# Allegheny College

Financial Statements as of and for the
Years Ended June 30, 2012 and 2011, and
Independent Auditors' Report

# ALLEGHENY COLLEGE

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Deloitte & Touche LLP
2500 One PPG Place
Pittsburgh, PA 15222-5401
USA
Tel: +1 412 338 7200
Fax: +1 412 338 7380
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Allegheny College
Meadville, Pennsylvania

We have audited the accompanying statements of financial position of Allegheny College (the "College") as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 17, 2012

## ALLEGHENY COLLEGE

### STATEMENTS OF FINANCIAL POSITION
### AS OF JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 7,404,923 | $ 7,782,364 |
| Accounts and other receivables — net (Note 2) | 383,159 | 208,620 |
| Government grants receivable | 213,049 | 225,512 |
| Inventories | 534,562 | 541,622 |
| Prepaid expenses and other assets | 421,485 | 451,623 |
| Contributions receivable — net (Note 2) | 2,985,520 | 2,030,946 |
| Student loans receivables — net (Note 2) | 6,857,022 | 6,445,971 |
| Investments (Note 3) | 169,238,633 | 178,452,575 |
| Land, buildings, and equipment — net (Note 4) | 128,299,266 | 127,558,800 |
| Trusts held by others | 6,596,419 | 6,948,034 |
| TOTAL | $ 322,934,038 | $ 330,646,067 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES: | | |
| Accounts payable | $ 1,319,563 | $ 771,222 |
| Accrued salaries and wages | 3,666,970 | 3,206,518 |
| Student deposits and deferred revenue | 1,288,627 | 1,160,900 |
| Accrued liabilities | 1,643,575 | 1,680,075 |
| Annuities payable | 3,824,146 | 3,644,112 |
| Swap liability | 2,043,893 | |
| Trusts payable | 2,901,765 | 3,116,968 |
| Trusts held for others | 300,209 | 293,724 |
| Bonds payable (Note 6) | 56,472,864 | 57,584,448 |
| Refundable government advances for student loans | 4,948,109 | 4,857,141 |
| Total liabilities | 78,409,721 | 76,315,108 |
| NET ASSETS (Note 10): | | |
| Unrestricted | 98,173,645 | 100,642,754 |
| Temporarily restricted | 67,540,039 | 77,274,019 |
| Permanently restricted | 78,810,633 | 76,414,186 |
| Total net assets | 244,524,317 | 254,330,959 |
| TOTAL | $ 322,934,038 | $ 330,646,067 |

See notes to financial statements.

# ALLEGHENY COLLEGE

## STATEMENTS OF ACTIVITIES
## FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE 2011 TOTALS

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2012 | 2011 |
|---|---|---|---|---|---|
| OPERATING: | | | | | |
| Revenue, gains, and other support: | | | | | |
| Gross student tuition and fees | $ 75,675,380 | $ - | $ - | $ 75,675,380 | $ 73,854,359 |
| Less scholarship allowances and tuition discounts | (36,562,641) | | | (36,562,641) | (34,250,503) |
| Net student tuition and fees | 39,112,739 | - | - | 39,112,739 | 39,603,856 |
| Federal grants and contracts | 538,975 | 294,050 | | 833,025 | 913,865 |
| State grants and contracts | 328,134 | 40,630 | | 368,764 | 461,649 |
| Private gifts and grants | 3,608,198 | 4,017,779 | 2,562,532 | 10,188,509 | 8,928,128 |
| Auxiliary enterprises | 18,641,511 | | | 18,641,511 | 17,503,853 |
| Investment return designated for current operations (Note 3) | 2,895,948 | 5,135,293 | | 8,031,241 | 7,911,504 |
| Other sources | 1,000,821 | 411,734 | 197,200 | 1,609,755 | 1,277,096 |
| | 66,126,326 | 9,899,486 | 2,759,732 | 78,785,544 | 76,599,951 |
| Net assets released from restrictions (Note 9) | 14,015,301 | (14,015,301) | | - | |
| Total revenue, gains, and other support | 80,141,627 | (4,115,815) | 2,759,732 | 78,785,544 | 76,599,951 |
| Expenses: | | | | | |
| Instruction | 25,327,487 | | | 25,327,487 | 24,558,520 |
| Research | 880,681 | | | 880,681 | 897,640 |
| Academic support | 7,959,299 | | | 7,959,299 | 7,519,102 |
| Student services | 15,849,952 | | | 15,849,952 | 14,949,937 |
| Institutional support | 12,067,863 | | | 12,067,863 | 12,389,588 |
| Auxiliary enterprises | 13,091,328 | | | 13,091,328 | 12,883,355 |
| Total expenses | 75,176,610 | - | - | 75,176,610 | 73,198,142 |
| INCREASE (DECREASE) IN NET ASSETS FROM OPERATING ACTIVITIES | 4,965,017 | (4,115,815) | 2,759,732 | 3,608,934 | 3,401,809 |
| NONOPERATING: | | | | | |
| Investment (loss) return not designated for current operations (Note 3) | (4,769,673) | (5,492,320) | (275,262) | (10,537,255) | 21,849,063 |
| Change in value of split-interest agreements | (620,560) | (125,845) | (88,023) | (834,428) | (884,340) |
| Change in value of swap agreement | (2,043,893) | | | (2,043,893) | |
| Loss on refinancing | | | | - | (947,632) |
| (DECREASE) INCREASE IN NET ASSETS | (2,469,109) | (9,733,980) | 2,396,447 | (9,806,642) | 23,418,900 |
| NET ASSETS — Beginning of year | 100,642,754 | 77,274,019 | 76,414,186 | 254,330,959 | 230,912,059 |
| NET ASSETS — End of year | $ 98,173,645 | $ 67,540,039 | $ 78,810,633 | $244,524,317 | $ 254,330,959 |

See notes to financial statements.

