ELIZABETHTOWN COLLEGE

Elizabethtown, Pennsylvania

AUDIT REPORT ON FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2013 and 2012

ELIZABETHTOWN COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Elizabethtown College
Elizabethtown, Pennsylvania

We have audited the accompanying financial statements of Elizabethtown 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.

Auditors' Responsibility

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

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

Baker Tilly Virchow Krause, LLP

Chicago, Illinois
October 28, 2013

ELIZABETHTOWN COLLEGE

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 5,113,446	$ 6,267,333
Short-term investments	796,361	3,383,474
Accounts and notes receivable		
Students (net of allowance for uncollectible accounts of $38,126 and $38,711 in 2013 and 2012, respectively)	932,704	410,602
Other	1,549,269	717,782
Inventories	395,287	379,518
Prepaid expenses	353,815	206,691
Pledges receivable due in less than one year (net of allowance for uncollectible pledges of $80,848 and $102,651 in 2013 and 2012, respectively)	931,067	1,111,790
Total current assets	10,071,949	12,477,190
Funds held in trust	4,338,335	3,385,702
Pledges receivable (net of allowance for uncollectible pledges of $139,704 and $165,110 in 2013 and 2012, respectively)	915,750	1,132,968
Student loans (net of allowance for uncollectible loans of $60,000 in 2013 and 2012)	1,176,474	1,245,065
Investments	66,729,601	60,156,792
Property, plant and equipment (net of accumulated depreciation of $58,944,164 and $55,173,197 in 2013 and 2012, respectively)	81,845,028	81,320,296
Other assets	532,213	568,930
TOTAL ASSETS	$ 165,609,350	$ 160,286,943

LIABILITIES AND NET ASSETS

	2013	2012
LIABILITIES		
Accounts payable	$ 1,899,397	$ 1,901,281
Accrued salaries, wages and benefits	978,361	999,102
Deposits and agency funds	1,503,533	1,413,436
Current liability on annuity contracts and trusts	172,970	167,584
Current portion of long-term debt	2,179,050	2,022,764
Total current liabilities	6,733,311	6,504,167
Advances from federal government for student loans	1,241,320	1,229,515
Annuity contracts and trusts liability	3,744,204	3,934,684
Post-retirement liability	10,516,361	9,781,774
Derivative instruments	418,852	432,906
Long-term debt	39,811,542	41,356,022
Total liabilities	62,465,590	63,239,068
NET ASSETS		
Unrestricted	45,574,507	44,225,242
Temporarily restricted	24,949,384	21,804,268
Permanently restricted	32,619,869	31,018,365
Total net assets	103,143,760	97,047,875
TOTAL LIABILITIES AND NET ASSETS	$ 165,609,350	$ 160,286,943

The accompanying notes are an integral part of these statements.

ELIZABETHTOWN COLLEGE

STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2013 with comparative totals for 2012

	2013				2012
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
REVENUE					
Student related revenue					
Student tuition and fees, gross	$ 74,163,533	$ -	$ -	$ 74,163,533	$ 69,413,423
Less tuition discount	(31,456,966)	-	-	(31,456,966)	(28,798,567)
Student tuition and fees, net	42,706,567	-	-	42,706,567	40,614,856
Auxiliary enterprises	17,315,100	-	-	17,315,100	16,710,742
Private gifts and grants	1,097,450	1,051,771	1,701,504	3,850,725	3,987,585
Government grants	907,684	-	-	907,684	889,383
Investment income	99,732	92,772	-	192,504	312,673
(Losses)/Gains on investments	2,096,120	4,618,212	-	6,714,332	(724,587)
Gain on interest rate swap	14,054	-	-	14,054	302,098
Other	109,186	-	-	109,186	145,121
Net assets released from restrictions	2,717,639	(2,617,639)	(100,000)	-	-
Total revenue	67,063,532	3,145,116	1,601,504	71,810,152	62,237,871
EXPENSES					
Instruction	23,459,221	-	-	23,459,221	21,547,481
Academic support	1,748,506	-	-	1,748,506	2,060,414
Student services	7,400,872	-	-	7,400,872	6,958,340
Institutional support	12,770,557	-	-	12,770,557	13,105,200
Facilities					
Operation and maintenance of plant	6,258,123	-	-	6,258,123	6,043,916
Depreciation and amortization	3,907,378	-	-	3,907,378	3,882,455
Interest	2,272,498	-	-	2,272,498	2,469,456
Auxiliary enterprises	7,698,968	-	-	7,698,968	7,713,112
Total expenses	65,516,123	-	-	65,516,123	63,780,374
Pension related charges other than net periodic pension cost	(198,144)	-	-	(198,144)	(1,204,324)
Change in net assets	1,349,265	3,145,116	1,601,504	6,095,885	(2,746,827)
NET ASSETS					
Net assets, beginning of year	44,225,242	21,804,268	31,018,365	97,047,875	99,794,702
END OF YEAR	$ 45,574,507	$ 24,949,384	$ 32,619,869	$ 103,143,760	$ 97,047,875

The accompanying notes are an integral part of these financial statements.

