ROLLINS COLLEGE

Consolidated Financial Statements

Years Ended
May 31, 2012 and 2011

ROLLINS COLLEGE

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CHERRY BEKAERT& HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' Report

To the Board of Trustees of Rollins College
Winter Park, Florida

We have audited the accompanying consolidated statements of financial position of Rollins College (the "College") as of May 31, 2012 and 2011 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the College as of May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cherry, Bekaert & Holland, L.L.P.

Orlando, Florida
September 13, 2012

CONSOLIDATED FINANCIAL STATEMENTS

ROLLINS COLLEGE
Consolidated Statements of Financial Position
May 31, 2012 and 2011

	May 31, 2012	May 31, 2011
Assets:	(In Thousands)	
Cash and cash equivalents	$ 47,786	$ 25,862
Cash restricted to payment of bond interest	587	-
Student receivables, less allowance for losses of $553 and $408, respectively	1,441	1,010
Contributions receivable	20,960	17,492
Remainder interest in charitable trusts	2,327	2,124
Loans to students, less allowance for losses of $149 and $149, respectively	1,713	1,608
Long-term investments	317,668	341,238
Investment in commercial properties, net	14,333	15,072
Land, buildings, equipment, and books, less accumulated depreciation	141,787	134,553
Unamortized bond issue costs	1,547	1,556
Non-student receivables and other assets	3,554	6,653
Investments held in trust by others	15,030	16,958
Total assets	**$ 568,733**	**$ 564,126**
Liabilities and net assets:		
Accounts payable	$ 3,620	$ 2,611
Accrued and other expenses	5,790	5,384
Agency funds and deposits	259	255
Deferred revenues	2,177	2,494
Advances from federal government for student loans	1,399	1,399
Annuity and life income payable	2,174	3,316
Interest rate swap liability	5,413	3,736
Long-term debt	135,006	104,771
Total liabilities	155,838	123,966
Net assets		
Unrestricted	119,149	140,489
Temporarily restricted	100,858	104,552
Permanently restricted	192,888	195,119
Total net assets	412,895	440,160
Total liabilities and net assets	**$ 568,733**	**$ 564,126**

See accompanying notes.

ROLLINS COLLEGE
Consolidated Statement of Activities
Year Ended May 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Operating revenues:				
Tuition and fees	$ 93,880	$ -	$ -	$ 93,880
Less scholarships allowances	(32,772)	-	-	(32,772)
Net tuition and fees	61,108	-	-	61,108
Gifts and private grants	2,852	2,896	-	5,748
Federal and state grants	-	1,171	-	1,171
Appropriation of endowment assets for expenditure	7,747	7,847	-	15,594
Investment income	2,350	674	-	3,024
Auxilliary enterprise revenues	15,953	-	-	15,953
Other sources	2,459	40	-	2,499
Net assets released from restrictions:				
Scholarships	4,332	(4,332)	-	-
Educational and general	7,177	(7,177)	-	-
Total operating revenues	103,978	1,119	-	105,097
Operating expenses:				
Instruction	37,315	-	-	37,315
Academic support	12,344	-	-	12,344
Student services	17,788	-	-	17,788
Institutional support	20,500	-	-	20,500
Public service	1,697	-	-	1,697
Auxilliary enterprises	22,153	-	-	22,153
Total operating expenses	111,797	-	-	111,797
Increase (decrease) in net assets from operating activities	(7,819)	1,119	-	(6,700)
Non-operating activities:				
Gifts and private grants	-	7,781	2,006	9,787
Endowment income and other investment income	(11,549)	(12,943)	(4,051)	(28,543)
Loss on early extinguishment of debt	(539)	-	-	(539)
Other gains & losses	244	(218)	(83)	(57)
Change in fair value of swap agreement	(1,677)	-	-	(1,677)
Change in present value of split interest agreements	-	567	(103)	464
Decrease in net assets from nonoperating activities	(13,521)	(4,813)	(2,231)	(20,565)
Change in net assets	(21,340)	(3,694)	(2,231)	(27,265)
Net assets at beginning of year	140,489	104,552	195,119	440,160
Net assets at end of year	**$ 119,149**	**$ 100,858**	**$ 192,888**	**$ 412,895**

See accompanying notes.

ROLLINS COLLEGE
Consolidated Statement of Activities
Year Ended May 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Operating revenues:				
Tuition and fees	$ 90,490	$ -	$ -	$ 90,490
Less scholarships allowances	(30,617)	-	-	(30,617)
Net tuition and fees	59,873	-	-	59,873
Gifts and private grants	2,423	1,203	-	3,626
Federal and state grants	-	1,107	-	1,107
Appropriation of endowment assets for expenditure	6,839	7,560	-	14,399
Investment income	2,425	635	-	3,060
Auxilliary enterprise revenues	15,122	-	-	15,122
Other sources	2,195	137	-	2,332
Net assets released from restrictions:				
Scholarships	4,399	(4,399)	-	-
Educational and general	6,834	(6,834)	-	-
Total operating revenues	100,110	(591)	-	99,519
Operating expenses:				
Instruction	37,116	-	-	37,116
Academic support	11,556	-	-	11,556
Student services	17,052	-	-	17,052
Institutional support	19,514	-	-	19,514
Public service	1,890	-	-	1,890
Auxilliary enterprises	20,961	-	-	20,961
Total operating expenses	108,089	-	-	108,089
Decrease in net assets from operating activities	(7,979)	(591)	-	(8,570)
Non-operating activities:				
Gifts and private grants	272	12,527	2,124	14,923
Endowment income and other investment income	16,751	22,323	4,763	43,837
Other gains & losses	128	(621)	56	(437)
Change in fair value of swap agreement	(56)	-	-	(56)
Change in present value of split interest agreements	-	7	101	108
Net assets released from restrictions for property, plant and equipment	1,516	(1,516)	-	-
Other	78	-	-	78
Increase in net assets from nonoperating activities	18,689	32,720	7,044	58,453
Change in net assets	10,710	32,129	7,044	49,883
Net assets at beginning of year	129,779	72,423	188,075	390,277
Net assets at end of year	**$ 140,489**	**$ 104,552**	**$ 195,119**	**$ 440,160**

