

# **Messiah College**

Financial Statements

June 30, 2017 and 2016



**BAKER TILLY**

Candor. Insight. Results.

# Messiah College

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June 30, 2017 and 2016

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## **Independent Auditors' Report**

Board of Trustees  
Messiah College

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Messiah College (the "College"), which comprise the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Messiah College as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Williamsport, Pennsylvania  
October 20, 2017

# Messiah College

## Statement of Financial Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 12,660,903	\$ 10,463,456
Notes and accounts receivable, net	2,016,420	1,761,191
Promises to give, net	2,362,073	4,219,055
Interest receivable	193,844	189,973
Inventories	572,691	546,231
Prepaid expenses and other assets	1,244,491	1,548,289
Investments, endowment	134,182,388	125,981,119
Investments, gift annuities and trusts	6,600,837	10,444,508
Investments, other	5,899,203	7,630,085
Loans receivable, students	2,854,785	2,854,373
Deposits with trustee under debt agreements - restricted	220	14,525,852
Beneficial interest in perpetual trusts	3,925,146	3,703,469
Property and equipment, net	157,577,323	145,320,181
	<u>330,090,324</u>	<u>329,187,782</u>
Total assets	<u>\$ 330,090,324</u>	<u>\$ 329,187,782</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 8,597,786	\$ 8,962,506
Student deposits	1,671,115	1,595,432
Funds held in custody for others	33,867	50,941
Deferred revenue	1,442,096	1,243,432
Annuities payable	3,853,412	6,272,011
Funds held in trust for others	501,216	818,554
Long-term debt	64,871,598	66,915,535
U.S. Government grants refundable	2,502,162	2,435,219
Other liabilities	2,899,118	2,808,878
	<u>86,372,370</u>	<u>91,102,508</u>
Total liabilities	<u>86,372,370</u>	<u>91,102,508</u>
<b>Net Assets</b>		
Unrestricted	193,954,585	189,870,463
Temporarily restricted	13,045,825	13,877,672
Permanently restricted	36,717,544	34,337,139
	<u>243,717,954</u>	<u>238,085,274</u>
Total net assets	<u>243,717,954</u>	<u>238,085,274</u>
Total liabilities and net assets	<u>\$ 330,090,324</u>	<u>\$ 329,187,782</u>

See notes to financial statements

**Messiah College**Statement of Activities  
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating Revenues</b>				
Student tuition and fees	\$ 95,597,092	\$ -	\$ -	\$ 95,597,092
Less: financial aid	(38,958,899)	-	-	(38,958,899)
Net tuition and fees	56,638,193	-	-	56,638,193
Government grants and appropriations	864,778	116,689	-	981,467
Gifts and grants	1,676,254	1,577,010	-	3,253,264
Capital gifts and grants	-	626,632	-	626,632
Endowment return designated for operations	5,550,376	1,636,716	-	7,187,092
Investment income	1,122,416	22,988	-	1,145,404
Other sources	4,063,694	(13,808)	-	4,049,886
Auxiliary enterprises	20,685,752	-	-	20,685,752
Net assets released from restrictions	3,221,503	(3,221,503)	-	-
Net assets released from restrictions, Capital	3,758,881	(3,758,881)	-	-
Total operating revenues	<u>97,581,847</u>	<u>(3,014,157)</u>	<u>-</u>	<u>94,567,690</u>
<b>Operating Expenses</b>				
Educational program services:				
Instructional	37,584,786	-	-	37,584,786
Academic support	9,204,048	-	-	9,204,048
Student services	19,027,658	-	-	19,027,658
Public service	2,330,424	-	-	2,330,424
Auxiliary enterprises	15,440,360	-	-	15,440,360
Supporting services, institutional support	14,127,262	-	-	14,127,262
Total operating expenses	<u>97,714,538</u>	<u>-</u>	<u>-</u>	<u>97,714,538</u>
Changes in net assets from operating activities	<u>(132,691)</u>	<u>(3,014,157)</u>	<u>-</u>	<u>(3,146,848)</u>
<b>Nonoperating Revenues, Expenses, and Other Changes</b>				
Endowment and life income gifts	8,368	-	1,554,274	1,562,642
Endowment investment return, net of amount designated for operations	3,257,722	2,148,187	-	5,405,909
Change in value of beneficial interest in perpetual trusts	-	-	221,677	221,677
Investment return for trusts and gift annuities	99,302	73,279	480,458	653,039
Change in value of split-interest agreements	851,421	(39,156)	123,996	936,261
Total nonoperating revenues, expenses, and other changes	<u>4,216,813</u>	<u>2,182,310</u>	<u>2,380,405</u>	<u>8,779,528</u>
Changes in net assets	4,084,122	(831,847)	2,380,405	5,632,680
<b>Net Assets, Beginning</b>	<u>189,870,463</u>	<u>13,877,672</u>	<u>34,337,139</u>	<u>238,085,274</u>
<b>Net Assets, Ending</b>	<u>\$ 193,954,585</u>	<u>\$ 13,045,825</u>	<u>\$ 36,717,544</u>	<u>\$ 243,717,954</u>