ELIZABETHTOWN COLLEGE

STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2012

	2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
REVENUE				
Student related revenue				
Student tuition and fees, gross	$ 69,413,423	$ -	$ -	$ 69,413,423
Less tuition discount	(28,798,567)	-	-	(28,798,567)
Student tuition and fees, net	40,614,856	-	-	40,614,856
Auxiliary enterprises	16,710,742	-	-	16,710,742
Private gifts and grants	999,803	1,856,101	1,131,681	3,987,585
Government grants	889,383	-	-	889,383
Investment income	210,747	101,926	-	312,673
(Losses)/Gains on investments	(141,666)	(582,921)	-	(724,587)
Gain on interest rate swap	302,098	-	-	302,098
Other	145,121	-	-	145,121
Net assets released from restrictions	4,279,444	(3,728,836)	(550,608)	-
Total revenue	64,010,528	(2,353,730)	581,073	62,237,871
EXPENSES				
Instruction	21,547,481	-	-	21,547,481
Academic support	2,060,414	-	-	2,060,414
Student services	6,958,340	-	-	6,958,340
Institutional support	13,105,200	-	-	13,105,200
Facilities				
Operation and maintenance of plant	6,043,916	-	-	6,043,916
Depreciation and amortization	3,882,455	-	-	3,882,455
Interest	2,469,456	-	-	2,469,456
Auxiliary enterprises	7,713,112	-	-	7,713,112
Total expenses	63,780,374	-	-	63,780,374
Pension related charges other than net periodic pension cost	(1,204,324)	-	-	(1,204,324)
Change in net assets	(974,170)	(2,353,730)	581,073	(2,746,827)
NET ASSETS				
Net assets, beginning of year	45,199,412	24,157,998	30,437,292	99,794,702
END OF YEAR	$ 44,225,242	$ 21,804,268	$ 31,018,365	$ 97,047,875

ELIZABETHTOWN COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 6,095,885	$ (2,746,827)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation of property and equipment	3,895,280	3,870,356
Amortization of bond issuance costs	36,714	36,713
Accretion of bond discount	(24,615)	(24,615)
Provision for uncollectible accounts	192,104	(188,810)
Net gain on investments	(6,714,332)	724,587
Gain on swap	(14,054)	(302,098)
Permanently restricted gifts and donations received	(1,255,254)	85,618
Changes in assets and liabilities		
(Decrease) in actuarial liability for annuities payable	(185,094)	(147,448)
Decrease/(Increase) in short-term investments	2,587,113	(716,771)
Decrease in accrued interest receivable	-	155
(Increase)/Decrease in due from students	(522,102)	421,401
(Increase)/Decrease in accounts receivable	(53,478)	21,721
(Increase)/Decrease in grants receivable	(827,071)	442,385
Decrease in pledges receivable	254,899	2,320,952
(Increase) in inventories	(15,769)	(9,934)
(Increase) in prepaid expenses	(147,124)	(78,648)
(Decrease) in accounts payable	(116,474)	(208,552)
(Decrease) in accrued salaries and wages	(20,741)	(957,074)
Increase in deposits and agency funds	90,097	33,121
Increase in post-retirement liability	734,587	1,535,757
Net cash provided by operating activities	3,990,571	4,111,989
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(5,062,451)	(25,852,777)
Proceeds from sales of investments	5,203,975	29,457,225
Purchase of property and equipment	(4,305,421)	(4,396,630)
(Increase) in funds held in trust	(952,633)	(211,802)
Loan disbursements to students	(188,923)	(170,933)
Repayments of students loans	257,515	265,329
Net cash used in investing activities	(5,047,938)	(909,588)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of long-term debt	(2,022,764)	(1,943,627)
Proceeds from issuance of long-term debt	659,185	1,424,700
Permanently restricted gifts and donations received	1,255,254	(85,618)
Increase in advances from federal government for student loans	11,805	6,496
Net cash (used in) provided by financing activities	(96,520)	(598,049)
Net (decrease) increase in cash and cash equivalents	(1,153,887)	2,604,352
Cash and cash equivalents		
Beginning of year	6,267,333	3,662,981
END OF YEAR	$ 5,113,446	$ 6,267,333
Interest paid	$ 2,292,312	$ 2,475,792

NONCASH TRANSACTIONS

The College incurred capitalized construction costs of $114,590 and $34,047 which are included as accounts payable at June 30, 2013 and 2012, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Elizabethtown College (the College), founded in 1899, is a comprehensive residential college located in Pennsylvania's historic Lancaster County. More than 45 major programs of study in liberal arts, sciences and professional studies are offered to more than 2,000 students. Elizabethtown College is a community of learners dedicated to educating students intellectually, socially, aesthetically and ethically for lives of service and leadership as citizens of the world.

Basis of Presentation

The accounting policies of the College reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

> Unrestricted - Net assets not subject to donor-imposed stipulations.

> Temporarily Restricted - Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time.

> Permanently Restricted - 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 all or part of the income earned on related investments for general or specific purposes.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.
Losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in unrestricted net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with purchased maturities of 90 days or less. Each night, the College sweeps all cash into a short-term investment account which is considered cash equivalent to maximize interest earned.

Short-Term Investments

The College holds funds in certain short-form investment accounts which are used primarily for operating activities at the College.

Concentrations of Credit Risk

Financial instruments which subject the College to concentrations of credit risk consist primarily of investments in long-term corporate and governmental fixed income instruments, and equity holdings of domestic and foreign corporations. In addition, the College typically maintains cash and cash equivalents and short-term investments in local banks which may, at times, exceed the FDIC insurance limits.

The College's operations are located in Elizabethtown, Pennsylvania and its students come primarily from Pennsylvania and surrounding states. The College's major source of revenue is from tuition, and room and board fees.

Student Accounts Receivable

Student accounts receivable are carried at the unpaid balance of the original amount billed to students. Student accounts receivable are reported net of allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts receivable are written off when deemed uncollectible. Recoveries of student accounts previously written-off are recorded when received. Receivables are generally unsecured. A student account receivable is considered to be delinquent if not paid by the due date. A finance charge is applied to delinquent amounts.

Funds Held in Trust

Funds held in trust include funds held by the designated trustee for payment on construction costs and maintenance of debts reserve funds and funds held in reserve for payment of future employee healthcare costs.

