King's College

Financial Statements

June 30, 2010 and 2009

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ParenteBeard

Independent Auditors' Report

Board of Directors
King's College

We have audited the accompanying statement of financial position of King's College (the "College") as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King's College as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
October 4, 2010

King's College

Statement of Financial Position
June 30, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 335,137	$ 820,075
Short-term investments	2,362,012	2,456,434
Accounts receivable:		
Students, net	951,172	1,001,414
Other	875,335	1,006,144
Contributions receivable	3,329,766	1,416,696
Prepaids and other	364,546	365,308
Total current assets	8,217,968	7,066,071
Noncurrent Assets		
Contributions receivable, net	3,027,710	6,065,138
Deferred financing costs	426,543	455,546
Investments	42,938,265	39,826,759
Student and other loans receivable	2,488,108	2,483,922
Land, buildings and equipment, net	80,506,495	79,422,907
Beneficial interest in perpetual trusts	5,440,886	4,360,632
Total assets	$ 143,045,975	$ 139,680,975
Liabilities And Net Assets		
Current Liabilities		
Current portion of bonds payable	$ 1,510,000	$ 1,470,000
Accounts payable and accrued liabilities	5,259,817	4,638,491
Deferred revenue and deposits	1,889,041	1,992,736
Agency funds payable	569,756	554,019
Total current liabilities	9,228,614	8,655,246
Noncurrent Liabilities		
Bonds payable (including bond premium of $313,514 and $353,193 at June 30, 2010 and 2009, respectively)	33,973,514	35,523,193
Interest rate swap	2,957,647	1,749,612
Refundable advances from federal government for student loans	1,970,014	1,978,276
Total liabilities	48,129,789	47,906,327
Net Assets		
Unrestricted	51,991,609	51,391,016
Temporarily restricted	16,142,033	15,521,589
Permanently restricted	26,782,544	24,862,043
Total net assets	94,916,186	91,774,648
Total liabilities and net assets	$ 143,045,975	$ 139,680,975

See notes to financial statements

King's College

Statement of Activities
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees, (net of college financial aid of $20,701,101)	$ 35,203,257	$ -	$ -	$ 35,203,257
Auxiliary enterprises	10,954,070	-	-	10,954,070
Private gifts and grants	762,245	2,177,354	-	2,939,599
Investment income	2,596,199	241,033	-	2,837,232
Federal and state grants	1,556,514	-	-	1,556,514
Other sources	165,339	-	-	165,339
Net assets released from restrictions:				
Satisfaction of program restrictions	1,984,175	(1,984,175)	-	-
Expiration of time restrictions	638,527	(638,527)	-	-
Total operating revenues	53,860,326	(204,315)		53,656,011
Operating Expenses				
Instructional	19,445,038	-	-	19,445,038
Student services	9,039,865	-	-	9,039,865
Institutional support	6,786,902	-	-	6,786,902
Auxiliary enterprises	9,159,578	-	-	9,159,578
Academic support	5,706,703	-	-	5,706,703
Student aid	249,274	-	-	249,274
Public services	1,166,634	-	-	1,166,634
Fund raising	1,145,634	-	-	1,145,634
Total operating expenses	52,699,628	-	-	52,699,628
Change in net assets from operating activities	1,160,698	(204,315)	-	956,383
Nonoperating				
Net realized and unrealized gains on investments	647,930	824,759	-	1,472,689
Unrealized loss on interest rate swaps	(1,208,035)	-	-	(1,208,035)
Contributions	-	-	840,247	840,247
Contribution of beneficial interest in perpetual trusts	-	-	665,656	665,656
Changes in beneficial interest in perpetual trusts	-	-	414,598	414,598
Change in net assets	600,593	620,444	1,920,501	3,141,538
Net Assets, Beginning	51,391,016	15,521,589	24,862,043	91,774,648
Net Assets, Ending	$ 51,991,609	$16,142,033	$ 26,782,544	$ 94,916,186

See notes to financial statements

King's College

Statement of Activities
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees, (net of college financial aid of $19,337,463)	$ 34,762,742	$ -	$ -	$ 34,762,742
Auxiliary enterprises	10,182,065	-	-	10,182,065
Private gifts and grants	1,432,896	2,122,303	-	3,555,199
Investment income	2,440,798	295,531	-	2,736,329
Federal and state grants	1,744,817	-	-	1,744,817
Other sources	210,936	-	-	210,936
Net assets released from restrictions:				
Satisfaction of program restrictions	1,034,941	(1,034,941)	-	-
Expiration of time restrictions	651,438	(651,438)	-	-
Total operating revenues	52,460,633	731,455	-	53,192,088
Operating Expenses				
Instructional	18,950,035	-	-	18,950,035
Student services	8,839,529	-	-	8,839,529
Institutional support	6,569,023	-	-	6,569,023
Auxiliary enterprises	7,978,322	-	-	7,978,322
Academic support	5,679,276	-	-	5,679,276
Student aid	227,350	-	-	227,350
Public services	1,010,663	-	-	1,010,663
Fund raising	1,258,684	-	-	1,258,684
Total operating expenses	50,512,882	-	-	50,512,882
Change in net assets from operating activities	1,947,751	731,455	-	2,679,206
Nonoperating				
Net realized and unrealized losses on investments	(7,705,118)	(10,610,509)	-	(18,315,627)
Unrealized loss on interest rate swaps	(575,492)	-	-	(575,492)
Contributions	-	-	335,492	335,492
Contribution of beneficial interest in perpetual trusts	-	-	1,299,563	1,299,563
Changes in beneficial interest in perpetual trusts	-	-	(822,737)	(822,737)
Change in net assets	(6,332,859)	(9,879,054)	812,318	(15,399,595)
Net Assets, Beginning	57,723,875	25,400,643	24,049,725	107,174,243
Net Assets, Ending	$ 51,391,016	$ 15,521,589	$ 24,862,043	$ 91,774,648

See notes to financial statements

King's College

Statement of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	$ 3,141,538	$ (15,399,595)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,565,246	3,371,815
Net realized and unrealized losses on investments	(1,472,689)	18,315,627
Restricted contributions	(3,017,601)	(2,457,795)
Contribution of beneficial interest in perpetual trust	(665,656)	(1,299,563)
Change in beneficial interest in perpetual trusts	(414,598)	822,737
Unrealized loss on interest rate swap	1,208,035	575,492
Bad debt expense	181,258	59,374
Amortization of bond premium	(39,679)	(39,679)
Loss on disposal of equipment	-	1,098
Changes in assets and liabilities:		
Short-term investments	94,422	805,594
Accounts receivable	(1,320)	(209,350)
Contributions receivable	(29,172)	(214,885)
Prepaids and other	762	151,552
Accounts payable and accrued liabilities	269,694	343,553
Agency funds payable	15,737	85,707
Deferred revenue and deposits	(103,695)	(174,092)
Net cash provided by operating activities	2,732,282	4,737,590
Cash Flows from Investing Activities		
Purchase of land, buildings, and equipment	(4,268,199)	(6,218,299)
Decrease in deposits with bond trustees	-	39,032
Purchase of investments	(11,404,420)	(19,822,782)
Proceeds from sale of investments	9,765,603	18,592,842
Disbursements of student and other loans	(355,989)	(356,130)
Repayments of student and other loans	351,803	629,531
Net cash used in investing activities	(5,911,202)	(7,135,806)
Cash Flows from Financing Activities		
Repayment of capital leases	-	(15,420)
Repayment of bonds payable	(1,470,000)	(1,375,000)
Proceeds from issuance of long term debt	-	300,000
Proceeds from restricted contributions	4,172,244	2,627,417
Net advance from federal government for student loans	(8,262)	(318,192)
Net cash provided by financing activities	2,693,982	1,218,805
Net change in cash and cash equivalents	(484,938)	(1,179,411)
Cash and Cash Equivalents, Beginning	820,075	1,999,486
Cash and Cash Equivalents, Ending	$ 335,137	$ 820,075
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,418,685	$ 1,556,897
Supplemental Disclosure of Noncash Investing and Financing Activities		
Fixed assets in accounts payable	$ 1,084,084	$ 732,452

See notes to financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

King's College (the "College") is a not-for-profit educational institution which provides undergraduate, graduate and professional education to its students. The College was founded in 1946 by the Congregation of Holy Cross as an independent four-year institution of higher education. The College welcomes students into its community without regard to gender, race, religion, disability or national origin, and seeks to assist talented students of modest financial means.

The College seeks to develop mutually beneficial and cooperative ties to the wider society, and particularly to the civic, cultural, and religious communities of Northeastern Pennsylvania. The broader community offers resources that support and compliment the educational mission of the College, which in turn is a resource to the community through the specialized competencies of its faculty and staff, the volunteer service of students, and through a diverse series of public lectures and religious, cultural and athletic events.

The College has 2,645 students of whom 1,966 are full time undergraduates. Approximately 72% of the College's present full-time undergraduate student body is comprised of representatives from Pennsylvania, 15% from New Jersey, and 7% from New York. The balance is from other states and countries.

During the years ended June 30, 2010 and 2009, the College provided student financial aid from internal resources of approximately $20,701,000 and $19,337,000, respectively, which represented approximately 37% of gross tuition and fee revenue for 2010 and 36% for 2009.

The College evaluated subsequent events for recognition or disclosure through October 4, 2010, the date the financial statements were issued. Management is not aware of any events that would require recognition or disclosure except as disclosed in Note 8.

Donor-Restricted Gifts/Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support which increases those net asset classes. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions, satisfaction of program restrictions. However, if a restriction is satisfied in the same fiscal period in which the contribution is received, the College reports the support as unrestricted.

Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Discounts on those amounts are computed using a risk-adjusted interest rate applicable to individual donors as determined by management. Risk adjusted rates are determined based on an analysis of individual donors ability to satisfy the obligations and current market rates. Amortization of the discount is included in contribution revenue.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the College considers all highly liquid investments, with original maturities of 90 days or less, to be cash equivalents.

Accounts Receivable

Students accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based on the College's historical losses and periodic review of individual accounts.

Investments

Equity securities are valued at fair value based on quoted market prices as reported by the College's investment custodians. The alternative investments, which are not readily marketable, are carried at net asset values as provided by the investment managers. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used to determine the fair value of the alternative investments. The estimated fair values include assumptions made by management which could have differed significantly had an active market for these securities existed. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

The College's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor imposed stipulations.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, or estimated cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (25-50 years) and furniture and equipment (3-10 years). Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Deferred Revenue

Tuition, fees, and room and board from currently enrolled students is billed in advance and is recognized as revenue when earned.

Deferred Financing Costs

Costs incurred in connection with debt financing have been deferred and are amortized over the term of the related loans using the straight-line method which approximates the interest method. Amortization expense was approximately $29,000 in 2010 and 2009.

Refundable Advances

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenue when the College has incurred expenses in compliance with the contract. Amounts received but not yet earned are reported as refundable advances.

Income Taxes

The Internal Revenue Service has ruled that the College is tax-exempt as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

The College accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined that there were no tax uncertainties that met recognition threshold in fiscal year 2010.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

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

The College's federal Exempt Organization Business Income Tax Returns for 2008, 2007, and 2006 remain subject to examination by the Internal Revenue Service.

Use of Estimates

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. It also requires 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 management's estimates.

Derivative Financial Instrument

The College has entered into four interest rate swap agreements, which are considered derivative financial instruments, to manage its exposure on its variable rate bonds payable. The interest rate swap agreements are reported at fair value on the statement of financial position; related changes in fair value are reported in the changes in unrestricted net assets in the statement of activities as an unrealized loss on interest rate swaps in the amount of $1,208,035 and $575,492 in the years ended June 30, 2010 and 2009.

Title IV Requirements

The College participates in Government Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education (ED) for the payment of student tuitions. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2010 and 2009, are dependent upon the College's continued participation in the Title IV programs.

Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of and for the years ended June 30, 2010 and 2009, the College's composite score exceeded 1.5.

Investment Policy

The College has a formal investment policy that enables it to utilize a portion of investment return for operating purposes. The College's Board of Directors sets the level of distribution within the limitation imposed by Pennsylvania statute.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Nonoperating Activities

For the purpose of the statement of activities, the College considers its changes in net assets to be operational changes, except for changes related to realized and unrealized gains and losses on investments, net of the College spending policy, permanently restricted contributions, the change in value of beneficial interests in perpetual trusts and the College's interest rate swap agreements.

Advertising

Advertising expenses are recorded as incurred and were approximately $418,000 and $349,000 in 2010 and 2009, respectively.

Reclassification

Certain 2009 amounts have been reclassified to conform to the 2010 reporting format.

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board ("FASB") issued authoritative guidance regarding disclosures about derivative instruments and hedging activities. This guidance changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under current authoritative guidance, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The adoption of this guidance, which became effective July 1, 2009, did not have any impact on the College's financial statements but enhanced disclosure related to the College's derivative financial instruments.

In June 2009, the FASB established the FASB Accounting Standards Codification ("Codification") as the sole source of authoritative accounting principles generally accepted in the United States of America. As a result, all references to accounting literature will conform to the appropriate reference within the Codification. The adoption of the Codification, which became effective during September 2009, did not have any impact on the College's financial statements.

During 2010, the College adopted FASB guidance related to using net asset value as a practical expedient in estimation of certain alternative investments. This guidance had no effect on the College's financial statements, but enhanced disclosure with respect to these investments.

2. Accounts Receivable, Students

Students accounts receivable represent amounts due for tuition, fees, and room and board from currently enrolled and former students. The College extends unsecured credit to students and parents of dependent students in connection with their studies. Some of those students are no longer enrolled or have completed their degrees. Student accounts receivable consists of the following at June 30, 2010 and 2009:

	2010	2009
Accounts receivable	$ 1,271,172	$ 1,249,508
Less allowance for doubtful accounts	320,000	248,094
Total	$ 951,172	$ 1,001,414

3. Contributions Receivable

Contributions receivable at June 30, 2010 and 2009 are as follows:

	2010	2009
In one year or less	$ 3,329,766	$ 1,416,696
Between one year and five years	3,372,442	5,943,534
Between six years and ten years	1,420,052	1,908,628
Less:		
Allowance	(202,901)	(116,997)
Discount	(1,561,883)	(1,670,027)
Net contributions receivable	$ 6,357,476	$ 7,481,834

These contributions have been made by businesses, individuals, and related parties primarily located in Pennsylvania. Approximately 77% of gross pledges receivable at June 30, 2010 are due from members of the College's Board of Directors.

Management believes the College's allowance for doubtful collections, which is an estimate based on management's periodic assessment of the risk of collectability of each gift, is adequate based upon information currently known at June 30, 2010 and 2009. However, events impacting donors' ability to satisfy their commitments can occur in subsequent years which may result in a material change in the allowance for doubtful collections.

4. Student Loans Receivable

These loans are made with funds advanced to the College by the federal government under the Perkins Student Loan Program (the "Program"). Such funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these funds was approximately $1,970,000 and $1,978,000 at June 30, 2010 and 2009, respectively. The College contributes one third of the amount contributed by the U.S. Government as a match to the Program.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable or for a provision of allowance for doubtful loans. Accordingly, interest on loans is recorded as received; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with Program requirements.

5. Investments

Equity and debt securities with readily determinable fair values are reported at fair value based on quoted market prices for identical or similar assets in active markets. Other investments represent ownership in limited partnerships and limited liability companies that invest in hedge funds, real estate, private equity/venture capital funds, and distressed debt funds.

Investments at June 30, 2010 and 2009 are as follows:

	2010	2009
Cash equivalents	$ 4,067,593	$ 3,108,407
Equities:		
Domestic	9,015,032	11,729,979
International	2,086,736	324,711
Fixed income:		
Domestic	6,812,656	9,465,659
U.S. government obligations	2,010,626	-
International	1,020,110	25,000
Hedge funds	5,428,342	4,928,795
Alternative investments:		
Natural resources	4,972,155	3,013,466
Private equity	3,881,462	3,130,221
Real estate	2,053,261	2,589,572
Venture capital	1,590,292	1,510,949
Total	$ 42,938,265	$ 39,826,759

The College's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the College's investment policy. The degree and concentration of credit risk varies by type of investment.

Certain investments are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the calendar month in which the transaction takes place.

5. Investments (Continued)

The following summarizes the composition of investment income for 2010 and 2009:

	2010	2009
Net realized and unrealized investment gain (losses)	$ 1,472,689	$ (18,315,627)
Interest and dividend income	2,837,232	2,736,329
Net investment income	$ 4,309,921	$ (15,579,298)

6. Beneficial Interest in Perpetual Trusts

The College receives income from various perpetual trusts held by third parties. Under the terms of the trusts, the College has the irrevocable right to receive a portion of the income earned on these trust assets in perpetuity, but never receives the assets held in the trust. The assets are recorded at their fair values of approximately $5,441,000 and $4,361,000 as of June 30, 2010 and 2009, respectively.

Distributions from these trusts are recorded as unrestricted or restricted investment income in the statement of activities based on donor stipulations. The change in value of the perpetual trusts is reported as changes in permanently restricted net assets based on explicit donor stipulations.

7. Land, Buildings, and Equipment

Land, buildings, and equipment as of June 30, 2010 and 2009 are as follows:

	2010	2009
Land and improvements	$ 15,042,359	$ 14,026,752
Buildings	82,690,039	81,245,674
Furniture, fixtures, and equipment	26,102,263	24,674,633
Construction in progress	730,608	31,589
Total	124,565,269	119,978,648
Less accumulated depreciation	44,058,774	40,555,741
Total	$ 80,506,495	$ 79,422,907

Depreciation expense was approximately $3,536,000 in 2010 and $3,343,000 in 2009.

8. Notes Payable, Demand

The College has an unsecured line of credit with a local financial institution, which is renewable March 31st each year. The availability on this line of credit is $2,000,000. Borrowings on the line bear interest, payable monthly, at the bank's prime rate less 1.5%. There were no borrowings outstanding at June 30, 2010 and 2009.

In August 2010, the College requested and was approved for a $2,000,000 increase in the available line of credit.

9. Bonds and Note Payable

A summary of bonds and note payable at June 30, 2010 and 2009 is as follows:

	2010	2009
Mortgage note, payable in annual installments, including interest at 5% through July 2013, secured by a mortgage on certain property	$ 240,000	$ 300,000
College Revenue Bonds, Series 2001 H6 – bi-annual installments of $100,000 from 2011 to 2017 and annual installments ranging from $200,000 to $500,000 from 2019 through 2031, plus interest payable monthly at a variable rate (1)	4,600,000	4,600,000
College Revenue Bonds, Series 2001 H7 – bi-annual installments of $100,000 from 2012 to 2020 and annual installments ranging from $200,000 to $1,100,000 from 2021 to 2031, plus interest payable semiannually at 5.0% through 2010 and variable through 2031 (1)	9,200,000	9,300,000
College Revenue Bonds, Series 2002 J3 – annual installments ranging from $400,000 in 2011 to $500,000 in 2017, plus interest payable monthly at a variable rate (1)	3,200,000	3,600,000
College Revenue Bonds, Series 2003 L2 – annual installments ranging from $715,000 in 2011 to $945,000 in 2018, plus interest payable monthly at a variable rate (1)	6,575,000	7,260,000
College Revenue Bonds, Series 2007 – annual installments ranging from $235,000 in 2011 to $685,000 in 2037, plus interest payable monthly at a variable rate	11,355,000	11,580,000
Total	35,170,000	36,640,000
Less current portion	1,510,000	1,470,000
Total noncurrent bonds and note payable	$ 33,660,000	$ 35,170,000

9. Bonds and Note Payable (Continued)

(1) The College has effectively fixed the variable interest rates on the 2001, 2002, and 2003 bond issues by entering into interest rate swap agreements. See Note 17 for additional information.

Pursuant to a Trust Indenture dated June 12, 2001, between the Pennsylvania Higher Educational Facilities Authority ("PHEFA") and a bank, PHEFA issued $15,200,000 bonds comprised of Series 2001 H6 variable rate College Revenue Bonds in the amount of $5,000,000 and Series 2001 H7 fixed rate College Revenue Bonds in the amount of $10,200,000 (the "Series 2001 Bonds"), on behalf of the College. The Series 2001 Bonds were issued to finance projects consisting of: (a) renovation and furnishing of the student center; (b) acquisition and renovation of an existing building and the adjoining parking lot; (c) installation of sprinkler system in various residence halls; (d) the acquisition, renovation, and demolition of various houses surrounding the College; (e) miscellaneous capital expenditures; (f) the payment of certain costs of issuing the Series 2001 Bonds; and (g) the advance refunding of the College Revenue Bonds, Series 1997 B4. In order to facilitate the sale of the Series 2001 Bonds and to secure the required payments under the terms of the bonds payable arrangement, the College delivered irrevocable letters of credit. The letters of credit in the aggregate amount of approximately $14,152,000 expire on July 1, 2012, unless terminated earlier.

Pursuant to a Trust Indenture dated June 1, 2002, between PHEFA and a bank, PHEFA issued Series 2002 J3 Revenue Bonds (the "Series 2002 Bonds") in the amount of $5,500,000, on behalf of the College. The Bonds were issued to finance projects consisting of: (a) renovation and furnishing of student housing known as Alumni Hall; (b) the purchase and demolition of various houses surrounding the College; (c) closing of North Franklin Street; (d) other miscellaneous capital projects; and (e) the payment of certain costs of issuing the Series 2002 Bonds. In order to facilitate the sale of the Bonds, the College delivered an irrevocable letter of credit. The letter of credit in the amount of approximately $3,258,000 expires on July 1, 2012, unless terminated earlier.

