

GENEVA COLLEGE
Beaver Falls, Pennsylvania

Financial Statements
For the years ended May 31, 2016 and 2015
and Independent Auditors' Report Thereon



SCHNEIDER DOWNS

Big Thinking. Personal Focus.

www.schneiderdowns.com

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position, May 31, 2016 and 2015	3
Statements for the years ended May 31, 2016 and 2015	
Activities and Changes in Net Assets	4
Cash Flows	6
Notes to Financial Statements	7



Big Thinking. Personal Focus.

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Geneva College
Beaver Falls, Pennsylvania

We have audited the accompanying financial statements of Geneva College (College), which comprise the statements of financial position as of May 31, 2016 and 2015, and the related statements of activities and changes in net assets 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College'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 College'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 the College as of May 31, 2016 and 2015, 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.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
October 28, 2016

Schneider Downs & Co., Inc.
www.schneiderdowns.com

An Association of
Independent Accounting Firms

One PPG Place, Suite 1700
Pittsburgh, PA 15222
TEL 412.261.3644
FAX 412.261.4876

65 E. State Street, Suite 2000
Columbus, OH 43215
TEL 614.621.4060
FAX 614.621.4062

[This Page Intentionally Left Blank.]

GENEVA COLLEGE

STATEMENTS OF FINANCIAL POSITION

	May 31	
	2016	2015
ASSETS		
Cash and cash equivalents	\$ 3,531,492	\$ 3,413,447
Student accounts receivable, net	1,008,377	764,229
Pledges receivable, net	379,898	282,574
Notes receivable, net	1,710,943	1,889,351
Investments	36,672,052	38,916,868
Cash surrender value of life insurance	460,546	447,283
Other assets	668,085	1,055,191
Land, buildings and equipment, net	31,482,240	32,328,518
Perpetual trusts held by third parties	3,657,535	3,921,955
	<u> </u>	<u> </u>
Total Assets	<u>\$79,571,168</u>	<u>\$83,019,416</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,227,900	\$ 2,028,167
Deposits and deferred income	1,869,804	1,862,251
Bonds payable and capital lease obligation, net	9,578,785	10,406,529
Refundable federal student loan funds	1,736,418	1,743,405
Annuities and life income trusts payable	682,915	750,384
Postretirement benefit obligation	475,763	460,893
	<u> </u>	<u> </u>
Total Liabilities	16,571,585	17,251,629
NET ASSETS		
Unrestricted:		
Board-designated	4,554,423	4,678,999
Unrestricted and undesignated	16,080,118	15,853,452
	<u>20,634,541</u>	<u>20,532,451</u>
Temporarily restricted	22,859,990	26,120,091
Permanently restricted	19,505,052	19,115,245
	<u> </u>	<u> </u>
Total Net Assets	<u>62,999,583</u>	<u>65,767,787</u>
	<u> </u>	<u> </u>
Total Liabilities And Net Assets	<u>\$79,571,168</u>	<u>\$83,019,416</u>

See notes to financial statements.

GENEVA COLLEGE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED MAY 31, 2016 AND 2015

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Tuition and fees	\$37,098,787	-	-	\$37,098,787
Discretionary discounts	(13,749,995)	-	-	(13,749,995)
Funded scholarships	(1,051,522)	-	-	(1,051,522)
Net Tuition	22,297,270	-	-	22,297,270
Grants	744,479	\$ 800	-	745,279
Contributions	1,453,617	302,429	\$ 369,151	2,125,197
Investment income	328,175	2,269,398	-	2,597,573
Auxiliary enterprises	8,369,144	-	-	8,369,144
Other income	705,945	3,878	-	709,823
Total Income	33,898,630	2,576,505	369,151	36,844,286
Net assets released from restrictions	2,190,893	(2,189,893)	(1,000)	-
Total Revenues and Other Support	36,089,523	386,612	368,151	36,844,286
EXPENSES				
Program services:				
Instruction	13,065,905	-	-	13,065,905
Academic support	3,430,149	-	-	3,430,149
Student services	7,629,167	-	-	7,629,167
Auxiliary enterprises	6,093,898	-	-	6,093,898
Total Program Services	30,219,119	-	-	30,219,119
Supporting services:				
Institutional support	4,143,155	-	-	4,143,155
Fundraising	1,101,116	-	-	1,101,116
Total Supporting Services	5,244,271	-	-	5,244,271
Total Expenses	35,463,390	-	-	35,463,390
INCREASE IN NET ASSETS FROM OPERATING ACTIVITY				
	626,133	-	-	626,133
CHANGES IN TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS BEFORE OTHER CHANGES IN NET ASSETS				
	-	386,612	368,151	754,763
	626,133	386,612	368,151	1,380,896
OTHER CHANGES IN NET ASSETS				
Changes in annuities and life income trusts	-	(12,704)	21,656	8,952
Realized and unrealized net losses on investments not designated for current operations	(524,043)	(3,634,009)	-	(4,158,052)
Transfers (See Note 13)	-	-	-	-
Changes In Net Assets	102,090	(3,260,101)	389,807	(2,768,204)
NET ASSETS				
Beginning of year	20,532,451	26,120,091	19,115,245	65,767,787
End of year	\$20,634,541	\$22,859,990	\$19,505,052	\$62,999,583

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$37,692,535	-	-	\$37,692,535
(13,215,266)	-	-	(13,215,266)
(974,763)	-	-	(974,763)
23,502,506	-	-	23,502,506
775,526	\$ 19,585	-	795,111
1,140,071	252,603	\$ 987,167	2,379,841
339,598	2,188,428	-	2,528,026
8,249,880	-	-	8,249,880
1,549,159	588	-	1,549,747
35,556,740	2,461,204	987,167	39,005,111
1,707,078	(1,804,078)	97,000	-
37,263,818	657,126	1,084,167	39,005,111
14,341,436	-	-	14,341,436
3,449,402	-	-	3,449,402
7,571,756	-	-	7,571,756
6,114,395	-	-	6,114,395
31,476,989	-	-	31,476,989
4,211,422	-	-	4,211,422
1,206,982	-	-	1,206,982
5,418,404	-	-	5,418,404
36,895,393	-	-	36,895,393
368,425	-	-	368,425
-	657,126	1,084,167	1,741,293
368,425	657,126	1,084,167	2,109,718
-	(17,004)	42,736	25,732
(243,207)	(1,241,844)	-	(1,485,051)
(96,660)	(7,605)	104,265	-
28,558	(609,327)	1,231,168	650,399
20,503,893	26,729,418	17,884,077	65,117,388
\$20,532,451	\$26,120,091	\$19,115,245	\$65,767,787

See notes to financial statements.