Inventories

Inventories consist of items for the College store and dining services, and are valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Investments

The College records investments at fair value. Equity securities and mutual funds are valued at quoted market prices. Mortgage investments and cash surrender values of life insurance policies, are carried at the stated value which approximates the market value of these assets. Alternative investments are recorded at the estimated fair value established by the fund managers and reviewed by the investment consultant. Alternative investments consist of private equity securities, real estate investment, mortgages and hedge funds. Because such investments are not readily marketable, their estimated value is subject to uncertainty, and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The College reviews and evaluates the values provided by the outside parties and agrees with the valuation methods and assumptions used in determining the fair value of alternative investments.

Gains and losses on investments are determined using an average cost method for securities and the specific identification method for other investments. Gains and losses are based on the trade date for investments.

The College is the recipient/beneficiary of several irrevocable trust arrangements which are held by others. The related income from these arrangements is recognized as either temporarily restricted or unrestricted revenue by the College when received, depending on whether the donor-imposed restrictions exist. The recorded value of the stream of future revenue associated with these trusts is required to be measured using the present value of future cash receipts. The market value of the pro rata ownership portion of the trusts' assets is used as an approximation of the present value of the future receipts and is included in investments.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of gifts. Depreciation is computed on a straight-line basis over the estimated useful lives of land improvements (20 years), buildings (20-87 years) and equipment (3-15 years).

The cost and accumulated depreciation of property sold or retired is removed from the related asset and accumulated depreciation amounts and any resulting gain or loss is recorded in the period of disposal.

Renewals and improvements which extend the useful lives of assets are capitalized at cost. Library books are expensed when purchased. Maintenance and repairs are included as expenses in the statements of activities.

Other Assets

Other assets consist of costs associated with debt issuance. All deferred costs associated with issued debt are being amortized over the term of respective debt.

Deposits and Agency Funds

Deposits relate primarily to summer and fall session tuition and matriculation and breakage deposits received prior to June 30. Agency funds consist of assets held for others, primarily student organizations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Net Student Tuition and Fees

Net student tuition revenue is reported at the net realizable amounts received from students. Net tuition and fees is reported net of institutional student aid, contributions, and investment income restricted for student aid and certain federal grants restricted for student aid.

Private Gifts and Grants

The College distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Under current accounting guidance, donor-restricted contributions are reported as unrestricted operating revenue when the restriction is satisfied within the same year that the contribution is received.

Advertising Costs

The College follows the policy of expensing advertising and marketing costs when incurred. For the years ended June 30, 2013 and 2012, advertising related costs amounted to $549,209 and $647,070, respectively.

Fundraising Expenses

The College follows the policy of expensing the costs of fundraising when incurred. For the years ended June 30, 2013 and 2012, fundraising costs amounted to $1,766,281 and $1,642,394, respectively.

Use of Estimates in the Preparation of Financial Statements

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. The most significant management estimates and assumptions relate to the determination of allowances for doubtful student accounts, pledges and other receivables, alternative investment values, useful lives of fixed assets, assumptions related to the post-retirement liability and the reported fair values of certain of the College’s assets and liabilities. Actual results could differ from those estimates.

Income Tax Status

The Internal Revenue Service has determined that the College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax. However, any unrelated business income may be subject to taxation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Income Tax Status (cont.)

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of June 30, 2013 and 2012. The College's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2009 and thereafter are open to examination by federal and state authorities.

Reclassifications

Certain amounts appears in the 2013 financial statements have been reclassified to conform with 2013 presentation. The reclassifications have no effect on reported amounts of total net assets or the change in total net assets.

NOTE 2 – LONG TERM INVESTMENTS

Investments consisted of the following at June 30:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 1,747,010	$ 1,747,010	$ 3,470,550	$ 3,470,550
Equities	6,814,666	8,399,429	4,670,446	5,668,592
Fixed income	1,113,250	1,130,313	1,064,580	1,114,580
Annuity funds	1,797,954	1,797,954	1,617,419	1,617,419
Alternative investments	45,912,621	53,218,258	43,774,690	47,862,218
Funds in trust	436,637	436,637	423,433	423,433
Totals	$ 57,822,138	$ 66,729,601	$ 55,021,118	$ 60,156,792

The fair value of the total endowment assets included in long term investments amounted to approximately $61,033,859 and $54,756,286 at June 30, 2013 and 2012, respectively. Included in those amounts are quasi-endowment assets of approximately $14,118,102 and $13,048,024 at June 30, 2013 and 2012, respectively.

NOTE 3 – CREDIT QUALITY OF FINANCING RECEIVABLES

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At both June 30, 2013 and 2012, student loans represented less than 1% of total assets.

At June 30, student loans consisted of the following:

	2013	2012
Federal government programs	$ 1,138,512	$ 1,207,230
Institutional programs	97,962	97,835
	1,236,474	1,305,065
Less allowance for doubtful accounts		
Beginning of year	(60,000)	(60,000)
Increases		-
End of year	(60,000)	(60,000)
Student loans receivable, net	$ 1,176,474	$ 1,245,065

Funds advanced by the Federal government of $1,241,320 and $1,229,515 at June 30, 2013 and 2012, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At June 30, the following amounts were past due under student loan programs:

	Amounts Past Due			
June 30	1-60 days	60-90 days	90+ days	Total
2013	$ 1,277	$ 457	$ 78,384	$ 80,118
2012	430	149	76,146	76,725

NOTE 4 – PLEDGES RECEIVABLE

As of June 30, 2013 and 2012, donors to the College have made written promises to give totaling $2,416,948 and $2,869,945 respectively, on which management has established a reserve for uncollectible pledges of $220,552 and $267,761, respectively. Discounts on pledges receivable were $349,579 and $357,426 at June 30, 2013 and 2012, respectively. Pledges were discounted to their present value assuming their respective terms, and at the discount rate corresponding to the date each pledge was received. The discount rate ranged from 0.15% to 5.18% for 2013 and for 2012. The discounted pledges, net of allowance are scheduled to be collected as follows:

