Allegheny College

Financial Statements as of and for the
Years Ended June 30, 2013 and 2012, and
Independent Auditors' Report

ALLEGHENY COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Allegheny College
Meadville, Pennsylvania

We have audited the accompanying financial statements of Allegheny College (the "College"), which comprise the statements 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.

Auditor's 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 of 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 College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 24, 2013

ALLEGHENY COLLEGE

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 9,004,954	$ 7,404,923
Accounts and other receivables — net (Note 2)	315,317	383,159
Government grants and receivable	89,510	213,049
Inventories	469,804	534,562
Prepaid expenses and other assets	403,313	421,485
Contributions receivable — net (Note 2)	5,483,969	2,985,520
Student loans receivable — net (Note 2)	6,657,893	6,857,022
Investments (Note 3)	185,552,392	169,238,633
Land, buildings, and equipment — net (Note 4)	124,260,054	128,299,266
Trusts held by others	7,025,139	6,596,419
TOTAL	$ 339,262,344	$ 322,934,038
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 657,319	$ 1,319,563
Accrued salaries and wages	3,927,896	3,666,970
Student deposits and deferred revenue	1,349,820	1,288,627
Accrued liabilities	1,697,943	1,643,575
Annuities payable	3,662,357	3,824,146
Swap liability	867,083	2,043,893
Trusts payable	2,813,752	2,901,765
Trusts held for others	325,135	300,209
Bonds and notes payable (Note 6)	55,015,722	56,472,864
Refundable government advances for student loans	5,048,174	4,948,109
Total liabilities	75,365,200	78,409,721
NET ASSETS (Note 10):		
Unrestricted	103,067,723	98,173,645
Temporarily restricted	77,049,121	67,540,039
Permanently restricted	83,780,300	78,810,633
Total net assets	263,897,144	244,524,317
TOTAL	$ 339,262,344	$ 322,934,038

See notes to financial statements.

ALLEGHENY COLLEGE

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE 2012 TOTALS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
OPERATING:					
Revenue, gains, and other support:					
Gross student tuition and fees	$ 79,026,328	$ -	$ -	$ 79,026,328	$ 75,675,380
Less scholarship allowances and tuition discounts	(39,267,855)			(39,267,855)	(36,562,641)
Net student tuition and fees	39,758,473	-	-	39,758,473	39,112,739
Federal grants and contracts	534,086	339,353		873,439	833,025
State grants and contracts	320,214	15,143		335,357	368,764
Private gifts and grants	4,488,706	4,487,777	4,427,009	13,403,492	10,188,509
Auxiliary enterprises	19,316,293			19,316,293	18,641,511
Investment return designated for current operations (Note 3)	2,864,667	5,081,798		7,946,465	8,031,241
Other sources	1,142,785	510,342	45,351	1,698,478	1,609,755
	68,425,224	10,434,413	4,472,360	83,331,997	78,785,544
Net assets released from restrictions (Note 9)	8,713,322	(8,713,322)			
Total revenue, gains, and other support	77,138,546	1,721,091	4,472,360	83,331,997	78,785,544
Expenses:					
Instruction	25,779,784			25,779,784	25,327,487
Research	1,003,454			1,003,454	880,681
Academic support	7,734,558			7,734,558	7,959,299
Student services	15,931,696			15,931,696	15,849,952
Institutional support	13,223,903			13,223,903	12,067,863
Auxiliary enterprises	13,124,806			13,124,806	13,091,328
Total expenses	76,798,201	-	-	76,798,201	75,176,610
INCREASE IN NET ASSETS FROM OPERATING ACTIVITIES	340,345	1,721,091	4,472,360	6,533,796	3,608,934
NONOPERATING:					
Investment gain (loss) return not designated for current operations (Note 3)	3,648,111	7,999,754	718,397	12,366,262	(10,537,255)
Change in value of split-interest agreements	(271,188)	(211,763)	(221,090)	(704,041)	(834,428)
Change in value of swap agreement	1,176,810			1,176,810	(2,043,893)
INCREASE (DECREASE) IN NET ASSETS	4,894,078	9,509,082	4,969,667	19,372,827	(9,806,642)
NET ASSETS — Beginning of year	98,173,645	67,540,039	78,810,633	244,524,317	254,330,959
NET ASSETS — End of year	$ 103,067,723	$ 77,049,121	$ 83,780,300	$ 263,897,144	$ 244,524,317

See notes to financial statements.