See notes to financial statements

**Messiah College**Statement of Activities  
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating Revenues</b>				
Student tuition and fees	\$ 93,411,383	\$ -	\$ -	\$ 93,411,383
Less: financial aid	(37,894,005)	-	-	(37,894,005)
Net tuition and fees	55,517,378	-	-	55,517,378
Government grants and appropriations	842,594	276,245	-	1,118,839
Gifts and grants	2,401,993	1,322,144	-	3,724,137
Capital gifts and grants	-	1,507,619	-	1,507,619
Endowment return designated for operations	5,608,895	1,538,891	-	7,147,786
Investment income	633,016	3,539	-	636,555
Other sources	3,779,455	166,547	-	3,946,002
Auxiliary enterprises	21,064,588	-	-	21,064,588
Net assets released from restrictions	3,540,281	(3,540,281)	-	-
Net assets released from restrictions, Capital	876,740	(876,740)	-	-
Total operating revenues	<u>94,264,940</u>	<u>397,964</u>	<u>-</u>	<u>94,662,904</u>
<b>Operating Expenses</b>				
Educational program services:				
Instructional	35,016,014	-	-	35,016,014
Academic support	9,512,018	-	-	9,512,018
Student services	17,717,693	-	-	17,717,693
Public service	2,616,693	-	-	2,616,693
Auxiliary enterprises	15,230,371	-	-	15,230,371
Supporting services, institutional support	14,147,722	-	-	14,147,722
Total operating expenses	<u>94,240,511</u>	<u>-</u>	<u>-</u>	<u>94,240,511</u>
Changes in net assets from operating activities	24,429	397,964	-	422,393
<b>Nonoperating Revenues, Expenses, and Other Changes</b>				
Endowment and life income gifts	16,138	-	2,062,013	2,078,151
Endowment investment return, net of amount designated for operations	(6,887,387)	(1,377,711)	-	(8,265,098)
Change in value of beneficial interest in perpetual trusts	-	-	(291,984)	(291,984)
Investment return for trusts and gift annuities	16,863	(1,083)	(85,819)	(70,039)
Change in value of split-interest agreements	(111,820)	(37,530)	69,691	(79,659)
Total nonoperating revenues, expenses, and other changes	<u>(6,966,206)</u>	<u>(1,416,324)</u>	<u>1,753,901</u>	<u>(6,628,629)</u>
Changes in net assets	(6,941,777)	(1,018,360)	1,753,901	(6,206,236)
<b>Net Assets, Beginning</b>	<u>196,812,240</u>	<u>14,896,032</u>	<u>32,583,238</u>	<u>244,291,510</u>
<b>Net Assets, Ending</b>	<u>\$ 189,870,463</u>	<u>\$ 13,877,672</u>	<u>\$ 34,337,139</u>	<u>\$ 238,085,274</u>

See notes to financial statements

## Messiah College

### Statement of Cash Flows

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 5,632,680	\$ (6,206,236)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and accretion	11,036,552	10,817,366
Net realized and unrealized (gains) losses on investments	(11,468,218)	3,816,627
Gain on sale of property and equipment	-	(27,145)
Contributions for long-term purposes	(1,567,309)	(2,062,013)
(Increase) decrease in operating assets:		
Notes and accounts receivable	(255,229)	(74,156)
Inventories	(26,460)	44,995
Other assets	2,190,677	203,727
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(2,753,726)	(366,923)
Funds held in custody for others	(17,074)	(94,812)
Student deposits	75,683	(17,280)
Deferred revenue	198,664	134,575
Funds held in trust for others	(317,338)	(680,582)
Net cash provided by operating activities	<u>2,728,902</u>	<u>5,488,143</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	90,209,970	81,721,076
Purchases of investments	(81,574,658)	(84,770,914)
Purchase of property and equipment	(20,973,497)	(18,136,852)
Decrease (increase) in construction funds held by trustee	14,525,632	(13,930,723)
Disbursements for loans to students	(510,826)	(558,959)
Student loan principal payments received	510,414	491,160
Proceeds from sale of property and equipment	4,625	62,160
Net cash provided by (used in) investing activities	<u>2,191,660</u>	<u>(35,123,052)</u>
<b>Cash Flows from Financing Activities</b>		
Decrease in annuities payable	(2,418,599)	(1,069,195)
Principal payments on long-term debt	(1,905,000)	(3,350,000)
Contributions for long-term purposes	1,533,541	2,160,437
Increase in U.S. government grants refundable	66,943	25,371
Proceeds from issuance of long-term debt	-	28,040,000
Net premiums from issuance of long-term debt	-	1,082,045
Net cash (used in) provided by financing activities	<u>(2,723,115)</u>	<u>26,888,658</u>
Net increase (decrease) in cash and cash equivalents	2,197,447	(2,746,251)
<b>Cash and Cash Equivalents, Beginning</b>	<u>10,463,456</u>	<u>13,209,707</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 12,660,903</u>	<u>\$ 10,463,456</u>
<b>Supplementary Disclosure of Cash Flow Information</b>		
Cash paid for interest (excluding capitalized interest of \$536,469 in 2017 and \$405,358 in 2016)	<u>\$ 1,809,857</u>	<u>\$ 1,219,425</u>
<b>Supplementary Disclosure of Noncash Investing Activities</b>		
Property and equipment in accounts payable	<u>\$ 2,389,006</u>	<u>\$ 3,070,000</u>

See notes to financial statements

# Messiah College

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Notes to Financial Statements  
June 30, 2017 and 2016

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

### Nature of Operations

Messiah College is a Christian college of the liberal and applied arts and sciences. Founded in 1909 by the Brethren in Christ Church, the College is located in Mechanicsburg, Pennsylvania. The College is accredited by the Middle States Commission on Higher Education and has a student body of approximately 3,300 undergraduate and graduate students.