	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 510,501	$ 420,566	$ 931,067
One to three years	272,938	102,012	374,950
Three to five years	68,565	11,844	80,409
More than five years	460,392	-	460,392
Totals	$ 1,312,396	$ 534,421	$ 1,846,817

Under current accounting guidance, unconditional promises to give (pledges), are required to be recorded as receivables and revenue, and requires the College to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Donor-restricted contributions are reported as unrestricted operating revenue when the restriction is satisfied within the same year that the contribution is received.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

As of June 30, the components of the College's property, plant and equipment were as follows:

	2013	2012
Land and improvements	$ 17,024,710	$ 16,966,909
Buildings	108,446,527	104,705,424
Furniture and equipment	8,786,045	7,769,377
Construction in process	6,531,910	7,021,783
	140,789,192	136,493,493
Less: Accumulated depreciation	(58,944,164)	(55,173,197)
Totals	$ 81,845,028	$ 81,320,296

The College recorded depreciation expense of $3,895,280 and $3,870,356 for the years ended June 30, 2013 and 2012, respectively.

NOTE 6 – LONG-TERM DEBT

Long-term debt payable at June 30 consisted of the following:

Description	Maturity Date	Interest Rates	Principal Balance 2013	Principal Balance 2012
Series 2009 Revenue bonds	2029	2.38%	$ 14,030,730	$ 15,186,555
Mortgage Payable	2018	5.00%	205,980	235,364
Series 2006 FF2 Revenue bonds, net of premium of $356,914 and $381,530, respectively	2027	5.00%	24,551,915	24,576,530
2002 Refinancing bonds	2020	2.38%	2,641,957	2,976,577
2002 Series II Refinancing bonds	2013	LIBOR + 1.85%	-	325,000
Capital leases	2016	1.2%	560,010	78,760
Totals			$ 41,990,592	$43,378,786

The proceeds of the Series of 2009 Revenue bonds were used for two purposes. $14,555,000 was used to refund the 2006 Variable Rate bonds. The refunded bonds have a fixed rate of 2.38% through June 2014 and a variable rate from June 2014 through June 2029. The remaining $2,048,255 of these funds has been used to fund energy projects on campus. This portion of the debt has a fixed rate of 2.38% and will be repaid from 2011 through 2019. There is an additional credit of $174,270 available under these bonds for campus energy projects.

The College purchased a property adjacent to the campus in 2009 and entered in a mortgage agreement. The mortgage has a fixed rate of 5% and will be repaid completely in 2018.

The proceeds of the Series 2006 FF2 Revenue bond were used to refinance the 2001 Revenue note. This transaction was considered a legal defeasance. The term of the bonds remained unchanged but the interest rate was reduced from 5.9% to 5.0%.

The proceeds of the Series 2006 Revenue bond were used to refinance the 2002 Series I refinancing bond and partially refinance the 2002 Series II bond. The 2006 Revenue bond also included $7,155,000 in new debt. This portion of the proceeds was used to assist in the construction of the new science, math and engineering center. They were refunded by the Series 2009 Revenue bonds in 2009.

NOTE 6 – LONG-TERM DEBT (cont.)

Aggregate maturities of long-term debt are as follows:

Year Ending June 30,	Maturities
2014	$ 2,179,050
2015	1,059,086
2016	2,480,025
2017	2,591,916
2018	2,530,572
Thereafter	31,149,943
Total	$ 41,990,592

The College has entered into guarantees with the various bond authorities to collateralize the full and prompt payment of the principal and interest of the bonds. The obligation of the College to make payments under the guarantees is a general obligation of the College and is collateralized by the full faith and credit of the College. The College has collateralized its obligation under the guarantees by granting an interest in (i) unrestricted revenues, (ii) the tangible personal property, fixtures, equipment, furnishings and certain buildings and land, (iii) the proceeds from disposition of such tangible personal property, fixtures and equipment and furnishings, and (iv) proceeds of any insurance thereon and condemnation awards thereon.

Under the terms of the various debt documents, the College covenants, among other things, that it will generate certain levels of net revenue as defined in the agreements, abide by limitations on the size of deficits incurred as defined by the agreements, and maintain certain minimum endowment fund investments. The College is in compliance with these covenants as of June 30, 2013 and 2012.

As of June 30, 2013 and 2012, $532,217 and $568,930 of unamortized bond issue expense were included in other assets, respectively.

NOTE 7 – LINE OF CREDIT AGREEMENT

The College has a $6,000,000 line of credit agreement with a bank. The line of credit is unsecured and bears interest at LIBOR plus 2.35%. As of June 30, 2013 and 2012, there were no amounts outstanding on the line of credit.

NOTE 8 – POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The College sponsors a post-retirement health care plan covering retirees and eligible spouses and employees who have met certain eligibility requirements. The plan is contributory for retirees with a retirement date prior to July 1, 1998. The College contributions are currently set at 100% of the required premium for the retiree and 0% for the covered spouse for individuals who held the rank of associate or full professor, or attained age 50, or have completed 15 years of full-time service by September 1, 2004. Individuals who did not meet the aforementioned criteria by September 1, 2004, receive 50% of the required premium for the retiree. All new employees who began employment after September 1, 2004, are not covered.