ALLEGHENY COLLEGE

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

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

See notes to financial statements.

ALLEGHENY COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ 19,372,827	$ (9,806,642)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,211,585	6,307,527
Noncash contributions	-	(29,700)
Realized and unrealized (gains) losses on investments	(19,258,474)	3,936,413
Contributions restricted for long-term investment and investment in plant	(4,439,866)	(3,486,955)
Investment gain restricted for long-term investment	(45,389)	(119,838)
Change in value of split-interest agreements	704,041	782,338
Change in value of swap agreement	(1,176,810)	2,043,893
Changes in assets and liabilities:		
Accounts receivable	(67,294)	(573,127)
Contributions receivable	1,941,419	2,335,436
Other assets	(345,792)	370,642
Accounts payable and other liabilities	302,029	865,711
Net cash provided by operating activities	3,198,276	2,625,698
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, buildings, and equipment	(2,649,086)	(6,686,357)
Proceeds from sales of investments	71,139,083	34,678,997
Purchases of investments	(68,194,369)	(29,401,468)
Investment gain restricted for long-term investment	45,389	119,838
Net cash used in investing activities	341,017	(1,288,990)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for long-term investment and investment in plant	457,805	226,645
Payments on annuity obligations	(928,223)	(817,507)
Repayments of borrowings	(1,468,844)	(1,123,287)
Net cash used in financing activities	(1,939,262)	(1,714,149)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,600,031	(377,441)
CASH AND CASH EQUIVALENTS — Beginning of year	7,404,923	7,782,364
CASH AND CASH EQUIVALENTS — End of year	$ 9,004,954	$ 7,404,923
SUPPLEMENTAL CASH FLOW INFORMATION — Cash paid during the year for interest	$ 2,067,262	$ 2,281,949

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

Substantially all of the temporary restrictions on assets as of June 30, 2013 and 2012, relate to amounts given to the College for future capital additions, loans and scholarships to students, or unexpended gains under Pennsylvania Trust Law. Permanently restricted net assets consist of endowment fund investments to be held indefinitely, certain split-interest agreements, and certain trusts held and administered by others.

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

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

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

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

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

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

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

Level 3 investments are reported at fair value as of June 30, 2013 and 2012, based on reported information received from the managers of these funds. These valuations include assumptions and methods that were reviewed by College management. The College believes that the carrying amount of its Level 3 investments is a reasonable estimate of fair value as of June 30, 2013 and 2012. When readily determinable fair value does not exist (such as investments not listed on national exchanges or over-the-counter markets or do not have comparable market data), and although College management makes every reasonable effort to ensure the accuracy of fair value, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed, and such differences could be material. Most of the College's Level 3 investments are highly liquid and can be redeemed in 90 days or less.

Pennsylvania Trust Law's "Total Investment Return Policy" — The Board of Trustees, in accordance with Pennsylvania Trust Law's "Total Investment Return Policy," designates only a portion of the College's cumulative investment return for support of current operations. The amount computed under the endowment spending policy and nonendowment investment income is used to support current operations. The spendable return on endowment, as calculated based on the 12-quarter average market value of the endowment, was 5.0% for both 2013 and 2012. Additionally, the College's Board of Trustees may specifically authorize an amount for fundraising spending, which is also classified as current operating, up to a maximum of 7% in total. The total spendable return on endowment was 5.6% and 5.5% for 2013 and 2012, respectively. The remaining endowment income (loss) is recorded as nonoperating investment return not designated for current operations.

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

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

The College reviews its land, buildings, and equipment for impairment when events or changes in circumstances may indicate that the carrying amount of these assets may not be recoverable. No impairment charges were recorded by the College in 2013 or 2012. Repairs, maintenance, and minor replacements of existing facilities are charged to expense as incurred.

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

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

Fund-Raising Expense — The College includes fund-raising expenses in institutional support. These expenses are $4,213,116 and $4,181,612 in 2013 and 2012, respectively. Included in these amounts are approximately $533,597 and $535,326, respectively, which are the allocated portion (joint costs) of fund-raising costs for activities that include program and other components.

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

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

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

Newly Adopted Accounting Pronouncement — In February 2013, the FASB issued ASU No. 2013-03, *Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*, which provides clarity on the applicability of a disclosure exemption that resulted from the issuance of Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820). The amendment clarifies that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not apply to nonpublic entities for items that are measured at fair value in the statement of financial position, but for which fair value is disclosed. ASU No. 2013-03 is effective upon issuance, and had no impact on the College's audited statements of financial position, statement of activities, or cash flows. See additional disclosure at footnote 13.