Pursuant to a Trust Indenture dated June 1, 2003, between PHEFA and a bank, PHEFA issued Series 2003 L2 Revenue Bonds (the "Series 2003 Bonds") in the amount of $10,500,000, on behalf of the College. The Series 2003 Bonds were issued to finance projects consisting of: (a) closing of North Franklin Street; (b) other miscellaneous capital projects; (c) the payment of certain costs of issuing the Series 2003 Bonds; and (d) the advanced refunding of the College Revenue Bonds, Series B of 1993. In order to facilitate the sale of the Series 2003 Bonds and to secure the required payments under the terms of the bonds payable arrangement, the College delivered an irrevocable letter of credit. The letter of credit in the amount of approximately $6,694,000 expires on July 1, 2012, unless terminated earlier.

Pursuant to a Trust Indenture dated May 1, 2007, between the City of Wilkes-Barre Finance Authority (the "Authority") and a bank, the Authority issued Series 2007 Revenue Bonds (the "Series 2007 Bonds") in the amount of $12,000,000, on behalf of the College. The Series 2007 Bonds were issued to finance (a) capital improvements to the College's existing facilities, including the renovation of the College's student residence halls and gymnasium facility, the acquisition of capital equipment for use in connection with the facilities of the College, and the construction of various site improvements on the campus of the College and (b) paying a portion of the costs of issuing the Bonds including credit enhancement. In order to facilitate the sale of the series 2007 Bonds and to secure the required payments under the terms of the bonds payable arrangement, the College delivered an irrevocable letter of credit. The letter of credit in the amount of approximately $11,560,000 expires on the July 1, 2012, unless terminated earlier.

9. Bonds and Note Payable (Continued)

The above College Revenue Bonds are secured by pledged revenues of the College.

The aggregate future principal payments on the bonds payable are as follows:

Years ending June 30:	
2011	$ 1,510,000
2012	1,545,000
2013	1,580,000
2014	1,725,000
2015	1,705,000
Thereafter	27,105,000
Total	$ 35,170,000

Interest expense with regard to all debt was approximately $1,372,000 and $1,633,000 in 2010 and 2009, respectively.

The Series 2001 H6, Series 2002 J3, Series 2003 L2 and Series 2007 bonds are variable rate demand bonds, which contain weekly remarketing features. The maximum weekly rate, as defined by the trust indentures, is 12% per annum based on a 365-day year. The Remarketing Agent for these issues is PNC Capital Markets, Inc. The bonds are secured by irrevocable letters of credit issued by PNC Bank, N.A. The failure to remarket does not constitute an event of default of the letters of credit or associated interest rate swap agreements. If bonds are not successfully remarketed, the bond trustee may initiate a Tender Draft on the applicable letter of credit. Tender draft draws on the letter of credit bear interest, payable monthly, at the banks Prime Rate, less .5%.

10. Operating Leases

The College leases equipment under noncancelable operating leases with terms of 24 to 72 months. The following is a schedule of the approximate future annual minimum rentals on these leases as of June 30, 2010:

Years ending June 30:	
2011	$ 634,643
2012	330,773
2013	278,485
2014	181,082
2015	30,290
Total	$ 1,455,273

Rental expense on the above commitments amounted to approximately $820,000 in 2010 and $751,000 in 2009.

10. Operating Leases (Continued)

The College leases a multiuse building adjacent to the College's campus. The building segments include approximately forty apartment style suites, an early childhood learning center, a dining facility, instructional facilities and faculty offices. The lease term is thirty years, expiring October 2039. Lease payments are due and payable the first of each month.

Future annual minimum rental payments on this lease is as follows:

Years ending June 30:	
2011	$ 1,403,010
2012	1,414,114
2013	1,425,320
2014	1,436,627
2015	1,448,038
2016 - 2020	7,802,559
2021 - 2025	8,630,819
2026 - 2030	9,539,308
2031 - 2035	10,543,976
2036 - 2040	9,826,979
Total	$ 53,470,750

The College recognized rent expense of approximately $1,046,000 during 2010 in conjunction with this agreement.

11. Pensions

The College sponsors a defined contribution pension plan with TIAA-CREF. Pension expense was approximately $1,841,000 in 2010 and $1,779,000 in 2009.

12. Government Grants and Student Aid

The government grants and student aid amounts do not include funds credited to student accounts under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent. Had these amounts been included, revenues and expenses would have increased by approximately $5,402,000 in 2010 and $4,227,000 in 2009.

13. Significant Group Concentration of Credit Risk

The College maintains its cash accounts in commercial banks located in Pennsylvania. Accounts are insured by the Federal Deposit Insurance Corporation to $250,000.

14. Net Assets

Unrestricted net assets are designated for the following as of June 30, 2010 and 2009:

	2010	2009
Long-term investments	$ 12,287,026	$ 11,524,952
Plant facilities	38,129,632	39,152,919
Future debt service	616,046	410,258
Other	958,905	302,887
Total	$ 51,991,609	$ 51,391,016

Temporarily restricted net assets are available for the following purpose or in future periods as of June 30, 2010 and 2009:

	2010	2009
Specified purposes	$ 2,316,922	$ 2,474,858
Time	4,461,795	4,747,122
Accumulated unspent endowment earnings	9,363,316	8,299,609
Total	$ 16,142,033	$ 15,521,589

Permanently restricted net assets are restricted for the following as of June 30, 2010 and 2009:

	2010	2009
Beneficial interests in perpetual trusts	$ 5,440,886	$ 4,360,632
Assets held in perpetuity	21,341,658	20,501,411
Total	$ 26,782,544	$ 24,862,043

15. Endowment Funds

The College's endowment consists of approximately 300 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the College has developed a policy requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

15. Endowment Funds (Continued)

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 4%, plus inflation, annually.

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The College has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The permanently restricted category includes the value of interest in various trust accounts established by donors. The assets of the trusts are held by independent trustees in perpetuity. The College has an interest in the income generated from these trusts, but will never receive the assets held in the trusts. These assets are not governed by the College's investment policy. All investment decisions and distributions are governed by trust documents and the trustee.

Endowment net asset composition by type of fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,211,590)	$ 9,363,316	$ 26,782,544	$ 34,934,270
Board-designated endowment funds	13,498,616	-	-	13,498,616
Total endowment funds	$ 12,287,026	$ 9,363,316	$ 26,782,544	$ 48,432,886

15. Endowment Funds (Continued)

Endowment net asset composition by type of fund as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,512,496)	$ 8,299,609	$ 24,862,043	$ 31,649,156
Board-designated endowment funds	13,037,448	-	-	13,037,448
Total endowment funds	$ 11,524,952	$ 8,299,609	$ 24,862,043	$ 44,686,604

Changes in endowment net assets for the fiscal year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 11,524,952	$ 8,299,609	$ 24,862,043	$ 44,686,604
Investment return:				
Investment income	116,914	238,949	-	355,863
Net appreciation (realized and unrealized)	1,088,544	2,641,776	414,598	4,144,918
Total investment return	1,205,458	2,880,725	414,598	4,500,781
Contributions	3,018	-	1,505,903	1,508,921
Appropriation of endowment assets for expenditure	(747,308)	(1,516,112)	-	(2,263,420)
Other changes:				
Reclassification of underwater endowment net assets	300,906	(300,906)	-	-
Endowment net assets, end of year	$ 12,287,026	$ 9,363,316	$ 26,782,544	$ 48,432,886

15. Endowment Funds (Continued)

Changes in endowment net assets for the fiscal year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 19,091,235	$ 18,638,987	$ 24,049,725	$ 61,779,947
Investment return:				
Investment income	146,033	295,531	-	441,564
Net depreciation (realized and unrealized)	(5,582,551)	(10,871,149)	(822,737)	(17,276,437)
Total investment return	(5,436,518)	(10,575,618)	(822,737)	(16,834,873)
Contributions	100	-	1,610,655	1,610,755
Appropriation of endowment assets for expenditure	(617,369)	(1,251,856)	-	(1,869,225)
Other changes:				
Reclassification of underwater endowment net assets	(1,512,496)	1,512,496	-	-
Change in donor restriction	-	(24,400)	24,400	-
Endowment net assets, end of year	$ 11,524,952	$ 8,299,609	$ 24,862,043	$ 44,686,604

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or law requires the College to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were $1,211,590 and $1,512,496 as of June 30, 2010 and 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

16. Commitments and Contingencies

The College has approximately $2,172,000 in unfunded capital calls related to various alternative and venture capital investments at June 30, 2010. These commitments can be funded through liquidation of current investments.

The College is a defendant in a number of legal actions resulting in the normal course of business. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the College's financial statements.

The College entered into a self-insured plan for their medical insurance. The College has limited their self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the College for any individual employee medical costs over $125,000 and aggregate medical costs over approximately $2,700,000 per year. Self insurance costs are accrued based on claims reported as of the balance sheet date as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs, included with accounts payable and accrued liabilities in the statement of financial position was approximately $1,485,000 and $1,422,000 at June 30, 2010 and 2009, respectively. The cost of medical coverage for employees amounted to approximately $2,593,000 and $2,318,000 for the years ended June 30, 2010 and 2009, respectively.

The College owns several buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The college has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate these buildings and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the buildings and sufficient information becomes available to estimate the liability, it will be recognized at that time.

17. Interest Rate Swap

The College entered into four interest rate swap agreements in connection with its Series 2001, 2002 and 2003 bonds which are considered derivative financial instruments. The counterparty for the swap agreements is PNC Bank, NA, a financial institution with which the College has other financial relationships (the "Bank"). The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable rate debt. The swap agreements are not designated as hedging instruments. The swap agreements are contracts to exchange variable rate for fixed rate interest payments over the life of the agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote. The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense.

The College does not utilize interest rate swaps or other financial instruments for trading or other speculative purposes.

17. Interest Rate Swap (Continued)

At June 30, 2010, the College has the following interest rate swaps in effect:

Effective notional amount	$3,200,000	$9,200,000	$6,575,000	$4,600,000
Strike rate	4.05%	4.33%	4.73%	4.15%
Period	May 2006 to May 2017	May 2011 to May 2031	May 2006 to May 2016	February 2007 to May 2031

The fair value of the interest rate swap agreements is the amount that the College would receive or pay to terminate the swap agreements at the reporting date and the fair value is based on information supplied by an independent third party valuation specialist. The College estimates that it would have paid approximately $2,958,000 and $1,750,000 on June 30, 2010 and 2009, respectively, to terminate these agreements and is recorded as a noncurrent liability on the statement of financial position.

18. Fair Value Disclosure

The carrying amount and estimated fair value of the College's financial instruments at June 30, 2010 and 2009 are as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 335,137	$ 335,137	$ 820,075	$ 820,075
Short-term investments	2,362,012	2,362,012	2,456,434	2,456,434
Accounts receivable	1,826,507	1,826,507	2,007,558	2,007,558
Contributions receivable	6,357,476	6,357,476	7,481,834	7,481,834
Investments	42,938,265	42,938,265	39,826,759	39,826,759
Loans receivable	2,488,108	2,488,108	2,483,922	2,483,922
Beneficial interests in perpetual trusts	5,440,886	5,440,886	4,360,632	4,360,632
Liabilities				
Accounts payable and accrued liabilities	5,259,817	5,259,817	4,638,491	4,638,491
Bonds and note payable	35,483,514	35,231,824	36,993,193	36,681,013
Interest rate swap	2,957,647	2,957,647	1,749,612	1,749,612
Refundable advances from federal government	1,970,014	1,970,014	1,978,276	1,978,276

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and contributions receivable to be received in less than one year: The carrying amounts approximate fair value because of the short term maturity of those instruments.

18. Fair Value Disclosure (Continued)

Contributions receivable to be received in more than one year: The fair value is estimated based on future cash flows discounted at risk adjusted rates ranging from 2.5% to 10%.

Short-term investments: The carrying amounts approximate fair value because of the short term maturity of those instruments which consist primarily of cash equivalents, certificates of deposit and other highly liquid investments.

Investments: The fair values are based on values reported by external investment managers. Quoted market prices for identical assets are used to measure fair value of equity and fixed income securities and alternative investments, and are classified within Level 1 of the valuation hierarchy. Fair value of investments within the Level 2 valuation hierarchy are based on pricing for similar assets with similar terms in actively traded markets or valued at the respective net asset values based on the underlying assets of the funds. The College's investment in certain international equities, hedge funds, natural resources, real estate, private equity and venture capital investments are valued at net asset value and are considered Level 3 inputs based on the investments not having an observable market and the need for significant estimation to measure fair value.

Loans receivable, net and federal loan programs: The fair value of these loans receivable and advances from the federal government are based upon management's best estimate of the indicated future cash flows discounted at interest rates required by market participants.

Beneficial interests in perpetual trusts: The fair value is estimated using the College's percentage of the underlying assets, which approximates the present value of estimated future cash flows to be received from the trust.

Bonds payable: The fair value is estimated based on discounted cash flows using borrowing rates currently available to the College for similar types of borrowing arrangements.

The College measures its derivative financial instruments at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. The fair value was estimated using the zero-coupon discounting method and considers the credit risk of the College and the counterparty. This method calculates the future payments required by the derivative financial instruments, assuming that the current, forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for a hypothetical zero coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the College would pay to terminate the agreements.

Fair Value Measurements

Financial assets and liabilities are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

18. Fair Value Disclosure (Continued)

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

Level 3 – Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The College measures its long-term investments, beneficial interest in perpetual trusts and derivative financial instruments at fair value on a recurring basis in accordance with authoritative guidance. These items were measured with the following inputs at June 30, 2010 and 2009:

	2010			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Noncurrent assets:				
Investments:				
Cash equivalents	$ 4,067,593	$ 4,067,593	$ -	$ -
Equities:				
Domestic	9,015,032	8,057,563	957,469	-
International	2,086,736	1,569,575	-	517,161
Fixed income:				
Domestic	6,812,656	5,696,631	1,116,025	-
U.S. government obligations	2,010,626	-	2,010,626	-
International	1,020,110	995,110	25,000	-
Hedge funds	5,428,342	-	-	5,428,342
Alternative investments:				
Natural resources	4,972,155	3,631,401	640,233	700,521
Private equity	3,881,462	-	-	3,881,462
Real estate	2,053,261	-	-	2,053,261
Venture capital investments	1,590,292	-	-	1,590,292
Beneficial interests in perpetual trusts	5,440,886	-	-	5,440,886
Total	$ 48,379,151	$ 24,017,873	$ 4,749,353	$ 19,611,925
Liability,				
Derivative financial instruments	$ 2,957,647	$ -	$ 2,957,647	$ -

18. Fair Value Disclosure (Continued)

	2009			
	Total	Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Noncurrent assets:				
Investments:				
Cash equivalents	$ 3,108,407	$ 2,808,407	$ 300,000	$ -
Equities:				
Domestic	11,729,979	10,461,503	1,268,476	-
International	324,711	-	-	324,711
Fixed income:				
Domestic	9,465,659	8,197,197	1,268,462	-
U.S. government obligations	-	-	-	-
International	25,000	-	25,000	-
Hedge funds	4,928,795	-	-	4,928,795
Alternative investments:				
Natural resources	3,013,466	1,963,197	586,290	463,979
Private equity	3,130,221	-	-	3,130,221
Real estate	2,589,572	-	-	2,589,572
Venture capital investments	1,510,949	-	-	1,510,949
Beneficial interests in perpetual trusts	4,360,632	-	-	4,360,632
Total	$ 44,187,391	$ 23,430,304	$ 3,448,228	$ 17,308,859
Liability,				
Derivative financial instruments	$ (1,749,612)	$ -	$ (1,749,612)	$ -

18. Fair Value Disclosure (Continued)

The following tables present a reconciliation of the beginning and ending balances of assets with fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2010 and 2009:

	July 1, 2009	Purchases	Sales	Issuances	Settlements	Unrealized	June 30, 2010
Equities	$ 324,711	$ 82,275	$ -	$ -	$ (26,329)	$ 136,504	$ 517,161
Hedge funds	4,928,795	-	(100,000)	-	-	599,547	5,428,342
Alternative investments	6,183,772	601,783	-	-	(255,094)	104,783	6,635,244
Venture capital	1,510,949	104,393	-	-	(112,420)	87,370	1,590,292
Total	$ 12,948,227	$ 788,451	$ (100,000)	$ -	$ (393,843)	$ 928,204	$ 14,171,039
Beneficial interests	$ 4,360,632	$ 665,656	$ -	$ -	$ -	$ 414,598	$ 5,440,886

	July 1, 2008	Purchases	Sales	Issuances	Settlements	Unrealized	June 30, 2009
Equities	$ 6,754,383	$ 42,494	$ (4,210,306)	$ -	$ (2,017,785)	$ (244,075)	$ 324,711
Hedge funds	6,778,156	-	-	-	-	(1,849,361)	4,928,795
Alternative investments	8,076,983	1,586,023	(600,246)	-	(1,425,486)	(1,453,502)	6,183,772
Venture capital	1,705,756	120,000	(18,723)	-	(95,939)	(200,145)	1,510,949
Total	$ 23,315,278	$ 1,748,517	$ (4,829,275)	$ -	$ (3,539,210)	$ (3,747,083)	$ 12,948,227
Beneficial interests	$ 3,883,806	$ 1,299,563	$ -	$ -	$ -	$ (822,737)	$ 4,360,632

Gains and losses (realized and unrealized) included in changes in net assets for the period are reported in nonoperating revenues. Total realized and unrealized gains, included in the change in net assets, attributable to investments classified as level 3 were approximately $928,000, all of which are related to investments still held at June 30, 2010. Unrealized gains, included in the change in net assets, attributable to beneficial interests in perpetual trusts totaled approximately $415,000 at June 30, 2010. These unrealized gains relate to trusts still held at June 30, 2010.

18. Fair Value Disclosure (Continued)

The College has a policy which permits investments that do not have a readily determinable fair value, and as such, has elected to use the net asset value per share (the "NAV") as calculated on the reporting entity's measurement date as the fair value of the investment. The College measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the College as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. A listing of the investments held by the College and their attributes, that may qualify for these valuations consist of the following as of June 30:

	2010				
Investment Category	**Investment Strategy**	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	$ 700,521	$ 757,500	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	1,893,558	320,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A
Real estate operations (c)	Invests in a diversified pool of real estate investments over time, within seven regional targeted markets.	159,703	-	Annually on September 30	30 days

18. Fair Value Disclosure (Continued)

	2010				
Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	$ 1,521,547	$ 456,412	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	3,806,496	633,888	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days
Emerging markets/ Offshore funds (a) (d)	Seeks to realize a superior long-term rate of return through an actively managed portfolio of emerging markets and offshore investments that are likely to result in high capital appreciation as well as moderate current income.	2,568,561	-	Monthly	30 - 60 days
Global equity and debt (a) (e)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	3,376,941	-	Annual	Requires approval of Board of Directors

18. Fair Value Disclosure (Continued)

(a) Investment is a feeder fund for other limited partnerships, limited liability corporations, offshore corporations or other foreign investment vehicles.

(b) Underlying investments primarily include loans and other debt instruments that are secured by real estate or other physical assets.

(c) Underlying investments are primarily operating real estate projects or undeveloped land held for future development or sale.

(d) Includes both hedge funds of approximately $2,051,000 and equities of approximately $517,000 focused in international markets.

(e) Represents a hedge fund focused in international markets.

19. Functional Allocation

The College adheres to the AICPA Industry Audit Guide in reporting expenses by their functional classification. Accordingly, depreciation, interest and other expenses have been allocated to functional classifications based on various factors.

20. Related Party Transactions

The College has entered into transactions with which members of the Board of Directors have relationships as owners or officers. During the year ended June 30, 2010 and 2009 the College engaged in the following related party transactions:

- The College is invested in an alternative investment managed by a member of the Board. The fair value of that investment was approximately $1,075,000 and $1,130,000 at June 30, 2010 and 2009, respectively.

- The College paid insurance premiums of approximately $161,000 in 2010 and 2009, respectively, to a company partially owned by a member of the Board.

- The College paid service fees to an insurance company, which has an officer that is also a member of the Board, of approximately $211,000 and $196,000 for 2010 and 2009, respectively.

- The College paid construction fees totaling approximately $146,000 and $770,000 for 2010 and 2009, respectively, to a company partially owned by a member of the board.

- The College has various depository and creditor relationships with a bank that has an officer that is also a member of the Board. These relationships include traditional checking accounts, investment accounts, an operating line of credit, various letters of credit, and interest rate swap agreements.

20. Related Party Transactions (Continued)

During 2004, the College entered into an agreement with the Congregation of Holy Cross to lease land located on the College's campus. The term of the lease is approximately 30 years at a rate of $10 per year, payable by December 1st of each year. If at any time during the lease period, the lessee decides to sell the buildings and improvements constructed on the leased land, the College has the first option to purchase such buildings and improvements at market value.