	2013	2012
Change in Projected Benefit Obligation		
Benefit obligation at beginning of year	$ 9,781,784	$ 8,246,017
Interest cost	478,586	472,345
Actuarial loss	555,781	1,432,844
Service cost	281,395	227,628
Benefit payments	(581,185)	(597,060)
Benefit Obligation at End of Year	$ 10,516,361	$ 9,781,774

	2013	2012
Change in Fair Value of Plan Assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	581,185	597,060
Benefit payments	581,185	597,060
Fair Value of Plan Assets at End of Year	$ -	$ -

Assumptions

Weighted average assumptions used to determine benefit obligations

	2013	2012
Discount rate	4.67%	4.67%

The effect of a one-percentage point increase in the assumed healthcare cost trend rates for each future year on the aggregate of the service and interest cost components of the net periodic postretirement health care benefit cost is $128,000 and the accumulated postretirement benefit obligation is $1,452,000.

NOTE 8 – POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (cont.)

Net periodic pension cost

	2013	2012
Service cost	$ 281,395	$ 227,628
Interest cost	478,586	472,345
Actuarial loss	4,610,124	4,411,980
Totals	$ 5,370,105	$ 5,111,953

The amount expected to be recognized in net periodic cost for the years ended June 30, 2013 and 2012 for loss recognition is $357,637 and $228,530, respectively.

Healthcare cost trend assumptions

	2013	2012
Initial trend rate	5%	5%
Ultimate trend rate	5%	5%
Years until ultimate is reached	-	-

Other changes in plan assets and benefit obligation recognized

	2013	2012
Net actuarial loss	$ 555,781	$ 1,432,854
Recognized actuarial loss	(357,637)	(228,530)
Totals	$ 198,144	$ 1,204,324

Expected future benefit payments

The benefit payments and plan contributions, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ending June 30,	
2014	$ 657,000
2015	702,000
2016	769,000
2017	831,000
2018	895,000
2019-2023	5,271,000

NOTE 8 – POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (cont.)

Medicare Prescription Drug Act

The Medicare Prescription Drug Improvement and Modernization Act of 2003 provides for a direct government subsidy for employers who continue to offer a retiree drug program that is deemed to be actuarially equivalent to the government plan. The federal government will pay a subsidy to employers who continue to offer prescription drug coverage if the employer provided benefit is “actuarially equivalent” to the Medicare Part D benefit.

Based on available guidance, the College does not believe that benefits under the Postretirement Medical and Life Insurance Plan are “actuarially equivalent” to the Medicare Part D benefit. Therefore, the accumulated postretirement benefit obligation and the net periodic postretirement benefits disclosed do not reflect any amount associated with the subsidy, nor do they reflect any anticipated reduction in costs due to employees waiving employer coverage and enrolling in Medicare Part D.

NOTE 9 – FAIR VALUE MEASUREMENTS

Financial Instruments - The carrying amounts of cash and cash equivalents, restricted cash, student accounts receivable, other receivables, accounts payable and deposits approximate fair value because of the short term maturity of these financial instruments. The carrying amounts of contributions receivable are recorded using the applicable discount rates in effect at the date of the gifts.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

The College follows the current accounting guidance on fair value measurements. Fair value is defined in the guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes 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, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement:

The following table summarizes assets and liabilities measured at fair value on a recurring basis by classification within the fair value hierarchy as June 30, 2013:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	$ 3,093,634	$ -	$ 3,093,634	$ -
Investments:				
Cash and cash equivalents	1,747,010	1,534,953	212,057	-
Equities				
Domestic	6,412,051	-	6,412,051	-
Foreign	1,967,344	-	1,967,344	-
Domestic fixed income	1,130,313	-	1,130,313	-
Annuity funds	1,817,988	-	-	1,817,988
Alternative investments				
Absolute return	-	-	-	-
Private equity	12,817,903	-	-	12,817,903
Real assets	1,662,149	-	-	1,662,149
Real estate	3,254,042	-	455,300	2,798,742
Multi-strategy	35,484,164	-	-	35,484,164
Funds held in trust by others	436,637	-	-	436,637
Funds held in trust	4,338,335	4,338,335	-	-
Totals	$ 74,161,570	$ 5,873,288	$ 13,270,699	$ 55,017,583

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

The following table summarizes assets and liabilities measured at fair value on a recurring basis by classification within the fair value hierarchy as June 30, 2012:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	$ 7,085,870	$ -	$ 7,085,870	$ -
Investments:				
Cash and cash equivalents	3,470,550	3,209,871	260,679	-
Equities				
Domestic	4,456,974	-	4,456,974	-
Foreign	1,211,619	-	1,211,619	-
Domestic fixed income	1,114,580	-	1,114,580	-
Annuity funds	1,617,419	-	-	1,617,419
Alternative investments				
Absolute return	443,521	-	-	443,521
Private equity	13,981,000	-	-	13,981,000
Real assets	1,460,588	-	-	1,460,588
Real estate	2,991,575	-	455,300	2,536,275
Multi-strategy	28,985,534	-	-	28,985,534
Funds held in trust by others	423,433	-	-	423,433
Funds held in trust	3,385,702	3,385,702	-	-
Totals	$ 70,628,365	$ 6,595,573	$ 14,585,022	$ 49,447,770
LIABILITIES				
Interest rate swap agreement	$ 432,906	$ -	$ 432,906	$ -

The following provides a brief description of the types of financial instruments the College holds, the methodology for estimating fair value, and the level within the hierarchy of the estimate.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value.

Short-term investments – The fair value of short-term investments, consisting primarily of money market funds and municipal and corporate bonds, is classified as Level 2 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.

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

Cash and cash equivalents – Cash and cash equivalents classified as level 1 represent demand deposits and other investments with purchased maturities of 90 days or less and their value is based on quoted prices in active markets. Those cash and cash equivalents which are classified as level 2 consist primarily of money market funds, whose 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.

Equities – Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 if they are traded in an active market for which closing stock prices are readily available. They are classified as Level 2 when the investment is not traded in active markets.

Fixed income securities – Investments in fixed income securities are comprised of commingled trust funds which are not actively traded, and are classified as a level 2.

