases for resale		4,063,316	4,179,769
Utilities		3,427,955	3,171,807
Travel		2,620,348	2,316,766
Insurance and taxes		664,049	718,323
Depreciation		8,062,239	7,929,500
Interest		2,713,208	2,880,903
Other		1,928,559	1,760,249
Total expenses	$	74,358,548	71,399,264

Total direct fund raising expenses were approximately $1,625,000 and $1,958,000 for the years ended June 30, 2006 and 2005, respectively.

(11) 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.

(Continued)

(a) ***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. 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.

(b) ***Investments, Excluding Real Estate***

The fair values of investments in debt and equity securities are based upon values provided by the external investment managers or quoted market prices. See note 3 for fair values of investments.

(c) ***Long-Term Debt***

The book value and approximate fair value of long-term debt other than variable rate debt instruments at June 30, 2006 are presented below, based on discounted cash flows at rates currently available for similar debt instruments of comparable maturities:

	Book Value	Fair Value
1995 Messiah College Revenue Bonds	$ 2,270,000	$ 2,274,510
2003 Messiah College Revenue Bonds	11,215,000	11,630,675
2005 Messiah College Revenue Bonds	26,995,000	27,986,867

(12) Commitments

The College has committed to deposit $19,920,000 into venture capital and private equity investment funds. As of June 30, 2006, $16,765,909 has been invested into the funds. The dates on which the College must invest the remaining $3,154,091 are unknown at this time.

(13) 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.