King's College

Financial Statements

June 30, 2011 and 2010

ParenteBeard

Independent Auditors' Report

Board of Directors
King's College

We have audited the accompanying statement of financial position of King's College (the "College") as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King's College as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
October 8, 2011

King's College

Statement of Financial Position
June 30, 2011 And 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 793,124	$ 335,137
Short-term investments	945,264	2,362,012
Accounts receivable:		
Students, net	894,907	951,172
Other	1,216,690	875,335
Contributions receivable	860,566	3,329,766
Prepaids and other	383,808	364,546
Total current assets	5,094,359	8,217,968
Noncurrent Assets		
Contributions receivable, net	4,272,022	3,027,710
Deferred financing costs	397,540	426,543
Investments	49,170,127	42,938,265
Student and other loans receivable	2,585,777	2,488,108
Land, buildings and equipment, net	79,012,186	80,506,495
Beneficial interest in perpetual trusts	6,474,215	5,440,886
Total assets	$ 147,006,226	$ 143,045,975
Liabilities and Net Assets		
Current Liabilities		
Demand note payable	$ 3,000,000	$ -
Current portion of bonds payable	1,545,000	1,510,000
Accounts payable and accrued liabilities	3,885,115	5,259,817
Deferred revenue and deposits	1,671,500	1,889,041
Agency funds payable	449,182	569,756
Total current liabilities	10,550,797	9,228,614
Noncurrent Liabilities		
Bonds payable (including bond premium of $273,835 and $313,514 at June 30, 2011 and 2010, respectively)	32,388,835	33,973,514
Interest rate swap	2,914,905	2,957,647
Refundable advances from federal government for student loans	1,952,479	1,970,014
Total liabilities	47,807,016	48,129,789
Net Assets		
Unrestricted	53,141,048	51,991,609
Temporarily restricted	17,273,966	16,142,033
Permanently restricted	28,784,196	26,782,544
Total net assets	99,199,210	94,916,186
Total liabilities and net assets	$ 147,006,226	$ 143,045,975

See notes to financial statements

King's College

Statement of Activities
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees, (net of college financial aid of $23,290,310)	$ 35,631,098			$ 35,631,098
Auxiliary enterprises	11,516,199			11,516,199
Private gifts and grants	798,988	$ 40,032		839,020
Investment income	2,640,915	586,876		3,227,791
Federal and state grants	1,347,072			1,347,072
Other sources	111,141			111,141
Net assets released from restrictions:				
Satisfaction of program restrictions	843,990	(843,990)		-
Expiration of time restrictions	384,069	(384,069)		-
Total operating revenues	53,273,472	(601,151)		52,672,321
Operating Expenses				
Instructional	20,108,185			20,108,185
Student services	8,845,911			8,845,911
Institutional support	7,354,686			7,354,686
Auxiliary enterprises	9,810,399			9,810,399
Academic support	5,887,301			5,887,301
Student aid	315,012			315,012
Public services	887,332			887,332
Fund raising	1,245,811			1,245,811
Total operating expenses	54,454,637	-		54,454,637
Change in net assets from operating activities	(1,181,165)	(601,151)		(1,782,316)
Nonoperating				
Net realized and unrealized gains on investments	2,287,862	1,733,084		4,020,946
Unrealized gain on interest rate swaps	42,742			42,742
Contributions			$ 968,323	968,323
Contribution of beneficial interest in perpetual trusts			113,819	113,819
Changes in beneficial interest in perpetual trusts			919,510	919,510
Change in net assets	1,149,439	1,131,933	2,001,652	4,283,024
Net Assets, Beginning	51,991,609	16,142,033	26,782,544	94,916,186
Net Assets, Ending	$ 53,141,048	$ 17,273,966	$ 28,784,196	$ 99,199,210

See notes to financial statements

King's College

Statement of Activities
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees, (net of college financial aid of $20,701,101)	$ 35,203,257			$ 35,203,257
Auxiliary enterprises	10,954,070			10,954,070
Private gifts and grants	762,245	$ 2,177,354		2,939,599
Investment income	2,596,199	241,033		2,837,232
Federal and state grants	1,556,514			1,556,514
Other sources	165,339			165,339
Net assets released from restrictions:				
Satisfaction of program restrictions	1,984,175	(1,984,175)		-
Expiration of time restrictions	638,527	(638,527)		-
Total operating revenues	53,860,326	(204,315)		53,656,011
Operating Expenses				
Instructional	19,445,038			19,445,038
Student services	9,039,865			9,039,865
Institutional support	6,786,902			6,786,902
Auxiliary enterprises	9,159,578			9,159,578
Academic support	5,706,703			5,706,703
Student aid	249,274			249,274
Public services	1,166,634			1,166,634
Fund raising	1,145,634			1,145,634
Total operating expenses	52,699,628	-		52,699,628
Change in net assets from operating activities	1,160,698	(204,315)		956,383
Nonoperating				
Net realized and unrealized losses on investments	647,930	824,759		1,472,689
Unrealized loss on interest rate swaps	(1,208,035)			(1,208,035)
Contributions			$ 840,247	840,247
Contribution of beneficial interest in perpetual trusts			665,656	665,656
Changes in beneficial interest in perpetual trusts			414,598	414,598
Change in net assets	600,593	620,444	1,920,501	3,141,538
Net Assets, Beginning	51,391,016	15,521,589	24,862,043	91,774,648
Net Assets, Ending	$ 51,991,609	$ 16,142,033	$ 26,782,544	$ 94,916,186

See notes to financial statements

King's College

Statement of Cash Flows
Years Ended June 30, 2011 And 2010

	2011	2010
Cash Flows from Operating Activities		
Change in net assets	$ 4,283,024	$ 3,141,538
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,658,316	3,565,246
Net realized and unrealized losses on investments	(4,020,946)	(1,472,689)
Restricted contributions	(1,008,355)	(3,017,601)
Contribution of beneficial interest in perpetual trust	(113,819)	(665,656)
Change in beneficial interest in perpetual trusts	(919,510)	(414,598)
Unrealized (gain) loss on interest rate swap	(42,742)	1,208,035
Bad debt expense	180,702	181,258
Amortization of bond premium	(39,679)	(39,679)
Changes in assets and liabilities:		
Short-term investments	1,416,748	94,422
Accounts receivable	(463,130)	(1,320)
Contributions receivable	93,162	(29,172)
Prepaids and other	(19,262)	762
Accounts payable and accrued liabilities	(740,444)	269,694
Agency funds payable	(120,574)	15,737
Deferred revenue and deposits	(217,541)	(103,695)
Net cash provided by operating activities	1,925,950	2,732,282
Cash Flows from Investing Activities		
Purchase of land, buildings, and equipment	(2,769,262)	(4,268,199)
Purchase of investments	(10,696,224)	(11,404,420)
Proceeds from sale of investments	8,485,308	9,765,603
Disbursements of student and other loans	(472,193)	(355,989)
Repayments of student and other loans	374,524	351,803
Net cash used in investing activities	(5,077,847)	(5,911,202)
Cash Flows from Financing Activities		
Proceeds from borrowing of demand note payable	8,500,000	3,000,000
Repayment of demand note payable	(5,500,000)	(3,000,000)
Repayment of bonds payable	(1,510,000)	(1,470,000)
Proceeds from restricted contributions	2,137,419	4,172,244
Net advance from federal government for student loans	(17,535)	(8,262)
Net cash provided by financing activities	3,609,884	2,693,982
Net change in cash and cash equivalents	457,987	(484,938)
Cash and Cash Equivalents, Beginning	335,137	820,075
Cash and Cash Equivalents, Ending	$ 793,124	$ 335,137
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,404,047	$ 1,556,897
Supplemental Disclosure of Noncash Investing and Financing Activities		
Fixed assets in accounts payable	$ 449,826	$ 732,452

See notes to financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

King's College (the "College") is a not-for-profit educational institution which provides undergraduate, graduate and professional education to its students. The College was founded in 1946 by the Congregation of Holy Cross as an independent four-year institution of higher education. The College welcomes students into its community without regard to gender, race, religion, disability or national origin, and seeks to assist talented students of modest financial means.

The College seeks to develop mutually beneficial and cooperative ties to the wider society, and particularly to the civic, cultural, and religious communities of Northeastern Pennsylvania. The broader community offers resources that support and compliment the educational mission of the College, which in turn is a resource to the community through the specialized competencies of its faculty and staff, the volunteer service of students, and through a diverse series of public lectures and religious, cultural and athletic events.

The College has 2,645 students of whom 1,999 are full time undergraduates. Approximately 72% of the College's present full-time undergraduate student body is comprised of representatives from Pennsylvania, 14% from New Jersey, and 8% from New York. The balance is from other states and countries.

During the years ended June 30, 2011 and 2010, the College provided student financial aid from internal resources of approximately $23,290,000 and $20,701,000, respectively, which represented approximately 40% of gross tuition and fee revenue for 2011 and 37% for 2010.

The College evaluated subsequent events for recognition or disclosure through October 8, 2011, the date the financial statements were issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements except for the event disclosed in Note 21.

Donor-Restricted Gifts/Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support which increases those net asset classes. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions, satisfaction of program restrictions. However, if a restriction is satisfied in the same fiscal period in which the contribution is received, the College reports the support as unrestricted.

Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Discounts on those amounts are computed using a risk-adjusted interest rate applicable to individual donors as determined by management. Risk adjusted rates are determined based on an analysis of individual donors ability to satisfy the obligations and current market rates. Amortization of the discount is included in contribution revenue.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the College considers all highly liquid investments, with original maturities of 90 days or less, to be cash equivalents.

Accounts Receivable

Students and other accounts receivable are reported at net realizable value. Student accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful student accounts is estimated based on the College's historical losses and periodic review of individual accounts. Other receivables are written off when they are determined to be uncollectible based on management's review of individual balances. Management considers other accounts fully collectible and an allowance is not considered necessary.

Investments

Equity securities are valued at fair value based on quoted market prices as reported by the College's investment custodians. The alternative investments, which are not readily marketable, are carried at net asset values as provided by the investment managers. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used to determine the fair value of the alternative investments. The estimated fair values include assumptions made by management which could have differed significantly had an active market for these securities existed. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

The College's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor imposed stipulations.

Short-Term Investments

Short-term investments consist primarily of money market funds and certificates of deposit with local financial institutions. Interest income and gains and losses on these investments are included in investment income in the statement of activities. These investments are used primarily for operating activities at the College.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, or estimated cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (25-50 years) and furniture and equipment (3-10 years). Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Deferred Revenue

Tuition, fees, and room and board from currently enrolled students is billed in advance and is recognized as revenue when earned.

Deferred Financing Costs

Costs incurred in connection with debt financing have been deferred and are amortized over the term of the related loans using the straight-line method which approximates the interest method. Amortization expense was approximately $29,000 in 2011 and 2010.

Refundable Advances

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenue when the College has incurred expenses in compliance with the contract. Amounts received but not yet earned are reported as refundable advances.

Income Taxes

The Internal Revenue Service has ruled that the College is tax-exempt as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

The College accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined that there were no tax uncertainties that met recognition threshold in fiscal year 2011 and 2010.

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

The College's federal Exempt Organization Business Income Tax Returns for 2009, 2008, and 2007 remain subject to examination by the Internal Revenue Service.

Use of Estimates

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. It also requires 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 management's estimates.

Derivative Financial Instrument

The College has entered into four interest rate swap agreements, which are considered derivative financial instruments, to manage its exposure on its variable rate bonds payable. The interest rate swap agreements are reported at fair value on the statement of financial position; related changes in fair value are reported in the changes in unrestricted net assets in the statement of activities as an unrealized gain (loss) on interest rate swaps in the amount of $42,742 and ($1,208,035) in the years ended June 30, 2011 and 2010, respectively.

Title IV Requirements

The College participates in Government Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education (ED) for the payment of student tuitions. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2011 and 2010, are dependent upon the College's continued participation in the Title IV programs.

Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of and for the years ended June 30, 2011 and 2010, the College's composite score exceeded 1.5.

Investment Policy

The College has a formal investment policy that enables it to utilize a portion of investment return for operating purposes. The College's Board of Directors sets the level of distribution within the limitation imposed by Pennsylvania statute.

Nonoperating Activities

For the purpose of the statement of activities, the College considers its changes in net assets to be operational changes, except for changes related to realized and unrealized gains and losses on investments, net of the College spending policy, permanently restricted contributions, the change in value of beneficial interests in perpetual trusts and the College's interest rate swap agreements.

Advertising

Advertising expenses are recorded as incurred and were approximately $348,000 and $417,000 in 2011 and 2010, respectively.

Fair Value Measurements

Financial assets and liabilities measured at fair value are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

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

Level 3 – Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Reclassification

Certain 2010 amounts have been reclassified to conform to the 2011 reporting format.

Recent Accounting Pronouncements

During 2011, the College adopted Financial Accounting Standards Board ("FASB") guidance related to disclosure of the credit quality of financing receivables. This guidance had no effect on the financial statements, but enhanced disclosure with respect to these receivables. Also during 2011, the College adopted FASB guidance related to improving the disclosures of fair value measurements. This guidance had no effect on the financial statements, but enhanced disclosure with respect to these investments.

2. Accounts Receivable, Students

Students accounts receivable represent amounts due for tuition, fees, and room and board from currently enrolled and former students. The College extends unsecured credit to students and parents of dependent students in connection with their studies. Some of those students are no longer enrolled or have completed their degrees. Student accounts receivable consists of the following at June 30, 2011 and 2010:

	2011	2010
Accounts receivable	$ 1,259,907	$ 1,271,172
Less allowance for doubtful accounts	365,000	320,000
Total	$ 894,907	$ 951,172

3. Contributions Receivable

Contributions receivable at June 30, 2011 and 2010 are as follows:

	2011	2010
In one year or less	$ 860,566	$ 3,329,766
Between one year and five years	5,901,219	3,372,442
Between six years and ten years	412,876	1,420,052
Less:		
Allowance	(116,728)	(202,901)
Discount	(1,925,345)	(1,561,883)
Net contributions receivable	$ 5,132,588	$ 6,357,476

These contributions have been made by businesses, individuals, and related parties primarily located in Pennsylvania. Approximately 85% of gross pledges receivable at June 30, 2011 are due from members of the College's Board of Directors.

Management believes the College's allowance for doubtful collections, which is an estimate based on management's periodic assessment of the risk of collectability of each gift, is adequate based upon information currently known at June 30, 2011 and 2010. However, events impacting donors' ability to satisfy their commitments can occur in subsequent years which may result in a material change in the allowance for doubtful collections.

4. Student Loans Receivable

These loans are made with funds advanced to the College by the federal government under the Perkins Student Loan Program (the "Program"). Such funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these funds was approximately $1,952,000 and $1,970,000 at June 30, 2011 and 2010, respectively. The College contributes one third of the amount contributed by the U.S. Government as a match to the Program.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable or for a provision of allowance for doubtful loans. Accordingly, interest on loans is recorded as received; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with Program requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.

5. Investments

Equity and debt securities with readily determinable fair values are reported at fair value based on quoted market prices for identical or similar assets in active markets. Other investments represent ownership in limited partnerships and limited liability companies that invest in hedge funds, real estate, private equity/venture capital funds, and distressed debt funds.

Investments at June 30, 2011 and 2010 are as follows:

	2011	2010
Cash equivalents	$ 3,165,222	$ 4,067,593
Equity funds:		
Domestic:		
Large cap	10,594,027	7,194,812
Mid/small cap	1,541,812	1,820,220
International	5,211,550	2,086,736
Fixed income:		
Domestic	3,984,170	6,812,656
U.S. government obligations	-	2,010,626
International	5,942,243	1,020,110
Hedge funds	5,336,417	5,428,342
Alternative investments:		
Natural resources	5,179,802	4,972,155
Private equity	4,464,603	3,881,462
Real estate	2,046,873	2,053,261
Venture capital	1,703,408	1,590,292
Total	$ 49,170,127	$ 42,938,265

The College's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the College's investment policy. The degree and concentration of credit risk varies by type of investment.

Certain investments are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the calendar month in which the transaction takes place.

The following summarizes the composition of investment return after application of the College's spending policy for 2011 and 2010:

	2011	2010
Net realized and unrealized investment gain	$ 4,020,946	$ 1,472,689
Interest and dividend income	3,227,791	2,837,232
Net investment return	$ 7,248,737	$ 4,309,921

6. Beneficial Interest in Perpetual Trusts

The College receives income from various perpetual trusts held by third parties. Under the terms of the trusts, the College has the irrevocable right to receive a portion of the income earned on these trust assets in perpetuity, but never receives the assets held in the trust. The assets are recorded at their fair values of approximately $6,474,000 and $5,441,000 as of June 30, 2011 and 2010, respectively.

Distributions from these trusts are recorded as unrestricted or restricted investment income in the statement of activities based on donor stipulations. The change in value of the perpetual trusts is reported as changes in permanently restricted net assets based on explicit donor stipulations.

7. Land, Buildings, and Equipment

Land, buildings, and equipment as of June 30, 2011 and 2010 are as follows:

	2011	2010
Land and improvements	$ 16,150,494	$ 15,039,859
Buildings	82,083,384	82,045,593
Furniture, fixtures, and equipment	27,476,467	26,749,209
Construction in progress	989,928	730,608
Total	126,700,273	124,565,269
Less accumulated depreciation	47,688,087	44,058,774
Total	$ 79,012,186	$ 80,506,495

Depreciation expense was approximately $3,629,000 in 2011 and $3,536,000 in 2010.

8. Notes Payable, Demand

The College has an unsecured line of credit with a local financial institution, which is renewable March 31 each year. The availability on this line of credit is $4,000,000. Borrowings on the line bear interest at 1 month LIBOR plus 1.25% (1.45% at June 30, 2011), payable monthly. Borrowings outstanding at June 30, 2011 were $3,000,000. There were no borrowings at June 30, 2010.

9. Bonds and Note Payable

A summary of bonds and note payable at June 30, 2011 and 2010 is as follows:

	2011	2010
Mortgage note, payable in annual installments, including interest at 5% through July 2013, secured by a mortgage on certain property	$ 180,000	$ 240,000
College Revenue Bonds, Series 2001 H6 – bi-annual installments of $100,000 from 2011 to 2017 and annual installments ranging from $200,000 to $500,000 from 2019 through 2031, plus interest payable monthly at a variable rate (1)	4,500,000	4,600,000
College Revenue Bonds, Series 2001 H7 – bi-annual installments of $100,000 from 2012 to 2020 and annual installments ranging from $200,000 to $1,100,000 from 2021 to 2031, plus interest payable at a variable through 2031 (1)	9,200,000	9,200,000
College Revenue Bonds, Series 2002 J3 – annual installments ranging from $400,000 to $500,000 through 2017, plus interest payable monthly at a variable rate (1)	2,800,000	3,200,000
College Revenue Bonds, Series 2003 L2 – annual installments ranging from $745,000 to $945,000 through 2018, plus interest payable monthly at a variable rate (1)	5,860,000	6,575,000
College Revenue Bonds, Series 2007 – annual installments ranging from $240,000 to $685,000 through 2037, plus interest payable monthly at a variable rate	11,120,000	11,355,000
Total	33,660,000	35,170,000
Less current portion	1,545,000	1,510,000
Total noncurrent bonds and note payable	$ 32,115,000	$ 33,660,000

(1) The College has effectively fixed the variable interest rates on the 2001, 2002, and 2003 bond issues by entering into interest rate swap agreements. See Note 17 for additional information.

Pursuant to a Trust Indenture dated June 12, 2001, between the Pennsylvania Higher Educational Facilities Authority ("PHEFA") and a bank, PHEFA issued $15,200,000 bonds comprised of Series 2001 H6 variable rate College Revenue Bonds in the amount of $5,000,000 and Series 2001 H7 fixed rate College Revenue Bonds in the amount of $10,200,000 (the "Series 2001 Bonds"), on behalf of the College. The Series 2001 Bonds were issued to finance projects consisting of: (a) renovation and furnishing of the student center; (b) acquisition and renovation of an existing building and the adjoining parking lot; (c) installation of sprinkler system in various residence halls; (d) the acquisition, renovation, and demolition of various houses surrounding the College; (e) miscellaneous capital expenditures; (f) the payment of certain costs of issuing the Series 2001 Bonds; and (g) the advance refunding of the College Revenue Bonds, Series 1997 B4. In order to facilitate the sale of the Series 2001 Bonds and to secure the required payments under the terms of the bonds payable arrangement, the College delivered irrevocable letters of credit. The letters of credit in the aggregate amount of approximately $14,152,000 expire on July 1, 2012, unless terminated earlier.

Pursuant to a Trust Indenture dated June 1, 2002, between PHEFA and a bank, PHEFA issued Series 2002 J3 Revenue Bonds (the "Series 2002 Bonds") in the amount of $5,500,000, on behalf of the College. The Bonds were issued to finance projects consisting of: (a) renovation and furnishing of student housing known as Alumni Hall; (b) the purchase and demolition of various houses surrounding the College; (c) closing of North Franklin Street; (d) other miscellaneous capital projects; and (e) the payment of certain costs of issuing the Series 2002 Bonds. In order to facilitate the sale of the Bonds, the College delivered an irrevocable letter of credit. The letter of credit in the amount of approximately $3,258,000 expires on July 1, 2012, unless terminated earlier.

Pursuant to a Trust Indenture dated June 1, 2003, between PHEFA and a bank, PHEFA issued Series 2003 L2 Revenue Bonds (the "Series 2003 Bonds") in the amount of $10,500,000, on behalf of the College. The Series 2003 Bonds were issued to finance projects consisting of: (a) closing of North Franklin Street; (b) other miscellaneous capital projects; (c) the payment of certain costs of issuing the Series 2003 Bonds; and (d) the advanced refunding of the College Revenue Bonds, Series B of 1993. In order to facilitate the sale of the Series 2003 Bonds and to secure the required payments under the terms of the bonds payable arrangement, the College delivered an irrevocable letter of credit. The letter of credit in the amount of approximately $6,694,000 expires on July 1, 2012, unless terminated earlier.