Annuity funds – The fair value of annuity funds is classified as level 3 as the fair value is based on a combination of level 2 inputs (interest rate, individual's age, payment, and term) and significant unobservable inputs (individual or specific estimates of cash flows).

Investment in alternative investments – Investments in land are classified as level 2 as 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. Investments in hedge funds, private equity funds, real estate partnerships, real estate funds, funds of funds, and real assets partnerships for which there is no readily determinable fair value are classified as level 3 as the valuation is based on significant unobservable inputs. In cases where the investee has provided its investors with a net asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the College has estimated its fair value by using the net asset value provided by the investee as of December 31, or March 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through June 30.

Funds held in trust by others – The College's beneficial interest in funds held in trust administered by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rate and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the College has an irrevocable right to receive the income earned from the trust's assets, the fair value of the College's beneficial interest is estimated to approximate the fair value of the trust's assets.

Funds held in trust – Funds held in trust are based on quoted market prices in active markets and are classified as Level 1 inputs. These investments primarily are money market funds, certificates of deposit, and mutual funds.

Interest rate swaps – Interest rate swaps are classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

	Balance June 30, 2012	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Settlement	Balance June 30, 2013
Assets						
Funds held in trust by others	$ 423,433	$ 13,205	$ -	$ -	$ -	$ 436,638
Annuity funds	1,617,419	200,569	-	-	-	1,817,988
Alternative investments						
Private equity	13,140,641	2,263,643	733,776	-	(3,320,158)	12,817,902
Real assets	1,460,588	201,323	152,500	-	(152,262)	1,662,149
Real estate	2,536,275	400,948	-	-	(138,481)	2,798,742
Hedge funds	1,283,880	376,478	-	(1,659,480)	(878)	-
Multi-strategy	28,985,534	2,698,630	3,800,000	-	-	35,484,164
Totals	$ 49,447,770	$ 6,154,796	$ 4,686,276	$ (1,659,480)	$ (3,611,779)	$ 55,017,583

The following table provides additional information about assets and liabilities measured at fair value on a recurring basis and for which the College has utilized Level 3 inputs to determine fair value for the year ended June 30, 2013:

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at June 30, 2013.	$ 4,258,831

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

The following table provides additional information about assets and liabilities measured at fair value on a recurring basis and for which the College has utilized Level 3 inputs to determine fair value for the year ended June 30, 2012:

	Balance June 30, 2011	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Settlement	Balance June 30, 2012
Assets						
Funds held in trust by others	$ 422,491	$ 942	$ -	$ -	$ -	$ 423,433
Annuity funds	1,577,236	40,183	-	-	-	1,617,419
Alternative investments						
Private equity	13,813,677	2,181,227	1,389,322	(1,675,585)	(2,568,000)	13,140,641
Real assets	1,284,336	101,759	153,215	-	(78,722)	1,460,588
Real estate	2,634,641	201,956	-	-	(300,322)	2,536,275
Hedge funds	21,517,200	(2,228,448)	-	(16,482,247)	(1,522,625)	1,283,880
Multi-strategy	-	2,030,939	27,100,000	-	(145,405)	28,985,534
Totals	$ 41,249,581	$ 2,328,558	$ 28,642,537	$ (18,157,832)	$ (4,615,074)	$ 49,447,770

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at June 30, 2012.	$ 3,287,187

The fair value of certain funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund. FASB guidance allows for the use of the NAV as a "practical expedient" estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the College's interest in the fund. Investments are categorized as Level 2 instruments when the College has the ability to redeem its investment in the entity at the NAV per share in the near term. If the College does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments The College generally considers a redemption period of 90 days or less to be considered near term.

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

A summary of the significant categories of such investments and their attributes is as follows:

Assets	Fair value as of June 30, 2013	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Real estate funds	$ 2,798,742	$ 295,510	N/A	N/A
Private equity funds	12,817,903	2,825,631	N/A	N/A
Real assets	1,662,149	546,168	N/A	N/A
Multi-strategy	35,484,164	-	30-90 days	180 days
Totals	$ 52,762,958	$ 3,667,309		

Real estate funds - This category includes real estate funds that invest primarily in the U.S. and are diversified across sectors. These investments can never be redeemed from the funds. Distributions from each fund will be received as the underlying investments in the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated 7 to 10 years after initial investment. As of June 30, 2013, the College’s real estate portfolio consists of two funds, the oldest of which began making underlying investments in 2005. The fair values of the investments in this category have been derived using the net asset value of the College's ownership interest in Partners' Capital. Partners’ Capital for each fund has been prepared in accordance with fair value methodology as outlined by U.S. GAAP.

Private equity funds - This category includes several private equity funds that are diversified by strategy, region, and vintage year. These investments can never be redeemed from the funds. Distributions from each fund will be received as the underlying investments in the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated 5 to 10 years after initial investment. As of June 30, 2013, the College’s private equity portfolio consists of 16 funds, with vintage years ranging from 2001 to 2011. The fair values of the investments in this category have been derived using the net asset value of the College's ownership interest in Partners' Capital. Partners’ Capital for each fund has been prepared in accordance with U.S. GAAP and ASC Topic 820, *Fair Value Measurements and Disclosures*.

Real Asset funds - This category includes funds that invest primarily in timber, energy, and infrastructure; these investments are primarily in the U.S. and diversified by strategy. These investments can never be redeemed from the funds. Distributions from each fund will be received as the underlying investments in the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated 7 to 10 years after initial investment. As of June 30, 2013, the College’s real asset portfolio consists of two funds, the oldest of which began making underlying investments in 2007. The fair values of the investments in this category have been derived using the net asset value of the College's ownership interest in Partners' Capital. Partners’ Capital for each fund has been prepared in accordance with U.S. GAAP and ASC Topic 820, *Fair Value Measurements and Disclosures*.