GENEVA COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (2,768,204)	\$ 650,399
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,866,229	2,822,684
Gain on disposal of land, building and equipment	-	(236,827)
Contributions restricted for investment in endowment	(369,151)	(987,167)
Realized and unrealized loss on investments	4,158,052	1,485,051
Change in annuities and life income trusts	(8,952)	(25,732)
Change in allowances for doubtful accounts, net	15,376	162,000
Changes in assets and liabilities:		
Accounts and notes receivable	(219,696)	463,473
Cash surrender value of life insurance	(13,263)	(12,036)
Pledges receivable	(107,824)	(170,409)
Other assets	387,105	127,924
Accounts payable and accrued expenses	199,733	(14,543)
Deposits and deferred income	7,553	(111,469)
Postretirement benefit obligation	14,870	(15,271)
Annuities and life income trust payable	(58,517)	(23,963)
Refundable federal student loan funds	(6,987)	(6,702)
Net Cash Provided By Operating Activities	<u>4,096,324</u>	<u>4,107,412</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of land, building and equipment	(1,127,692)	(1,749,351)
Proceeds from sale of land, building and equipment	-	321,395
Proceeds from sale of investments	3,149,472	2,829,576
Purchases of investments	(4,798,287)	(5,486,889)
Loans issued to students	(262,668)	(343,380)
Collection on loans issued to students	411,748	448,039
Net Cash Used In Investing Activities	<u>(2,627,427)</u>	<u>(3,980,610)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Activity on line of credit, net	-	(85,556)
Proceeds from contributions restricted for investment in endowment	369,151	987,167
Repayment of bonds payable and capital lease obligations	(1,720,003)	(1,553,129)
Net Cash Used In Financing Activities	<u>(1,350,852)</u>	<u>(651,518)</u>
Net Increase (Decrease) In Cash And Cash Equivalents	118,045	(524,716)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,413,447</u>	<u>3,938,163</u>
End of year	<u>\$ 3,531,492</u>	<u>\$ 3,413,447</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 415,000</u>	<u>\$ 441,000</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital lease obligation incurred for purchases of equipment	<u>\$ 892,259</u>	<u>-</u>

See notes to financial statements.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 1 - ORGANIZATION

Geneva College (College) is an academically rigorous, Christ-centered college of the arts, sciences and professional studies. The College enrolls students from nine nations, 35 states and over 45 denominations. The College is a nonprofit institution established in 1848, located in Beaver Falls, Pennsylvania and governed by the Reformed Presbyterian Church of North America (RPCNA). A founding member of the Council for Christian Colleges & Universities (CCCU), the College challenges students to serve God in all areas of society: work, family and the church.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements follows:

Accrual Basis Financial Statements - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Net Assets - Net assets and revenues (including gifts and pledges), gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of the College and changes therein are classified and reported as follows:

Unrestricted Net Assets - Unrestricted net assets include all resources that are not subject to donor-imposed restriction. Unrestricted net assets include balances that are designated by the Board of Trustees (Board) for specific purposes.

Temporarily Restricted Net Assets - Temporarily restricted net assets include net assets subject to donor-imposed restrictions that may or will be met by either actions of the College and/or the passage of time. In addition, this category includes the cumulative investment return on permanently restricted net assets.

Permanently Restricted Net Assets - Permanently restricted net assets are those that are subject to donor-imposed restrictions that they be maintained in perpetuity 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. The principal is not available for use and is invested in perpetuity.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in either unrestricted or temporarily restricted net assets, depending on whether their use is restricted by explicit donor restrictions or by law.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expiration of Donor-Imposed Restrictions - The College follows the policy of reporting donor-imposed restricted contributions and endowment income whose restrictions are met in the same fiscal year as received as unrestricted support. It is also the College's policy to account for donated long-lived assets, and those acquired with gifts of cash restricted for such acquisitions, as either unrestricted assets when placed in service or as amounts released from restriction as depreciation is incurred on the asset.

Contributions and Pledges Receivable - Contributions are recorded as revenue upon receipt. Unconditional promises to give (pledges) that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates ranging from 0.25% to 5.6%, applicable to the years in which the pledges are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are recognized as income when the conditions are substantially met. An allowance for uncollectible contributions receivable is based on management's judgment, including consideration of such factors as past collection experience, missed payments or modification of payment terms, and creditworthiness of the donor.

Student Receivables - Student receivables represent balances due from students for tuition, fees and other charges and are reported at their net realizable value. Student receivables are considered to be due when invoiced. Provisions are established for estimated uncollectible receivables when considered necessary. The College's estimate is based on historical collection experience, a review of the current status of receivables, and judgment. Decisions to charge-off receivables are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts. Management has recorded an allowance of \$107,000 and \$102,000 as of May 31, 2016 and 2015, respectively; however, it is reasonably possible that this estimate of the allowance could change in future periods.

Cash and Cash Equivalents - Cash and cash equivalents include cash on deposit and cash on hand, as well as any short-term highly liquid investments that are expected to be used for operating purposes. The College maintains cash at banks that may exceed federally insured amounts at times.

Loans to Students - Loans to students under the Federal Perkins Loan Program are reported at their outstanding principal adjusted for any charge-offs and net of the allowance for loan losses. The availability of funds for loans under the Federal Perkins Loans Program is dependent on reimbursement to the pool from repayments on outstanding loans. The College recognizes interest, delinquency charges and other fees when earned and collectability is reasonably assured. Outstanding loans canceled under the program result in a reduction of the funds available for future loans and a decrease in the liability due to the government. The allowance for loan losses is increased by charges and decreased by charge-offs (net of recoveries). The College's periodic evaluation of the adequacy of the allowance is based on the College's loan loss experience, adverse situations that might affect the borrower's ability to repay, and current economic conditions. Loan balances are written-off when they are deemed to be permanently uncollectible. Amounts past due as of May 31, 2016 and 2015 approximated \$322,000 and \$308,000, respectively.