Pursuant to a Trust Indenture dated May 1, 2007, between the City of Wilkes-Barre Finance Authority (the "Authority") and a bank, the Authority issued Series 2007 Revenue Bonds (the "Series 2007 Bonds") in the amount of $12,000,000, on behalf of the College. The Series 2007 Bonds were issued to finance (a) capital improvements to the College's existing facilities, including the renovation of the College's student residence halls and gymnasium facility, the acquisition of capital equipment for use in connection with the facilities of the College, and the construction of various site improvements on the campus of the College and (b) paying a portion of the costs of issuing the Bonds including credit enhancement. In order to facilitate the sale of the series 2007 Bonds and to secure the required payments under the terms of the bonds payable arrangement, the College delivered an irrevocable letter of credit. The letter of credit in the amount of approximately $11,560,000 expires on the July 1, 2012, unless terminated earlier.

The above College Revenue Bonds are secured by pledged revenues of the College.

The aggregate future principal payments on the bonds payable are as follows:

Years ending June 30:	
2012	$ 1,545,000
2013	1,580,000
2014	1,725,000
2015	1,705,000
2016	1,755,000
Thereafter	25,350,000
Total	$ 33,660,000

Interest expense with regard to all debt was approximately $1,336,000 and $1,372,000 in 2011 and 2010, respectively.

The Series 2001 H6, Series 2002 J3, Series 2003 L2 and Series 2007 bonds are variable rate demand bonds, which contain weekly remarketing features. The maximum weekly rate, as defined by the trust indentures, is 12% per annum based on a 365-day year. The Remarketing Agent for these issues is PNC Capital Markets, Inc. The bonds are secured by irrevocable letters of credit issued by PNC Bank, N.A. The failure to remarket does not constitute an event of default of the letters of credit or associated interest rate swap agreements. If bonds are not successfully remarketed, the bond trustee may initiate a Tender Draft on the applicable letter of credit. Tender draft draws on the letter of credit bear interest, payable monthly, at the banks Prime Rate, less .5%.

10. Operating Leases

The College leases equipment under noncancelable operating leases with terms of 24 to 60 months. The following is a schedule of the approximate future annual minimum rentals on these leases as of June 30, 2011:

Years ending June 30:	
2012	$ 633,315
2013	585,111
2014	487,594
2015	101,918
Total	$ 1,807,938

Rental expense on the above commitments amounted to approximately $876,000 in 2011 and $820,000 in 2010.

The College leases a multiuse building adjacent to the College's campus. The building segments include approximately forty apartment style suites, an early childhood learning center, a dining facility, instructional facilities and faculty offices. The lease term is thirty years, expiring October 2039. Lease payments are due and payable the first of each month.

Future annual minimum rental payments on this lease is as follows:

Years ending June 30:	
2012	$ 1,414,114
2013	1,425,320
2014	1,436,627
2015	1,448,038
2016	1,493,324
2017 – 2021	7,967,017
2022 – 2026	8,805,281
2027 – 2031	9,732,234
2032 – 2036	10,757,336
2037 – 2040	7,588,449
Total	$ 52,067,740

The College recognized rent expense of approximately $1,403,000 and $1,418,000 during 2011 and 2010, respectively, in conjunction with this agreement.

11. Pensions

The College sponsors a defined contribution pension plan with TIAA-CREF. Pension expense was approximately $1,874,000 in 2011 and $1,841,000 in 2010.

12. Government Grants and Student Aid

The government grants and student aid amounts do not include funds credited to student accounts under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent. Had these amounts been included, revenues and expenses would have increased by approximately $5,061,000 in 2011 and $5,402,000 in 2010.

13. Significant Group Concentration of Credit Risk

The College maintains its cash accounts in commercial banks located in Pennsylvania. Accounts are insured by the Federal Deposit Insurance Corporation to $250,000.

14. Net Assets

Unrestricted net assets are designated for the following as of June 30, 2011 and 2010:

	2011	2010
Long-term investments	$ 14,848,303	$ 12,287,026
Plant facilities	38,230,675	38,129,632
Future debt service	821,834	616,046
Other	(759,764)	958,905
Total	$ 53,141,048	$ 51,991,609

Temporarily restricted net assets are available for the following purpose or in future periods as of June 30, 2011 and 2010:

	2011	2010
Specified purposes	$ 1,741,454	$ 2,316,922
Time	3,849,236	4,461,795
Accumulated unspent endowment earnings	11,683,276	9,363,316
Total	$ 17,273,966	$ 16,142,033

Permanently restricted net assets are restricted for the following as of June 30, 2011 and 2010:

	2011	2010
Beneficial interests in perpetual trusts	$ 6,474,215	$ 5,440,886
Assets held in perpetuity	22,309,981	21,341,658
Total	$ 28,784,196	$ 26,782,544

15. Endowment Funds

The College's endowment consists of approximately 300 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the College has developed a policy requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary as interpreted through review of current Pennsylvania laws. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 4%, plus inflation, annually.

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The College has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The permanently restricted category includes the value of interest in various trust accounts established by donors. The assets of the trusts are held by independent trustees in perpetuity. The College has an interest in the income generated from these trusts, but will never receive the assets held in the trusts. These assets are not governed by the College's investment policy. All investment decisions and distributions are governed by trust documents and the trustee.

Endowment net asset composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (220,259)	$ 11,683,276	$ 28,784,196	$ 40,247,213
Board-designated endowment funds	15,068,562	-	-	15,068,562
Total endowment funds	$ 14,848,303	$ 11,683,276	$ 28,784,196	$ 55,315,775

Endowment net asset composition by type of fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,211,590)	$ 9,363,316	$ 26,782,544	$ 34,934,270
Board-designated endowment funds	13,498,616	-	-	13,498,616
Total endowment funds	$ 12,287,026	$ 9,363,316	$ 26,782,544	$ 48,432,886

Changes in endowment net assets for the fiscal year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 12,287,026	$ 9,363,316	$ 26,782,544	$ 48,432,886
Investment return:				
Investment income	270,421	586,876	-	857,297
Net appreciation (realized and unrealized)	1,962,045	4,130,815	919,510	7,012,370
Total investment return	2,232,466	4,717,691	919,510	7,869,667
Contributions	2,994	-	1,082,142	1,085,136
Appropriation of endowment assets for expenditure	(665,514)	(1,406,400)	-	(2,071,914)
Other changes:				
Reclassification of underwater endowment net assets	991,331	(991,331)	-	-
Endowment net assets, end of year	$ 14,848,303	$ 11,683,276	$ 28,784,196	$ 55,315,775

Changes in endowment net assets for the fiscal year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 11,524,952	$ 8,299,609	$ 24,862,043	$ 44,686,604
Investment return:				
Investment income	116,914	238,949	-	355,863
Net appreciation (realized and unrealized)	1,088,544	2,641,776	414,598	4,144,918
Total investment return	1,205,458	2,880,725	414,598	4,500,781
Contributions	3,018	-	1,505,903	1,508,921
Appropriation of endowment assets for expenditure	(747,308)	(1,516,112)	-	(2,263,420)
Other changes:				
Reclassification of underwater endowment net assets	300,906	(300,906)	-	-
Endowment net assets, end of year	$ 12,287,026	$ 9,363,316	$ 26,782,544	$ 48,432,886

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or law requires the College to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were $220,259 and $1,211,590 as of June 30, 2011 and 2010. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

16. Commitments and Contingencies

The College has approximately $1,877,000 in unfunded capital calls related to various alternative and venture capital investments at June 30, 2011. These commitments can be funded through liquidation of current investments.

The College is a defendant in a number of legal actions resulting in the normal course of business. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the College's financial statements.

The College entered into a self-insured plan for their medical insurance. The College has limited their self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the College for any individual employee medical costs over $125,000 and aggregate medical costs over approximately $2,700,000 per year. Self insurance costs are accrued based on claims reported as of the balance sheet date as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs, included with accounts payable and accrued liabilities in the statement of financial position was approximately $859,000 and $1,485,000 at June 30, 2011 and 2010, respectively. The cost of medical coverage for employees amounted to approximately $1,895,000 and $2,593,000 for the years ended June 30, 2011 and 2010, respectively.

The College owns several buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The college has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate these buildings and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the buildings and sufficient information becomes available to estimate the liability, it will be recognized at that time.

The College has been awarded a $3,000,000 Redevelopment Assistance Grant from the Commonwealth of Pennsylvania as funding for construction costs of a new Recreation Center. No amounts have been drawn as of June 30, 2011. In conjunction with this project, the College has awarded contracts totaling approximately $754,000. The College has incurred approximately $382,000 in expenses at June 30, 2011 related to these contracts.

17. Interest Rate Swap

The College entered into four interest rate swap agreements in connection with its Series 2001, 2002 and 2003 bonds which are considered derivative financial instruments. The counterparty for the swap agreements is PNC Bank, NA, a financial institution with which the College has other financial relationships (the "Bank"). The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable rate debt. The swap agreements are not designated as hedging instruments. The swap agreements are contracts to exchange variable rate for fixed rate interest payments over the life of the agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote. The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense.

The College does not utilize interest rate swaps or other financial instruments for trading or other speculative purposes.

At June 30, 2011, the College has the following interest rate swaps in effect:

Effective notional amount	$2,800,000	$9,200,000	$5,860,000	$4,500,000
Strike rate	4.05%	4.33%	4.73%	4.15%
Period	May 2006 to May 2017	May 2011 to May 2031	May 2006 to May 2016	February 2007 to May 2031

The fair value of the interest rate swap agreements is the amount that the College would receive or pay to terminate the swap agreements at the reporting date and the fair value is based on information supplied by an independent third party valuation specialist. The College estimates that it would have paid approximately $2,915,000 and $2,958,000 on June 30, 2011 and 2010, respectively, to terminate these agreements and is recorded as a noncurrent liability on the statement of financial position.

18. Fair Value Disclosure

The carrying amount and estimated fair value of the College's financial instruments at June 30, 2011 and 2010 are as follows:

	2011		2010	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets				
Cash and cash equivalents	$ 793,124	$ 793,124	$ 335,137	$ 335,137
Short-term investments	945,264	945,264	2,362,012	2,362,012
Accounts receivable	2,111,597	2,111,597	1,826,507	1,826,507
Contributions receivable	5,132,588	5,132,588	6,357,476	6,357,476
Investments	49,170,127	49,170,127	42,938,265	42,938,265
Loans receivable	2,585,777	2,585,777	2,488,108	2,488,108
Beneficial interests in perpetual trusts	6,474,215	6,474,215	5,440,886	5,440,886
Liabilities				
Demand note payable	3,000,000	3,000,000	-	-
Accounts payable and accrued liabilities	3,885,115	3,885,115	5,259,817	5,259,817
Bonds and note payable	33,933,835	33,660,000	35,483,514	35,231,824
Interest rate swap	2,914,905	2,914,905	2,957,647	2,957,647
Refundable advances from federal government	1,952,479	1,952,479	1,970,014	1,970,014

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and contributions receivable to be received in less than one year: The carrying amounts approximate fair value because of the short term maturity of those instruments.

Contributions receivable to be received in more than one year: The fair value is estimated based on future cash flows discounted at risk adjusted rates ranging from 2.5% to 10%.

Short-term investments: The carrying amounts approximate fair value because of the short term maturity of those instruments which consist primarily of cash equivalents, certificates of deposit and other highly liquid investments.

Investments: The fair values are based on values reported by external investment managers. Quoted market prices for identical assets are used to measure fair value of equity and fixed income securities and alternative investments, and are classified within Level 1 of the valuation hierarchy. Fair value of investments within the Level 2 valuation hierarchy are based on pricing for similar assets with similar terms in actively traded markets or valued at the respective net asset values based on the underlying assets of the funds. The College's investment in certain international equities, hedge funds, natural resources, real estate, private equity and venture capital investments are valued at net asset value and are considered Level 3 inputs based on the investments not having an observable market and the need for significant estimation to measure fair value.

Loans receivable, net and federal loan programs: The fair value of these loans receivable and advances from the federal government are based upon management's best estimate of the indicated future cash flows discounted at interest rates required by market participants.

Beneficial interests in perpetual trusts: The fair value is estimated using the College's percentage of the underlying assets, which approximates the present value of estimated future cash flows to be received from the trust.

Bonds payable: The fair value is estimated based on discounted cash flows using borrowing rates currently available to the College for similar types of borrowing arrangements.

The College measures its derivative financial instruments at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. The fair value was estimated using the zero-coupon discounting method and considers the credit risk of the College and the counterparty. This method calculates the future payments required by the derivative financial instruments, assuming that the current, forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for a hypothetical zero coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the College would pay to terminate the agreements.

The College measures its long-term investments, beneficial interest in perpetual trusts and derivative financial instruments at fair value on a recurring basis in accordance with authoritative guidance. These items were measured with the following inputs at June 30, 2011 and 2010:

	2011			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Noncurrent assets:				
Investments:				
Cash equivalents	$ 3,165,222	$ 3,165,222	$ -	$ -
Equity funds:				
Domestic:				
Large cap	10,594,027	9,342,661	1,251,366	-
Mid/small cap	1,541,812	1,541,812	-	-
International	5,211,551	4,664,178	-	547,373
Fixed income funds:				
Domestic	3,984,169	3,321,482	662,687	-
International	5,942,243	5,917,243	25,000	-
Hedge funds	5,336,417	-	-	5,336,417
Alternative investments:				
Natural resources	5,179,803	3,447,670	829,972	902,161
Private equity	4,464,602	-	-	4,464,602
Real estate	2,046,872	-	-	2,046,872
Venture capital investments	1,703,409	-	-	1,703,409
Total	49,170,127	31,400,268	2,769,025	15,000,834
Beneficial interests in perpetual trusts	6,474,215	-	-	6,474,215
Total	$ 55,644,342	$ 31,400,268	$ 2,769,025	$ 21,475,049
Liability,				
Derivative financial instruments	$ 2,914,905	$ -	$ 2,914,905	$ -

	2010			
	Total	Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Noncurrent assets:				
Investments:				
Cash equivalents	$ 4,067,593	$ 4,067,593	$ -	$ -
Equity funds:				
Domestic:				-
Large cap	7,194,812	6,237,343	957,469	-
Mid/small cap	1,820,220	1,820,220	-	-
International	2,086,736	1,569,575	-	517,161
Fixed income funds:				
Domestic	6,812,656	5,696,631	1,116,025	-
U.S. government obligations	2,010,626	-	2,010,626	-
International	1,020,110	995,110	25,000	-
Hedge funds	5,428,342	-	-	5,428,342
Alternative investments:				
Natural resources	4,972,155	3,631,401	640,233	700,521
Private equity	3,881,462	-	-	3,881,462
Real estate	2,053,261	-	-	2,053,261
Venture capital investments	1,590,292	-	-	1,590,292
Total	42,938,265	24,017,873	4,749,353	14,171,039
Beneficial interests in perpetual trusts	5,440,886	-	-	5,440,886
Total	$ 48,379,151	$ 24,017,873	$ 4,749,353	$ 19,611,925
Liability,				
Derivative financial instruments	$ 2,957,647	$ -	$ 2,957,647	$ -

The following tables present a reconciliation of the beginning and ending balances of assets with fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2011 and 2010:

	July 1, 2010	Purchases	Sales	Issuances	Settlements	Unrealized	June 30, 2011
Equities	$ 517,161	$ -	$ -	$ -	$ -	$ 30,212	$ 547,373
Hedge funds	5,428,342	500,000	(1,319,720)	-	64,711	663,084	5,336,417
Alternative investments	6,635,244	127,172	(255,452)	-	62,046	844,625	7,413,635
Venture capital	1,590,292	31,440	(266,411)	-	155,536	192,552	1,703,409
Total	$ 14,171,039	$ 658,612	$ (1,841,583)	$ -	$ 282,293	$ 1,730,473	$ 15,000,834
Beneficial interests	$ 5,440,886	$ 113,819	$ -	$ -	$ -	$ 919,510	$ 6,474,215

	July 1, 2009	Purchases	Sales	Issuances	Settlements	Unrealized	June 30, 2010
Equities	$ 324,711	$ 82,275	$ -	$ -	$ (26,329)	$ 136,504	$ 517,161
Hedge funds	4,928,795	-	(100,000)	-	-	599,547	5,428,342
Alternative investments	6,183,772	601,783	-	-	(255,094)	104,783	6,635,244
Venture capital	1,510,949	104,393	-	-	(112,420)	87,370	1,590,292
Total	$ 12,948,227	$ 788,451	$ (100,000)	$ -	$ (393,843)	$ 928,204	$ 14,171,039
Beneficial interests	$ 4,360,632	$ 665,656	$ -	$ -	$ -	$ 414,598	$ 5,440,886

Gains and losses (realized and unrealized) included in changes in net assets for the period are reported in nonoperating revenues. Total realized and unrealized gains, included in the change in net assets, attributable to investments classified as level 3 were approximately $1,730,000 and $928,000, all of which are related to investments still held at June 30, 2011 and 2010, respectively. Unrealized gains, included in the change in net assets, attributable to beneficial interests in perpetual trusts totaled approximately $920,000 and $415,000 at June 30, 2011 and 2010, respectively. These unrealized gains relate to trusts still held at June 30, 2011.

The College has a policy which permits investments that do not have a readily determinable fair value, and as such, has elected to use the net asset value per share (the "NAV") as calculated on the reporting entity's measurement date as the fair value of the investment. The College measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the College as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. A listing of the investments held by the College and their attributes, that may qualify for these valuations consist of the following as of June 30:

	2011				
Investment Category	**Investment Strategy**	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	$ 902,161	$ 698,750	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	1,887,169	320,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A
Real estate operations (c)	Invests in a diversified pool of real estate investments over time, within seven regional targeted markets.	159,703	-	Annually on September 30	30 days

Investment Category	Investment Strategy	2011 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	$ 1,648,066	$ 335,012	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	4,404,479	518,888	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days
Emerging markets/ Offshore funds (a) (d)	Seeks to realize a superior long-term rate of return through an actively managed portfolio of emerging markets and offshore investments that are likely to result in high capital appreciation as well as moderate current income.	2,134,805	-	Monthly	30 - 60 days
Global equity and debt (a) (e)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	3,748,985	-	Annual	Requires approval of Board of Directors

Investment Category	2010 Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	$ 700,521	$ 757,500	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	1,893,558	320,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A
Real estate operations (c)	Invests in a diversified pool of real estate investments over time, within seven regional targeted markets.	159,703	-	Annually on September 30	30 days
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	1,521,547	456,412	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A

	2010				
Investment Category	**Investment Strategy**	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	$ 3,806,496	$ 633,888	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days
Emerging markets/ Offshore funds (a) (d)	Seeks to realize a superior long-term rate of return through an actively managed portfolio of emerging markets and offshore investments that are likely to result in high capital appreciation as well as moderate current income.	2,568,561	-	Monthly	30 - 60 days
Global equity and debt (a) (e)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	3,376,941	-	Annual	Requires approval of Board of Directors

(a) Investment is a feeder fund for other limited partnerships, limited liability corporations, offshore corporations or other foreign investment vehicles.

(b) Underlying investments primarily include loans and other debt instruments that are secured by real estate or other physical assets.

(c) Underlying investments are primarily operating real estate projects or undeveloped land held for future development or sale.

(d) Includes both hedge funds of approximately $1,540,000 and $2,051,000 and equities of approximately $547,000 focused in international markets at June 30, 2011 and 2010, respectively.

(e) Represents a hedge fund focused in international markets.

19. Functional Allocation

The College adheres to the AICPA Industry Audit Guide in reporting expenses by their functional classification. Accordingly, depreciation, interest and other expenses have been allocated to functional classifications based on square footage, use of bond proceeds, or other factors.

20. Related Party Transactions

The College has entered into transactions with which members of the Board of Directors have relationships as owners or officers. During the year ended June 30, 2011 and 2010 the College engaged in the following related party transactions:

- The College is invested in an alternative investment managed by a member of the Board. The fair value of that investment was approximately $950,000 and $1,075,000 at June 30, 2011 and 2010, respectively.

- The College paid insurance premiums of approximately $184,000 and $161,000 in 2011 and 2010, respectively, to a company partially owned by a member of the Board.

- The College paid service fees to an insurance company, which has an officer that is also a member of the Board, of approximately $248,000 and $211,000 for 2011 and 2010, respectively.

- The College paid transportation costs to a company, which has an officer that is also a member of the Board, of approximately $118,000 and $103,000 for 2011 and 2010, respectively.

During 2004, the College entered into an agreement with the Congregation of Holy Cross to lease land located on the College's campus. The term of the lease is approximately 30 years at a rate of $10 per year, payable by December 1st of each year. If at any time during the lease period, the lessee decides to sell the buildings and improvements constructed on the leased land, the College has the first option to purchase such buildings and improvements at market value.

21. Subsequent Event

In August 2011, the College entered into an agreement with an independent nonprofit university (the "University") to purchase units of the University's endowment fund. The College intends to invest its entire endowment fund with the University upon liquidation of the College's investments through immediate sale for liquid investments and upon maturity of illiquid investments. The value of units purchased by the College will be based upon the calculated unit value of the University's endowment as of the quarter end immediately preceding deposit with the University. As of the date of this report, the College has liquidated approximately $6,000,000 of liquid investments, which are being held in the College's cash accounts until transfer to the University, which is expected to occur in October 2011. The College will participate pro rata in all income, expenses, gains and losses of the University's endowment fund in the future.