# ALLEGHENY COLLEGE

## STATEMENTS OF ACTIVITIES
## FOR THE YEAR ENDED JUNE 30, 2011 WITH COMPARATIVE 2010 TOTALS

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2011 | 2010 |
|---|---|---|---|---|---|
| OPERATING: | | | | | |
| Revenue, gains, and other support: | | | | | |
| Gross student tuition and fees | $ 73,854,359 | $ - | $ - | $ 73,854,359 | $ 70,395,843 |
| Less scholarship allowances and tuition discounts | (34,250,503) | | | (34,250,503) | (31,565,806) |
| Net student tuition and fees | 39,603,856 | - | - | 39,603,856 | 38,830,037 |
| Federal grants and contracts | 602,100 | 311,765 | | 913,865 | 1,061,083 |
| State grants and contracts | 341,690 | 119,959 | | 461,649 | 673,931 |
| Private gifts and grants | 2,939,360 | 4,685,825 | 1,302,943 | 8,928,128 | 7,474,814 |
| Auxiliary enterprises | 17,503,853 | | | 17,503,853 | 15,620,916 |
| Investment return designated for current operations (Note 3) | 2,170,419 | 5,741,085 | | 7,911,504 | 8,091,000 |
| Other sources | 1,093,217 | 179,815 | 4,064 | 1,277,096 | 1,050,343 |
| | 64,254,495 | 11,038,449 | 1,307,007 | 76,599,951 | 72,802,124 |
| Net assets released from restrictions (Note 9) | 7,579,757 | (7,579,757) | | - | |
| Total revenue, gains, and other support | 71,834,252 | 3,458,692 | 1,307,007 | 76,599,951 | 72,802,124 |
| Expenses and losses: | | | | | |
| Instruction | 24,558,520 | | | 24,558,520 | 23,345,510 |
| Research | 897,640 | | | 897,640 | 808,410 |
| Academic support | 7,519,102 | | | 7,519,102 | 7,741,249 |
| Student services | 14,949,937 | | | 14,949,937 | 14,639,316 |
| Institutional support | 12,389,588 | | | 12,389,588 | 10,949,194 |
| Auxiliary enterprises | 12,883,355 | | | 12,883,355 | 12,773,351 |
| Total expenses and losses | 73,198,142 | - | - | 73,198,142 | 70,257,030 |
| (DECREASE) INCREASE IN NET ASSETS FROM OPERATING ACTIVITIES | (1,363,890) | 3,458,692 | 1,307,007 | 3,401,809 | 2,545,094 |
| NONOPERATING: | | | | | |
| Investment return not designated for current operations (Note 3) | 5,646,648 | 14,961,557 | 1,240,858 | 21,849,063 | 9,541,077 |
| Change in value of split-interest agreements | (319,974) | (283,648) | (280,718) | (884,340) | (777,903) |
| Loss on refinancing | (947,632) | | | (947,632) | |
| INCREASE IN NET ASSETS | 3,015,152 | 18,136,601 | 2,267,147 | 23,418,900 | 11,308,268 |
| NET ASSETS — Beginning of year | 97,627,602 | 59,137,418 | 74,147,039 | 230,912,059 | 219,603,791 |
| NET ASSETS — End of year | $ 100,642,754 | $ 77,274,019 | $ 76,414,186 | $ 254,330,959 | $ 230,912,059 |

See notes to financial statements.

# ALLEGHENY COLLEGE

## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| (Decrease) increase in net assets | $ (9,806,642) | $ 23,418,900 |
| Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,307,527 | 6,320,492 |
| Loss on refinancing | | 947,632 |
| Noncash contributions | (29,700) | (52,924) |
| Realized and unrealized losses (gains) on investments | 3,936,413 | (28,837,665) |
| Contributions restricted for long-term investment and investment in plant | (3,486,955) | (4,127,480) |
| Investment gain restricted for long-term investment | (119,838) | (90,873) |
| Change in value of split-interest agreements | 782,338 | 884,340 |
| Change in value of swap agreement | 2,043,893 | |
| Changes in assets and liabilities: | | |
| Accounts receivable | (573,127) | 251,380 |
| Contributions receivable | 2,335,436 | 4,473,815 |
| Other assets | 370,642 | (850,571) |
| Accounts payable and other liabilities | 865,711 | (251,315) |
| Net cash provided by operating activities | 2,625,698 | 2,085,731 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of land, buildings, and equipment | (6,686,357) | (7,201,253) |
| Proceeds from sales of investments | 34,678,997 | 45,742,859 |
| Purchases of investments | (29,401,468) | (36,268,148) |
| Investment gain restricted for long-term investment | 119,838 | 90,873 |
| Net cash (used in) provided by investing activities | (1,288,990) | 2,364,331 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from contributions restricted for long-term investment and investment in plant | 226,645 | 436,917 |
| Payments on annuity obligations | (817,507) | (803,033) |
| Cost of issuance paid | | (121,769) |
| New borrowings | | 26,386,313 |
| Repayments of borrowings | (1,123,287) | (28,335,850) |
| Net cash used in financing activities | (1,714,149) | (2,437,422) |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (377,441) | 2,012,640 |
| CASH AND CASH EQUIVALENTS — Beginning of year | 7,782,364 | 5,769,724 |
| CASH AND CASH EQUIVALENTS — End of year | $ 7,404,923 | $ 7,782,364 |
| SUPPLEMENTAL CASH FLOW INFORMATION — Cash paid during the year for interest | $ 2,281,949 | $ 2,463,922 |

See notes to financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** — Allegheny College (the "College") is a four-year coeducational college fully accredited by the Middle States Association of Colleges and Secondary Schools. The College generates its operating revenues generally from student tuition fees and gifts. The College's students are primarily from the states of Pennsylvania, New York, and Ohio. The College is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Basis of Presentation** — The College classifies net assets, revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the College and changes therein are classified and reported as follows:

*Unrestricted Net Assets* — Net assets that are not subject to donor-imposed stipulations.