2. RECEIVABLES

Student accounts receivable as of June 30, 2013 and 2012, consist of the following:

	2013	2012
Accounts and other receivables	$ 575,317	$ 563,934
Less allowance for doubtful accounts	(260,000)	(180,775)
Net accounts and other receivables	$ 315,317	$ 383,159

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

Contributions receivable as of June 30, 2013 and 2012, are promises to give from various donors that are unconditional. The net present value of the contributions receivable as of June 30, 2013 and 2012, is as follows:

	2013	2012
Amounts due in:		
Less than one year	$ 3,104,362	$ 1,643,167
One to five years	3,051,613	2,138,509
Greater than five years	30,000	40,000
Total contributions receivable	6,185,974	3,821,676
Unamortized discounts and allowances	(702,005)	(836,156)
Net contributions receivable	$ 5,483,969	$ 2,985,520

The College received a $1,000,000 pledge in May 2005 as a challenge grant, which is a conditional contribution. The challenge grant is being recognized as revenue when the matching contributions are made. As of both June 30, 2013 and 2012, $905,000 has been recognized as revenue.

Student Loans Receivable - Net — The College makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2013 and 2012, student loans represented 1.9% and 2.1% of total asset, respectively.

As of June 30, 2013 and 2012, student loans receivable - net consisted of the following:

	2013	2012
Student loans receivable	$ 7,654,278	$ 7,589,407
Less allowance for doubtful accounts	(996,385)	(732,385)
Student loans receivable — net	$ 6,657,893	$ 6,857,022

The College participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $5,048,174 and $4,948,109 at June 30, 2013 and 2012, respectively, are ultimately refundable to the government and are classified as liabilities in the Statement of Financial Position. Outstanding loans canceled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. As of June 30, 2013 and 2012, the following are the past due principal amounts under the student loan program:

	2013	2012
1–60 days past due	$ 23,750	$ 26,291
60–120 days past due	3,510	3,344
120+ days past due	652,634	557,139
Total past due	$ 679,894	$ 586,774

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

3. INVESTMENTS

Investments are carried at fair value of $185,552,392 and $169,238,633 as of June 30, 2013 and 2012, respectively. The aggregate carrying value of investments, exclusive of cash equivalents, as of June 30, 2013 and 2012, are summarized as follows: Level 1 investments include values based on quoted prices in active markets; Level 2 investments include values based on observable prices that are not quoted on active exchanges or readily determinable fair values based on comparable market data; and Level 3 investments include values based on unobservable fair values and liabilities of those investments. Equity-method investments include values of College holdings that are greater than 20% in individual ownership.

	2013		2012	
	Endowment	Other	Endowment	Other
Level 1 — quoted prices in active markets:				
Mutual funds:				
Money market	$ 4,439,136	$ 6,468,002	$ 2,635,034	$ 7,445,686
U.S. equity large cap	25,388,937	6,283,813	14,413,788	5,523,277
U.S. equity mid cap	9,833,501	274,811	12,304,586	253,010
U.S. equity small cap	3,112,431	1,641,663	4,496,698	1,482,233
Global ex. U.S. equity	39,035,747	1,300,090	29,275,682	1,319,113
Fixed income and bond		5,384,536		5,324,729
Total Level 1	81,809,752	21,352,915	63,125,788	21,348,048
Level 2 — significant observable inputs:				
U.S. government/credit securities	22,713,597		22,508,964	
Emerging markets	5,417,992		2,815,561	
Total Level 2	28,131,589	-	25,324,525	-
Level 3 — significant unobservable inputs:				
Venture capital/private equity	10,360,273		9,838,619	
Debt funds	9,194,240		7,551,505	
Private real estate	11,059,317		9,770,385	
Hedge funds	15,559,543		24,043,575	
Real assets	6,686,531		6,861,752	
Total Level 3	52,859,904	-	58,065,836	-
Equity-method investment		1,398,232		1,374,436
Total endowment and other investments	$162,801,245	$ 22,751,147	$146,516,149	$ 22,722,484
Total investments summary:				
Endowment		$162,801,245		$146,516,149
Other		22,751,147		22,722,484
Total investments		$185,552,392		$169,238,633

Potential capital calls related to Level 3 investments were approximately $15,000,000 as of June 30, 2013.