King's College

Financial Statements

June 30, 2012 and 2011

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June 30, 2012 and 2011

ParenteBeard

Independent Auditors' Report

Board of Directors
King's College

We have audited the accompanying statement of financial position of King's 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King's 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 the accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
October 18, 2012

King's College

Statement of Financial Position
June 30, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 345,404	$ 793,124
Short-term investments	342,394	945,264
Accounts receivable:		
Students, net	910,945	894,907
Other	2,772,463	1,216,690
Contributions receivable	517,610	860,566
Prepaids and other	78,669	383,808
Total current assets	4,967,485	5,094,359
Noncurrent Assets		
Contributions receivable, net	4,770,497	4,272,022
Deferred financing costs	368,537	397,540
Investments	43,434,151	49,170,127
Student and other loans receivable	2,534,066	2,585,777
Land, buildings and equipment, net	83,489,880	79,012,186
Beneficial interest in perpetual trusts	6,077,929	6,474,215
Total assets	$ 145,642,545	$ 147,006,226
Liabilities and Net Assets		
Current Liabilities		
Demand note payable	$ 2,735,545	$ 3,000,000
Current portion of bonds payable	1,580,000	1,545,000
Accounts payable and accrued liabilities	4,338,835	3,885,115
Deferred revenue and deposits	2,026,008	1,671,500
Agency funds payable	521,402	449,182
Total current liabilities	11,201,790	10,550,797
Noncurrent Liabilities		
Bonds payable (including bond premium of $234,156 and $273,835 at June 30, 2012 and 2011, respectively)	30,769,156	32,388,835
Interest rate swap	4,828,823	2,914,905
Refundable advances from federal government for student loans	1,960,967	1,952,479
Total liabilities	48,760,736	47,807,016
Net Assets		
Unrestricted	50,595,044	53,141,048
Temporarily restricted	16,103,442	17,273,966
Permanently restricted	30,183,323	28,784,196
Total net assets	96,881,809	99,199,210
Total liabilities and net assets	$ 145,642,545	$ 147,006,226

See notes to financial statements

King's College

Statement of Activities
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees, (net of college financial aid of $25,227,990)	$ 35,898,185			$ 35,898,185
Auxiliary enterprises	11,935,105			11,935,105
Private gifts and grants	2,557,280	$ 265,919		2,823,199
Investment income	2,000,361	111,680		2,112,041
Federal and state grants	1,437,412			1,437,412
Other sources	272,569			272,569
Net assets released from restrictions:				
Satisfaction of program restrictions	884,787	(884,787)		-
Expiration of time restrictions	220,033	(220,033)		-
Total operating revenues	55,205,732	(727,221)		54,478,511
Operating Expenses				
Instructional	21,530,691			21,530,691
Public services	1,235,137			1,235,137
Academic support	5,753,848			5,753,848
Student services	9,277,378			9,277,378
Institutional support	7,358,455			7,358,455
Student aid	189,998			189,998
Fund raising	1,255,671			1,255,671
Auxiliary enterprises	9,809,302			9,809,302
Total operating expenses	56,410,480	-		56,410,480
Change in net assets from operating activities	(1,204,748)	(727,221)		(1,931,969)
Nonoperating				
Net realized and unrealized losses on investments	(926,347)	(443,303)		(1,369,650)
Unrealized loss on interest rate swaps	(1,913,918)			(1,913,918)
Government grants - capital	1,499,009			1,499,009
Contributions			$ 1,795,413	1,795,413
Changes in beneficial interest in perpetual trusts			(396,286)	(396,286)
Change in net assets	(2,546,004)	(1,170,524)	1,399,127	(2,317,401)
Net Assets, Beginning	53,141,048	17,273,966	28,784,196	99,199,210
Net Assets, Ending	$ 50,595,044	$ 16,103,442	$ 30,183,323	$ 96,881,809

See notes to financial statements

King's College

Statement of Activities
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees, (net of college financial aid of $23,290,310)	$ 35,631,098			$ 35,631,098
Auxiliary enterprises	11,516,199			11,516,199
Private gifts and grants	798,988	$ 40,032		839,020
Investment income	2,640,915	586,876		3,227,791
Federal and state grants	1,347,072			1,347,072
Other sources	111,141			111,141
Net assets released from restrictions:				
Satisfaction of program restrictions	843,990	(843,990)		-
Expiration of time restrictions	384,069	(384,069)		-
Total operating revenues	53,273,472	(601,151)		52,672,321
Operating Expenses				
Instructional	20,108,185			20,108,185
Student services	8,845,911			8,845,911
Institutional support	7,354,686			7,354,686
Auxiliary enterprises	9,810,399			9,810,399
Academic support	5,887,301			5,887,301
Student aid	315,012			315,012
Public services	887,332			887,332
Fund raising	1,245,811			1,245,811
Total operating expenses	54,454,637	-		54,454,637
Change in net assets from operating activities	(1,181,165)	(601,151)		(1,782,316)
Nonoperating				
Net realized and unrealized gains on investments	2,287,862	1,733,084		4,020,946
Unrealized gain on interest rate swaps	42,742			42,742
Contributions			$ 968,323	968,323
Contribution of beneficial interest in perpetual trusts			113,819	113,819
Changes in beneficial interest in perpetual trusts			919,510	919,510
Change in net assets	1,149,439	1,131,933	2,001,652	4,283,024
Net Assets, Beginning	51,991,609	16,142,033	26,782,544	94,916,186
Net Assets, Ending	$ 53,141,048	$ 17,273,966	$ 28,784,196	$ 99,199,210

See notes to financial statements

King's College

Statement of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	$ (2,317,401)	$ 4,283,024
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,547,113	3,658,316
Net realized and unrealized losses (gains) on investments	1,369,650	(4,020,946)
Restricted contributions	(2,061,332)	(1,008,355)
State capital grant	(1,499,009)	
Contribution of beneficial interest in perpetual trust	-	(113,819)
Change in beneficial interest in perpetual trusts	396,286	(919,510)
Unrealized loss (gain) on interest rate swap	1,913,918	(42,742)
Bad debt expense	146,636	180,702
Amortization of bond premium	(39,679)	(39,679)
Changes in assets and liabilities:		
Short-term investments	602,870	1,416,748
Accounts receivable	(218,329)	(463,130)
Contributions receivable	(5,719)	93,162
Prepaids and other	305,139	(19,262)
Accounts payable and accrued liabilities	(283,776)	(740,444)
Agency funds payable	72,220	(120,574)
Deferred revenue and deposits	354,508	(217,541)
Net cash provided by operating activities	2,283,095	1,925,950
Cash Flows from Investing Activities		
Purchase of land, buildings, and equipment	(7,258,308)	(2,769,262)
Purchase of investments	(49,597,327)	(10,696,224)
Proceeds from sale of investments	53,963,653	8,485,308
Disbursements of student and other loans	(344,000)	(472,193)
Repayments of student and other loans	395,711	374,524
Net cash used in investing activities	(2,840,271)	(5,077,847)
Cash Flows from Financing Activities		
Proceeds from borrowing of demand note payable	16,441,098	8,500,000
Repayment of demand note payable	(16,705,553)	(5,500,000)
Repayment of bonds payable	(1,545,000)	(1,510,000)
Proceeds from restricted contributions	1,910,423	2,137,419
Net advance from federal government for student loans	8,488	(17,535)
Net cash provided by financing activities	109,456	3,609,884
Net change in cash and cash equivalents	(447,720)	457,987
Cash and Cash Equivalents, Beginning	793,124	335,137
Cash and Cash Equivalents, Ending	$ 345,404	$ 793,124
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,402,226	$ 1,404,047
Supplemental Disclosure of Noncash Investing and Financing Activities		
Fixed assets in accounts payable	$ 1,187,322	$ 449,826

See notes to financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

King's College (the "College") is a not-for-profit educational institution which provides undergraduate, graduate and professional education to its students. The College was founded in 1946 by the Congregation of Holy Cross as an independent four-year institution of higher education. The College welcomes students into its community without regard to gender, race, religion, disability or national origin, and seeks to assist talented students of modest financial means.

The College seeks to develop mutually beneficial and cooperative ties to the wider society, and particularly to the civic, cultural, and religious communities of Northeastern Pennsylvania. The broader community offers resources that support and compliment the educational mission of the College, which in turn is a resource to the community through the specialized competencies of its faculty and staff, the volunteer service of students, and through a diverse series of public lectures and religious, cultural and athletic events.

The College has approximately 2,600 students of whom 2,020 are full time undergraduates. Approximately 71% of the College's present full-time undergraduate student body is comprised of representatives from Pennsylvania, 14% from New Jersey, and 8% from New York. The balance is from other states and countries.

During the years ended June 30, 2012 and 2011, the College provided student financial aid from internal resources of approximately $25,228,000 and $23,290,000, respectively, which represented approximately 42% of gross tuition and fee revenue for 2012 and 40% for 2011.

The College is dependent on continuing cash flows from operations to provide adequate liquidity to support its operations.

The College evaluated subsequent events for recognition or disclosure through October 18, 2012, the date the financial statements were issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Donor-Restricted Gifts/Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support which increases those net asset classes. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions, satisfaction of program restrictions. However, if a restriction is satisfied in the same fiscal period in which the contribution is received, the College reports the support as unrestricted.

Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Discounts on those amounts are computed using a risk-adjusted interest rate applicable to individual donors as determined by management. Risk adjusted rates are determined based on an analysis of individual donors ability to satisfy the obligations and current market rates. Amortization of the discount is included in contribution revenue.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the College considers all highly liquid investments, with original maturities of 90 days or less, to be cash equivalents.

Accounts Receivable

Students and other accounts receivable are reported at net realizable value. Student accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful student accounts is estimated based on the College's historical losses and periodic review of individual accounts. Other receivables are written off when they are determined to be uncollectible based on management's review of individual balances. Management considers other accounts fully collectible and an allowance is not considered necessary.

Investments

Equity securities are valued at fair value based on quoted market prices as reported by the College's investment custodians. The alternative investments, which are not readily marketable, are carried at net asset values as provided by the investment managers. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used to determine the fair value of the alternative investments. The estimated fair values include assumptions made by management which could have differed significantly had an active market for these securities existed. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

The College's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor imposed stipulations.

Short-Term Investments

Short-term investments consist primarily of money market funds and certificates of deposit with local financial institutions. Interest income and gains and losses on these investments are included in investment income in the statement of activities. These investments are used primarily for operating activities at the College.

Beneficial Interest in Assets Held by Others

The College invests a portion of its endowment with a religious affiliate that shares the College's Catholic ministry and educational mission. These assets are held in the affiliate's endowment and are invested for the College's benefit. The endowment is managed to provide a stable source of financial support. In order to meet this objective the funds are invested in a diversified asset allocation with an emphasis on equity-based instruments to obtain capital appreciation and current yield. Investments held in the affiliate's endowment include U.S. public equities, non-U.S. public equities, long/short public equities, fixed income securities, marketable alternatives, private equity, real estate, and other real assets. The College has no unfunded commitments related to its beneficial interest in assets held by others as of June 30, 2012.

The College may redeem its interest as necessary. Whenever a request is made, the affiliate is required to distribute the funds within thirty days if the redemption value does not exceed $10,000,000, within ninety days if the redemption value exceeds $10,000,000 but does not exceed $50,000,000, and within one hundred eighty days if the redemption value exceeds $50,000,000.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, or estimated cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (25-50 years) and furniture and equipment (3-10 years). Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Deferred Revenue

Tuition, fees, and room and board from currently enrolled students is billed in advance and is recognized as revenue when earned.

Deferred Financing Costs

Costs incurred in connection with debt financing have been deferred and are amortized over the term of the related loans using the straight-line method which approximates the interest method. Amortization expense was approximately $29,000 in 2012 and 2011.

Refundable Advances

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenue when the College has incurred expenses in compliance with the contract. Amounts received but not yet earned are reported as refundable advances.

Income Taxes

The Internal Revenue Service has ruled that the College is tax-exempt as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

The College accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined that there were no tax uncertainties that met recognition threshold in fiscal year 2012 and 2011.

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

The College's federal Exempt Organization Business Income Tax Returns for 2010, 2009, and 2008 remain subject to examination by the Internal Revenue Service.

Use of Estimates

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. It also requires 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 management's estimates.

Derivative Financial Instrument

The College has entered into four interest rate swap agreements, which are considered derivative financial instruments, to manage its exposure on its variable rate bonds payable. The interest rate swap agreements are reported at fair value on the statement of financial position; related changes in fair value are reported in the changes in unrestricted net assets in the statement of activities as an unrealized (loss) gain on interest rate swaps in the amount of ($1,913,918) and $42,742 in the years ended June 30, 2012 and 2011, respectively.

Title IV Requirements

The College participates in Government Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education (ED) for the payment of student tuitions. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2012 and 2011, are dependent upon the College's continued participation in the Title IV programs.

Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of and for the years ended June 30, 2012 and 2011, the College's composite score exceeded 1.5.

Investment Policy

The College has a formal investment policy that enables it to utilize a portion of investment return for operating purposes. The College's Board of Directors sets the level of distribution within the limitation imposed by Pennsylvania statute.

Nonoperating Activities

For the purpose of the statement of activities, the College considers its changes in net assets to be operational changes, except for changes related to realized and unrealized gains and losses on investments, net of the College spending policy, permanently restricted contributions, the change in value of beneficial interests in perpetual trusts and the College's interest rate swap agreements.

Advertising

Advertising expenses are recorded as incurred and were approximately $373,000 and $348,000 in 2012 and 2011, respectively.

Fair Value Measurements

Financial assets and liabilities measured at fair value are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

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

Level 3 – Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

New Accounting Standard

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," ("ASU 2011-04") which amends FASB ASC Topic 820, "Fair Value Measurements," to bring accounting principles generally accepted in the United States of America for fair value measurements in line with International Accounting Standards by clarifying existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's stockholder's equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of Level 3 assets. ASU 2011-04 is effective for fiscal years and interim reporting periods beginning after December 15, 2011. Management is evaluating the impact of adopting ASU 2011-04 and believes it will not be material to the financial statements but will provide additional disclosures.

2. Accounts Receivable, Students

Students accounts receivable represent amounts due for tuition, fees, and room and board from currently enrolled and former students. The College extends unsecured credit to students and parents of dependent students in connection with their studies. Some of those students are no longer enrolled or have completed their degrees. Student accounts receivable consists of the following at June 30, 2012 and 2011:

	2012	2011
Accounts receivable	$ 1,275,945	$ 1,259,907
Less allowance for doubtful accounts	365,000	365,000
Total	$ 910,945	$ 894,907

3. Contributions Receivable

Contributions receivable at June 30, 2012 and 2011 are as follows:

	2012	2011
In one year or less	$ 517,610	$ 860,566
Between one year and five years	6,998,601	5,901,219
Between six years and ten years	-	412,876
	7,516,211	7,174,661
Less discount	2,228,104	2,042,073
Net contributions receivable	$ 5,288,107	$ 5,132,588

These contributions have been made by businesses, individuals, and related parties primarily located in Pennsylvania. Approximately 93% of gross pledges receivable at June 30, 2012 are due from members of the College's Board of Directors.

Management believes the College's allowance for doubtful collections, which is an estimate based on management's periodic assessment of the risk of collectability of each gift, is adequate based upon information currently known at June 30, 2012 and 2011. However, events impacting donors' ability to satisfy their commitments can occur in subsequent years which may result in a material change in the allowance for doubtful collections.

4. Student Loans Receivable

These loans are made with funds advanced to the College by the federal government under the Perkins Student Loan Program (the "Program"). Such funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these funds was approximately $1,961,000 and $1,952,000 at June 30, 2012 and 2011, respectively. The College contributes one third of the amount contributed by the U.S. Government as a match to the Program.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable or for a provision of allowance for doubtful loans. Accordingly, interest on loans is recorded as received; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with Program requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.

5. Investments

Equity and debt securities with readily determinable fair values are reported at fair value based on quoted market prices for identical or similar assets in active markets. Other investments represent ownership in limited partnerships and limited liability companies that invest in hedge funds, real estate, private equity/venture capital funds, and distressed debt funds.

Investments at June 30, 2012 and 2011 are as follows:

	2012	2011
Cash equivalents	$ -	$ 3,165,222
Equity funds:		
Domestic:		
Large cap	1,054,349	10,594,027
Mid/small cap	-	1,541,812
International	-	5,211,550
Fixed income:		
Domestic	-	3,984,170
International	25,000	5,942,243
Hedge funds	2,008,126	5,336,417
Alternative investments:		
Natural resources	1,071,920	5,179,802
Private equity	4,468,362	4,464,603
Real estate	2,109,143	2,046,873
Venture capital	1,679,604	1,703,408
	12,416,504	49,170,127
Beneficial interest in assets held by others	31,017,647	-
	$ 43,434,151	$ 49,170,127

The College's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the College's investment policy. The degree and concentration of credit risk varies by type of investment.

Certain investments are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the calendar month in which the transaction takes place.

A significant portion of the College's endowment investments were liquidated during fiscal year 2012 and transferred to a religious affiliate to be invested on behalf of the College. See Beneficial Interest in Assets Held by Others in Note 1.

The following summarizes the composition of investment return after application of the College's spending policy for 2012 and 2011:

	2012	2011
Net realized and unrealized investment (loss) gain	$ (1,369,650)	$ 4,020,946
Interest and dividend income	2,112,041	3,227,791
Net investment return	$ 742,391	$ 7,248,737

6. Beneficial Interest in Perpetual Trusts

The College receives income from various perpetual trusts held by third parties. Under the terms of the trusts, the College has the irrevocable right to receive a portion of the income earned on these trust assets in perpetuity, but never receives the assets held in the trust. The assets are recorded at their fair values of approximately $6,078,000 and $6,474,000 as of June 30, 2012 and 2011, respectively.

Distributions from these trusts are recorded as unrestricted or restricted investment income in the statement of activities based on donor stipulations. The change in value of the perpetual trusts is reported as changes in permanently restricted net assets based on explicit donor stipulations.

7. Land, Buildings, and Equipment

Land, buildings, and equipment as of June 30, 2012 and 2011 are as follows:

	2012	2011
Land and improvements	$ 16,448,335	$ 16,150,494
Buildings	83,227,377	82,083,384
Furniture, fixtures, and equipment	28,120,901	27,476,467
Construction in progress	6,899,167	989,928
Total	134,695,780	126,700,273
Less accumulated depreciation	51,205,900	47,688,087
Total	$ 83,489,880	$ 79,012,186

Depreciation expense was approximately $3,518,000 in 2012 and $3,629,000 in 2011. In 2012, the College capitalized interest expense, in conjunction with the ongoing auxiliary gymnasium construction project, of approximately $51,000.

8. Notes Payable, Demand

The College has a secured line of credit with a local financial institution, which expires June 30, 2013. The availability on this line of credit is $4,000,000. Borrowings on the line bear interest at 1 month LIBOR plus 1.25% (1.4953% at June 30, 2012), payable monthly. Borrowings outstanding at June 30, 2012 and 2011 were $2,735,545 and $3,000,000, respectively. The College has assigned a lien on and security interest in the College's gross revenues to the financial institution as security on this note.

9. Bonds and Note Payable

A summary of bonds and note payable at June 30, 2012 and 2011 is as follows:

	2012	2011
Mortgage note, payable in annual installments, including interest at 5% through July 2013, secured by a mortgage on certain property	$ 120,000	$ 180,000
College Revenue Bonds, Series 2001 H6 – bi-annual installments of $100,000 from 2011 to 2017 and annual installments ranging from $200,000 to $500,000 from 2019 through 2031, plus interest payable monthly at a variable rate (1)	4,500,000	4,500,000
College Revenue Bonds, Series 2001 H7 – bi-annual installments of $100,000 from 2012 to 2020 and annual installments ranging from $200,000 to $1,100,000 from 2021 to 2031, plus interest payable at a variable rate through 2031 (1)	9,100,000	9,200,000
College Revenue Bonds, Series 2002 J3 – annual installments ranging from $400,000 to $500,000 through 2017, plus interest payable monthly at a variable rate (1)	2,400,000	2,800,000
College Revenue Bonds, Series 2003 L2 – annual installments ranging from $745,000 to $945,000 through 2018, plus interest payable monthly at a variable rate (1)	5,115,000	5,860,000
College Revenue Bonds, Series 2007 – annual installments ranging from $240,000 to $685,000 through 2037, plus interest payable monthly at a variable rate	10,880,000	11,120,000
Total	32,115,000	33,660,000
Less current portion	1,580,000	1,545,000
Total noncurrent bonds and note payable	$ 30,535,000	$ 32,115,000

(1) The College has effectively fixed the variable interest rates on the 2001, 2002, and 2003 bond issues by entering into interest rate swap agreements. See Note 17 for additional information.

Pursuant to a Trust Indenture dated June 12, 2001, between the Pennsylvania Higher Educational Facilities Authority ("PHEFA") and a bank, PHEFA issued $15,200,000 bonds comprised of Series 2001 H6 variable rate College Revenue Bonds in the amount of $5,000,000 and Series 2001 H7 variable rate College Revenue Bonds in the amount of $10,200,000 (the "Series 2001 Bonds"), on behalf of the College. The Series 2001 Bonds were issued to finance projects consisting of: (a) renovation and furnishing of the student center; (b) acquisition and renovation of an existing building and the adjoining parking lot; (c) installation of sprinkler system in various residence halls; (d) the acquisition, renovation, and demolition of various houses surrounding the College; (e) miscellaneous capital expenditures; (f) the payment of certain costs of issuing the Series 2001 Bonds; and (g) the advance refunding of the College Revenue Bonds, Series 1997 B4. In order to facilitate the sale of the Series 2001 Bonds and to secure the required payments under the terms of the bonds payable arrangement, the College delivered irrevocable letters of credit. The letters of credit in the aggregate amount of approximately $13,950,000 expire on July 1, 2013, unless terminated earlier.