### Basis of Presentation

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

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

*Permanently Restricted Net Assets* - Net assets which are subject to donor-imposed restrictions that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

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

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

### Net Tuition and Fees

Tuition and fees are recorded at the established rates net of financial aid provided directly by the College, and certain federal grants. The College recognizes tuition revenue in the semester that it is earned. Any payments received in advance for the subsequent year are classified as deferred tuition, which is included with student deposits in the statement of financial position.

### Government Grants and Student Aid

The government grants and student aid amounts reported do not include funds credited to students under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent.

# **Messiah College**

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Notes to Financial Statements  
June 30, 2017 and 2016

## **Title IV Requirements**

The College participates in Government Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education (ED) for the payment of student tuition. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2017 and 2016, are dependent upon the College's continued participation in the Title IV programs.

## **Cash and Cash Equivalents**

Cash and cash equivalents represent highly liquid investments with an original maturity date not exceeding 90 days.

## **Notes and Accounts Receivable**

Student accounts receivable are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on the College's historical losses and periodic review of individual accounts. Student accounts receivable are written off when they are determined to be uncollectible based on management's assessment of individual accounts. Other items included are notes receivable from employees and faculty, grants receivable from federal and state agencies and receivables from unrelated individuals, companies and organizations.

## **Student Loans**

The student loans receivable primarily represents loans to students funded by advances to the College by the federal government under the Federal Perkins and Nursing Student Loan Program (the "Programs"). Such funds may be re-loaned 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 June 30, 2017 and 2016 was \$2,502,162 and \$2,435,219, respectively. The College matches one-third of the amount contributed by the U.S. Government.

## **Contributions**

The College records certain promises to give as revenue when the promise is made. In addition, unconditional promises to give (pledges) are recorded as receivables and revenues and the College distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions for donor-restricted purposes (other than capital) are reported as unrestricted revenue when the restriction is satisfied within the same year that the contribution is received.

Contributions with donor-imposed restrictions (for purposes other than capital) that are not met in the same year as received 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 and are reclassified to unrestricted net assets when the asset acquisitions are made. Contributions are reported as an increase in the appropriate net asset category in the year received.

# Messiah College

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Notes to Financial Statements  
June 30, 2017 and 2016

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at their net present value. The discount is computed using a credit-adjusted interest rate. Conditional promises to give are not included as support until such time as the conditions are substantially met.

## Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out basis. Inventories consist of dining services, college press, postage and facilities supplies.

## Investments and Deposits with Trustee

Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities. The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

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

Deposits with trustee under debt agreements at June 30, 2017 and 2016 includes cash and money market funds from unspent bond proceeds.

## Property and Equipment

Physical plant and equipment are stated at cost when purchased, and gifts of plant assets are reflected at fair market value when received. Land, buildings, equipment and furniture are stated at cost less accumulated depreciation which is computed on a straight-line basis over the respective estimated useful lives as follows:

Building and improvements	10 - 40 years
Leasehold improvements	5 - 12 years
Equipment	4 - 20 years
Furniture	4 - 20 years

## Impairment of Long-Lived Assets

Management of the College reviews long-lived assets (including property and equipment and other assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management considers the undiscounted cash flow expected to be generated by the use of the asset and its eventual disposition to determine when, and if, an impairment has occurred. An impairment loss is recognized to the extent that the carrying value of assets exceeds their fair value. Any write-downs due to impairment are charged to operations at the time impairment is identified. No such write-downs were required in 2017 and 2016.

## **Messiah College**

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Notes to Financial Statements  
June 30, 2017 and 2016

### **Annuity and Trust Funds**

The College has entered into split-interest agreements with donors primarily consisting of charitable gift annuities and charitable trusts. Assets for which the College serves as trustee are included in assets held in trust. Contribution revenues are recognized at the date the annuities and trusts are established after recording liabilities for the present value of the estimated future annuity payments to be made to the donors and/or other beneficiaries. Such revenues are recorded as increases in temporarily restricted net assets unless the donor has permanently restricted the College's use of its interest or has given the College the right to use the assets without restriction. Changes in the value of the liabilities are recorded within "change in the value of split interest agreements" throughout the term of the agreements to reflect the current estimated present value of future cash outflows. Contributions arising from split interest agreements amounted to \$40,319 and \$34,119 for the years ended June 30, 2017 and 2016, respectively.

The College is also a beneficiary of certain perpetual trusts held and administered by others. Under the terms of the trust agreements, the College has the irrevocable right to receive a portion of the income earned on trust assets in perpetuity, but never receives the assets held in the trusts. 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.

### **Allocation of Certain Expenses**

The statements of activities present expenses by functional classification. 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.

### **Fundraising Costs**

The College expenses fundraising costs when incurred. Fundraising costs totaled \$1,959,318 and \$1,862,327 for the years ended June 30, 2017 and 2016, respectively, and are included in institutional support in the statement of activities.

### **Use of Estimates**

The preparation of the 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.

### **Reclassifications**

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

### **Subsequent Events**

The College evaluated subsequent events for recognition or disclosure through October 20, 2017, the date the financial statements were available to be issued.

## New Accounting Pronouncements

During May 2014, the Financial Accounting Standards Board ("FASB") issued 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. Topic 606 (as amended) is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The College may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retroactively with the cumulative effect recognized as of the date of initial application. 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. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The College is currently assessing the effect that ASU No. 2016-02 will have on its results of operations, financial position and cash flows.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The College is assessing the impact this standard will have on its financial statements.