*Temporarily Restricted Net Assets* — Net assets subject to donor-imposed stipulations or restricted by law that may or will be met either by actions of the College and/or the passage of time.

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

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 unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law.

**Cash and Cash Equivalents** — The College considers all short-term investments with a maturity at the date of acquisition of three months or less and that are not intended for long-term or restricted purposes to be cash equivalents.

**Contributions** — Contributions are recognized when the donor makes a promise to give to the College that is, in substance, unconditional. Noncash contributions are valued at the fair value of the asset contributed at the date of the contribution. Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on existence of donor restrictions and nature of restrictions, if they exist.

Contributions restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is met or expires, temporarily restricted net assets are released to unrestricted net assets.

Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are calculated using a risk-free rate of return.

Substantially all of the temporary restrictions on assets as of June 30, 2012 and 2011, relate to amounts given to the College for future capital additions, loans and scholarships to students, or unexpended gains under Pennsylvania Trust Law. Permanently restricted net assets consist of endowment fund investments to be held indefinitely, certain split-interest agreements, and certain trusts held and administered by others.

**Agency Transactions** — The College receives resources in certain transactions where it is acting as an intermediary for the resource providers. The resources are then delivered to third parties. These transactions are recognized as changes in assets and liabilities and do not affect the statements of activities.

**Accounts and Other Receivables** — Accounts receivable represent the balance of unpaid student tuition charges and miscellaneous receivables owed to the College.

**Allowance for Doubtful Accounts** — The allowance for doubtful accounts is determined by management based on the College's historical losses, specific circumstances, and general economic conditions. Periodically, management reviews receivables and records an allowance. Receivables are charged off against the allowance when all attempts to collect the receivables have failed.

**Inventories** — Inventories are stated at the lower of cost (first-in, first-out basis) or market.

**Investments and Investment Income** — Investments are reported at fair values. Investments received from donors as gifts are recorded at fair value at the date of gift. Investment return includes interest, dividends, and both realized and unrealized gains and losses.

The College's investments comprise the College's endowment and other investments held for general operating purposes. Level 1 investments are defined as marketable securities, including mutual funds, and are reported at fair values based on quoted active market prices. Level 2 investments, including international equity funds and bond funds, are reported based on observable prices not quoted on active exchanges or readily determinable fair values based on comparable market data.

Level 3 investments, including real estate and other less marketable investments that have unobservable fair value and liabilities, are recorded at fair value based on appraisals or recent comparable financial activity. Investments with greater than 20% ownership are reported under the equity method of accounting. Level 3 investments include marketable alternatives, real assets, and private equities. Marketable alternatives include (i) event-driven strategies, such as merger arbitrage and distressed security investing, and (ii) value-driven strategies, such as long/short, market neutral, and other types of hedge funds. Private equities are underlying assets that are nonmarketable equity or equity-like securities. Private equities include equity, mezzanine, and subordinated debt holdings in venture capital, buyout, and recapitalized companies or properties. Real assets are assets whose income streams and/or market values tend to rise with inflation; they include U.S. Treasury inflation-indexed bonds, real estate, and natural resources, such as oil and gas, timber, and other commodities.

Level 3 investments are reported at fair value as of June 30, 2012 and 2011, based on reported information received from the managers of these funds. These valuations include assumptions and methods that were reviewed by College management. The College believes that the carrying amount of its Level 3 investments is a reasonable estimate of fair value as of June 30, 2012 and 2011. When readily determinable fair value does not exist (such as investments not listed on national exchanges or over-the-counter markets or do not have comparable market data), and although College management makes every reasonable effort to ensure the accuracy of fair value, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed, and such differences could be material. Most of the College's Level 3 investments are highly liquid and can be redeemed in 90 days or less.

**Pennsylvania Trust Law's "Total Investment Return Policy**" — The Board of Trustees, in accordance with Pennsylvania Trust Law's "Total Investment Return Policy," designates only a portion of the College's cumulative investment return for support of current operations. The amount computed under the endowment spending policy and nonendowment investment income is used to support current operations. The spendable return on endowment, as calculated based on the 12-quarter average market value of the endowment, was 5.0% for both 2012 and 2011. Additionally, the College's Board of Trustees may specifically authorize an amount for fundraising spending, which is also classified as current operating, up to a maximum of 7% in total. The total spendable return on endowment was 5.5% and 5.1% for 2012 and 2011, respectively. The remaining endowment income (loss) is recorded as nonoperating investment return not designated for current operations.