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

Multi-Strategy funds - This category includes one fund with a globally diverse mix of public and private assets. The fund invests in hedge funds, private equity funds, as well as exchange traded funds. The fair values of the investments in this category have been derived using the net asset value of the College's ownership interest in Partners' Capital. Partners' Capital for each fund has been prepared in accordance with U.S. GAAP and ASC Topic 820, *Fair Value Measurements and Disclosures*.

NOTE 10 – DERIVATIVE INSTRUMENTS

The College uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate exchange agreements are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate exchange agreements are recognized as either assets or liabilities on the statements of financial position and are measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities.

Interest rate exchange agreements between the College and a third party (counterparty) provide for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the College’s counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate exchange agreements contain collateral provisions applicable to both parties to mitigate credit risk. The College does not anticipate non-performance by its counterparties.

In fiscal 2013, the College received $54,991 more than it paid in interest under the swap agreements. In fiscal 2012, the College received $118,083 more than it paid in interest under the swap agreements. The difference between interest received and interest paid under the swap agreements is recorded as investment income in the statements of activities.

Liability on Swap

On February 22, 2005, the College entered into a basic swap (the Basic Swap) in connection with the Series of 2001 revenue note. The College received a cash payment from Wachovia Bank, National Association (the Swap Provider), in the amount of $800,000, which has been recorded as a liability in the statement of financial position. In return for receiving the option payment, the College has agreed to receive 65% of LIBOR, plus .25% and to pay the Swap Provider the monthly BMA index rate. Both calculations will be made Thursday of every week and the net cash flows will be settled on the fifteenth day of each month, commencing March 15, 2005, for the preceding month. The notional amount is $22,720,000.

The Basic Swap amortizes as the Series 2001 revenue notes amortize and the term of the swap expires December 15, 2027. The College issued a Swap Revenue Note to the Swap Provider, providing a parity lien in the College’s unrestricted revenues.

NOTE 10 – DERIVATIVE INSTRUMENTS (cont.)

The swap agreement had a fair value of $(418,852) and $(432,906) at June 30, 2013 and 2012, respectively, which is reflected on the statement of financial position. A gain of $14,054 and $361,130 is recorded in the statement of activities for the years ended June 30, 2013 and 2012, respectively.

While the Series 2001 revenue note has been refinanced, this transaction is a legal defeasance. The bonds have not been retired.

NOTE 11 – NET ASSETS

Temporarily restricted net assets consist of the following at June 30,

	2013	2012
Annuity contract and trust assets	$ 1,724,836	$ 1,781,599
Capital projects	859,053	842,697
Temporarily restricted pledges	1,312,396	1,489,639
Scholarships, awards, etc.	595,493	550,106
Investments – including the accumulated change in market value in excess of the PA Trust limitation	20,457,606	17,140,227
Totals	$ 24,949,384	$ 21,804,268

Permanently restricted net assets consist of the following at June 30,

	2013	2012
Annuity contract and trust assets	$ 1,710,264	$ 1,710,264
Pledges related to the endowment	534,421	755,118
Investments – principal	30,375,184	28,552,983
Totals	$ 32,619,869	$ 31,018,365

NOTE 11 – NET ASSETS (cont.)

During the course of the year, net assets whose use by the College were subject to donor-imposed restrictions were fulfilled by actions of the College pursuant to those restrictions, the expiration of time, or the designation of law. These assets are shown in the statements of activities as a release of net assets from temporary and permanent restrictions. A detail of the net assets released from restrictions for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Assets released for		
Buildings	$ 385,752	$ 640,016
Scholarships, professorships, awards, etc.	1,392,434	1,208,319
Other donor designated spending	608,118	632,780
Pennsylvania Trust Law	141,138	188,764
Write off of temporarily restricted plant pledges	90,197	1,058,957
Write off of permanently restricted endowment pledges	100,000	550,608
Totals	$ 2,717,639	$ 4,279,444

NOTE 12 – ENDOWMENTS

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The College's endowment consists of a portfolio of actively managed funds established to provide both a source of operating funds as well as long-term financial stability. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as quasi-endowments.

Interpretation of Relevant Law

The Board of Trustees of the College has interpreted Commonwealth of Pennsylvania Act 141 as 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. This is regarded as the "historic dollar value" of the endowed fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the College's spending policy.

NOTE 12 – ENDOWMENTS (cont.)

Endowment Investment Policy

The College has adopted an investment policy that is intended to:

- protect the future purchasing power of the principal of endowed funds by reserving an appropriate portion of investment return to offset the cumulative effects of inflation, and provide future real growth of the Fund;
- provide a source of income to support the activities of Elizabethtown College or those designated by the donor; and
- manage the spending distribution over time to reduce, as far as possible, annual variations in the level of support provided by the endowment.

The return objective is an average annual total real (inflation adjusted) rate of return of 5% to 6%, as measured over a three to five year market period.

Endowment Spending Policy

The College's target annual distribution from the endowment is 4% of the trailing 12 quarters' average market value. The percentage expended for the years ended June 30, 2013 and 2012 was 3.48% and 3.67%, respectively. In addition, the Commonwealth of Pennsylvania law permits organizations to allocate to income each year a portion of permanently restricted investment net gains under a total return spending rate policy, not to exceed 7% of the average market value of the assets for the preceding three years. The College has authorized a draw down of 4% in both fiscal 2013 and 2012. To the extent that actual income from these permanently restricted investments is less than the predetermined amount, accumulated gains are made available for operations to fund the difference. For financial statement purposes, any excess of accumulated gains or accumulated losses are recorded as temporarily restricted net assets. Investment return in excess of or less than the spending distribution is reported as a component of temporarily restricted investment income. The Board expects a 4% draw for the upcoming June 30, 2014 fiscal year.