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

## 2. Cash and Cash Equivalents

The College maintains cash balances in high credit financial institutions in excess of the federally insured limit under the FDIC. The exposure of the College to uninsured balances as of June 30, 2017 and 2016 was approximately \$11,440,000 and \$10,064,000, 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, 2017 and 2016

### 3. Notes and Accounts Receivable, Net

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

	<u>2017</u>	<u>2016</u>
Student balances	\$ 4,328,393	\$ 3,843,118
Employees and faculty	131,527	114,033
College related organizations	16,209	13,584
Federal and state agencies	355,803	349,289
Other unrelated individuals, companies, and organizations	334,488	591,167
Subtotal	5,166,420	4,911,191
Allowance for doubtful accounts	(3,150,000)	(3,150,000)
Notes and accounts receivable, net	<u>\$ 2,016,420</u>	<u>\$ 1,761,191</u>

### 4. Promises to Give

Included in promises to give are the following unconditional promises to give as of June 30:

	<u>2017</u>	<u>2016</u>
Capital campaign	\$ 1,477,677	\$ 3,947,030
Endowed scholarships	149,572	115,212
Other promises to give	827,778	252,310
Unconditional promises to give, before unamortized discount	2,455,027	4,314,552
Unamortized discount	(92,954)	(95,497)
Present value of pledges receivable	<u>\$ 2,362,073</u>	<u>\$ 4,219,055</u>
Amounts due in:		
Less than one year	\$ 1,355,830	\$ 3,109,578
One to five years	1,096,580	1,201,920
More than five years	2,617	3,054
	<u>\$ 2,455,027</u>	<u>\$ 4,314,552</u>

Discount rates ranged from 0.72% to 2.54% for the years ended June 30, 2017 and 2016.

All promises to give are reviewed by management and evaluated for collectability when received. Promises to give that are deemed uncollectible are not recognized. As such, the College considers the entire amount to be collectible.

## Messiah College

Notes to Financial Statements  
June 30, 2017 and 2016

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

Investments consist of the following as of June 30:

	2017			
	Endowment	Gift Annuities and Trusts	Other	Total
Money market accounts	\$ 28,081,967	\$ 203,738	\$ 8,744	\$ 28,294,449
Equity funds and common stocks	54,845,624	3,908,046	1,316,256	60,069,926
Fixed income	35,934,007	1,749,053	4,458,088	42,141,148
Private equity and venture capital	6,346,687	-	-	6,346,687
Accrued net income receivable	364,157	-	19,115	383,272
Local real estate development company	2,561,077	-	-	2,561,077
Real assets - real estate	4,900,000	-	-	4,900,000
Real asset - based funds	529,678	-	-	529,678
Real assets - held in trust and other	-	740,000	97,000	837,000
Hedge funds	619,191	-	-	619,191
Total investments	134,182,388	\$ 6,600,837	\$ 5,899,203	\$ 146,682,428
Cash due from operating fund	108,722			
Other non-unitized assets	97,000			
Total	\$ 134,388,110			
2016				
Money market accounts	\$ 10,457,483	\$ 143,092	\$ 52,788	\$ 10,653,363
Equity funds and common stocks	66,166,620	5,773,746	1,279,133	73,219,499
Fixed income	21,653,871	3,787,670	5,257,831	30,699,372
Private equity and venture capital	11,481,248	-	-	11,481,248
Accrued net income receivable	3,192	-	333	3,525
Local real estate development company	1,854,184	-	-	1,854,184
Real assets - real estate	4,750,000	-	-	4,750,000
Real asset - based funds	659,745	-	-	659,745
Real assets - held in trust and other	-	740,000	1,040,000	1,780,000
Hedge funds	8,954,776	-	-	8,954,776
Total investments	125,981,119	\$ 10,444,508	\$ 7,630,085	\$ 144,055,712
Cash due from operating fund	68,393			
Total	\$ 126,049,512			

**Fair Value Measurements**

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

The levels of the fair value hierarchy are as follows:

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

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

Level 3 - Significant unobservable inputs.

# Messiah College

## Notes to Financial Statements

June 30, 2017 and 2016

The following tables present the financial instruments measured at fair value as of June 30, 2017 and 2016 by caption on the statement of financial position by the valuation hierarchy defined above:

	2017			
	Total Fair Value	Level 1	Level 2	Level 3
<b>Reported at Fair Value</b>				
Money market accounts	\$ 28,294,449	\$ 28,294,449	\$ -	\$ -
Equity funds and common stocks:				
Domestic	46,723,095	46,723,095	-	-
International	6,835,483	6,835,483	-	-
Emerging markets	4,962,255	4,962,255	-	-
Other	1,549,093	1,549,093	-	-
Total equity funds and common stocks	60,069,926	60,069,926	-	-
Fixed income:				
Intermediate term bond mutual funds	33,932,693	33,932,693	-	-
Global fixed income	2,204,981	2,204,981	-	-
Inflation-protected bond mutual funds	135,158	135,158	-	-
Municipal bond/funds	1,544,055	-	1,544,055	-
Fixed - high yield	365,650	365,650	-	-
Other	23,889	23,889	-	-
Bond fund	3,934,722	-	3,934,722	-
Total fixed income	42,141,148	36,662,371	5,478,777	-
Accrued net income receivable	383,272	333,272	50,000	-
Real assets - real estate(a)	4,900,000	-	-	4,900,000
Real assets - held in trust and other(a)	837,000	-	-	837,000
Subtotal	136,625,795	125,360,018	5,528,777	5,737,000
Alternative investments measured at net asset value:				
Private equity and venture capital	6,346,687			
Real asset - based funds	529,678			
Hedge funds	619,191			
Total investments and assets held in trust(b)	144,121,351			
Deposits with trustee under debt agreements	220	220	-	-
Beneficial interest in perpetual trusts	3,925,146	-	-	3,925,146
	<u>\$ 148,046,717</u>	<u>\$ 125,360,238</u>	<u>\$ 5,528,777</u>	<u>\$ 9,662,146</u>