Pursuant to a Trust Indenture dated June 1, 2002, between PHEFA and a bank, PHEFA issued Series 2002 J3 Revenue Bonds (the "Series 2002 Bonds") in the amount of $5,500,000, on behalf of the College. The Bonds were issued to finance projects consisting of: (a) renovation and furnishing of student housing known as Alumni Hall; (b) the purchase and demolition of various houses surrounding the College; (c) closing of North Franklin Street; (d) other miscellaneous capital projects; and (e) the payment of certain costs of issuing the Series 2002 Bonds. In order to facilitate the sale of the Bonds, the College delivered an irrevocable letter of credit. The letter of credit in the amount of approximately $2,450,000 expires on July 1, 2013, unless terminated earlier.

Pursuant to a Trust Indenture dated June 1, 2003, between PHEFA and a bank, PHEFA issued Series 2003 L2 Revenue Bonds (the "Series 2003 Bonds") in the amount of $10,500,000, on behalf of the College. The Series 2003 Bonds were issued to finance projects consisting of: (a) closing of North Franklin Street; (b) other miscellaneous capital projects; (c) the payment of certain costs of issuing the Series 2003 Bonds; and (d) the advanced refunding of the College Revenue Bonds, Series B of 1993. In order to facilitate the sale of the Series 2003 Bonds and to secure the required payments under the terms of the bonds payable arrangement, the College delivered an irrevocable letter of credit. The letter of credit in the amount of approximately $5,200,000 expires on July 1, 2013, unless terminated earlier.

Pursuant to a Trust Indenture dated May 1, 2007, between the City of Wilkes-Barre Finance Authority (the "Authority") and a bank, the Authority issued Series 2007 Revenue Bonds (the "Series 2007 Bonds") in the amount of $12,000,000, on behalf of the College. The Series 2007 Bonds were issued to finance (a) capital improvements to the College's existing facilities, including the renovation of the College's student residence halls and gymnasium facility, the acquisition of capital equipment for use in connection with the facilities of the College, and the construction of various site improvements on the campus of the College and (b) paying a portion of the costs of issuing the Bonds including credit enhancement. In order to facilitate the sale of the series 2007 Bonds and to secure the required payments under the terms of the bonds payable arrangement, the College delivered an irrevocable letter of credit. The letter of credit in the amount of approximately $11,075,000 expires on the July 1, 2013, unless terminated earlier.

The above College Revenue Bonds are secured by pledged revenues of the College.

The aggregate future principal payments on the bonds payable are as follows:

Years ending June 30:	
2013	$ 1,580,000
2014	1,725,000
2015	1,705,000
2016	1,755,000
2017	1,805,000
Thereafter	23,545,000
Total	$ 32,115,000

Interest expense with regard to all debt was approximately $1,272,000 and $1,377,000 in 2012 and 2011, respectively. Interest expense reported is net of capitalized interest as disclosed in Note 7.

The Series 2001 H6 and H7, Series 2002 J3, Series 2003 L2 and Series 2007 bonds are variable rate demand bonds, which contain weekly remarketing features. The maximum weekly rate, as defined by the trust indentures, is 12% per annum based on a 365-day year. The Remarketing Agent for these issues is PNC Capital Markets, Inc. The bonds are secured by irrevocable letters of credit issued by PNC Bank, N.A. The failure to remarket does not constitute an event of default of the letters of credit or associated interest rate swap agreements. If bonds are not successfully remarketed, the bond trustee may initiate a Tender Draft on the applicable letter of credit. Tender draft draws on the letter of credit bear interest, payable monthly, at the banks Prime Rate, less .5%. The bond agreements require maintenance of the letters of credit, which expire on July 1, 2013. Management anticipates the extension of these letters of credit under similar or improved terms.

As of year-end, the College was not in compliance with certain covenants within the bond documents referenced above. Specifically, the College did not provide an approved operating budget for the fiscal year ending June 30, 2013 within the timeframe specified in the Bond Documents. The counterparty had agreed to extend the submission deadline through October 31, 2012 and has waived its rights contained in the bond documents through that date. As of the date of this report, the College has submitted an approved operating budget to the bank and as such, complied with the requirements, as amended.

10. Operating Leases

The College leases equipment under noncancelable operating leases with terms of 24 to 60 months. The following is a schedule of the approximate future annual minimum rentals on these leases as of June 30, 2012:

Years ending June 30:	
2013	$ 629,000
2014	403,000
2015	240,000
2016	92,000
2017	50,000
Total	$ 1,414,000

Rental expense on the above commitments amounted to approximately $713,000 in 2012 and $876,000 in 2011.

The College leases a multiuse building adjacent to the College's campus. The building segments include approximately forty apartment style suites, an early childhood learning center, a dining facility, instructional facilities and faculty offices. The lease term is thirty years, expiring October 2039. Lease payments are due and payable the first of each month.

Future annual minimum rental payments on this lease is as follows:

Years ending June 30:	
2013	$ 1,425,320
2014	1,436,627
2015	1,448,038
2016	1,493,324
2017	1,530,305
2018 – 2022	8,127,997
2023 – 2027	8,923,288
2028 – 2032	9,929,083
2033 – 2037	10,975,038
2038 – 2040	5,364,606
Total	$ 50,653,626

The College recognized rent expense of approximately $1,681,000 and $1,784,000 during 2012 and 2011, respectively, in conjunction with this agreement.

11. Pensions

The College sponsors a defined contribution pension plan with TIAA-CREF. Pension expense was approximately $1,952,000 in 2012 and $1,874,000 in 2011.

12. Government Grants and Student Aid

The government grants and student aid amounts do not include funds credited to student accounts under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent. Had these amounts been included, revenues and expenses would have increased by approximately $5,545,000 in 2012 and $5,061,000 in 2011.

13. Significant Group Concentration of Credit Risk

The College maintains its cash accounts in commercial banks located in Pennsylvania. Accounts are insured up to limits established by the Federal Deposit Insurance Corporation.

14. Net Assets

Unrestricted net assets are designated for the following as of June 30, 2012 and 2010:

	2012	2011
Long-term investments	$ 8,168,922	$ 14,848,303
Plant facilities	44,401,211	38,230,675
Future debt service	1,039,660	821,834
Other	(3,014,749)	(759,764)
Total	$ 50,595,044	$ 53,141,048

Temporarily restricted net assets are available for the following purpose or in future periods as of June 30, 2012 and 2011:

	2012	2011
Specified purposes	$ 1,149,730	$ 1,741,454
Time	3,602,058	3,849,236
Accumulated unspent endowment earnings	11,351,654	11,683,276
Total	$ 16,103,442	$ 17,273,966

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

	2012	2011
Beneficial interests in perpetual trusts	$ 6,077,929	$ 6,474,215
Assets held in perpetuity	24,105,394	22,309,981
Total	$ 30,183,323	$ 28,784,196

15. Endowment Funds

The College's endowment consists of approximately 300 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the College has developed a policy requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary as interpreted through review of current Pennsylvania laws. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 4%, plus inflation, annually.

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The College has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The permanently restricted category includes the value of interest in various trust accounts established by donors. The assets of the trusts are held by independent trustees in perpetuity. The College has an interest in the income generated from these trusts, but will never receive the assets held in the trusts. These assets are not governed by the College's investment policy. All investment decisions and distributions are governed by trust documents and the trustee.

Endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (585,902)	$ 11,351,654	$ 30,183,323	$ 40,949,075
Board-designated endowment funds	8,754,824	-	-	8,754,824
Total endowment funds	$ 8,168,922	$ 11,351,654	$ 30,183,323	$ 49,703,899

Endowment net asset composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (220,259)	$ 11,683,276	$ 28,784,196	$ 40,247,213
Board-designated endowment funds	15,068,562	-	-	15,068,562
Total endowment funds	$ 14,848,303	$ 11,683,276	$ 28,784,196	$ 55,315,775

Changes in endowment net assets for the fiscal year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 14,848,303	$ 11,683,276	$ 28,784,196	$ 55,315,775
Investment return:				
Investment income	30,546	111,680	-	142,226
Net appreciation (realized and unrealized)	97,861	80,255	(396,286)	(218,170)
Total investment return	128,407	191,935	(396,286)	(75,944)
Contributions	1,764,797	-	1,795,413	3,560,210
Appropriation of endowment assets for expenditure	(706,942)	(889,200)	-	(1,596,142)
Temporary appropriation of endowment assets for capital expenditure	(7,500,000)	-	-	(7,500,000)
Other changes:				
Reclassification of underwater endowment net assets	(365,643)	365,643	-	-
Endowment net assets, end of year	$ 8,168,922	$ 11,351,654	$ 30,183,323	$ 49,703,899

Changes in endowment net assets for the fiscal year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 12,287,026	$ 9,363,316	$ 26,782,544	$ 48,432,886
Investment return:				
Investment income	270,421	586,876	-	857,297
Net appreciation (realized and unrealized)	1,962,045	4,130,815	919,510	7,012,370
Total investment return	2,232,466	4,717,691	919,510	7,869,667
Contributions	2,994	-	1,082,142	1,085,136
Appropriation of endowment assets for expenditure	(665,514)	(1,406,400)	-	(2,071,914)
Other changes:				
Reclassification of underwater endowment net assets	991,331	(991,331)	-	-
Endowment net assets, end of year	$ 14,848,303	$ 11,683,276	$ 28,784,196	$ 55,315,775

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or law requires the College to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were $585,902 and $220,259 as of June 30, 2012 and 2011. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

During 2012, the College's Board of Directors approved the temporary appropriation of Board Designated endowment funds to provide funding for the construction of the new auxiliary gymnasium.

16. Commitments and Contingencies

The College has approximately $1,184,000 in unfunded capital calls related to various alternative and venture capital investments at June 30, 2012. These commitments can be funded through liquidation of current investments.

The College is a defendant in a number of legal actions resulting in the normal course of business. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the College's financial statements.

The College entered into a self-insured plan for their medical insurance. The College has limited their self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the College for any individual employee medical costs over $135,000 and aggregate medical costs over approximately $3,300,000 per year. Self insurance costs are accrued based on claims reported as of the balance sheet date as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs, included with accounts payable and accrued liabilities in the statement of financial position was approximately $907,000 and $859,000 at June 30, 2012 and 2011, respectively. The cost of medical coverage for employees amounted to approximately $3,283,000 and $1,895,000 for the years ended June 30, 2012 and 2011, respectively.

The College owns several buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The college has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate these buildings and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the buildings and sufficient information becomes available to estimate the liability, it will be recognized at that time.

The College has been awarded a $3,000,000 Redevelopment Assistance Grant from the Commonwealth of Pennsylvania as funding for construction costs of a new Auxiliary Gymnasium and Recreation Center. In conjunction with this project, the College has awarded contracts totaling approximately $10,100,000. The College has incurred approximately $6,424,000 and $382,000 in project expenses at June 30, 2012 and 2011, respectively, related to these contracts. As of June 30, 2012, the College has recorded a receivable from the Redevelopment Assistance grant of $1,499,009 for reimbursement of eligible project costs.

17. Interest Rate Swap

The College entered into four interest rate swap agreements in connection with its Series 2001, 2002 and 2003 bonds which are considered derivative financial instruments. The counterparty for the swap agreements is PNC Bank, NA, a financial institution with which the College has other financial relationships (the "Bank"). The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable rate debt. The swap agreements are not designated as hedging instruments. The swap agreements are contracts to exchange variable rate for fixed rate interest payments over the life of the agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote. The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense.

The College does not utilize interest rate swaps or other financial instruments for trading or other speculative purposes.

At June 30, 2012, the College has the following interest rate swaps in effect:

Effective notional amount	$2,400,000	$9,100,000	$5,115,000	$4,500,000
Strike rate	4.05%	4.33%	4.73%	4.15%
Period	May 2006 to May 2017	May 2011 to May 2031	May 2006 to May 2016	February 2007 to May 2031

The fair value of the interest rate swap agreements is the amount that the College would receive or pay to terminate the swap agreements at the reporting date and the fair value is based on information supplied by an independent third party valuation specialist. The College estimates that it would have paid approximately $4,829,000 and $2,915,000 on June 30, 2012 and 2011, respectively, to terminate these agreements and is recorded as a noncurrent liability on the statement of financial position.

18. Fair Value Disclosure

The carrying amount and estimated fair value of the College's financial instruments at June 30, 2012 and 2011 are as follows:

	2012		2011	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets				
Cash and cash equivalents	$ 345,904	$ 345,904	$ 793,124	$ 793,124
Short-term investments	342,394	342,394	945,264	945,264
Accounts receivable	3,683,408	3,683,408	2,111,597	2,111,597
Contributions receivable	5,288,107	5,288,107	5,132,588	5,132,588
Investments	12,416,504	12,416,504	49,170,127	49,170,127
Beneficial interest in assets held by others	31,017,647	31,017,647	-	-
Loans receivable	2,534,066	2,534,066	2,585,777	2,585,777
Beneficial interests in perpetual trusts	6,077,929	6,077,929	6,474,215	6,474,215
Liabilities				
Demand note payable	2,735,545	2,735,545	3,000,000	3,000,000
Accounts payable and accrued liabilities	4,338,835	4,338,835	3,885,115	3,885,115
Agency funds payable	521,402	521,402	449,182	449,182
Bonds and note payable	32,349,156	32,440,018	33,933,835	33,660,000
Interest rate swap	4,828,823	4,828,823	2,914,905	2,914,905
Refundable advances from federal government	1,960,967	1,960,967	1,952,479	1,952,479

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and contributions receivable to be received in less than one year: The carrying amounts approximate fair value because of the short term maturity of those instruments.

Contributions receivable to be received in more than one year: The fair value is estimated based on future cash flows discounted at risk adjusted rates ranging from 2.5% to 20%.

Short-term investments: The carrying amounts approximate fair value because of the short term maturity of those instruments which consist primarily of cash equivalents, certificates of deposit and other highly liquid investments.

Investments: The fair values are based on values reported by external investment managers. Quoted market prices for identical assets are used to measure fair value of equity and fixed income securities and alternative investments, and are classified within Level 1 of the valuation hierarchy. Fair value of investments within the Level 2 valuation hierarchy are based on pricing for similar assets with similar terms in actively traded markets or valued at the respective net asset values based on the underlying assets of the funds. The College's investment in certain international equities, hedge funds, natural resources, real estate, private equity and venture capital investments are valued at net asset value and are considered Level 3 inputs based on the investments not having an observable market and the need for significant estimation to measure fair value.

Beneficial interest in assets held by others: Fair value is based on the net asset value as reported by the affiliate, unless specific evidence indicates that net asset value should be adjusted. This may involve using significant unobservable inputs. The valuation methods utilized by the affiliate are subject to regular review by the College.

Loans receivable, net and federal loan programs: The fair value of these loans receivable and advances from the federal government are based upon management's best estimate of the indicated future cash flows discounted at interest rates required by market participants.

Beneficial interests in perpetual trusts: The fair value is estimated using the College's percentage of the underlying assets, which approximates the present value of estimated future cash flows to be received from the trust.

Bonds payable: The fair value is estimated based on discounted cash flows using borrowing rates currently available to the College for similar types of borrowing arrangements.

The College measures its derivative financial instruments at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. The fair value was estimated using the zero-coupon discounting method and considers the credit risk of the College and the counterparty. This method calculates the future payments required by the derivative financial instruments, assuming that the current, forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for a hypothetical zero coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the College would pay to terminate the agreements.

The College measures its long-term investments, beneficial interest in perpetual trusts and derivative financial instruments at fair value on a recurring basis in accordance with authoritative guidance. These items were measured with the following inputs at June 30, 2012 and 2011:

	2012			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Noncurrent assets:				
Investments:				
Cash equivalents	$ -	$	$ -	$ -
Equity funds:				
Domestic:				
Large cap	1,054,349	1,054,349	-	-
Fixed income funds:				
International	25,000	-	25,000	-
Hedge funds	2,008,126	-	-	2,008,126
Alternative investments:				
Natural resources	1,071,920	-	-	1,071,920
Private equity	4,468,362	-	-	4,468,362
Real estate	2,109,143	-	-	2,109,143
Venture capital investments	1,679,604	-	-	1,679,604
Total	12,416,504	1,054,349	25,000	11,337,155
Beneficial interest in assets held by others	31,017,647	-	-	31,017,647
Beneficial interests in perpetual trusts	6,077,929	-	-	6,077,929
Total	$ 49,512,080	$ 1,054,349	$ 25,000	$ 48,432,731
Liability,				
Derivative financial instruments	$ 4,828,823	$ -	$ 4,828,823	$ -

	2011			
	Total	Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Noncurrent assets:				
Investments:				
Cash equivalents	$ 3,165,222	$ 3,165,222	$ -	$ -
Equity funds:				
Domestic:				
Large cap	10,594,027	9,342,661	1,251,366	-
Mid/small cap	1,541,812	1,541,812	-	-
International	5,211,551	4,664,178	-	547,373
Fixed income funds:				
Domestic	3,984,169	3,321,482	662,687	-
International	5,942,243	5,917,243	25,000	-
Hedge funds	5,336,417	-	-	5,336,417
Alternative investments:				
Natural resources	5,179,803	3,447,670	829,972	902,161
Private equity	4,464,602	-	-	4,464,602
Real estate	2,046,872	-	-	2,046,872
Venture capital investments	1,703,409	-	-	1,703,409
Total	49,170,127	31,400,268	2,769,025	15,000,834
Beneficial interests in perpetual trusts	6,474,215	-	-	6,474,215
Total	$ 55,644,342	$ 31,400,268	$ 2,769,025	$ 21,475,049
Liability,				
Derivative financial instruments	$ 2,914,905	$ -	$ 2,914,905	$ -

The following tables present a reconciliation of the beginning and ending balances of assets with fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2012 and 2011:

	July 1, 2011	Purchases	Sales	Issuances	Settlements	Unrealized	June 30, 2012
Equities	$ 547,373	$ -	$ (547,373)	$ -	$ -	$ -	$ -
Hedge funds	5,336,417	-	(3,176,306)	-	-	(151,985)	2,008,126
Alternative investments	7,413,635	200,664	(4,688)	-	(464,139)	503,953	7,649,425
Venture capital	1,703,409	30,000	-	-	(214,296)	160,491	1,679,604
Total	$ 15,000,834	$ 230,664	$ (3,728,367)	$ -	$ (678,435)	$ 512,459	$ 11,337,155
Beneficial interest in assets held by others	$ -	$ 33,465,000	$ (5,000,000)	$ -	$ -	$ 2,552,647	$ 31,017,647
Beneficial interests	$ 6,474,215	$	$ -	$ -	$ -	$ (396,286)	$ 6,077,929

	July 1, 2010	Purchases	Sales	Issuances	Settlements	Unrealized	June 30, 2011
Equities	$ 517,161	$ -	$ -	$ -	$ -	$ 30,212	$ 547,373
Hedge funds	5,428,342	500,000	(1,319,720)	-	64,711	663,084	5,336,417
Alternative investments	6,635,244	127,172	(255,452)	-	62,046	844,625	7,413,635
Venture capital	1,590,292	31,440	(266,411)	-	155,536	192,552	1,703,409
Total	$ 14,171,039	$ 658,612	$ (1,841,583)	$ -	$ 282,293	$ 1,730,473	$ 15,000,834
Beneficial interests	$ 5,440,886	$ 113,819	$ -	$ -	$ -	$ 919,510	$ 6,474,215

Gains and losses (realized and unrealized) included in changes in net assets for the period are reported in nonoperating revenues. Total realized and unrealized gains, included in the change in net assets, attributable to investments classified as level 3 were approximately $512,000 and $1,730,000, all of which are related to investments still held at June 30, 2012 and 2011, respectively. Unrealized (losses) gains, included in the change in net assets, attributable to beneficial interests in perpetual trusts totaled approximately ($396,000) and $920,000 at June 30, 2012 and 2011, respectively. These unrealized (losses) gains relate to trusts still held at June 30, 2012.

The College has a policy which permits investments that do not have a readily determinable fair value, and as such, has elected to use the net asset value per share (the "NAV") as calculated on the reporting entity's measurement date as the fair value of the investment. The College measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the College as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. A listing of the investments held by the College and their attributes, that may qualify for these valuations consist of the following as of June 30:

	2012				
Investment Category	**Investment Strategy**	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	$ 1,071,920	$ 413,750	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	1,856,062	200,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A
Real estate operations (c)	Invests in a diversified pool of real estate investments over time, within seven regional targeted markets.	253,081	-	Annually on September 30	30 days

	2012				
Investment Category	**Investment Strategy**	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	$ 1,679,604	$ 203,412	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	4,468,362	366,388	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days
Global equity and debt (a) (e)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	2,008,126	-	Annual	Requires approval of Board of Directors
Beneficial interest in assets held by others	Fund is independently managed fund. Asset allocation determined by fund management.	31,017,647	-	At College's discretion	Disclosed in accounting policy note
Beneficial interest in perpetual trusts (f)		6,077,929	-	Semi-annual or annual income distributions	N/A

Investment Category	Investment Strategy	2011 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	$ 902,161	$ 698,750	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	1,887,169	320,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A
Real estate operations (c)	Invests in a diversified pool of real estate investments over time, within seven regional targeted markets.	159,703	-	Annually on September 30	30 days
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	1,703,409	335,012	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	4,464,602	518,888	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days

	2011				
Investment Category	**Investment Strategy**	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Emerging markets/ Offshore funds (a) (d)	Seeks to realize a superior long-term rate of return through an actively managed portfolio of emerging markets and offshore investments that are likely to result in high capital appreciation as well as moderate current income.	$ 2,134,805	-	Monthly	30 - 60 days
Global equity and debt (a) (e)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	3,748,985	-	Annual	Requires approval of Board of Directors

(a) Investment is a feeder fund for other limited partnerships, limited liability corporations, offshore corporations or other foreign investment vehicles.