Investments and Investment Income - Investments in equity securities with readily determinable fair market values and all investments in debt securities are reported at fair market value, with gains and losses included in the statements of activities and changes in net assets. Donated investments are reflected as contributions at their fair market values at date of receipt. Property that was held for investment was valued based upon independent appraisals. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, changes in values of investment securities can occur in the near term, and it is reasonably possible that such changes could materially affect the amounts reported in the statements of financial position.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Alternative investments, which are not readily marketable, are carried at Net Asset Value (NAV) as provided by the investment managers. The College's alternative investments are comprised of limited partnerships and hedge funds. NAV is assessed by management to approximate fair value. Investments that do not report a NAV are valued at fair value as estimated by management. In estimating fair value, management takes into consideration valuations reported to the College by the fund managers, the nature of the investments, current market conditions and other factors that the College considers relevant. The College reviews and evaluates the values and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Because of inherent uncertainty of valuation in the absence of readily ascertainable market values, the estimated values of those investments might differ from the values that would have been used had a ready market existed for such investments or if the investments were realized, and the differences could be material. Such investments are, by their nature, generally considered to be long-term investments and are not intended to be liquidated on a short-term basis.

Income and realized net gains and losses on investments of the endowment are reported as follows:

- As changes in permanently restricted net assets if so restricted by the donor;
- As changes in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the use of the income or gains and losses; and
- As changes in unrestricted net assets in all other cases.

Land, Buildings and Equipment - Recorded amounts for College property are stated at cost or, if donated, fair market value at the date of the gift. For items that are acquired or constructed through donor contributions, it is the College's policy to recognize a release from temporarily restricted net assets for the amount of depreciation recognized in the period. The College capitalizes interest expense on the construction of assets to the extent of borrowings related to the construction. There was no capitalized interest in 2016 or 2015. Provision for depreciation is recognized on physical properties by the straight-line method based upon the estimated useful lives of the net assets as follows:

Building and building improvements	15-50 years
Furniture, fixtures, library books and equipment	5-25 years

Management reviews the carrying amount of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the related carrying amounts might not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of an asset to future net undiscounted flows expected to be generated by the asset. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset exceeds the related estimated fair value. Based upon management's analysis, there were no impairment losses recorded for the years ended May 31, 2016 and 2015.

Collections - The College has various literary, archival and artistic collections, which consist of evangelical manuscripts, private papers, rare books of several authors, and works of art. The collections, which were acquired through purchases and contributions since the College's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Conditional Asset Retirement Obligations - The College follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) topic on Accounting for Conditional Asset Retirement Obligations, which requires an entity to recognize a liability for the fair value of a conditional asset obligation if the fair value of the liability can be estimated. There are no conditional asset retirement obligations recorded for the years May 31, 2016 and 2015.

Annuities and Life Income Trust Agreements - The College's split-interest agreements with donors consist primarily of charitable gift annuities and charitable remainder trusts and annuities. Revenues and receivables are recognized upon the completion of these contracts and are reported at the present value of the estimated future cash flows with restrictions based on the donors' intent of the future use of the funds. Liabilities under unitrust and annuity arrangements are discounted to present value utilizing rates ranging from 5% to 6.5% for unitrusts and 6% for annuities. Payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

Contribution revenue for these agreements is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments.

The present value of payments to beneficiaries of future receipts from charitable remainder trusts and annuities are calculated using discount rates, which represent the risk-free rate in existence at the date of the gift. Increases or decreases in the respective net asset category on the statements of activities and changes in net assets reflects gains or losses and investment income from the underlying assets, as well as gains or losses resulting from changes in actuarial assumptions and accretions of the discount.

Perpetual Trusts Held by Third Parties - The College has the irrevocable right, under the terms of the trusts, to receive the income earned on the trust asset in perpetuity but never receives the assets held in trust. Contribution revenue is recognized when the College is notified of the trust's existence. Assets are recorded at fair value unless facts and circumstances indicate that the fair value of the beneficial interest differs from the fair value of the assets contributed.

Deposits and Deferred Income - Deposits and deferred income are composed of tuition and certain grants and sponsorship funds received in advance of the periods to which they relate.

Government Loan Funds - The College administers a federally funded loan program for the benefit of its students. The College is required to collect loans on behalf of the federal government. The amount due from students is recorded as notes receivable. The College also has a liability that represents the amount that must be returned to the federal government upon termination of the program.

Health Insurance - Other assets include approximately \$168,000 and \$216,000 as of May 31, 2016 and 2015, respectively, related to the College's interest in the Private College and University Consortium (Consortium). The Consortium provides health and welfare benefits to colleges and universities in Western Pennsylvania. The Consortium enters into cost-plus funding arrangements for the payment of health claims for the participants' employees and their eligible dependents. The College's interest in the Consortium is used for claims payments, reserve requirements, stop-loss insurance and administrative expenses.

Income Taxes - The College is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. However, to the extent that some auxiliary revenues exceed the related expenses, they are considered to be unrelated business income and subject to income tax.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The College follows the Codification topic on Income Taxes. The topic prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in financial statements. The College's statements of financial position at May 31, 2016 and 2015 do not include any liabilities associated with uncertain tax positions; further, the College has no unrecognized tax benefits. The College is no longer subject to examination of its tax returns for years before 2013.

Tuition and Fees - Tuition and fees are reported on the statements of activities and changes in net assets are reported net of discretionary discounts, which include both discounts and funded scholarships. The College generally recognizes revenue in the academic period that tuition is earned and collectability is reasonably assured. All payments received in advance for the subsequent academic period are recorded as deferred revenue. Discretionary tuition discounts are College funds awarded by the College to reduce the net amount of tuition paid by students.