# Messiah College

## Notes to Financial Statements June 30, 2017 and 2016

	2016			
	Total Fair Value	Level 1	Level 2	Level 3
<b>Reported at Fair Value</b>				
Money market accounts	\$ 10,653,363	\$ 10,653,363	\$ -	\$ -
Equity funds and common stocks:				
Domestic	47,130,567	47,130,567	-	-
International	15,585,891	15,585,891	-	-
Emerging markets	7,561,781	7,561,781	-	-
Other	2,941,260	2,941,260	-	-
Total equity funds and common stocks	73,219,499	73,219,499	-	-
Fixed income:				
Intermediate term bond mutual funds	12,632,815	11,884,875	747,940	-
Global fixed income	2,391,728	1,637,719	754,009	-
Inflation-protected bond mutual funds	10,208,395	10,015,958	192,437	-
Municipal bond/funds	685,690	-	685,690	-
Fixed - high yield	577,492	308,671	268,821	-
Other	153,252	153,252	-	-
Bond fund	4,050,000	-	4,050,000	-
Total fixed income	30,699,372	24,000,475	6,698,897	-
Accrued net income receivable	3,525	3,525	-	-
Real assets - real estate(a)	4,750,000	-	-	4,750,000
Real assets - held in trust and other(a)	1,780,000	-	-	1,780,000
Subtotal	121,105,759	107,876,862	6,698,897	6,530,000
Alternative investments measured at net asset value:				
Private equity and venture capital	11,481,248			
Real asset - based funds	659,745			
Hedge funds	8,954,776			
Total investments and assets held in trust(b)	142,201,528			
Deposits with trustee under debt agreements	14,525,852	14,525,652	-	-
Beneficial interest in perpetual trusts	3,703,469	-	-	3,703,469
	<u>\$ 160,430,849</u>	<u>\$ 122,402,514</u>	<u>\$ 6,698,897</u>	<u>\$ 10,233,469</u>

## Messiah College

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Notes to Financial Statements  
June 30, 2017 and 2016

(a) Includes real estate owned; fair value is based on market value appraisals using a sales approach, which is a non-recurring fair value measurement.

(b) Investments also include member interests in Rider Musser Development Corporation, a local real estate development company, totaling \$2,561,077 at June 30, 2017 and \$1,854,184 at June 30, 2016. The College is the sole member of this corporation which has an independent board. Accordingly, the College has reported its investment in Rider Musser Development Corporation using the equity method. Activity for the year included contributions by the College to the real estate development company. Rider Musser Development Corporation is in the development stage with no significant operations at June 30, 2017. The College expects to transfer the real estate in the investment portfolio (a) to Rider Musser Development Corporation at a future date.

### Valuation Methodologies

Money market funds (including deposits with trustee under debt agreements), equity funds, common stock and fixed income securities:

Level 1 - Fair value of money market funds, equity funds, common stock, and fixed income securities was based on quoted market prices for the identical security.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - These investments include debt instruments with significant unobservable inputs.

*Hedge funds, private equity and venture capital, and real asset-based funds* - Fair value of these alternative investments was based upon estimated net asset values provided by investment managers. These values are determined using the audited financial statements of the investment and evaluating any cash flows or outflows post-audit. Management reviews and evaluates the values and agrees with the methods and assumptions used.

*Beneficial interest in perpetual trusts* - The College's beneficial interest in perpetual trusts held by others is recorded at the fair value of the trusts' holdings as reported by the trustees as an estimate of the cash flows to be received from the trusts. The College's proportionate share of the net asset values of funds held in trust by others as of June 30, 2017 and 2016 were \$3,925,146 and \$3,703,469, respectively.

## Messiah College

Notes to Financial Statements  
June 30, 2017 and 2016

The fair values of several of the investment instruments classified in the above tables have been estimated using the net asset value of the College's ownership interest in partner's capital. Those are:

*Private equity and venture capital:* This category includes funds that invest primarily in technology, emerging growth and real estate companies. These investments can never be redeemed at the option of the investor. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets of the various funds will be liquidated over the next 12 years. As of June 30, 2017, the College has committed \$17,880,000 to these funds, of which \$3,958,657 remains unfunded.

*Real asset-based funds:* This category includes funds that invest primarily in commercial real estate properties and partnerships in the United States. Distributions from each fund will be received as the underlying investments of the funds are liquidated. As of June 30, 2017, the College has committed \$4,500,000 to the funds, of which \$180,000 remains unfunded.

*Hedge funds:* This category includes a fund of funds which pursues multiple strategies to diversify risks and reduce volatility. There are no additional commitments required as the fund is in the process of winding down with full liquidation anticipated by the end of 2018. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

Of the total unfunded commitments, approximately \$3,100,000 is likely to be called.

The activity recognized during the fiscal years ended June 30, 2017 and 2016, for Level 3 assets with recurring fair value measurements, is as follows:

	<u>Beneficial Interest in Perpetual Trusts</u>
July 1, 2015	\$ 3,995,453
Distributions	(154,211)
Unrealized losses	<u>(137,773)</u>
June 30, 2016	3,703,469
Distributions	(201,159)
Unrealized gains	<u>422,836</u>
June 30, 2017	<u>\$ 3,565,696</u>

Unrealized and realized gains (losses) are included in unrestricted and temporarily restricted net assets in the statements of activities as components of endowment investment return, investment return of gift annuities, and change in value of split-interest agreements.