Strategies Employed for Achieving Objectives

As a permanent fund, the investment objectives for the endowment require disciplined and consistent management that accommodates all those events which are relevant, reasonable, and probable. The management of the endowment should ensure a total return (yield plus capital appreciation) sufficient to preserve and enhance, in real dollar terms, the principal funds endowed to support the College.

The investments of the endowment shall be appropriately diversified so as to maximize expected returns while controlling risk.

Unless otherwise indicated, Investment Managers will have complete investment discretion based on the expectation that the assets of the Fund will be invested with care, skill, prudence and diligence.

NOTE 12 – ENDOWMENTS (cont.)

The asset mix, consistent with the return objective, will range within the following limits:

	Range
Total Return Assets	30 to 80%
Hedging Assets	20 to 70%

When a limit of the target range is reached, the Investment Committee will discuss with the investment office manager an appropriate target mix. The total return allocation may include equity-like volatility investments (e.g. equities, directional hedge funds, real estate, private equity, etc.) and the hedging allocation may include bond investments, commodity investments, cash and other hedging instruments.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 19,242,431	$ 30,771,992	$ 50,014,423
Board-designated endowment funds	14,118,102	-	-	14,118,102
Total Endowment Net Assets	$ 14,118,102	$ 19,242,431	$ 30,771,992	$ 64,132,525

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 16,286,269	$ 29,269,821	$ 45,556,090
Board-designated endowment funds	13,048,024	-	-	13,048,024
Total Endowment Net Assets	$ 13,048,024	$ 16,286,269	$ 29,269,821	$ 58,604,114

NOTE 12 – ENDOWMENTS (cont.)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2012	$ 13,048,024	$ 16,286,269	$ 29,269,821	$ 58,604,114
Investment return:				
Investment income	1,240	10,721	-	11,961
Net gains	1,374,805	4,694,443	-	6,069,248
Investment fees	(10,853)	(38,168)	-	(49,021)
Total investment return	1,365,192	4,666,996	-	6,032,188)
Contributions and other additions	-	-	1,502,171	1,502,171
Operations draw	(295,114)	-	-	(295,114)
Appropriation of endowment assets for expenditure	-	(1,710,834)	-	(1,710,834)
Pledge adjustments	-	-	-	-
Reclassifications	-	-	-	-
Endowment Net Assets, June 30, 2013	$ 14,118,102	$ 19,242,431	$ 30,771,992	$ 64,132,525

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	$ 13,498,185	$ 18,672,757	$ 28,747,028	$ 60,917,970
Investment return:				
Investment income	4,586	19,340	-	23,926
Net loss - realized and unrealized	(192,372)	(502,769)	-	(695,141)
Investment fees	(51,212)	(162,709)	-	(213,921)
Total investment return	(238,998)	(646,138)	-	(885,136)
Contributions and other additions	-	-	1,111,681	1,111,681
Operations draw	(486,180)	-	-	(486,180)
Appropriation of endowment assets for expenditure	-	(1,479,819)	-	(1,479,819)
Pledge adjustments	14,486	-	(588,888)	(574,402)
Reclassifications	260,531	(260,531)	-	-
Endowment Net Assets, June 30, 2012	$ 13,048,024	$ 16,286,269	$ 29,269,821	$ 58,604,114

NOTE 13 – RETIREMENT PLAN

The College has a 403(b) retirement plan for qualified employees. The College contributes 11.5% of participating employees' annual salaries employed prior to September 1, 2004. For employees hired after August 31, 2004, the College contributes 10% of participating employees' annual salaries. The expense for the retirement plan for the years ended June 30, 2013 and 2012 amounted to $2,430,268 and $2,284,344, respectively.

NOTE 14 – RELATED PARTY TRANSACTIONS

During the normal course of business, the College purchases various supplies and services from companies associated with Board members which approximated $3,920,577 and $5,000,767 for the years ended June 30, 2013 and 2012, respectively.

In addition, the College has recorded revenue related to pledges receivable from employees and trustees. As of June 30, 2013 and 2012, pledges receivable due from employees and trustees amounted to approximately $177,650 and $283,401, respectively.

NOTE 15 – EXPENSES

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

	2013	2012
Salaries and benefits	$ 38,583,795	$ 36,225,142
Auxiliary cost of sales	3,110,354	3,080,843
Depreciation and amortization	3,907,378	3,882,455
Interest on indebtedness	2,272,498	2,469,456
Equipment repair and maintenance	3,593,410	3,208,565
Utilities	1,957,832	2,198,507
Student employees	1,687,856	1,647,904
Professional services	1,337,220	1,160,333
Other	9,065,780	9,907,169
Totals	$ 65,516,123	$ 63,780,374

NOTE 15 – EXPENSES (cont.)

Expenses by functional classification for the years ended June 30 were:

	2013	2012
Educational and general		
Instruction	$ 28,956,510	$ 26,745,528
Academic support	2,158,240	2,557,461
Student services	9,135,147	8,636,945
Institutional support	15,763,130	16,266,652
Auxiliary enterprises	9,503,096	9,573,796
Totals	$ 65,516,123	$ 63,780,374

NOTE 16 – CONTINGENCIES AND COMMITMENTS

The College has further capital commitments for investments of $3,667,309 and $4,491,793 at June 30, 2013 and 2012, respectively.

Various lawsuits, claims and other contingent liabilities arise in the ordinary course of the College's educational activities. While the ultimate disposition of such contingencies is not determinable at this time, management believes that any liability resulting from these will not materially affect the financial position of the College as of June 30, 2013.

NOTE 17– SUBSEQUENT EVENTS

The College evaluated its June 30, 2013 financial statements for subsequent events through October 28, 2013, the date the financial statements were issued.