Funded scholarships are shown separately and represent awards and prizes given to students. There is corresponding revenue funding these awards from endowed and non-endowed gifts and certain government grants. Revenues from those sources are included in investment income, contributions and grants categories of the statements of activities and changes in net assets. These scholarships are not considered part of what the College considers its discretionary tuition discount; however, they are reduced from gross tuition to derive the total tuition discount.

Auxiliary Enterprises - The College's auxiliaries exist primarily to furnish goods and services to students, faculty and staff. Managed as essentially self-supporting activities, the College's auxiliary activities consist primarily of housing services, dining services, retail, mailing services and camp and conference services.

Expense Allocation - Certain expenses are charged to program and supporting services on the basis of square footage used by functional area or time spent in efforts to raise funds for the College.

Fair Value Measurement - The College follows the Codification topic Fair Value Measurement and Disclosures, which establishes a framework for measuring fair value and expands disclosures related to fair value measurements. The College has applied the provisions of the Fair Value Measurement and Disclosures topic to its recurring measurements (See Note 11).

Recent Accounting Pronouncements - The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 is the result of a joint project of FASB and the International Accounting Standards Board (IASB) to clarify the principles for recognizing revenue and to develop a common revenue standard for use in the U.S. and internationally. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605 of the FASB Codification and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09 enhances comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, reduces the number of requirements an entity must consider for recognizing revenue, and requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. In August 2015, the FASB issued ASU 2015-14, a deferral on the implementation date, and this guidance is effective for annual reporting periods beginning after December 15, 2018. ASU 2014-09 requires either retrospective application by restating each prior period presented in the financial statements, or retrospective application by recording the cumulative effect on prior reporting periods to beginning retained earnings in the year that the standard becomes effective. The College is currently assessing the impact that the adoption of ASU 2014-09 will have on its financial statements.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The FASB issued ASU No. 2015-03 Interest - Imputation of Interest (Subtopic 835-30) (ASU 2015-03). ASU 2015-03 was issued as part of an initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet (statement of financial position) as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption of the amendments in this update is permitted for financial statements that have not been previously issued. The ASU should be applied on a retrospective basis. The College elected to early-adopt ASU 2015-03 and implement this ASU. The impact of the implementation of ASU 2015-03 restated the previously reported bond issuance cost asset and bonds payable by \$76,986 for the year ended May 31, 2015.

In May 2015, the FASB issued ASU 2015-07 Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07), which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. ASU 2015-07 is effective for nonpublic entities for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. A reporting entity should apply amendments retrospectively to all periods presented. Early application is permitted. The College has elected to early-adopt ASU 2015-07 related to investments held at May 31, 2016 and 2015 and restated the prior-year disclosures to conform with the adoption of ASU 2015-07. (See Note 11.)

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact the College's financial statements since the College has certain operating lease arrangements for which it is the lessee. ASU 2016-02 supersedes the previous leases standard, Leases (Topic 840). The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The College is currently assessing the impact that the adoption of ASU 2016-02 will have on its financial statements.

In August 2016, the FASB completed Phase I of its Presentation of Financial Statements of Not-for-Profit Entities and issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This new ASU is intended to simplify and improve not-for-profit financial reporting.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Specifically, the new guidance:

- Revises the net asset classification scheme to two classes (net assets with donor restrictions and net assets without donor restrictions) instead of the previous three classes, while maintaining the requirement to report total net assets and changes in the classes of and total of net assets.
- Continues to allow for a choice between the direct and indirect method of reporting operating cash flows; however, presentation of the indirect reconciliation is no longer required if using the direct method.
- Enhances disclosures for:
 - Self-imposed limits on the use of resources without donor-imposed restrictions
 - Composition of net assets with donor restrictions, and how the restrictions affect the use of resources
 - Qualitative disclosures on how a not-for-profit manages its available liquid resources, to meet cash needs for general expenditures within one year of the balance sheet date
 - Quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date
 - Methods used to allocate costs among program and support functions
- Requires the presentation of expenses by nature as well as function, including an analysis of expenses showing the relationship between functional and natural classification for all expenses.
- Updates the accounting and disclosure requirements for underwater endowment funds, which include required disclosure of (1) policy concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate original gift amount (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater, which are to be classified as part of net assets with donor restrictions.
- Requires net presentation of investment expenses against investment return on the statement of activities and eliminates the requirement to disclose investment expenses that have been netted.
- Requires the use of, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expiration of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassification of amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restrictions over the estimated useful life of the acquired asset).

ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early application permitted. The College is assessing the impact that this standard will have on its financial statements.

Subsequent Events - Management of the College has evaluated subsequent events through October 28, 2016, the date on which the financial statements were available to be issued.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 3 - PLEDGES RECEIVABLE

Unconditional promises to give recorded at May 31, along with the expected maturity of the gifts, are as follows:

	<u>2016</u>	<u>2015</u>
Unconditional promises to give	\$ 447,088	\$ 336,087
Less - Unamortized discount	<u>35,690</u>	<u>32,513</u>
	411,398	303,574
Less - Allowance for uncollectibles	<u>31,500</u>	<u>21,000</u>
Net unconditional promises to give	<u>\$ 379,898</u>	<u>\$ 282,574</u>
Amounts due in:		
Less than one year	\$ 160,000	\$ 116,000
One to five years	<u>287,087</u>	<u>220,087</u>
	<u>\$ 447,087</u>	<u>\$ 336,087</u>

NOTE 4 - NOTES RECEIVABLE

The College's notes receivable at May 31 consist of the following:

	<u>2016</u>	<u>2015</u>
Perkins loan funds, net of allowance of \$325,000 in 2016 and 2015.	\$ 1,644,696	\$ 1,800,180
Real estate note with monthly payments of \$2,304, including interest of 6% and maturing in March 2019.	<u>66,247</u>	<u>89,171</u>
	<u>\$ 1,710,943</u>	<u>\$ 1,889,351</u>

There was no change in the College's allowance during the years ended May 31, 2016 and 2015.