## Messiah College

Notes to Financial Statements  
June 30, 2017 and 2016

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Dividends and interest, net of expense	\$ 2,361,174	\$ 671,315	\$ 112,414	\$ 3,144,903
Net realized and unrealized losses	7,668,642	3,209,855	589,721	11,468,218
Total return on investments	<u>\$ 10,029,816</u>	<u>\$ 3,881,170</u>	<u>\$ 702,135</u>	<u>\$ 14,613,121</u>
Operating investment income:				
Endowment return designated for operations	\$ 5,550,376	\$ 1,636,716	\$ -	\$ 7,187,092
Investment income	1,122,416	22,988	-	1,145,404
Non-operating investment income:				
Endowment investment returns, net of amount designated for operations	3,257,722	2,148,187	-	5,405,909
Change in value of beneficial interest in perpetual trusts	-	-	221,677	221,677
Investment returns on trusts and gift annuities	99,302	73,279	480,458	653,039
Total return on investments	<u>\$ 10,029,816</u>	<u>\$ 3,881,170</u>	<u>\$ 702,135</u>	<u>\$ 14,613,121</u>

## Messiah College

Notes to Financial Statements  
June 30, 2017 and 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest, net of expense	\$ 1,756,291	\$ 1,018,397	\$ 199,159	\$ 2,973,847
Net realized and unrealized losses	(2,384,904)	(854,761)	(576,962)	(3,816,627)
Total return on investments	<u>\$ (628,613)</u>	<u>\$ 163,636</u>	<u>\$ (377,803)</u>	<u>\$ (842,780)</u>
Operating investment income:				
Endowment return designated for operations	\$ 5,608,895	\$ 1,538,891	\$ -	\$ 7,147,786
Investment income	633,016	3,539	-	636,555
Non-operating investment income:				
Endowment investment returns, net of amount designated for operations	(6,887,387)	(1,377,711)	-	(8,265,098)
Change in value of beneficial interest in perpetual trusts	-	-	(291,984)	(291,984)
Investment returns on trusts and gift annuities	16,863	(1,083)	(85,819)	(70,039)
Total return on investments	<u>\$ (628,613)</u>	<u>\$ 163,636</u>	<u>\$ (377,803)</u>	<u>\$ (842,780)</u>

## Messiah College

Notes to Financial Statements  
June 30, 2017 and 2016

### 6. Property and Equipment, Net

Property and equipment consists of the following as of June 30:

					<b>2017</b>		
	<b>Useful Lives</b>	<b>Acquired Value</b>	<b>Less Accumulated Depreciation</b>	<b>Net Book Value</b>			
Land		\$ 2,823,740	\$ -	\$ 2,823,740			
Improvements	20 years	17,853,300	12,343,449	5,509,851			
Buildings	10 - 40 years	218,238,514	105,590,716	112,647,798			
Leasehold improvements	5 - 12 years	2,739,513	38,752	2,700,761			
Equipment	4 - 20 years	74,895,246	63,441,249	11,453,997			
Construction in progress		22,441,176	-	22,441,176			
		<u>\$ 338,991,489</u>	<u>\$ 181,414,166</u>	<u>\$ 157,577,323</u>			
					<b>2016</b>		
Land		\$ 2,828,365	\$ -	\$ 2,828,365			
Improvements	20 years	17,628,446	11,554,828	6,073,618			
Buildings	10 - 40 years	215,565,621	98,126,013	117,439,608			
Leasehold improvements	5-12 years	-	-	-			
Equipment	4 - 20 years	71,148,082	60,696,884	10,451,198			
Construction in progress		8,527,392	-	8,527,392			
		<u>\$ 315,697,906</u>	<u>\$ 170,377,725</u>	<u>\$ 145,320,181</u>			

Depreciation expense totaled \$11,085,248 and \$10,821,569 for the years ended June 30, 2017 and 2016, respectively.

### 7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at June 30:

	<b>2017</b>	<b>2016</b>
Accounts payable	\$ 3,895,463	\$ 4,216,304
Accrued salaries and benefits	4,281,306	4,368,742
Other	421,017	377,460
Total	<u>\$ 8,597,786</u>	<u>\$ 8,962,506</u>

## Messiah College

Notes to Financial Statements  
June 30, 2017 and 2016

### 8. Lines of Credit

The College has two unsecured lines of credit with a national and a regional bank in the amounts of \$5,000,000 and \$10,000,000 respectively, for the year ended June 30, 2017. There were no amounts outstanding under either line of credit as of June 30, 2017. Both lines of credit bear interest at 1.65% above one-month LIBOR with an interest period duration of one day (2.87239% at June 30, 2017).

### 9. Long-Term Debt

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

	<u>2017</u>	<u>2016</u>
2001 I-3 Messiah College Revenue Bonds	\$ 9,500,000	\$ 10,000,000
2001 I-4 Messiah College Revenue Bonds	13,600,000	13,600,000
2012 Messiah College Revenue Bonds	9,425,000	10,830,000
2014 Messiah College Revenue Bonds	4,500,000	4,500,000
2015 Messiah College Revenue Bonds	11,385,000	11,385,000
2016 Messiah College Revenue Bonds	16,655,000	16,655,000
Total	65,065,000	66,970,000
Unamortized premium (discount) and issuance costs on bonds payable, net	<u>(193,402)</u>	<u>(54,465)</u>
	<u>\$ 64,871,598</u>	<u>\$ 66,915,535</u>

#### 2001 Messiah College Revenue Bonds

The 2001 Multi-Mode I-3 Revenue Bonds have a variable interest rate with principal maturing in varying amounts from November 1, 2017 through November 1, 2031. The College may elect to remarket the bonds for a new mode period and interest rate on the mandatory tender date of any existing mode period. On November 1, 2015, the bonds were remarketed with no letter of credit enhancement, and converted to a two-year term mode bearing interest at a rate of 1.20% through October 31, 2017.