(b) Underlying investments primarily include loans and other debt instruments that are secured by real estate or other physical assets.

(c) Underlying investments are primarily operating real estate projects or undeveloped land held for future development or sale.

(d) Includes both hedge funds of approximately $1,540,000 and equities of approximately $547,000 focused in international markets at June 30, 2011.

(e) Represents a hedge fund focused in international markets.

(f) Underlying investments are held by trustees, which hold exclusive rights to determine asset allocation. Payments of income are determined by the Trustee, based on the trust document and relevant law.

19. Functional Allocation

The College adheres to the AICPA Industry Audit Guide in reporting expenses by their functional classification. Accordingly, depreciation, interest and other expenses have been allocated to functional classifications based on square footage, use of bond proceeds, or other factors.

20. Related Party Transactions

The College has entered into transactions with which members of the Board of Directors have relationships as owners or officers. During the year ended June 30, 2012 and 2011 the College engaged in the following related party transactions:

- The College is invested in an alternative investment managed by a member of the Board. The fair value of that investment was approximately $853,000 and $950,000 at June 30, 2012 and 2011, respectively.

- The College paid insurance premiums of approximately $194,000 and $184,000 in 2012 and 2011, respectively, to a company which has an officer that is also a member of the Board.

- The College paid service fees to an insurance company, which has an officer that is also a member of the Board, of approximately $256,000 and $248,000 for 2012 and 2011, respectively.

- The College paid transportation costs to a company, which has an officer that is also a member of the Board, of approximately $145,000 and $118,000 for 2012 and 2011, respectively.

- The College paid construction management fees of approximately $4,542,000 in 2012 to a company that has an officer that is also a member of the Board.

During 2004, the College entered into an agreement with the Congregation of Holy Cross to lease land located on the College's campus. The term of the lease is approximately 30 years at a rate of $10 per year, payable by December 1st of each year. If at any time during the lease period, the lessee decides to sell the buildings and improvements constructed on the leased land, the College has the first option to purchase such buildings and improvements at market value.

King's College

Financial Statements

June 30, 2013 and 2012

CONFIDENCE THROUGH CLARITY

ParenteBeard

Independent Auditors' Report

Board of Directors
King's College

We have audited the accompanying financial statements of King's College, which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King's College as of June 30, 2013 and 2012, 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.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
October 7, 2013

King's College

Statement of Financial Position
June 30, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	$ 627,261	$ 345,404
Short-term investments	363,130	342,394
Accounts receivable:		
Students, net	864,548	910,945
Other	791,534	2,772,463
Other assets	393,375	78,669
Contributions receivable, net	5,155,211	5,288,107
Deferred financing costs	246,627	368,537
Restricted cash	6,736,250	-
Investments	53,728,508	43,434,151
Student and other loans receivable	2,453,141	2,534,066
Land, buildings and equipment, net	83,988,118	83,489,880
Beneficial interest in perpetual trusts	6,398,814	6,077,929
Total	$ 161,746,517	$ 145,642,545
Liabilities and Net Assets		
Line of credit	$ 1,427,003	$ 2,735,545
Accounts payable and accrued liabilities	4,668,490	4,338,835
Deferred revenue and deposits	1,626,569	2,026,008
Agency funds payable	529,887	521,402
Long-term debt	45,000,000	32,349,156
Interest rate swap	3,261,698	4,828,823
Refundable advances from federal government for student loans	1,928,428	1,960,967
Total liabilities	58,442,075	48,760,736
Net Assets		
Unrestricted	54,468,420	50,595,044
Temporarily restricted	17,030,702	16,103,442
Permanently restricted	31,805,320	30,183,323
Total net assets	103,304,442	96,881,809
Total	$ 161,746,517	$ 145,642,545

See notes to financial statements

King's College

Statement of Activities

Year Ended June 30, 2013, With Summarized Information for the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	6/30/2012
Operating Revenues					
Student tuition and fees	$ 61,164,440	$ -	$ -	$ 61,164,440	$ 59,795,511
Internal student aid	(23,728,840)			(23,728,840)	(23,897,326)
Student tuition and fees, net	37,435,600	-	-	37,435,600	35,898,185
Auxiliary enterprises	12,329,717	-	-	12,329,717	12,182,291
Private gifts and grants	1,176,297	286,705	-	1,463,002	2,823,199
Endowment spending policy	2,185,330	-	-	2,185,330	2,000,361
Federal and state grants	1,374,234	-	-	1,374,234	1,437,412
Other sources	40,005	-	-	40,005	25,383
Net assets released from restrictions:					
Satisfaction of program restrictions	441,577	(441,577)	-	-	-
Expiration of time restrictions	241,716	(241,716)	-	-	-
Total operating revenues	55,224,476	(396,588)	-	54,827,888	54,366,831
Operating Expenses					
Instructional	21,736,265	-	-	21,736,265	21,530,691
Public services	1,116,810	-	-	1,116,810	1,235,137
Academic support	5,779,070	-	-	5,779,070	5,753,848
Student services	9,139,183	-	-	9,139,183	9,277,378
Institutional support	8,187,119	-	-	8,187,119	8,614,126
Student aid	201,128	-	-	201,128	189,998
Auxiliary enterprises	9,360,383	-	-	9,360,383	9,809,302
Total operating expenses	55,519,958	-	-	55,519,958	56,410,480
Change in Net Assets from Operating Activities	(295,482)	(396,588)	-	(692,070)	(2,043,649)
Nonoperating					
Endowment income in excess of spending policy	1,244,908	1,323,848	-	2,568,756	(1,257,970)
Unrealized gain (loss) on interest rate swaps	1,567,125	-	-	1,567,125	(1,913,918)
State capital grant	1,500,991	-	-	1,500,991	1,499,009
Loss on debt refunding	(144,166)	-	-	(144,166)	-
Contributions	-	-	1,301,112	1,301,112	1,795,413
Change in beneficial interest in perpetual trusts	-	-	320,885	320,885	(396,286)
Change in Net Assets from Nonoperating Activities	4,168,858	1,323,848	1,621,997	7,114,703	(273,752)
Change in Net Assets	3,873,376	927,260	1,621,997	6,422,633	(2,317,401)
Net Assets, Beginning	50,595,044	16,103,442	30,183,323	96,881,809	99,199,210
Net Assets, Ending	$ 54,468,420	$ 17,030,702	$ 31,805,320	$ 103,304,442	$ 96,881,809

See notes to financial statements

King's College

Statement of Activities
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Student tuition and fees	$ 59,795,511	$ -	$ -	$ 59,795,511
Internal student aid	(23,897,326)	-	-	(23,897,326)
Student tuition and fees, net	35,898,185	-	-	35,898,185
Auxiliary enterprises	12,182,291	-	-	12,182,291
Private gifts and grants	2,557,280	265,919	-	2,823,199
Endowment spending policy	2,000,361	-	-	2,000,361
Federal and state grants	1,437,412	-	-	1,437,412
Other sources	25,383	-	-	25,383
Net assets released from restrictions:				
Satisfaction of program restrictions	884,787	(884,787)	-	-
Expiration of time restrictions	220,033	(220,033)	-	-
Total operating revenues	55,205,732	(838,901)	-	54,366,831
Operating Expenses				
Instructional	21,530,691	-	-	21,530,691
Public services	1,235,137	-	-	1,235,137
Academic support	5,753,848	-	-	5,753,848
Student services	9,277,378	-	-	9,277,378
Institutional support	8,614,126	-	-	8,614,126
Student aid	189,998	-	-	189,998
Auxiliary enterprises	9,809,302	-	-	9,809,302
Total operating expenses	56,410,480	-	-	56,410,480
Change in Net Assets from Operating Activities	(1,204,748)	(838,901)	-	(2,043,649)
Nonoperating				
Endowment losses in excess of spending policy	(926,347)	(331,623)	-	(1,257,970)
Unrealized loss on interest rate swaps	(1,913,918)	-	-	(1,913,918)
State capital grant	1,499,009	-	-	1,499,009
Contributions	-	-	1,795,413	1,795,413
Changes in beneficial interest in perpetual trusts	-	-	(396,286)	(396,286)
Change in Net Assets from Nonoperating Activities	(1,341,256)	(331,623)	1,399,127	(273,752)
Change in Net Assets	(2,546,004)	(1,170,524)	1,399,127	(2,317,401)
Net Assets, Beginning	53,141,048	17,273,966	28,784,196	99,199,210
Net Assets, Ending	$ 50,595,044	$ 16,103,442	$ 30,183,323	$ 96,881,809

See notes to financial statements

King's College

Statement of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	$ 6,422,633	$ (2,317,401)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,731,100	3,507,434
Loss on debt refunding	144,166	-
Net realized and unrealized (gains) losses on investments	(4,448,784)	1,369,650
Restricted contributions	(1,587,817)	(2,061,332)
State capital grant	(1,500,991)	(1,499,009)
Change in beneficial interest in perpetual trusts	(320,885)	396,286
Unrealized (gain) loss on interest rate swap	(1,567,125)	1,913,918
Bad debt expense	178,674	146,636
Changes in assets and liabilities:		
Short-term investments	(20,736)	602,870
Accounts receivable	424,635	(218,329)
Contributions receivable	(5,579)	(5,719)
Other assets	(314,706)	305,139
Accounts payable and accrued liabilities	1,325,843	(283,776)
Agency funds payable	8,485	72,220
Deferred revenue and deposits	(399,439)	354,508
Net cash provided by operating activities	2,069,474	2,283,095
Cash Flows from Investing Activities		
Purchase of land, buildings, and equipment	(5,231,332)	(7,258,308)
Increase in restricted cash	(6,736,250)	-
State capital grant	2,925,008	-
Purchase of investments	(11,239,859)	(49,597,327)
Proceeds from sale of investments	5,394,286	53,963,653
Disbursements of student and other loans	(322,452)	(344,000)
Repayments of student and other loans	403,377	395,711
Net cash used in investing activities	(14,807,222)	(2,840,271)
Cash Flows from Financing Activities		
Change in line of credit	(1,308,542)	(264,455)
Proceeds from issuance of long-term debt	45,000,000	-
Repayment of long-term debt	(32,115,000)	(1,545,000)
Payment of deferred financing costs	(250,606)	-
Proceeds from restricted contributions	1,726,292	1,910,423
Net advance from federal government for student loans	(32,539)	8,488
Net cash provided by financing activities	13,019,605	109,456
Net Change in Cash and Cash Equivalents	281,857	(447,720)
Cash and Cash Equivalents, Beginning	345,404	793,124
Cash and Cash Equivalents, Ending	$ 627,261	$ 345,404
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,745,313	$ 1,402,226
Supplemental Disclosure of Noncash Investing and Financing Activities		
Land, buildings and equipment in accounts payable	$ 191,134	$ 1,187,322

See notes to financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

King's College (the "College") is a not-for-profit educational institution which provides undergraduate, graduate and professional education to its students. The College was founded in 1946 by the Congregation of Holy Cross as an independent four-year institution of higher education. The College welcomes students into its community without regard to gender, race, religion, disability or national origin, and seeks to assist talented students of modest financial means.

The College seeks to develop mutually beneficial and cooperative ties to the wider society, and particularly to the civic, cultural, and religious communities of Northeastern Pennsylvania. The broader community offers resources that support and compliment the educational mission of the College, which in turn is a resource to the community through the specialized competencies of its faculty and staff, the volunteer service of students, and through a diverse series of public lectures and religious, cultural and athletic events.

The College is dependent on continuing cash flows from operations to provide adequate liquidity to support its operations.

Donor-Restricted Gifts/Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support which increases those net asset classes. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions, satisfaction of program restrictions. However, if a restriction is satisfied in the same fiscal period in which the contribution is received, the College reports the support as unrestricted.

Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Discounts on those amounts are computed using a risk-adjusted interest rate applicable to individual donors as determined by management. Risk adjusted rates are determined based on an analysis of individual donors ability to satisfy the obligations and current market rates. Amortization of the discount is included in contribution revenue.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the College considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.

Accounts Receivable

Students and other accounts receivable are reported at net realizable value. Student accounts are written off when they are determined to be uncollectible based upon management’s assessment of individual accounts. The allowance for doubtful student accounts is estimated based on the College’s historical losses and periodic review of individual accounts. Other receivables are written off when they are determined to be uncollectible based on management’s review of individual balances. Management considers other accounts fully collectible and an allowance is not considered necessary.

Restricted Cash

Restricted cash consists of money market mutual funds held by the trustee as unspent debt proceeds and are carried at cost which approximates fair value. Such funds are restricted for capital projects.

Investments

Equity securities are valued at fair value based on quoted market prices as reported by the College’s investment custodians. The alternative investments, which are not readily marketable, are carried at net asset values as provided by the investment managers. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used to determine the fair value of the alternative investments. The estimated fair values include assumptions made by management which could have differed significantly had an active market for these securities existed. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

The College’s investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor imposed stipulations.

Short-Term Investments

Short-term investments consist primarily of exchange traded funds and are carried at fair value. Interest and dividend income and gains and losses on these investments are included in investment income in the statement of activities. These investments are used primarily for operating activities at the College.

Beneficial Interest in Assets Held by Others

The College invests a portion of its endowment with a religious affiliate that shares the College's Catholic ministry and educational mission. These assets are held in the affiliate's endowment and are invested for the College's benefit. The endowment is managed to provide a stable source of financial support. In order to meet this objective the funds are invested in a diversified asset allocation with an emphasis on equity-based instruments to obtain capital appreciation and current yield. Investments held in the affiliate's endowment include U.S. public equities, non-U.S. public equities, long/short public equities, fixed income securities, marketable alternatives, private equity, real estate, and other real assets. The College has no unfunded commitments related to its beneficial interest in assets held by others as of June 30, 2013.

The College may redeem its interest as necessary. Whenever a request is made, the affiliate is required to distribute the funds within thirty days if the redemption value does not exceed $10,000,000, within ninety days if the redemption value exceeds $10,000,000 but does not exceed $50,000,000, and within one hundred eighty days if the redemption value exceeds $50,000,000.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, or estimated cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (25-50 years) and furniture and equipment (3-10 years). Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Deferred Revenue

Tuition, fees, and room and board from currently enrolled students is billed in advance and is recognized as revenue when earned.

Deferred Financing Costs

Costs incurred in connection with debt financing have been deferred and are amortized over the term of the related debt using the straight-line method which approximates the interest method. Amortization expense was approximately $31,000 and $29,000 in 2013 and 2012, respectively.

Refundable Advances

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenue when the College has incurred expenses in compliance with the contract. Amounts received but not yet earned are reported as refundable advances.

Income Taxes

The Internal Revenue Service has ruled that the College is tax-exempt as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

The College accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined that there were no tax uncertainties that met recognition threshold in fiscal year 2013 and 2012.

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

The College’s federal Exempt Organization Business Income Tax Returns for the years ended June 30, 2012, 2011, and 2010 remain subject to examination by the Internal Revenue Service.

Use of Estimates

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. It also requires 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 management’s estimates.

Derivative Financial Instrument

The College has entered into interest rate swap agreements, which are considered derivative financial instruments, to manage its exposure on its variable rate bonds payable. The interest rate swap agreements are reported at fair value on the statement of financial position; related changes in fair value are reported in the statement of activities as an unrealized gain (loss) on interest rate swap.

Title IV Requirements

The College participates in Government Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education (ED) for the payment of student tuitions. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2013 and 2012, are dependent upon the College’s continued participation in the Title IV programs.

Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of and for the years ended June 30, 2013 and 2012, the College's composite score exceeded 1.5.

Investment Policy

The College has a formal investment policy that enables it to utilize a portion of investment return for operating purposes. The College's Board of Directors sets the level of distribution within the limitation imposed by Pennsylvania statute.

Nonoperating Activities

For the purpose of the statement of activities, the College considers its changes in net assets to be operational changes, except for changes related to realized and unrealized gains and losses on investments, net of the College spending policy, permanently restricted contributions, the change in value of beneficial interests in perpetual trusts and the College's interest rate swap agreements.

Advertising

Advertising expenses are recorded as incurred and were approximately $291,000 and $350,000 in 2013 and 2012, respectively.

Fundraising Expenses

Fundraising expenses are included in the institutional support classification on the statement of activities. Fundraising expenses of approximately $1,228,000 and $1,256,000 were incurred for the years ended June 30, 2013 and 2012, respectively.

Fair Value Measurements

Financial assets and liabilities measured at fair value are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

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

Level 3 – Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Reclassifications

Certain amounts relating to 2012 have been reclassified to conform to the 2013 reporting format.

Subsequent Events

The College evaluated subsequent events for recognition or disclosure through October 7, 2013, the date the financial statements were issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

New Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "Fair Value Measurements and Disclosures (Topic 820): Amendments to Achieve Common Fair Value and Disclosure Requirements in U.S. GAAP and IFRSs". ASU 2011-04 includes new and clarified guidance on fair value measurements and required additional disclosures. The adoption of this guidance required certain additional disclosures regarding fair value measurements in the notes to the financial statements on a prospective basis.

In October 2012, the FASB issued ASU 2012-05, Statement of Cash Flows (Topic 230): "Not-for-Profit Entities: Classification of the Sale of Proceeds of Donated Financial Assets in the Statement of Cash Flows". This amendment addresses the diversity in practice with regard to the presentation of cash received from the sale of donated assets in the statements of cash flows. Under this update, a not-for-profit entity will be required to classify cash receipts from the sale of donated financial assets as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes. This update is effective for the College's fiscal year beginning July 1, 2013. The guidance is prospective and management does not believe the adoption of this guidance will have a significant impact on the College's financial position or results of operations.

In April 2013, the FASB issued ASU 2013-06, Not-for-Profit Entities (Topic 958): "Services Received from Personnel of an Affiliate". This amendment will require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Such services will be required to be measured at the cost recognized by the affiliate for the personnel providing that service or the fair value of that service. This update is effective for the College's fiscal year beginning July 1, 2014. The guidance is prospective and management does not believe that adoption of this guidance will have a significant impact on the College's financial position or results of operations.

2. Accounts Receivable, Students

Students accounts receivable represent amounts due for tuition, fees, and room and board from currently enrolled and former students. The College extends unsecured credit to students and parents of dependent students in connection with their studies. Some of those students are no longer enrolled or have completed their degrees. Student accounts receivable consists of the following at June 30, 2013 and 2012:

	2013	2012
Accounts receivable	$ 1,229,548	$ 1,275,945
Less allowance for doubtful accounts	365,000	365,000
Total	$ 864,548	$ 910,945

3. Contributions Receivable

Contributions receivable at June 30, 2013 and 2012 are as follows:

	2013	2012
In one year or less	$ 2,712,429	$ 517,610
Between one year and five years	4,211,052	6,998,601
Between six years and ten years	737,500	-
	7,660,981	7,516,211
Less discount	2,505,770	2,228,104
Net contributions receivable	$ 5,155,211	$ 5,288,107

These contributions have been made by businesses, individuals, and related parties primarily located in Pennsylvania. Approximately 97% of gross pledges receivable at June 30, 2013 are due from members of the College's Board of Directors.

Management believes the College's allowance for doubtful collections, which is an estimate based on management's periodic assessment of the risk of collectability of each gift, is adequate based upon information currently known at June 30, 2013 and 2012. However, events impacting donors' ability to satisfy their commitments can occur in subsequent years which may result in a material change in the allowance for doubtful collections.

4. Student Loans Receivable

These loans are made with funds advanced to the College by the federal government under the Perkins Student Loan Program (the "Program"). Such funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are refundable to the federal government. The College contributes one third of the amount contributed by the U.S. government as a match to the Program.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable or for a provision of allowance for doubtful loans. Accordingly, interest on loans is recorded as received; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with Program requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.

5. Investments

Investments at June 30, 2013 and 2012 are as follows:

	2013	2012
Cash equivalents	$ 1,846,052	$ -
Domestic equity large cap funds	1,161,779	1,054,349
International fixed income	25,000	25,000
Hedge funds	110,284	2,008,126
Alternative investments:		
Natural resources	1,192,997	1,071,920
Private equity	4,435,046	4,468,362
Real estate	1,415,234	2,109,143
Venture capital	1,431,871	1,679,604
Beneficial interest in assets held by others	42,110,245	31,017,647
Total	$ 53,728,508	$ 43,434,151

The College's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the College's investment policy. The degree and concentration of credit risk varies by type of investment.

Certain investments are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the calendar month in which the transaction takes place.

The following summarizes the composition of investment return after application of the College's spending policy for 2013 and 2012:

	2013	2012
Endowment spending policy	$ 2,185,330	$ 2,000,361
Endowment income in excess of spending policy	2,568,756	(1,257,970)
Net investment return	$ 4,754,086	$ 742,391

6. Beneficial Interest in Perpetual Trusts

The College receives income from various perpetual trusts held by third parties. Under the terms of the trusts, the College has the irrevocable right to receive a portion of the income earned on these trust assets in perpetuity, but never receives the assets held in the trust.

Distributions from these trusts are recorded as unrestricted or restricted investment income in the statement of activities based on donor stipulations. The change in value of the perpetual trusts is reported as changes in permanently restricted net assets based on explicit donor stipulations.

7. Land, Buildings, and Equipment

Land, buildings, and equipment as of June 30, 2013 and 2012 are as follows:

	2013	2012
Land and improvements	$ 17,152,300	$ 16,448,335
Buildings	92,476,481	83,227,377
Furniture, fixtures, and equipment	28,960,601	28,120,901
Construction in progress	341,541	6,899,167
Total	138,930,923	134,695,780
Less accumulated depreciation	54,942,805	51,205,900
Net	$ 83,988,118	$ 83,489,880

Depreciation expense was approximately $3,737,000 in 2013 and $3,518,000 in 2012.