NOTE 5 - INVESTMENTS

The composition of the College's investments at May 31 consisted of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Domestic equities	\$ 10,378,103	\$ 8,682,875	\$ 10,846,893	\$ 7,974,455
Fixed income	9,131,951	9,095,035	10,014,559	9,755,944
Foreign investments	10,980,326	12,088,602	11,770,859	10,746,054
Cash and cash equivalents	1,634,527	1,634,527	1,270,977	1,270,977
Limited partnerships	2,287,192	1,511,531	2,204,472	1,590,319
Hedge funds	2,259,953	2,150,000	2,348,734	2,150,000
Property held for investment	<u>-</u>	<u>-</u>	<u>460,375</u>	<u>460,375</u>
	<u>\$ 36,672,052</u>	<u>\$ 35,162,570</u>	<u>\$ 38,916,869</u>	<u>\$ 33,948,124</u>

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 5 - INVESTMENTS (Continued)

Under terms of agreements to invest in certain limited partnerships and a hedge fund, the College has outstanding capital commitments of approximately \$1,073,000 at May 31, 2016 (See Note 11.)

Investment income for the years ended May 31, 2016 and 2015 is composed of interest and dividends of \$2,597,573 and \$2,528,026, respectively.

Net realized and unrealized losses on investments for the years ended May 31 are composed of the following:

	<u>2016</u>	<u>2015</u>
Net realized (losses) gains	\$ (3,765)	\$ 327,692
Net unrealized losses	(3,938,779)	(1,588,272)
Investment fees	<u>(215,508)</u>	<u>(224,471)</u>
	<u>\$ (4,158,052)</u>	<u>\$ (1,485,051)</u>

Quasi-endowment funds, which are unrestricted funds designated by the Board for long-term investment, total \$4,554,423 and \$4,678,999 at May 31, 2016 and 2015, respectively, and are included in the investment balances shown above.

NOTE 6 - SPLIT-INTEREST AGREEMENTS

Of the amounts recorded as investments at May 31, split-interest agreements and the associated liabilities are represented as follows:

	<u>2016</u>		<u>2015</u>	
	Fair Market Value of Assets	Net Present Value of Future Obligations	Fair Market Value of Assets	Net Present Value of Future Obligations
Unitrusts	\$ 2,313,973	\$ 528,794	\$ 2,318,256	\$ 579,440
Annuities	<u>328,814</u>	<u>154,121</u>	<u>363,248</u>	<u>170,944</u>
	<u>\$ 2,642,787</u>	<u>\$ 682,915</u>	<u>\$ 2,681,504</u>	<u>\$ 750,384</u>

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 7 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment, at cost, at May 31 are as follows:

	<u>2016</u>	<u>2015</u>
Buildings	\$ 54,497,997	\$ 53,738,509
Furniture and equipment	<u>24,594,303</u>	<u>23,325,124</u>
	79,092,300	77,063,633
Less - Accumulated depreciation and amortization	<u>49,573,312</u>	<u>46,707,084</u>
	29,518,988	30,356,549
Land	1,963,252	1,963,252
Construction in progress	<u>-</u>	<u>8,717</u>
	<u>\$ 31,482,240</u>	<u>\$ 32,328,518</u>

In June 1998, the College acquired certain property and a building by the use of endowed funds, and the property was included as an asset of the endowment for \$460,375. The Masters of Organizational Leadership program used this property in operations and paid the endowment rent of \$13,750 every six months for use of the building for the program. The building was not depreciated, since it was held as a Level 3 investment of the College's endowment. During 2016, this property was sold for a gain of \$34,945.

NOTE 8 - BONDS PAYABLE, CAPITAL LEASE OBLIGATION AND LINE OF CREDIT

The indebtedness of the College at May 31 consisted of the following:

	<u>2016</u>	<u>2015</u>
Pennsylvania Higher Educational Facilities Authority College Revenue Bond dated August 1, 2007. The interest rate is 3.89%, and the bond matures on September 1, 2021. Principal payments are due monthly, and the bonds are secured by a mortgage on certain College assets. The bonds are subject to certain annual financial covenants, including debt service and leverage ratios.	\$ 8,918,781	\$ 10,483,515
In June of 2015, the College signed a capital lease agreement with Bank of America for technology equipment including an upgraded network and a security camera system. The lease requires payments of approximately \$200,000 each year of the five-year lease, with the first payment due September of 2015. At the conclusion of the lease, the College can purchase the assets for \$1.	<u>727,161</u>	<u>-</u>
	<u>\$ 9,645,942</u>	<u>\$ 10,483,515</u>

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 8 - BONDS PAYABLE, CAPITAL LEASE OBLIGATION AND LINE OF CREDIT (Continued)

The aggregate amounts of principal due for each of the next five years ending May 31 and thereafter are as follows:

Years Ending May 31	Bonds Payable	Capitalized Leases	Amount
2017	\$ 1,626,699	\$ 199,807	\$ 1,826,506
2018	1,691,118	199,807	1,890,925
2019	1,758,088	199,806	1,957,894
2020	1,827,710	199,806	2,027,516
2021	1,787,924	-	1,787,924
Thereafter	227,242	-	227,242
	8,918,781	799,226	9,718,007
Less: Amount representing interest	-	(72,065)	(72,065)
Sub-total indebtedness	\$ 8,918,781	\$ 727,161	9,645,942
Less: Unamortized debt issuance costs			(67,157)
Total			\$ 9,578,785

The College obtained a \$1,500,000 line of credit from the same institution that serves as custodian for a majority of the College's investment portfolio. Any borrowings that are made on the line must be made in \$500,000 minimum increments. Any borrowings are subject to an interest rate elected at the time of the borrowing of London InterBank Offered Rate (LIBOR) plus an applicable margin of 0.75% to 1.50% based upon the amount borrowed. Interest on any borrowings is payable monthly until the balance is repaid. The agreement, which has no stated expiration and is subject to period reviews by the lender, is secured by certain investments held by the custodian. Under the terms of the agreement, the College is permitted to borrow based upon a tiered scale of rates based upon the types of investments held in the accounts held by the custodian. As of May 31, 2016 and 2015, there were no outstanding borrowings on the line.