The 2001 Multi-Mode I-4 Revenue Bonds have a variable interest rate with principal maturing in varying amounts from November 1, 2023 through November 1, 2031. The College may elect to remarket the bonds for a new mode period and interest rate on the mandatory tender date of any existing mode period. On May 1, 2015, the 2001 I-4 Bonds were remarketed with no letter of credit enhancement, and converted to a three-year rate of 1.50% through April 30, 2018.

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 \$24,863 and \$26,600 as of June 30, 2017 and 2016, respectively.

## **Messiah College**

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Notes to Financial Statements  
June 30, 2017 and 2016

### **2012 Messiah College Revenue Bonds**

The 2012 Revenue Bonds have interest rates ranging from 4.0% to 5.0% with principal maturing in various amounts from November 1, 2017 through November 1, 2022. The bonds are secured by a lien on the College's unrestricted revenues, and the loan agreement between the College and the issuer of the bonds contains a rate covenant.

Bond premiums and issuance costs relating to the 2012 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net premium amounted to \$720,809 and \$855,961 as of June 30, 2017 and 2016, respectively.

### **2014 Messiah College Multi-Mode Revenue Bonds**

The 2014 Multi-Mode Revenue Bonds were initially issued with a coupon rate of 3.0% for a three-year period at an original issue premium. On May 1, 2017 the bonds were remarketed at a three-year term mode with an interest rate of 2.00% through April 30, 2020. The College, at its option, may continue under this arrangement in the term mode for successive three-year periods, or, convert to a different rate mode. Principal will mature in various amounts from May 1, 2033 through May 1, 2044. The bonds are secured by a lien on the College's unrestricted revenues, and the loan agreement between the College and the issuer of the bonds contains a rate covenant.

Bond premiums and issuance costs relating to the 2014 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net premium amounted to \$120,562 and \$125,055 as of June 30, 2017 and 2016, respectively.

### **2015 Messiah College Revenue Bonds**

The 2015 Revenue Bonds have interest rates ranging from 3.375% to 4.0% with principal maturing in various amounts from November 1, 2029 through November 1, 2046. The bonds are secured by a lien on the College's unrestricted revenues, and the loan agreement between the College and the issuer of the bonds contains a rate covenant.

Bond discount and issuance costs relating to the 2015 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net discount amounted to \$384,299 and \$398,024 as of June 30, 2017 and 2016, respectively.

### **2016 Messiah College Revenue Bonds**

The 2016 Revenue Bonds have interest rates ranging from 3.0% to 3.4% with principal maturing in various amounts from November 1, 2032, through November 1, 2046. The bonds are secured by a lien on the College's unrestricted revenues and the loan agreement between the College and the issuer of the bonds contains a rate covenant.

Bond discount and issuance costs relating to the 2016 Revenue Bonds are being amortized over the term of the bonds on a straight-line basis. The unamortized net discount amounted to \$625,611 and \$647,955 as of June 30, 2017 and 2016, respectively.

## Messiah College

Notes to Financial Statements  
June 30, 2017 and 2016

The approximate aggregate amount of principal maturities of debt outstanding as of June 30, 2017 for the five subsequent fiscal years follows:

2018	\$ 1,965,000
2019	2,050,000
2020	2,130,000
2021	2,220,000
2022	2,310,000
Thereafter	<u>54,390,000</u>
Total	<u>\$ 65,065,000</u>

Interest expense on long-term debt was \$1,325,771 in 2017 and \$649,576 in 2016, net of capitalized interest of \$536,469 and \$405,358, respectively.

### 10. Retirement Plan

The College provides retirement benefits to eligible employees through a defined contribution plan. College contributions are subject to a two-year cliff vesting period. The College made retirement contributions of \$2,645,464 and \$2,605,189 for the years ended June 30, 2017 and 2016, respectively.

### 11. Endowment and Net Assets Released From Restrictions

The College's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the College has developed a policy 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 of Pennsylvania law, 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. Board designated investment funds are balances functioning as an endowment that are established by the institution from either donor or institutional monies, and are usually to be retained and invested rather than expended. Since board designated investment funds are established by the institution rather than an external source, the principal may be expended, as directed by the Board of Trustees.

## Messiah College

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Notes to Financial Statements  
June 30, 2017 and 2016

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 to programs supported by its endowment 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 sum of the Endowment's spending rate, anticipated inflation, all fees and administrative costs, and any portfolio growth factor that the Committee on Finance recommends to the Board of Trustees, 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 8.5 percent 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 net realized gains. Pennsylvania legislation was enacted which limited the amount that may be spent to a minimum of 2.0%, and 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, 2017 and 2016, the College's spending policy was 5.0% of the 12-quarter average fair market value of the donor endowed assets calculated as of the prior June 30. Based upon this formula, total distributed income on donor-restricted funds for the years ended June 30, 2017 and 2016 amounted to \$1,636,716 and \$1,538,891, respectively.