**Land, Buildings, and Equipment** — Land, buildings, and equipment are stated at cost at date of acquisition (in the case of gifts, fair value at date of donation), less accumulated depreciation. Interest expense is capitalized on qualifying assets during the period necessary to ready the asset for its intended use. Interest capitalized is net of interest earnings, if any, from proceeds of tax-exempt borrowings for the respective projects. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. The estimated useful lives of buildings and equipment are summarized as follows:

| | |
|---|---|
| Buildings and improvements | 20–50 years |
| Equipment and fixtures | 3–10 years |
| Vehicles | 3 years |

The College reviews its land, buildings, and equipment for impairment when events or changes in circumstances may indicate that the carrying amount of these assets may not be recoverable. No impairment charges were recorded by the College in 2012 or 2011. Repairs, maintenance, and minor replacements of existing facilities are charged to expense as incurred.

**Split-Interest Agreements and Trusts Held by Others** — The College's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and gift annuities for which the College serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or beneficiaries. The liabilities are adjusted during the terms of the trusts for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

The College is also the beneficiary of certain trusts held and administered by others. The College's portion of the fair market value of the underlying assets of these trusts and the net realized and unrealized gains (losses) of trusts held by others are primarily recorded in permanently restricted net assets. Trusts that permit the principal of the trust to be invaded and distributed to the College are recorded in temporarily restricted net assets. The College considers these trusts held by others to be a Level 2 measurement.

**Fund-Raising Expense** — The College includes fund-raising expenses in institutional support. These expenses are $4,181,612 and $3,535,812 in 2012 and 2011, respectively. Included in these amounts are approximately $535,326 and $547,293, respectively, which are the allocated portion (joint costs) of fund-raising costs for activities that include program and other components.

**Use of Estimates and Assumptions** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Risks and Uncertainties** — The College utilizes various investment instruments that are exposed to risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements and accompanying notes.

**Taxes** — The College adopted the Financial Accounting Standards Board (FASB) guidance for accounting for uncertainty in income taxes, which provides criteria for the recognition and measurement of uncertain tax positions. This guidance requires that an uncertain tax position should be recognized only if it is "more likely than not" that the position is sustainable based on its technical merits. Recognizable tax positions should then be measured to determine the amount of benefit recognized in the financial statements. The College files U. S. federal, state, and local information returns, and no returns are currently under examination. The statute of limitations on the College's U. S. federal tax returns remains open for the years ended June 30, 2008 through the present. The College continues to evaluate its tax positions pursuant to the principles of FASB guidance and has determined that there is no material impact on the College's financial statements.

**Newly Adopted Accounting Pronouncement** — In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures*, which amends Accounting Standards Codification (ASC) 820, adding new disclosure requirements for Levels 1 and 2; separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements; and clarification of existing fair value disclosures. ASU No. 2010-06 was effective for periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which was effective for fiscal years beginning after December 15, 2010. See additional disclosures related to the new disclosure requirements for Level 3 at Note 3.

**New Accounting Standards to Be Adopted** — In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amends ASC 820. ASU 2011-04 also requires the categorization by level for items that are only required to be disclosed at fair value and information about transfers between Level 1 and Level 2. In addition, the ASU provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The ASU requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The new guidance is effective for reporting periods beginning after December 15, 2011. The adoption will not have a material effect on the financial statements. The College has not determined the impact on the disclosures in the financial statements.

## 2. RECEIVABLES

Student accounts receivable as of June 30, 2012 and 2011, consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Student accounts receivable | $ 563,934 | $ 368,620 |
| Less allowance for uncollectable accounts | (180,775) | (160,000) |
| Net student accounts receivable | $ 383,159 | $ 208,620 |

The Board budgets for direct write-offs at the beginning of the year. In order to create the allowance, the College performs a student-by-student review for internal and external collection accounts. Once the analysis is complete, an allowance percentage is placed on each age and type for all internal and external collection accounts.

Contributions receivable as of June 30, 2012 and 2011, are promises to give from various donors that are unconditional. The net present value of the contributions receivable as of June 30, 2012 and 2011, is as follows:

| | 2012 | 2011 |
|---|---|---|
| Amounts due in: | | |
| Less than one year | $ 1,643,167 | $ 1,672,590 |
| One to five years | 2,138,509 | 3,633,509 |
| Greater than five years | 40,000 | 6,770,000 |
| Total contributions receivable | 3,821,676 | 12,076,099 |
| Unamortized discounts and allowances | (836,156) | (10,045,153) |
| Net contributions receivable | $ 2,985,520 | $ 2,030,946 |

The College received a $1,000,000 pledge in May 2005 as a challenge grant, which is a conditional contribution. The challenge grant is being recognized as revenue when the matching contributions are made. As of both June 30, 2012 and 2011, $905,000 has been recognized as revenue.

**Student Loans Receivable** — The College makes loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources.

As of June 30, 2012 and 2011, student loans consisted of the following:

| | 2012 | 2011 |
|---|---|---|
| Student accounts receivable | $ 7,589,407 | $ 7,492,356 |
| Less allowance for doubtful accounts | (732,385) | (1,046,385) |
| Student loans receivable — net | $ 6,857,022 | $ 6,445,971 |

The College participates in the Perkins federal loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Outstanding loans canceled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. As of June 30, 2012 and 2011, the following are the past due principal amounts under the student loan program:

| | 2012 | 2011 |
|---|---|---|
| 1–60 days past due | $ 26,291 | $ 21,991 |
| 60–120 days past due | 3,344 | 2,753 |
| 120+ days past due | 557,139 | 496,171 |
| Total past due | $ 586,774 | $ 520,915 |

Allowances for doubtful accounts are established based on prior collection experience and current economic factors that, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