Total interest expense on bonds payable and capital leases approximated \$425,000 and \$450,000 for the fiscal years ended May 31, 2016 and 2015, respectively.

NOTE 9 - RETIREMENT PLAN

The Board of the College has established a retirement plan at the College. Contributions under this defined contribution (money purchase) plan are applied to individual annuities issued to each participant by Teachers Insurance and Annuity Association (TIAA). Contributions under the retirement plan are made in accordance with the following schedule:

	<u>Participant</u>	<u>College</u>	<u>Total</u>
Plan contributions as a percent of regular salary	5%	5%	10%

College contribution expense to the plan for the years ended May 31, 2016 and 2015 was approximately \$611,000 and \$643,000, respectively.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 10 - POSTRETIREMENT BENEFIT OBLIGATION

The College provides, upon retirement, group health and life insurance benefits to employees who were full-time on May 1, 2002, at least 55 years of age on that date and have a combination of age and years of service equal to 77 years or greater. The employee and his or her spouse may continue on the College's group medical insurance as individuals receiving the same benefits as the current employees for up to three years, or until he/she reaches Medicare eligibility, whichever comes first. Provisions of the benefit plan require that retirees participate in the health insurance plan by paying between 0.3% and 1.0% of base wage rate in the year immediately preceding their retirement, based upon individual or family coverage of the health insurance premium cost. Retirees pay no portion of the premium cost for the life insurance. Highmark Blue Cross/Blue Shield (Community Blue) provides health insurance through a self-insured plan.

The group health plan pays health-related expenses of covered procedures and items. The group life insurance plan provides a death benefit of \$5,000 upon death after retirement. Life insurance premiums are paid monthly as billed by the insurance provider; there is no prefunding. Reliance Standard Life Insurance Company provides life insurance through a term plan.

The College follows the Codification topic on Retirement Benefits. This topic requires that the College recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its postretirement benefit plans in the statement of financial position, with a corresponding adjustment to net assets. Actuarial gains and losses are recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in net assets. The plan has no assets, and payments on benefit obligations are made by the College.

Net periodic postretirement benefit cost for the years ended May 31 includes the following:

	<u>2016</u>	<u>2015</u>
Service cost with interest to end of year	\$ 9,934	\$ 10,342
Interest cost	18,264	18,870
Amortization of unrecognized gain	<u>(68,965)</u>	<u>(99,945)</u>
Net periodic postretirement benefit cost	<u>\$ (40,767)</u>	<u>\$ (70,733)</u>

The discount rate used in determining the accumulated postretirement benefit obligation was 3.8% and 4.1% for the years ended May 31, 2016 and 2015, respectively.

The status of the health and life insurance benefit obligation reconciled with the College's financial statements at May 31 is as follows:

	<u>2016</u>	<u>2015</u>
Accumulated postretirement benefit obligation:		
Inactives	\$ 305,095	\$ 299,340
Fully eligible active plan participants and other active plan participants	<u>170,668</u>	<u>161,553</u>
Accumulated postretirement benefit obligation	<u>\$ 475,763</u>	<u>\$ 460,893</u>

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 10 - POSTRETIREMENT BENEFIT OBLIGATION (Continued)

The healthcare cost trend rate assumption has a significant impact on the amounts reported. Increasing or decreasing the assumed healthcare cost trend rate by one percentage point for all future years will have an insignificant impact on the postretirement benefit obligation as of May 31, 2016.

As of May 31, 2016, the College has one eligible spouse of a retiree receiving post-retirement health care benefits.

A reconciliation of the accumulated postretirement benefit obligation at May 31 is as follows:

	<u>2016</u>	<u>2015</u>
Accumulated postretirement benefit obligation as of June 1	\$ 460,893	\$ 476,164
Service and interest cost for the year	28,198	29,212
Net contributions (e.g., benefit payments) made during the year	(10,562)	(10,319)
Assumption change	<u>(2,766)</u>	<u>(34,164)</u>
Accumulated postretirement benefit obligation	\$ <u>475,763</u>	\$ <u>460,893</u>

The approximate amounts of expected benefits to be paid in the next five fiscal years are as follows: \$20,600 in 2017, \$20,900 in 2018, \$21,700 in 2019, \$22,400 in 2020 and \$120,000 in 2021 through 2025.

NOTE 11 - FAIR VALUE MEASUREMENT

The College follows the Codification topic Fair Value Measurement and Disclosures, which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurement.

The Fair Value Measurement and Disclosures topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The topic requires disclosures that categorize assets and liabilities measured at fair value into three different levels, depending on the assumptions used in the valuation. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The Fair Value Measurement hierarchy is defined as follows:

Level 1 - Valuations are based on unadjusted quoted prices in an active market for identical assets or liabilities.

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 11 - FAIR VALUE MEASUREMENT (Continued)

The College's financial instruments consist primarily of cash and cash equivalents, student accounts receivable, pledges receivable, notes receivable, investments, perpetual trusts held by third parties, accounts payable and accrued liabilities, annuities and life income trusts payable, line of credit and notes and bonds payable.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2016 and 2015.

The carrying amount of cash and cash equivalents, student accounts receivable and accounts payable and accrued liabilities approximates their fair value due to the short-term nature of such instruments. The carrying values of the College's line of credit and bonds payable are fixed-rate obligations, and are classified in Level 2 of the fair value hierarchy, which approximates the rate that the College would be able to obtain in the current market.

Pledges and notes receivable are reported at the present value of estimated future receipts, less the College's estimate of uncollectible amounts, which approximates fair value.

The methods for valuing the College's investments, by significant category, are as follows:

Domestic Equities, Foreign Investments and Fixed Income - Valued at the closing price reported on the active market on which the individual securities are traded.

Alternative Investments - The valuation of the College's investments in limited partnerships and hedge funds that are valued using a NAV requires significant judgment due to the absence of quoted market prices, inherent lack of liquidity, heavy reliance on Level 3 inputs and the long-term nature of such investments. The aforementioned investments are valued initially at their transaction value, and subsequently adjusted to reflect expected exit values at the measurement date by utilizing assumptions that market participants would normally use to estimate a fair market value.