## Messiah College

Notes to Financial Statements  
June 30, 2017 and 2016

Changes in Endowment Net Assets for the Fiscal Years Ended June 30, 2017 and 2016:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets - July 1, 2016	\$ 91,626,858	\$ 6,222,319	\$ 28,200,335	\$ 126,049,512
Investment return:				
Dividends and interest, net of expense	1,721,518	651,277	-	2,372,795
Net realized and unrealized gains	7,086,550	3,133,657	-	10,220,207
Total investment return	8,808,068	3,784,934	-	12,593,002
Contributions	-	-	1,522,322	1,522,322
Other changes:				
Transfers	148,027	(153,385)	1,561,423	1,556,065
Reclassification of underwater endowment net assets	245,420	(245,420)	-	-
Endowment spending	(5,550,376)	(1,636,716)	-	(7,187,092)
Total other changes	(5,156,929)	(2,035,521)	1,561,423	(5,631,027)
Endowment net assets - June 30, 2017	\$ 95,277,997	\$ 7,971,732	\$ 31,284,080	\$ 134,533,809

## Messiah College

Notes to Financial Statements  
June 30, 2017 and 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets - July 1, 2015	\$ 97,858,186	\$ 7,594,180	\$ 25,672,124	\$ 131,124,490
Investment return:				
Dividends and interest, net of expense	1,636,267	612,732	-	2,248,999
Net realized and unrealized losses	(2,870,052)	(514,814)	-	(3,384,866)
Total investment return	(1,233,785)	97,918	-	(1,135,867)
Contributions	-	-	2,140,024	2,140,024
Other changes:				
Transfers	845,230	(164,766)	388,187	1,068,651
Reclassification of underwater endowment net assets	(233,878)	233,878	-	-
Endowment spending	(5,608,895)	(1,538,891)	-	(7,147,786)
Total other changes	(4,997,543)	(1,469,779)	388,187	(6,079,135)
Endowment net assets - June 30, 2016	\$ 91,626,858	\$ 6,222,319	\$ 28,200,335	\$ 126,049,512

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of perpetual duration (i.e., underwater endowments). In accordance with relevant accounting guidance, deficiencies of this nature that are reported in unrestricted net assets were \$60,545 and \$305,965 as of June 30, 2017 and 2016, respectively.

## Messiah College

Notes to Financial Statements  
June 30, 2017 and 2016

### 12. Net Assets

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

	<u>2017</u>	<u>2016</u>
Unspent balances of restricted gifts:		
The Boyer Center	\$ 37,272	\$ 37,272
School Enrichment	67,523	43,967
Collaboratory (endowment designation)	136,449	131,700
Gender studies (endowment designation)	90,003	86,871
Scholarships and other student assistance	323,511	337,720
Collaboratory (foundation-funded and other sources)	297,941	220,757
Athletic teams	195,018	152,877
Investment Club activities	277,770	254,819
Early Clergy Leadership and Youth Theology	606,010	348,110
Other	381,219	340,584
Net annuities	359,513	338,212
Capital projects	2,528,316	5,581,035
Market appreciation of donor endowment	7,745,280	6,003,748
	<u>\$ 13,045,825</u>	<u>\$ 13,877,672</u>

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.

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

	<u>2017</u>	<u>2016</u>
Investments to be held in perpetuity, the income from which is expendable to support:		
Scholarships and awards	\$ 24,039,427	\$ 21,593,033
Faculty chairs	933,687	933,687
Instruction	42,330	42,090
Faculty development	498,493	498,493
Campus ministries	131,792	131,292
General operations and other purposes	5,492,653	5,001,740
Total principal of donor endowment	31,138,382	28,200,335
Net annuities	1,508,318	2,321,404
Beneficial interest in perpetual trusts	3,925,146	3,703,469
Pledges and bequests	145,698	111,931
	<u>\$ 36,717,544</u>	<u>\$ 34,337,139</u>

The income received from net annuities and perpetual trusts are primarily restricted for scholarships and instruction.

## Messiah College

Notes to Financial Statements  
June 30, 2017 and 2016

### 13. Expenses

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

	<u>2017</u>	<u>2016</u>
Compensation and benefits	\$ 60,066,691	\$ 57,882,005
Services and supplies	16,161,697	14,849,689
Depreciation and accretion	11,084,164	11,081,621
Purchases for resale	3,622,332	3,749,528
Utilities	3,144,652	3,224,990
Insurance, maintenance and supplies	2,309,231	2,803,102
Interest	1,325,771	649,576
Total expenses	<u>\$ 97,714,538</u>	<u>\$ 94,240,511</u>

### 14. Contingencies and Commitments

The College is involved in various claims and litigation arising out of the normal conduct of its operations. In the opinion of management, the outcome of such claims and litigation will not have a material effect on the College's financial statements.

Amounts received and expended by the College under various federal and state programs (principally related to student financial aid) are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position or result of activities of the College.

The College leases real estate for educational, office, and residential purposes under the terms of non-cancelable agreements classified as operating leases. Future minimum lease payments for subsequent fiscal years are as follows:

2018	\$ 774,616
2019	789,617
2020	807,572
2021	823,231
2022	839,762
Thereafter	<u>3,456,005</u>
Total	<u>\$ 7,490,803</u>

Rent expense for the years ended June 30, 2017 and 2016 amounted to \$830,619 and \$305,218, respectively.

**15. Income Taxes**

The College qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes.

The College accounts for uncertainties in income taxes in accordance with authoritative guidance, which prescribes 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 has been met. Management determined there were no tax uncertainties that met the recognition threshold at June 30, 2017 and 2016.

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