## 3. INVESTMENTS

Investments are carried at fair value of $169,238,633 and $178,452,575 as of June 30, 2012 and 2011, respectively. The aggregate carrying value of investments, exclusive of cash equivalents, as of June 30, 2012 and 2011, are summarized as follows: Level 1 investments include values based on quoted prices in active markets; Level 2 investments include values based on observable prices that are not quoted on active exchanges or readily determinable fair values based on comparable market data; and Level 3 investments include values based on unobservable fair values and liabilities of those investments. Equity-method investments include values of College holdings that are greater than 20% in individual ownership.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Endowment** | **Other** | **Endowment** | **Other** |
| Level 1 — quoted prices in active markets: | | | | |
| Mutual funds: | | | | |
| Money market | $ 2,635,034 | $ 7,445,686 | $ 627,903 | $ 9,520,044 |
| U.S. equity large cap | 14,413,788 | 5,523,277 | 17,884,366 | 5,423,820 |
| U.S. equity mid cap | 12,304,586 | 253,010 | 13,532,140 | 256,179 |
| U.S. equity small cap | 4,496,698 | 1,482,233 | 4,648,985 | 1,613,026 |
| Global ex. U.S. equity | 29,275,682 | 1,319,113 | 32,625,479 | 1,414,901 |
| Fixed income and bond | | 5,324,729 | | 5,428,827 |
| Total Level 1 | 63,125,788 | 21,348,048 | 69,318,873 | 23,656,797 |
| Level 2 — significant observable inputs: | | | | |
| U.S. Treasury inflation protected securities (TIPS) | | | 7,687,140 | |
| U.S. government/credit securities | 22,508,964 | | 14,580,240 | |
| Emerging markets | 2,815,561 | | 3,260,438 | |
| Total Level 2 | 25,324,525 | - | 25,527,818 | - |
| Level 3 — significant unobservable inputs: | | | | |
| Venture capital/private equity | 9,838,619 | | 8,918,524 | |
| Debt funds | 7,551,505 | | 9,157,661 | |
| Private real estate | 9,770,385 | | 8,846,349 | |
| Hedge funds | 24,043,575 | | 24,379,763 | |
| Real assets | 6,861,752 | | 7,355,512 | |
| Total Level 3 | 58,065,836 | - | 58,657,809 | - |
| Equity-method investment | | 1,374,436 | | 1,291,278 |
| Total endowment and other investments | $ 146,516,149 | $ 22,722,484 | $ 153,504,500 | $ 24,948,075 |
| Total investments summary: | | | | |
| Endowment | | $ 146,516,149 | | $ 153,504,500 |
| Other | | 22,722,484 | | 24,948,075 |
| Total investments | | $ 169,238,633 | | $ 178,452,575 |

Potential capital calls related to Level 3 investments were approximately $13,200,000 as of June 30, 2012.

There were no significant transfers in or out of Levels 1, 2, or 3 for the years ended June 30, 2012 or 2011.

A reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) for the years ended June 30, 2012 and 2011, is as follows (in thousands):

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | V/C and P/E | Debt Funds | Private Real Estate | Hedge Funds | Real Assets | Total |
| Balance — beginning of year | $ 8,919 | $ 9,158 | $ 8,846 | $ 24,380 | $ 7,355 | $ 58,658 |
| Realized gains (losses) | 945 | (115) | 239 | (75) | (40) | 954 |
| Unrealized gains (losses) | 60 | (492) | 549 | (261) | (653) | (797) |
| Return of capital | (615) | | (841) | | | (1,456) |
| Purchases | 1,440 | | 1,001 | | 200 | 2,641 |
| Sales | (1,525) | (1,000) | (835) | | | (3,360) |
| Settlements | 615 | | 811 | | | 1,426 |
| Balance — end of year | $ 9,839 | $ 7,551 | $ 9,770 | $ 24,044 | $ 6,862 | $ 58,066 |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | V/C and P/E | Debt Funds | Private Real Estate | Hedge Funds | Real Assets | Total |
| Balance — beginning of year | $ 7,795 | $ 9,668 | $ 6,899 | $ 19,689 | $ 6,657 | $ 50,708 |
| Realized gains (losses) | | 25 | (24) | 910 | 146 | 1,057 |
| Unrealized gains | 453 | 965 | 663 | 3,615 | 2,092 | 7,788 |
| Return of capital | (764) | | (222) | | | (986) |
| Purchases | 1,435 | | 1,530 | 2,166 | | 5,131 |
| Sales | | (1,500) | | (2,000) | (1,540) | (5,040) |
| Balance — end of year | $ 8,919 | $ 9,158 | $ 8,846 | $ 24,380 | $ 7,355 | $ 58,658 |

Management fees are included in realized gains (losses) in the table above. The amount total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date.

The total investment pool provides daily liquidity for 55.4% of the holdings. Of Level 3 investments, real assets offer daily liquidity, while debt funds and hedge funds (approximately 16.4% of total investments) offer quarterly liquidity. Venture capital/private equity and private real estate, representing 18.8% of total investments, have liquidity requirements greater than 90 days.

Individual endowment funds within the College's consolidated endowment pool had fair values less than the individual principal values by approximately $1,564,000 and $570,000 as of June 30, 2012 and 2011, respectively. This represents 1.06% of the $146,516,149 fair value of the total 2012 endowment pool and 0.35% of the $153,504,500 fair value of the total 2011 endowment pool, respectively.

As of June 30, 2012 and 2011, there were no significant concentrations of investments as no individual investment exceeded 10% of total assets.

In determining fair value, the College uses various approaches. The ASC on fair value measurements establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset based on market data obtained from sources independent of the organization. Unobservable inputs are inputs that would reflect an organization's assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

*Level 1* — Valuations based on quoted market prices in active markets for identical assets that the organization has the ability to access. Since valuations are based on quoted market prices that are readily available in the active market, valuation of these products does not entail a significant degree of judgment.