These valuation adjustments include, but are not limited to, material changes in an organization's operations and or financial performance, subsequent or anticipated rounds of equity financings, specific rights or terms associated with the investment (e.g., conversion features, liquidation preferences or restrictions), expected exit timing and strategy, industry valuations or comparable public companies, changes in economic conditions, and changes in legal or regulatory environments.

Property Held for Investment - Valued by the College based upon the original acquisition cost. The College believes that cost approximates fair value of the property held. The College periodically evaluates the properties for impairment. Based upon management's analysis, there was no impairment for the year ended May 31, 2015. The property was sold in May of 2016.

Perpetual trusts held by third parties are valued based upon the College's interest in the fair value of the underlying assets.

Cash Surrender Value of Life Insurance - The investments are valued at the cash surrender value of the policies, which approximates fair value.

Annuities and life income trusts payable are valued at an actuarially determined value based upon factors, including the expected rate of return, value of the underlying assets and life expectancy of the donor.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 11 - FAIR VALUE MEASUREMENT (Continued)

The valuation of the College's financial assets and liabilities according to the fair value hierarchy at May 31 is summarized as follows:

Assets and (Liabilities) at Fair Value at May 31, 2016				
	Level 1	Level 2	Level 3	Total
ASSETS:				
Pledges receivable, net	-	\$ 379,898	-	\$ 379,898
Investments:				
Cash and cash equivalents	\$ 1,634,527	-	-	1,634,527
Domestic equities	10,378,103	-	-	10,378,103
Fixed income	9,131,951	-	-	9,131,951
Foreign investments	10,980,326	-	-	10,980,326
Investments in the fair value hierarchy	32,124,907	-	-	32,124,907
Cash surrender value of life insurance	-	460,546	-	460,546
Perpetual trusts held by third parties	-	3,657,535	-	3,657,535
Assets in the fair value hierarchy	\$ 32,124,907	\$ 4,497,979	-	36,622,886
Investments measured at NAV (a)				4,547,145
Total fair value of assets				\$ 41,170,031
LIABILITIES:				
Liabilities under life interest agreements	-	\$ (682,915)	-	\$ (682,915)

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 11 - FAIR VALUE MEASUREMENT (Continued)

	Assets and (Liabilities) at Fair Value at May 31, 2015			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Pledges receivable, net	-	\$ 282,574	-	\$ 282,574
Investments:				
Cash and cash equivalents	\$ 1,270,978	-	-	1,270,978
Domestic equities	10,846,893	-	-	10,846,893
Fixed income	10,014,559	-	-	10,014,559
Foreign investments	11,770,858	-	-	11,770,858
Property held for investments	-	-	\$ 460,375	460,375
Investments in the fair value hierarchy	33,903,288	-	460,375	34,363,663
Cash surrender value of life insurance	-	447,283	-	447,283
Perpetual trusts held by third parties	-	3,921,955	-	3,921,955
Assets in the fair value hierarchy	<u>\$ 33,903,288</u>	<u>\$ 4,651,812</u>	<u>\$ 460,375</u>	39,015,475
Investments measured at NAV (a)				<u>4,553,206</u>
Total fair value of assets				<u>\$ 43,568,681</u>
LIABILITIES:				
Liabilities under life interest agreements	<u>-</u>	<u>\$ (750,384)</u>	<u>-</u>	<u>\$ (750,384)</u>

(a) In accordance with the College's adoption of ASU 2015-07 and Codification Subtopic 820-10, certain investments were measured at NAV per share (or its equivalent) as a practical expedient, and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of fair value hierarchy line items presented in the statements of financial position.

The changes in investments measured at fair value for which the College has used Level 3 inputs to determine fair value for the years ended May 31 are as follows:

	Property Held For Investment
Balance, May 31, 2014	\$ 460,375
Purchases	-
Unrealized appreciation, net	-
Balance, May 31, 2015	460,375
Proceeds	(495,320)
Gain on sale of property	34,945
Balance, May 31, 2016	<u>\$ -</u>

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 11 - FAIR VALUE MEASUREMENT (Continued)

Realized gains and unrealized appreciation (depreciation) are included in investment return in excess of amount designated for current operations.

The College's interest in certain investments and alternative investments contains some liquidity constraints, which are outlined in the table below, depending on the investment; some of them are not easily transferrable and typically achieve liquidity over an extended period of time when and if the fund managers return invested capital or distributive proceeds realized from the underlying assets. In addition to annual distributions received from the alternative investment funds for the year ended May 31, 2016, withdrawals and distributions on approximately \$4,547,000 of the outstanding investment balances can be received by the College based upon written notice as described below.

The following redemption table clarifies the nature and risk of the College's investments and liquidity for investments, including alternative investments, measured using NAV at May 31:

	<u>2016</u>	<u>2015</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Limited					
Partnerships (a)	\$ 2,287,192	\$ 2,204,472	\$ 1,073,074	Requires consent of the fund manager	Requires consent of the fund manager
Hedge Fund (b)	2,259,953	2,348,734	-	Quarterly after an initial lock-up period of one year	60 days
	<u>\$ 4,547,145</u>	<u>\$ 4,553,206</u>	<u>\$ 1,073,074</u>		

The investment strategies employed by the above-listed funds are as follows:

- (a) The objective of these funds is to realize long-term return by investing in a diversified group of pooled investment vehicles. The investment vehicles that these funds invest in include buyout, debt, fund of funds, real estate and venture strategies.
- (b) The objective of these funds is to achieve superior risk-adjusted return with low volatility and low correlation to both the equity and fixed-income markets by investments in a diversified group of pool investments vehicles. These funds are either domiciled in the United States of America, the Caymans or other international locations.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques might require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The College evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to the statement of financial position. There were no significant transfers between fair value hierarchy levels during 2016 and 2015.