8. Notes Payable, Demand

The College has a $4,000,000 line of credit with a local financial institution. Interest is payable monthly based on 1 month LIBOR plus 1.35% (1.544% at June 30, 2013). Borrowings at June 30, 2013 and 2012 were $1,427,003 and $2,735,545, respectively. The line of credit is secured by a security interest in the College's gross revenues.

9. Long-Term Debt

Long-term debt at June 30 is as follows:

	2013	2012
College Revenue Refunding Notes, Series A of 2013, payable in annual installments through May 2037. Interest is payable monthly at the variable rate.	$ 30,475,000	$ -
College Revenue Notes, Series B of 2013, payable in annual installments through May 2043. Interest is payable monthly at the variable rate.	14,525,000	-
Long-term debt repaid in 2013	-	32,115,000
Total	45,000,000	32,115,000
Unamortized bond premium	-	234,156
Total long-term debt	$ 45,000,000	$ 32,349,156

Interest on the Series A and B Notes of 2013 is calculated as 70% of the 1-month LIBOR, plus 1.35% (1.483% as of June 30, 2013). The College has effectively fixed the interest rate on $19,850,000 of the Series A Notes, in conjunction with an interest rate swap agreement with a local financial institution. See Note 17 for additional information.

In 2013, the City of Wilkes-Barre Finance Authority (the “Authority”) issued $30,475,000 of College Revenue Refunding Notes, Series A of 2013 and $14,525,000 of College Revenue Notes, Series B of 2013. The proceeds of the notes issued were then loaned to the College by the Authority under the terms of a loan agreement between the two parties. The notes were then purchased from the Authority by various banks and the College has agreed to pay the Authority’s obligations under the notes to the banks. The proceeds of the Series A of 2013 notes were used to currently refund the College’s existing bonds and the proceeds of Series B of 2013 are to be used to finance various capital projects. The notes are collateralized by a security interest in the College’s gross revenues.

The line of credit (Note 8) and the above notes require the College to meet certain financial covenants.

The scheduled future principal payments on the long-term debt are as follows:

Years ending June 30:	
2014	$ 2,165,000
2015	2,205,000
2016	2,255,000
2017	2,305,000
2018	1,855,000
Thereafter	34,215,000
Total	$ 45,000,000

Interest expense with regard to all debt was approximately $1,639,000 and $1,272,000 in 2013 and 2012, respectively. Interest expense reported is net of capitalized interest of approximately $48,000 in 2013 and $51,000 in 2012.

10. Operating Leases

The College leases equipment under noncancelable operating leases with terms of 24 to 60 months. The following is a schedule of the approximate future annual minimum rentals on these leases as of June 30, 2013:

Years ending June 30:	
2014	$ 566,269
2015	439,565
2016	215,683
2017	113,935
2018	33,603
2019	5,500
Total	$ 1,374,555

Rent expense on the above leases was approximately $795,000 in 2013 and $713,000 in 2012.

The College leases a multiuse building adjacent to the College's campus. The building segments include approximately forty apartment style suites, an early childhood learning center, a dining facility, instructional facilities and faculty offices. The lease term is thirty years, expiring October 2039. Minimum lease payments and reimbursable costs are due and payable the first of each month.

Future annual minimum rental payments on this lease are as follows:

Years ending June 30:	
2014	$ 1,436,627
2015	1,448,038
2016	1,493,324
2017	1,530,305
2018	1,561,220
2019 – 2023	8,292,247
2024 – 2028	9,164,912
2029 – 2033	10,129,934
2034 – 2038	11,197,170
2039 – 2040	2,974,530
Total	$ 49,228,307

The College recognized rent expense of approximately $1,727,000 in 2013 and $1,681,000 in 2012 in conjunction with this agreement.

11. Pension

The College sponsors a defined contribution pension plan. Pension expense was approximately $1,820,000 in 2013 and $1,952,000 in 2012.

12. Government Grants and Student Aid

The government grants and student aid amounts do not include funds credited to student accounts under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent. Had these amounts been included, revenues and expenses would have increased by approximately $5,640,000 in 2013 and $5,545,000 in 2012.

13. Significant Group Concentration of Credit Risk

The College maintains its cash accounts in commercial banks located in Pennsylvania. Accounts are insured up to limits established by the Federal Deposit Insurance Corporation.

14. Net Assets

Unrestricted net assets are designated for the following as of June 30, 2013 and 2012:

	2013	2012
Long-term investments	$ 16,954,933	$ 8,168,922
Plant facilities	38,467,710	44,401,211
Future debt service	-	1,039,660
Other	(954,223)	(3,014,749)
Total	$ 54,468,420	$ 50,595,044

Temporarily restricted net assets are available for the following purpose or in future periods as of June 30, 2013 and 2012:

	2013	2012
Specified purposes	$ 1,057,378	$ 1,149,730
Time	3,335,413	3,602,058
Accumulated unspent endowment earnings	12,637,911	11,351,654
Total	$ 17,030,702	$ 16,103,442

Permanently restricted net assets are restricted for the following as of June 30, 2013 and 2012:

	2013	2012
Beneficial interests in perpetual trusts	$ 6,398,814	$ 6,077,929
Assets held in perpetuity	25,406,506	24,105,394
Total	$ 31,805,320	$ 30,183,323

15. Endowment Funds

The College's endowment consists of approximately 300 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the College has developed a policy requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary as interpreted through review of current Pennsylvania laws. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund

2. The purposes of the College and the donor-restricted endowment fund

3. General economic conditions

4. The possible effect of inflation and deflation

5. The expected total return from income and the appreciation of investments

6. Other resources of the College

7. The investment policies of the College

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 4%, plus inflation, annually.

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The College has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The permanently restricted category includes the value of interest in various trust accounts established by donors. The assets of the trusts are held by independent trustees in perpetuity. The College has an interest in the income generated from these trusts, but will never receive the assets held in the trusts. These assets are not governed by the College's investment policy. All investment decisions and distributions are governed by trust documents and the trustee.

Endowment net asset composition by type of fund as of June 30, 2013:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (179,655)	$ 12,637,911	$ 31,805,320	$ 44,263,576
Board-designated endowment funds	17,134,588	-	-	17,134,588
Total endowment funds	$ 16,954,933	$ 12,637,911	$ 31,805,320	$ 61,398,164

Endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (585,902)	$ 11,351,654	$ 30,183,323	$ 40,949,075
Board-designated endowment funds	8,754,824	-	-	8,754,824
Total endowment funds	$ 8,168,922	$ 11,351,654	$ 30,183,323	$ 49,703,899

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 8,168,922	$ 11,351,654	$ 30,183,323	$ 49,703,899
Investment return:				
Investment income	135,463	295,542	-	431,005
Net appreciation (realized and unrealized)	1,280,371	2,513,894	320,885	4,115,150
Total investment return	1,415,834	2,809,436	320,885	4,546,155
Contributions	1,443	-	1,301,112	1,302,555
Appropriation of endowment assets for expenditure	(537,513)	(1,116,932)	-	(1,654,445)
Return of temporary appropriation of assets for capital expenditures	7,500,000	-	-	7,500,000
Other changes:				
Reclassification of underwater endowment net assets	406,247	(406,247)	-	-
Endowment net assets, end of year	$ 16,954,933	$ 12,637,911	$ 31,805,320	$ 61,398,164

During 2012, the College's Board of Directors approved the temporary appropriation of Board designated endowment funds to provide funding for the construction of the new auxiliary gymnasium. In 2013, these funds were repaid using the proceeds from the Series B of 2013 notes (Note 9).

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 14,848,303	$ 11,683,276	$ 28,784,196	$ 55,315,775
Investment return:				
Investment income	30,546	111,680	-	142,226
Net appreciation (realized and unrealized)	97,861	80,255	(396,286)	(218,170)
Total investment return	128,407	191,935	(396,286)	(75,944)
Contributions	1,764,797	-	1,795,413	3,560,210
Appropriation of endowment assets for expenditure	(706,942)	(889,200)	-	(1,596,142)
Temporary appropriation of endowment assets for capital expenditure	(7,500,000)	-	-	(7,500,000)
Other changes:				
Reclassification of underwater endowment net assets	(365,643)	365,643	-	-
Endowment net assets, end of year	$ 8,168,922	$ 11,351,654	$ 30,183,323	$ 49,703,899

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or law requires the College to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were $179,655 and $585,902 as of June 30, 2013 and 2012. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

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16. Commitments and Contingencies

The College has approximately $901,000 in unfunded capital calls and approximately $771,000 in distributions subject to recall related to various alternative and venture capital investments at June 30, 2013. These commitments can be funded through liquidation of current investments.

The College is a defendant in a number of legal actions resulting in the normal course of business. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the College's financial statements.

The College entered into a self-insured plan for their medical insurance. The College has limited their self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the College for any claims in excess of policy limits incurred in any plan year. Self insurance costs are accrued based on claims reported as of the balance sheet date as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs, included with accounts payable and accrued liabilities in the statement of financial position was approximately $950,000 and $907,000 at June 30, 2013 and 2012, respectively. The cost of medical coverage for employees amounted to approximately $2,995,000 and $3,283,000 for the years ended June 30, 2013 and 2012, respectively.

The College owns several buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The College has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate these buildings and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the buildings and sufficient information becomes available to estimate the liability, it will be recognized at that time.

The College entered into a non-binding sales agreement in June 2013 to purchase real property in the amount of $2,700,000.

17. Interest Rate Swap

The College entered into an interest rate swap agreement in connection with a portion of the Series A of 2013 notes, which is considered a derivative financial instrument. The counterparty for the swap agreement is PNC Bank, N.A., a financial institution with which the College has other financial relationships (the "Bank"). The objective of the swap agreement is to minimize the risks associated with financing activities by reducing the impact of changes in interest rates. The swap agreement is not designated as a hedging instrument. The swap agreement is a contract to exchange variable rate for fixed rate interest payments over the life of the agreement without the exchange of the underlying notional amount. The notional amount of the swap agreement is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreement. Management believes that losses related to credit risk are remote. The net cash paid or received under the swap agreement is recognized as an adjustment to interest expense.

The College does not utilize interest rate swaps or other financial instruments for trading or other speculative purposes.

At June 30, 2013, the following interest rate swap is in effect:

Effective notional amount	$19,850,000
Strike rate	4.032%
Period	June 2013 to May 2031

The fair value of the interest rate swap agreements is the amount that the College would receive or pay to terminate the swap agreements at the reporting date and the fair value is based on information supplied by an independent third party valuation specialist. The College estimates that it would have paid approximately $3,262,000 and $4,829,000 on June 30, 2013 and 2012, respectively, to terminate this agreement.

18. Fair Value Disclosures

The carrying amount and estimated fair value of the College's financial instruments at June 30, 2013 and 2012 are as follows:

	2013				
	Carrying Amount	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	$ 627,261	$ 627,261	$ 627,261	$ -	$ -
Contributions receivable	5,155,211	5,155,211	-	-	5,155,211
Student and other loans receivable	2,435,141	2,435,141	-	2,435,141	-
Liabilities:					
Line of credit	1,427,003	1,427,003	-	1,427,003	-
Long-term debt	45,000,000	45,000,000	-	45,000,000	-
Refundable advances from federal government for student loans	1,928,428	1,928,428	-	1,928,428	-

	2012				
Assets:					
Cash and cash equivalents	$ 345,904	$ 345,904	$ 354,904	$ -	$ -
Contributions receivable	5,288,107	5,288,107	-	-	5,288,107
Student and other loans receivable	2,534,066	2,534,066	-	2,534,066	-
Liabilities:					
Line of credit	2,735,545	2,735,545	-	2,735,545	-
Long-term debt	32,349,156	32,440,018	-	32,440,018	-
Refundable advances from federal government for student loans	1,960,967	1,960,967	-	1,960,967	-

Cash and cash equivalents: Carried at cost which approximates fair value due to its short-term nature of that instrument.

Contributions receivable: The carrying amount approximates fair value as the carrying amount is based on the present value of estimated future cash flows discounted at risk adjusted rates.

Student and other loans receivables: The carrying amount approximates fair value based on current rates offered for similar loans with similar maturities.

Refundable advances from federal government for student loans: Represents that portion of the student loans receivable funded by the U.S. government and their fair value is considered to approximate their carrying value.

Long-term debt: The fair value is estimated based on discounted cash flows using borrowing rates currently available to the College for similar types of borrowing arrangements.

The College measures its long-term investments, beneficial interest in perpetual trusts and fair value of interest rate swap at fair value on a recurring basis in accordance with authoritative guidance. These items were measured with the following inputs at June 30, 2013 and 2012:

	2013			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted cash,				
Money market mutual funds	$ 6,736,250	$ 6,736,250	$ -	$ -
Short-term investments,				
Exchange traded funds	363,130	363,130	-	-
Investments:				
Cash equivalents	363,130	1,846,052	-	-
Domestic equity large cap funds	1,161,779	1,161,779	-	-
International fixed income	25,000	-	25,000	-
Hedge funds	110,284	-	-	110,284
Alternative:				
Natural resources	1,192,997	-	-	1,192,997
Private equity	4,435,046	-	-	4,435,046
Real estate	1,415,234	-	-	1,415,234
Venture capital	1,431,871	-	-	1,431,871
Beneficial interest in assets held by others	42,110,245	-	-	42,110,245
Total investments	53,728,508	3,007,831	25,000	50,695,677
Beneficial interests in perpetual trusts	6,398,814	-	-	6,398,814
Total	$ 67,226,702	$ 10,107,211	$ 25,000	$ 57,094,491
Liability,				
Interest rate swap	$ 3,261,698	$ -	$ 3,261,698	$ -

	2012			
	Total	Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments, Exchange traded funds	$ 342,394	$ 342,394	$ -	$ -
Investments:				
Domestic equity large cap funds	1,054,349	1,054,349	-	-
International fixed income	25,000	-	25,000	-
Hedge funds	2,008,126	-	-	2,008,126
Alternative:				
Natural resources	1,071,920	-	-	1,071,920
Private equity	4,468,362	-	-	4,468,362
Real estate	2,109,143	-	-	2,109,143
Venture capital	1,679,604	-	-	1,679,604
Beneficial interest in assets held by others	31,017,647	-	-	31,017,647
Total investments	43,434,151	1,054,349	25,000	42,354,802
Beneficial interests in perpetual trusts	6,077,929	-	-	6,077,929
Total	$ 49,854,474	$ 1,396,743	$ 25,000	$ 48,432,731
Liability, Interest rate swap	$ 4,828,823	$ -	$ 4,828,823	$ -

The following tables present a reconciliation of the beginning and ending balances of assets with fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2013 and 2012:

	July 1, 2012	Purchases	Sales	Issuances	Settlements	Unrealized	June 30, 2013
Hedge funds	$ 2,008,126	$ -	$ (2,039,375)	$ -	$ 135,198	$ 6,335	$ 110,284
Alternative investments	7,649,425	101,320	(1,156,538)	-	215,588	233,482	7,043,277
Venture capital	1,679,604	-	(260,014)	-	155,036	(142,755)	1,431,871
Total	$ 11,337,155	$ 101,320	$ (3,455,927)	$ -	$ 505,822	$ 97,062	$ 8,585,432
Beneficial interest in assets held by others	$ 31,017,647	$ 9,313,610	$ (2,000,000)	$ -	$ 2,298,102	$ 1,480,886	$ 42,110,245
Beneficial interests in perpetual trusts	$ 6,077,929	$ -	$ -	$ -	$ -	$ 320,885	$ 6,398,814

	July 1, 2011	Purchases	Sales	Issuances	Settlements	Unrealized	June 30, 2012
Hedge funds	$ 5,336,417	$ -	$ (3,176,306)	$ -	$ -	$ (151,985)	$ 2,008,126
Alternative investments	7,413,635	200,664	(4,688)	-	(464,139)	503,953	7,649,425
Venture capital	1,703,409	30,000	-	-	(214,296)	160,491	1,679,604
Total	$ 14,453,461	$ 230,664	$ (3,180,994)	$ -	$ (678,435)	$ 512,459	$ 11,337,155
Beneficial interest in assets held by others	$ -	$ 33,465,000	$ (5,000,000)	$ -	$ -	$ 2,552,647	$ 31,017,647
Beneficial interests in perpetual trusts	$ 6,474,215	$	$ -	$ -	$ -	$ (396,286)	$ 6,077,929

Gains and losses (realized and unrealized) included in changes in net assets for the period are reported in nonoperating revenues.

Investments: The fair values are based on values reported by external investment managers. Quoted market prices for identical assets are used to measure fair value of equity and fixed income securities and are classified within Level 1 of the valuation hierarchy. Fair value of investments within the Level 2 valuation hierarchy are based on pricing for similar assets with similar terms in actively traded markets or valued at the respective net asset values based on the underlying assets of the funds. The College’s investment in hedge funds, natural resources, real estate, private equity and venture capital investments are valued at net asset value and are considered Level 3 inputs based on the investments not having an observable market and the need for significant estimation to measure fair value.

Beneficial interest in assets held by others: Fair value is based on the net asset value as reported by the affiliate, unless specific evidence indicates that net asset value should be adjusted. This may involve using significant unobservable inputs. The valuation methods utilized by the affiliate are subject to regular review by the College.

Beneficial interests in perpetual trusts: The fair value is estimated using the College’s percentage of the underlying assets, which approximates the present value of estimated future cash flows to be received from the trust.

The College measures its derivative financial instrument at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. The fair value was estimated using the zero-coupon discounting method and considers the credit risk of the College and the counterparty. This method calculates the future payments required by the derivative financial instruments, assuming that the current, forward rates implied by the yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for a hypothetical zero coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the College would pay to terminate the agreements.

The College has a policy which permits investments that do not have a readily determinable fair value, and as such, has elected to use the net asset value per share (the "NAV") as calculated on the reporting entity's measurement date as the fair value of the investment. The College measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the College as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. A listing of the investments held by the College and their attributes, that may qualify for these valuations consist of the following as of June 30:

	2013				
Investment Category	**Investment Strategy**	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	$ 1,192,997	$ 243,750	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	1,399,429	200,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A
Real estate operations (c)	Invests in a diversified pool of real estate investments over time, within seven regional targeted markets.	15,805	-	Annually on September 30	30 days
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	$ 1,431,871	$ 128,412	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A

	2013				
Investment Category	**Investment Strategy**	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	4,435,046	328,888	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days
Global equity and debt (a) (d)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	110,284	-	Annual	Requires approval of Board of Directors
Beneficial interest in assets held by others	Fund is independently managed fund. Asset allocation determined by fund management.	42,110,245	-	At College's discretion	Disclosed in accounting policy note
Beneficial interest in perpetual trusts (e)		6,398,814	-	Semi-annual or annual income distributions	N/A

Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2012				
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	$ 1,071,920	$ 413,750	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	1,856,062	200,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A
Real estate operations (c)	Invests in a diversified pool of real estate investments over time, within seven regional targeted markets.	253,081	-	Annually on September 30	30 days
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	1,679,604	203,412	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	4,468,362	366,388	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days

	2012				
Investment Category	**Investment Strategy**	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Global equity and debt (a) (d)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	$ 2,008,126	$ -	Annual	Requires approval of Board of Directors
Beneficial interest in assets held by others	Fund is independently managed fund. Asset allocation determined by fund management.	31,017,647	-	At College's discretion	Disclosed in accounting policy note
Beneficial interest in perpetual trusts (e)		6,077,929	-	Semi-annual or annual income distributions	N/A

(a) Investment is a feeder fund for other limited partnerships, limited liability corporations, offshore corporations or other foreign investment vehicles.

(b) Underlying investments primarily include loans and other debt instruments that are secured by real estate or other physical assets.

(c) Underlying investments are primarily operating real estate projects or undeveloped land held for future development or sale.

(d) Represents a hedge fund focused in international markets.

(e) Underlying investments are held by trustees, which hold exclusive rights to determine asset allocation. Payments of income are determined by the Trustee, based on the trust document and relevant law.

19. Functional Allocation

The College adheres to the AICPA Industry Audit Guide in reporting expenses by their functional classification. Accordingly, depreciation, interest and other expenses have been allocated to functional classifications based on square footage, use of bond proceeds, or other factors.

20. Related Party Transactions

The College has entered into transactions with which members of the Board of Directors have relationships as owners or officers. During the year ended June 30, 2013 and 2012 the College engaged in the following related party transactions:

- The College is invested in an alternative investment managed by a member of the Board. The fair value of that investment was approximately $741,000 and $853,000 at June 30, 2013 and 2012, respectively.

- The College paid insurance premiums of approximately $194,000 and $190,000 in 2013 and 2012, respectively, to a company which has an officer who is also a member of the Board.

- The College paid service fees to an insurance company, which has an officer who is also a member of the Board, of approximately $252,000 and $256,000 for 2013 and 2012, respectively.

- The College paid transportation costs to a company, which has an officer who is also a member of the Board, of approximately $109,000 and $145,000 for 2013 and 2012, respectively.

- The College paid construction management fees of approximately $4,047,000 and $4,542,000 in 2013 and 2012, respectively, to a company that has an officer who is also a member of the Board.

During 2004, the College entered into an agreement with the Congregation of Holy Cross to lease land located on the College’s campus. The term of the lease is approximately 30 years at a rate of $10 per year, payable by December 1st of each year. If at any time during the lease period, the lessee decides to sell the buildings and improvements constructed on the leased land, the College has the first option to purchase such buildings and improvements at market value.