*Level 2* — Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

*Level 3* — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable in the market, the determination of fair value requires more judgment.

The College uses prices and inputs that are current as of the measurement date obtained through multiple third-party custodians from independent pricing services.

A description of the valuation techniques applied to the major categories of investments measured at fair value is outlined below.

The fair value of common, preferred, and foreign stocks are valued using quoted market prices in active markets. Such actively traded securities are categorized in Level 1 of the fair value hierarchy.

Mutual funds are open-ended Securities and Exchange Commission registered funds with daily net asset values (NAV). The mutual funds allow investors to sell their interest to the fund at a published daily NAV, with no restrictions on redemptions. These mutual funds are categorized in Level 1 of the fair value hierarchy.

Government securities, government agency securities, corporate fixed-income securities, and asset-backed mortgage securities including residential mortgage-backed securities, commercial mortgage-backed securities, and other securitized assets are categorized in Level 2 of the fair value hierarchy as the fair value is based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Limited liability partnerships are partnerships created and administered by a general partner who invests either directly in a specified investment strategy or indirectly through other limited liability partnerships in a so-called "fund of funds." The underlying investments of these funds can be actively traded securities in the case of certain hedge fund strategies or illiquid and privately held equity investment, as in the case of private equity investments, private real estate, hedge fund strategies, or real assets. The partnership documents outline the terms and conditions by which the general partner administers the partnership and its investments. Each limited partner owns a specified share of the partnership. These partnerships cannot be marketed to the public and are restricted, by regulation, to qualified investors. The underlying investments of these partnerships include many different types of investments, including interest rate swaps, commercial paper, foreign currency, private equity, short interest in common stock, and convertible bonds. The valuation of the partnership interest typically is performed at least quarterly by the general partner through unaudited statements and validated through annual audited financial statements. In certain partnerships, the readily available data on market values allows for monthly valuation of the partnership interest. As such, these partnerships are categorized in Level 3 of the fair value hierarchy.

There has been no significant change in valuation techniques of investments during either year.

A breakdown of total investment return for the years ended June 30, 2012 and 2011, are as follows:

| **Total Investment Return** | **2012** | **2011** |
|---|---|---|
| Interest and dividends earnings | $ 2,398,760 | $ 1,695,779 |
| Realized and unrealized (losses) gains | (3,896,220) | 29,132,359 |
| Fees and other expenses | (1,008,554) | (1,067,571) |
| Total investment (loss) gain | (2,506,014) | 29,760,567 |
| Total investment return policy amount designated for current operations | 8,031,241 | 7,911,504 |
| Total investment (loss) gain not designated for current operations | $ (10,537,255) | $ 21,849,063 |

| **Endowment Pennsylvania Trust Law Spending** | **2012** | **2011** |
|---|---|---|
| Total Pennsylvania Trust Law spending | $ 7,085,094 | $ 7,587,244 |
| Fundraising spending | 877,795 | 177,795 |
| Total endowment spending | 7,962,889 | 7,765,039 |
| Unrestricted investment return | 68,352 | 146,465 |
| Investment return designated for current operations | $ 8,031,241 | $ 7,911,504 |

## 4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment as of June 30, 2012 and 2011, consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Land | $ 15,112,266 | $ 13,251,263 |
| Buildings and improvement | 165,949,373 | 164,467,129 |
| Furniture, fixtures, and equipment | 15,397,542 | 14,945,732 |
| Computer equipment | 11,293,598 | 11,219,349 |
| Scientific equipment | 8,717,793 | 8,448,683 |
| Vehicles | 463,540 | 454,262 |
| Works of art | 1,754,805 | 1,725,105 |
| Construction-in-progress | 5,753,413 | 2,921,467 |
| Total land, buildings, and equipment | 224,442,330 | 217,432,990 |
| Less accumulated depreciation | (96,143,064) | (89,874,190) |
| Net land, buildings and equipment | $ 128,299,266 | $ 127,558,800 |

The College maintains various collections of inexhaustible assets to which at times no value can be determined. Such collections could include contributed works of art, historical treasures, literature, and the like that are held for exhibition and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not capitalized or recognized for financial statement purposes.

Depreciation expense amounted to $6,277,653 and $6,267,134 for the years ended June 30, 2012 and 2011, respectively.

Construction-in-progress includes approximately $633,000 and $301,000 of obligations not paid as of June 30, 2012 and 2011, respectively. There was no capitalized interest in 2012 and there was $94,000 in 2011.

## 5. ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Under the provisions of ASC 410-20, *Asset Retirement and Environmental Obligations*, the College is obligated to record a liability for conditional asset retirement obligations. The College performed an analysis of such obligations and determined that asbestos remediation costs represented the College's primary source of such liabilities. The College reviewed all facilities and determined the timing, method, and cost of asbestos remediation using a variety of assumptions and estimates. The analysis included an estimated inflation factor and discount rate, which were used to determine the present value of the obligation. The cumulative cost of asset remediation is amortized over the remaining useful life of the affected asset. The liability related to conditional asset remediation obligations as of June 30, 2012 and 2011, is included in accrued liabilities in the accompanying statements of financial position as follows:

| | 2012 | 2011 |
|---|---|---|
| Beginning balance | $ 863,908 | $ 824,104 |
| Accretion | 41,727 | 39,804 |
| Remediation | | |
| Ending balance | $ 905,635 | $ 863,908 |