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 12 - RESTRICTED NET ASSETS

Temporarily restricted net assets at May 31 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 6,928,706	\$ 8,021,336
Capital projects	7,200,977	7,998,713
Other programs	<u>8,730,307</u>	<u>10,100,042</u>
	<u>\$ 22,859,990</u>	<u>\$ 26,120,091</u>

Permanently restricted net assets at May 31, the income earned from which is expendable, are as follows:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 12,480,806	\$ 12,322,920
Capital projects	477,550	473,685
Other programs	<u>6,546,696</u>	<u>6,318,640</u>
	<u>\$ 19,505,052</u>	<u>\$ 19,115,245</u>

NOTE 13 - ENDOWMENT

The College applies the provisions of the Codification topic of Presentation of Financial Statements for Not-for-Profit Entities. The topic provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that are subject to an enacted version of the Uniform Prudent Administration of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and Board-designated endowment funds. The College, as a not-for-profit organization residing in the Commonwealth of Pennsylvania, is not subject to UPMIFA, but is subject to the additional disclosure requirements associated with the aforementioned topic.

The College's endowment consists of various investment funds established primarily for support of its mission. Its endowment includes Board-designated and donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the College to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of the College has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141). Act 141 permits utilization of a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's permanently restricted investments as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. On an annual basis, the Endowment-Investment Committee of the Board, in writing, elects a spending rate of between 2% and 7%. In accordance with Act 141, the College annually transfers a percentage of the previous three years' market value average of the endowment fund. This percentage is applied to a three-year average market value of the investments at November 30th of the previous year. For the years ended May 31, 2016 and 2015, the College transferred 4.0%. The College classifies as permanently restricted net assets the original and subsequent value of gifts donated to the permanent endowment. In accordance with Act 141, the College has adopted a written investment policy, of which a section specifically relates to the endowment fund. The College considers the following factors in making a determination to set a spending rate:

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 13 - ENDOWMENT (Continued)

1. Protecting the corpus of the endowment fund.
2. Preserving the spending power of the assets.
3. Obtaining maximum investment return with reasonable risk and operational consideration.
4. Complying with applicable laws.

The following represents the change in Board-designated and donor-restricted endowment funds by net asset type:

	Board- Designated	Temporarily Restricted	Permanently Restricted	Total
Balance May 31, 2014	\$ 4,328,194	\$ 15,850,743	\$ 17,884,077	\$ 38,063,014
Investment return	84,004	947,189	-	1,031,193
Contributions	-	-	987,167	987,167
Board appropriations	291,624	-	-	291,624
Other income	-	40,123	-	40,123
Change in donor designation - unrestricted to permanently restricted	-	-	96,660	96,660
Reclassification of annuity to permanently restricted	-	(7,605)	7,605	-
Decrease in allowance for doubtful accounts for pledges for endowment	-	-	97,000	97,000
Changes in annuities and life income trusts	-	(42,736)	42,736	-
Appropriation of endowment assets for expenditures	-	(1,137,289)	-	(1,137,289)
Investment fees	(24,823)	(184,110)	-	(208,933)
Balance at May 31, 2015	4,678,999	15,466,315	19,115,245	39,260,559
Investment return	(120,337)	(1,185,293)	-	(1,305,630)
Contributions	-	-	369,151	369,151
Board appropriations	20,812	-	-	20,812
Other income	-	44,641	-	44,641
Increase in allowance for doubtful accounts for pledges for endowment	-	-	(1,000)	(1,000)
Changes in annuities and life income trusts	-	(21,656)	21,656	-
Appropriation of endowment assets for expenditures	-	(1,250,952)	-	(1,250,952)
Investment fees	(25,021)	(176,457)	-	(201,508)
Balance at May 31, 2016	\$ 4,554,423	\$ 12,876,598	\$ 19,505,052	\$ 36,936,073

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 13 - ENDOWMENT (Continued)

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds might fall below the level that the donor or applicable law (Act 141) requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in temporarily restricted net assets total \$433,147 and \$207,585 at May 31, 2016 and 2015, respectively. These deficiencies resulted from extraordinary market conditions that occurred shortly after the investment of new permanently restricted contributions.

Return Objectives and Risk Parameters - The College has adopted investment and spending policies for endowment assets that attempt to provide a reasonable level of funding to programs supported by its endowment while seeking to enhance the purchasing power of the fund's corpus by striving for long-term growth. Endowment assets include those assets that are donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a blended benchmark of equity, fixed income, private equity and real estate peer groups.

Strategies Employed for Achieving Objectives - 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 to achieve its long-term return objectives within prudent risk constraints. Investment advisors, at the discretion of the Endowment Investment Committee of the Board, are given guidelines with respect to the percentage that can be committed to a particular investment or investment category.

Spending Policy and Investment Objectives Related to Spending Policy - In accordance with Act 141, the College annually transfers 4% of the previous three years' market value average of the permanently restricted endowment fund to unrestricted net assets for use in current and future operations. In 2016 and 2015, the spendable return totaled \$1,076,724 and \$967,384, respectively. The College believes that this spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

NOTE 14 - LEASES

The College leases equipment under operating lease agreements. Total rental payments during the fiscal years ended May 31, 2016 and 2015 were approximately \$216,000 and \$488,000, respectively.

The approximate minimum future obligations under the noncancelable operating leases in effect as of May 31, 2016 are as follows:

Fiscal Year Ending May 31	Amount
2017	\$ 210,000
2018	215,000
2019	215,000
2020	128,000
2021	90,000
	<u>\$ 858,000</u>

GENEVA COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The College entered into a ten-year extension of its administration services contract with ARAMARK Administration Services Limited Partnership (ARAMARK) on October 1, 2013. ARAMARK supervises the College's housekeeping, maintenance and groundskeeping functions on campus and provides energy administration services under the terms of the agreement. The agreement is cancelable at any point by either party. Fees for the services are approximately \$247,000 annually (subject to annual CPI increases) plus the actual costs of utilities that are managed and paid for through ARAMARK.

The College is a defendant in certain legal proceedings arising out of the normal conduct of its business. In the opinion of management, based upon discussion with counsel, the ultimate outcome of these matters will not have a material adverse effect on the financial position, changes in net assets or cash flows of the College.

Amounts received and expended by the College under various federal and state programs are subject to adjustment based upon review by the granting agencies. The College does not anticipate that adjustments, if any, arising from such reviews will have a material effect on the financial statements.

[This Page Intentionally Left Blank.]