There were no significant transfers in or out of Levels 1, 2, or 3 for the years ended June 30, 2013 or 2012.

A reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) for the years ended June 30, 2013 and 2012, is as follows (in thousands):

	2013					
	V/C and P/E	Debt Funds	Private Real Estate	Hedge Funds	Real Assets	Total
Balance — beginning of year	$ 9,839	$ 7,551	$ 9,770	$ 24,044	$ 6,862	$ 58,066
Realized gains (losses)	1,023		533	367	(42)	1,881
Unrealized gains (losses)	(1)	1,643	259	1,695	(733)	2,863
Return of capital	632		979			1,611
Purchases	1,154		2,012	600	600	4,366
Sales	(2,287)		(2,494)	(11,146)		(15,927)
Balance — end of year	$ 10,360	$ 9,194	$ 11,059	$ 15,560	$ 6,687	$ 52,860

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

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

The total investment pool provides daily liquidity for 55.8% of the holdings. Of Level 3 investments, real assets offer daily liquidity, while debt funds and hedge funds (approximately 16.9% of total investments) offer quarterly liquidity. Venture capital/private equity and private real estate, representing 12.3% of total investments, have liquidity requirements greater than 90 days.

Individual endowment funds within the College's consolidated endowment pool had fair values less than the individual principal values by approximately $861,000 and $1,564,000 as of June 30, 2013 and 2012, respectively. This represents 0.53% of the $162,801,245 fair value of the total 2013 endowment pool and 1.06% of the $146,516,149 fair value of the total 2012 endowment pool, respectively.

As of June 30, 2013 and 2012, there were no significant concentrations of investments as no individual investment exceeded 10% of total assets.

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

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

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

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

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

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

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

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

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

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

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

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

A breakdown of total investment return for the years ended June 30, 2013 and 2012, are as follows:

Total Investment Return	**2013**	**2012**
Interest and dividends earnings	$ 1,935,186	$ 2,398,760
Realized and unrealized gains (losses)	19,348,815	(3,896,220)
Fees and other expenses	(971,274)	(1,008,554)
Total investment gain (loss)	20,312,727	(2,506,014)
Total investment return policy amount designated for current operations	7,946,465	8,031,241
Total investment gain (loss) not designated for current operations	$ 12,366,262	$ (10,537,255)

Endowment Pennsylvania Trust Law Spending	**2013**	**2012**
Total Pennsylvania Trust Law Spending	$ 7,104,170	$ 7,085,094
Fundraising spending	900,000	877,795
Total endowment spending	8,004,170	7,962,889
Unrestricted investment (loss) return	(57,705)	68,352
Investment return designated for current operations	$ 7,946,465	$ 8,031,241

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment as of June 30, 2013 and 2012, consist of the following:

	2013	2012
Land	$ 15,112,266	$ 15,112,266
Buildings and improvement	172,131,238	165,949,373
Furniture, fixtures, and equipment	16,082,007	15,397,542
Computer equipment	11,488,623	11,293,598
Scientific equipment	8,873,295	8,717,793
Vehicles	483,268	463,540
Works of art	1,762,561	1,754,805
Construction-in-progress	653,970	5,753,413
Total land, buildings, and equipment	226,587,228	224,442,330
Less accumulated depreciation	(102,327,174)	(96,143,064)
Net land, buildings, and equipment	$ 124,260,054	$ 128,299,266

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

Depreciation expense amounted to $6,199,883 and $6,277,653 for the years ended June 30, 2013 and 2012, respectively.

Construction-in-progress includes approximately $145,000 and $633,000 of obligations not paid as of June 30, 2013 and 2012, respectively. There was no capitalized interest in 2013 or 2012.

5. ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Under the provisions of ASC 410-20, *Asset Retirement and Environmental Obligations*, the College is obligated to record a liability for conditional asset retirement obligations. The College performed an analysis of such obligations and determined that asbestos remediation costs represented the College's primary source of such liabilities. The College reviewed all facilities and determined the timing, method, and cost of asbestos remediation using a variety of assumptions and estimates. The analysis included an estimated inflation factor and discount rate, which were used to determine the present value of the obligation. The cumulative cost of asset remediation is amortized over the remaining useful life of the affected asset. The liability related to conditional asset remediation obligations as of June 30, 2013 and 2012, is included in accrued liabilities in the accompanying statements of financial position as follows:

	2013	2012
Beginning balance	$ 905,635	$ 863,908
Accretion	43,742	41,727
Remediation		
Ending balance	$ 949,377	$ 905,635

6. BORROWING ARRANGEMENTS

Bonds and notes payable as of June 30, 2013 and 2012, consist of the following:

	2013	2012
Refinancing note payable to bank, quarterly variable interest payments, swapped to fixed-rate payments	$ 23,898,332	$ 25,062,176
College Revenue Bonds Series 2006 — capital improvement (net of unamortized discount of $102,158 in 2013 and $106,681 in 2012)	13,897,842	13,893,319
College Revenue Bonds Series 2009 — capital improvement (net of unamortized discount of $185,452 in 2013 and $192,631 in 2012)	17,219,548	17,517,369
Net bonds and notes payable	$ 55,015,722	$ 56,472,864

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

In addition, the College entered into a Rate Swap Transaction (RST) for the purpose of fixing the interest rate on the 2010 Refinancing Note at a rate of 3.315%. The RST was effective December 15, 2010, and will continue to June 1, 2031. The fair value of the RST as of June 30, 2013, was approximately $867,000 with a notational amount of $23,898,332. The fair value of the RST as of June 30, 2012, was approximately $2,044,000 with a notational amount of $25,062,176.

The Series 2009A and 2009B Bonds were issued through the Crawford County Industrial Development Authority. The Series 2009A Bonds require semiannual interest payments at fixed interest rates originally ranging from 2.375% to 6.00% and have maturity dates from 2010 to 2031. The Series 2009B Bonds require weekly variable interest calculations and monthly payments. The principal portion is payable in installments, which commenced on November 1, 2010, with final payment due November 1, 2039. The Bond agreement provides that the College maintain certain ratios and other covenants. As of both June 30, 2013 and 2012, the College had approximately $836,400 of debt service reserve funds from the 2009 bond proceeds, which is included in investments.

The Series 2006 Bonds were issued through the Pennsylvania Higher Educational Facilities Authority. The Series 2006 Bonds require semiannual interest payments with two interest rates of 4.75% and 4.80%, with two maturity dates of 2031 and 2036, respectively. The principal portion is payable in installments, which will commence on May 1, 2028, with final payment due May 1, 2036. The Bond agreement provides that the College maintain certain ratios and other covenants. As of June 30, 2013 and 2012, the College had approximately $1.3 million of debt service reserve funds from the 2006 bond proceeds, which is included in investments.

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

	Principal	Interest	Total
2014	$ 1,506,305	$ 2,183,714	$ 3,690,019
2015	1,558,716	2,131,860	3,690,576
2016	1,611,689	2,079,438	3,691,127
2017	1,672,449	2,019,300	3,691,748
2018	1,733,596	1,958,767	3,692,363
Thereafter	46,932,969	20,681,194	$ 67,614,163
TOTAL	$ 55,015,722	$ 31,054,274	$ 86,069,996

Interest expense was approximately $2,019,000 for 2013 and $2,065,000 for 2012.

7. LINE OF CREDIT

The College currently has available a $5,000,000 revolving line of credit, which is payable on demand. This line of credit is unsecured. Interest is payable monthly on the outstanding principal balance at the best rate option or LIBOR rate, plus 0.65% (0.8432% as of June 30, 2013). This line of credit may be canceled by either the lender or the College upon notification in writing to either party. There were no outstanding borrowings on the line of credit as of June 30, 2013 or 2012.

8. OPERATING LEASES

The College leases certain equipment for use by various instructional, administrative, and supporting departments. Minimum future rental commitments under noncancelable leases having an initial or remaining term in excess of one year as of June 30, 2013, are as follows:

2014	$ 196,224
2015	148,949
2016	121,800
2017	96,109
2018	10,010
Total	$ 573,092

Operating lease expense for the years ended June 30, 2013 and 2012, was $211,141 and $229,884, respectively.

9. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from temporary restrictions during fiscal years 2013 and 2012 are as follows:

	2013	2012
Instructional	$ 1,863,601	$ 1,854,215
Research	260,261	133,314
Academic support	649,270	714,398
Student services	681,391	728,398
Institutional support	312,911	502,314
Scholarships	3,020,958	3,250,719
Capital additions	302,576	239,114
Satisfaction of time restriction and other	1,622,354	6,592,829
Total release of restrictions	$ 8,713,322	$ 14,015,301

10. NET ASSETS

Unrestricted net assets as of June 30, 2013 and 2012, include the following:

	2013	2012
Board Designated Endowment	$ 21,111,283	$ 21,588,591
Undesignated	81,956,440	76,585,054
Total unrestricted net assets	$ 103,067,723	$ 98,173,645

Temporarily restricted net assets as of June 30, 2013 and 2012, include the following:

	2013	2012
Education and general	$ 6,603,144	$ 9,405,286
Split-interest agreements	2,088,613	1,917,074
Trusts held by others	16,195	16,744
Capital additions, renovations and maintenance	440,378	462,070
Endowment — unexpended gains	67,900,790	55,738,865
Total temporarily restricted net assets	$ 77,049,121	$ 67,540,039

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

	2013	2012
Endowment	$ 75,297,065	$ 70,813,661
Split-interest agreements	1,474,291	1,417,297
Trusts held by others	7,008,944	6,579,675
Total permanently restricted net assets	$ 83,780,300	$ 78,810,633

Changes in endowment net assets for the years ended June 30, 2013 and 2012, are as follows:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	$ 21,588,591	$ 55,738,865	$ 70,813,661	$ 148,141,117
Investment gain	680,255	17,281,731		17,961,986
Contributions — outright gifts and pledges — less changes in unamortized discounts and and allowances	1,669,096		4,483,404	6,152,500
Appropriation for endowment assets for expenditure (spending funds)	(2,826,659)	(5,119,806)		(7,946,465)
Endowment net assets — end of year	$ 21,111,283	$ 67,900,790	$ 75,297,065	$ 164,309,138

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

11. PELL GRANT AND PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY PROGRAMS

Activity of the Pell Grant and Pennsylvania Higher Education Assistance Agency programs is not reflected in the College's statements of activities. Students received approximately $2,315,000 and $2,348,000 from the Federal Pell Grant and $1,832,000 and $1,690,000 from the Pennsylvania Higher Education Assistance Agency programs in the years ended June 30, 2013 and 2012, respectively.

12. EMPLOYEE BENEFITS

The College has defined contribution pension plans covering substantially all of its full-time employees. Contributions to these annuity funded plans amounted to approximately $2,038,000 and $2,040,000 for the years ended June 30, 2013 and 2012, respectively.

The College provides medical premium coverage at the option of employees who have completed 10 consecutive years of full-time employment and who have attained the age of 58 or upon retirement until they reach the age of 65. The College and employee each pay their same percentages of the premium monthly during the period after retirement as they did while the employee was working. The liability related to this postretirement benefit was approximately $166,000 and $155,000 as of June 30, 2013 and 2012, respectively, and is included in the accrued liabilities line on the accompanying statements of financial position.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The College applies fair value guidance to all assets and liabilities that are being measured and reported on a fair value basis. This guidance establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. This guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following categories:

Level 1 — Quoted market prices in active markets for identical assets or liabilities.

Level 2 — Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 — Unobservable inputs that are not corroborated by market data

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

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

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

The carrying values of investments, trusts held by others, and remainder interest trusts are based primarily on Level 1 quoted market prices. Where such quoted market prices are not available, Level 2 and Level 3 inputs which include audited financial statements, appraisals, or recent or comparable cost are used as an estimate of fair value.

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

The carrying value of the Bonds is $31,117,000 as of June 30, 2013, as compared to the estimated fair value of $32,723,000. Fair value of the bonds payable were calculated by discounting scheduled cash flows through the maturity of the bonds and notes using Level 2 inputs and estimated market rates. The carrying value of the Note Payable is $23,898,000 as of June 30, 2013, as compared to the estimated fair value of $25,062,000. Fair value of the Notes were calculated by discounting scheduled cash flows using Level 2 inputs and estimated market rates.

14. COMMITMENTS AND CONTINGENCIES

As of June 30, 2013, the College had entered into various contracts for the construction and renovation of various campus facilities that have remaining commitments of approximately $343,000.

The College participates in the Guaranteed Access To Education ("GATE") Loan Program, which is administered through a third-party vendor. Total potential commitments in excess of the expected contribution by the College to this program amount to approximately $1.7 million as of June 30, 2013.

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

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

15. RELATED PARTIES

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

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 24, 2013, the date the financial statements were issued.

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