## 6. BORROWING ARRANGEMENTS

Bonds and notes payable as of June 30, 2012 and 2011, consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Refinancing note payable to bank, quarterly variable interest payments, swapped to fixed-rate payments | $ 25,062,176 | $ 25,890,463 |
| College Revenue Bonds Series 2006 — capital improvement (net of unamortized discount of $106,681 in 2012 and $111,205 in 2011) | 13,893,319 | 13,888,795 |
| College Revenue Bonds Series 2009 — capital improvement (net of unamortized discount of $192,631 in 2012 and $199,810 in 2011) | 17,517,369 | 17,805,190 |
| Net bonds and notes payable | $ 56,472,864 | $ 57,584,448 |

On December 15, 2010, the College obtained a bank loan in the amount of $26,386,313 (the "2010 Refinancing Note"). The proceeds of the 2010 Refinancing Note were used to (i) refund the Pennsylvania Higher Educational Facilities Authority Bonds Series 1998 (the "Refinanced Bonds") and (ii) pay the cost of issuance of the 2010 Refinancing Note. The College recognized a loss on refinancing related to the write-off of unamortized bond issuance costs of $947,632. The 2010 Refinancing Note carries a variable rate of interest. Amounts outstanding under the 2010 Refinancing Note will bear interest at a rate per annum equal to the sum of 65% of London InterBank Offered Rate (LIBOR) in effect on each reset date plus 1.22%. There was an economic net present value savings of approximately $3 million. The 2010 Refinancing Note is a limited obligation of the College, as it is payable solely from net revenues. Principal and interest are payable in quarterly installments, which commenced March 1, 2011, with a final payment due on June 1, 2031. The Note agreement provides that the College maintain certain ratios and other covenants.

In addition, the College entered into a Rate Swap Transaction (RST) for the purpose of fixing the interest rate on the 2010 Refinancing Note at a rate of 3.315%. The RST was effective December 15, 2010, and will continue to June 1, 2031. The fair value of the RST as of June 30, 2012, was approximately $2,044,000 with a notational amount of $25,062,176. The fair value of the RST as of June 30, 2011, was approximately $25,000 with a notational amount of $26,185,862.

The Series 2009A and 2009B Bonds were issued through the Crawford County Industrial Development Authority. The Series 2009A Bonds require semiannual interest payments at fixed interest rates originally ranging from 2.375% to 6.00% and have maturity dates from 2010 to 2031. The Series 2009B Bonds require weekly variable interest calculations and monthly payments. The principal portion is payable in installments, which commenced on November 1, 2010, with final payment due November 1, 2039. The Bond agreement provides that the College maintain certain ratios and other covenants. As of June 30, 2012 and 2011, the College had approximately $836,000 of debt service reserve funds from the 2009 bond proceeds, which is included in investments.

The Series 2006 Bonds were issued through the Pennsylvania Higher Educational Facilities Authority. The Series 2006 Bonds require semiannual interest payments with two interest rates of 4.75% and 4.80%, with two maturity dates of 2031 and 2036, respectively. The principal portion is payable in installments, which will commence on May 1, 2028, with final payment due May 1, 2036. The Bond agreement provides that the College maintain certain ratios and other covenants. As of June 30, 2012 and 2011, the College had approximately $1.3 million of debt service reserve funds from the 2006 bond proceeds, which is included in investments.

Scheduled payments in each of the next five fiscal years and thereafter are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 1,457,141 | $ 2,232,342 | $ 3,689,483 |
| 2014 | 1,506,305 | 2,183,714 | 3,690,019 |
| 2015 | 1,558,716 | 2,131,860 | 3,690,576 |
| 2016 | 1,611,689 | 2,079,438 | 3,691,127 |
| 2017 | 1,672,449 | 2,019,300 | 3,691,749 |
| Thereafter | 48,666,565 | 22,639,961 | 71,306,526 |
| TOTAL | $ 56,472,865 | $ 33,286,615 | $ 89,759,480 |

Interest expense was approximately $2,065,000 for 2012 and $2,143,500 for 2011.

## 7. LINE OF CREDIT

The College currently has available a $5,000,000 revolving line of credit, which is payable on demand. This line of credit is unsecured. Interest is payable monthly on the outstanding principal balance at the best rate option or LIBOR rate, plus 0.65% (0.8932% as of June 30, 2012). This line of credit may be canceled by either the lender or the College upon notification in writing to either party. There were no outstanding borrowings on the line of credit as of June 30, 2012 or 2011.

## 8. OPERATING LEASES

The College leases certain equipment for use by various instructional, administrative, and supporting departments. Minimum future rental commitments under noncancelable leases having an initial or remaining term in excess of one year as of June 30, 2012, are as follows:

| | |
|---|---|
| 2013 | $ 123,877 |
| 2014 | 87,282 |
| 2015 | 35,015 |
| 2016 | 9,217 |
| 2017 | 4,729 |
| Total | $ 260,120 |

Operating lease expense for the years ended June 30, 2012 and 2011, was $229,884 and $240,037, respectively.

## 9. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from temporary restrictions during fiscal years 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| Instructional | $ 1,854,215 | $ 1,755,730 |
| Research | 133,314 | 181,323 |
| Academic support | 714,398 | 582,759 |
| Student services | 728,398 | 532,732 |
| Institutional support | 502,314 | 300,731 |
| Scholarships | 3,250,719 | 3,096,938 |
| Capital additions | 239,114 | 293,619 |
| Satisfaction of time restriction and other | 6,592,829 | 835,925 |
| Total release of restrictions | $ 14,015,301 | $ 7,579,757 |

## 10. NET ASSETS

Unrestricted net assets as of June 30, 2012 and 2011, include the following:

| | 2012 | 2011 |
|---|---|---|
| Board Designated Endowment | $ 21,588,591 | $ 24,551,669 |
| Undesignated | 76,585,054 | 76,091,085 |
| Total unrestricted net assets | $ 98,173,645 | $ 100,642,754 |

Temporarily restricted net assets as of June 30, 2012 and 2011, include the following:

| | 2012 | 2011 |
|---|---|---|
| Education and general | $ 9,405,286 | $ 10,326,042 |
| Split-interest agreements | 1,917,074 | 2,368,017 |
| Trusts held by others | 16,744 | 16,793 |
| Capital additions, renovations and maintenance | 462,070 | 3,390,111 |
| Endowment — unexpended gains | 55,738,865 | 61,173,056 |
| Total temporarily restricted net assets | $ 67,540,039 | $ 77,274,019 |

Permanently restricted net assets as of June 30, 2012 and 2011, include the following:

| | 2012 | 2011 |
|---|---|---|
| Endowment | $ 70,813,661 | $ 68,047,780 |
| Split-interest agreements | 1,417,297 | 1,435,167 |
| Trusts held by others | 6,579,675 | 6,931,239 |
| Total permanently restricted net assets | $ 78,810,633 | $ 76,414,186 |

Changes in endowment net assets for the years ended June 30, 2012 and 2011, are as follows:

| | 2012 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets — beginning of year | $ 24,551,669 | $ 61,173,056 | $ 68,047,780 | $ 153,772,505 |
| Investment (loss) | (168,130) | (298,898) | | (467,028) |
| Contributions — outright gifts and pledges — less changes in unamortized discounts and and allowances | 101,000 | | 2,765,881 | 2,866,881 |
| Appropriation for endowment assets for expenditure (spending funds) | (2,895,948) | (5,135,293) | | (8,031,241) |
| Endowment net assets — end of year | $ 21,588,591 | $ 55,738,865 | $ 70,813,661 | $ 148,141,117 |

| | 2011 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets — beginning of year | $ 20,402,750 | $ 46,818,824 | $ 66,722,139 | $ 133,943,713 |
| Investment return | 6,319,338 | 20,095,316 | 26,697 | 26,441,351 |
| Contributions — outright gifts and pledges — less changes in unamortized discounts and and allowances | | | 1,298,944 | 1,298,944 |
| Appropriation for endowment assets for expenditure (spending funds) | (2,170,419) | (5,741,084) | | (7,911,503) |
| Endowment net assets — end of year | $ 24,551,669 | $ 61,173,056 | $ 68,047,780 | $ 153,772,505 |

## 11. PELL GRANT AND PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY PROGRAMS

Activity of the Pell Grant and Pennsylvania Higher Education Assistance Agency programs is not reflected in the College's statements of activities. Students received approximately $2,348,000 and $2,256,000 from the federal Pell Grant and $1,690,000 and $1,385,000 from the Pennsylvania Higher Education Assistance Agency programs in the years ended June 30, 2012 and 2011, respectively.

## 12. EMPLOYEE BENEFITS

The College has defined contribution pension plans covering substantially all of its full-time employees. Contributions to these annuity funded plans amounted to approximately $2,040,000 and $1,907,000 for the years ended June 30, 2012 and 2011, respectively.

The College provides medical premium coverage at the option of employees who have completed 10 consecutive years of full-time employment and who have attained the age of 58 or upon retirement until they reach the age of 65. The College and employee each pay their same percentages of the premium monthly during the period after retirement as they did while the employee was working. The liability related to this postretirement benefit was approximately $155,000 and $233,000 as of June 30, 2012 and 2011, respectively, and is included in the accrued liabilities line on the accompanying statements of financial position.

## 13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments.

Contributions receivable are reported at the present value of estimated future receipts, which approximates fair value.

The carrying values of investments, trusts held by others, and remainder interest trusts are based primarily on quoted market prices. Where such quoted market prices are not available, audited financial statements, appraisals, or recent or comparable cost are used as an estimate of fair value.

The carrying value of split-interest obligations approximates fair value as the obligations are recorded at the net present value of estimated future payments.

Fair value of the bonds payable were calculated by discounting scheduled cash flows through the maturity of the bonds and notes using estimated market rates. As of June 30, 2012 and 2011, the fair value was greater than the carrying amount of these instruments by approximately $1,345,000 and $444,000, respectively.

## 14. COMMITMENTS AND CONTINGENCIES

As of June 30, 2012, the College had entered into various contracts for the construction and renovation of various campus facilities that have remaining commitments of approximately $864,000.

The College participates in the Guaranteed Access To Education (GATE) Loan Program, which is administered through a third-party vendor. Total potential commitments in excess of the expected contribution by the College to this program amount to approximately $1.6 million as of June 30, 2012.

In addition, the College receives significant financial assistance from governmental agencies in the form of grants. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in grant agreements and is subject to audit by grantor agencies. The grant agreements provide for possible auditing of expenditures by grantor agencies and possible disallowance of certain expenditures.

The College is involved in various legal proceedings, administrative actions, and claims arising in the normal course of business. In the opinion of management, the College’s liability, if any, under pending litigation and administrative actions will not materially affect its financial statements.

## 15. RELATED PARTIES

The College does business with two related parties who serve on the Board of Trustees. These relationships are disclosed annually and the financial arrangements are not considered material.

## 16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 17, 2012, the date the financial statements were issued.

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