See accompanying notes.

ROLLINS COLLEGE
Consolidated Statements of Cash Flows
May 31, 2012 and 2011

	2012	2011
	(In Thousands)	
Operating activities:		
Change in net assets	$ (27,265)	$ 49,883
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized losses (gains) on investments	27,585	(55,713)
Depreciation	11,141	11,104
Loss on disposal of fixed assets	-	133
Loss on early extinguishment of debt	539	-
Amortization	281	291
Contributions restricted for long-term investment and plant acquisition	(7,179)	(11,970)
(Increase) decrease in receivables and other assets:		
Student receivables	(536)	739
Contributions receivable	(3,468)	(9,361)
Remainder interest in charitable trusts	(203)	(149)
Non-student receivables and other assets	2,917	(2,361)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,785	(651)
Deferred revenues and advances	(312)	282
Annuity and life income payable	(1,142)	(6)
Interest rate swap liability	1,677	56
Net cash flows provided by (used in) operating activities	5,820	(17,723)
Investing activities:		
Proceeds from sales and maturities of investments	268,439	210,005
Purchases of investments	(270,526)	(200,486)
Purchases of land, buildings, equipment, and books	(17,896)	(13,353)
Net cash flows used in investing activities	(19,983)	(3,834)
Financing activities:		
Payments on bonds	(18,301)	(1,186)
Proceeds from issuance of bonds	47,796	-
Contributions restricted for long-term investment and facility acquisition	7,179	11,970
Net cash flows provided by financing activities	36,674	10,784
Net change in cash and cash equivalents	22,511	(10,773)
Cash and cash equivalents – beginning of year	25,862	36,635
Cash and cash equivalents – end of year	$ 48,373	$ 25,862
Supplemental information:		
Interest expensed and paid	$ 7,288	$ 6,630

See accompanying notes.

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies

Summary of Organization

Rollins College (the College) is an independent, nonsectarian college established in 1885. It is fully accredited by the Southern Association of Colleges and Schools. The College is a not-for-profit corporation under both federal and state rules. The College fulfills its educational mission through three major programs: the Arts and Science division offers a full-time program leading to a liberal arts degree; the Crummer Graduate School of Business offers full and part-time programs leading to graduate degrees; the Hamilton Holt School offers evening and weekend programs leading to undergraduate and graduate degrees in liberal arts and several specialized areas.

The accompanying financial statements include the consolidated statements of the College and Holt Properties, L.L.C., for which the College is the sole member. All material intercompany balances and transactions have been eliminated.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

The accompanying consolidated statements of activities report the change in unrestricted, temporarily restricted and permanently restricted net assets, distinguishing between operating and non-operating activities. Operating revenues consist of all the activity of the College except for certain items specifically considered to be of a non-operating nature. Non-operating activities include contributions for endowment, contributions and other activity related to annuity and unitrust agreements, endowment income, gains and losses—net of amounts appropriated to support operations in accordance with the College's spending policy, changes in the fair value of the interest rate swap agreements, and certain other unusual or non-recurring items.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College are classified according to the following categories:

- **Permanently restricted net assets**—Net assets subject to donor-imposed stipulations to be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the earnings on related investments for general or specific purposes.

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

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

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Revenues from sources other than restricted contributions and investment earnings are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Expenses are reported by program classifications. Certain expenses are allocated among programs by management based on estimates of square footage utilized and estimates of percentage of assets utilized.

Revenue Recognition and Release of Restrictions

Tuition and Fees

Tuition and fees are recorded net of scholarship allowances. Scholarship allowances are provided from earnings on restricted funds, certain board-designated endowments, and through unfunded discounts. Tuition payments made prior to the consolidated statement of financial position date for terms that will be in the future are recorded as deferred revenues.

Contributions

Contributions, which include unconditional promises to give, are reported as increases in unrestricted net assets unless use of the related assets is limited by explicit donor stipulation or by the passage of time. Contributions are recognized as revenues in the period an unconditional promise is made or a gift is received, net of a reserve for uncollectible amounts. Contributions to be received after one year are discounted using the appropriate risk-free rate and amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contribution.

The College is the irrevocable remainder beneficiary of several forms of split-interest agreements, including charitable remainder trusts, charitable gift annuities, and pooled income agreements. Unless the donor has stipulated a permanent restriction on the use by the remainder man, contributions to these trusts are reported as increases in temporarily restricted net assets. The amount of contribution revenue recognized is reduced by an actuarial estimate of the trust's liability for payments to an intermediate income beneficiary (or beneficiaries) over the term of the trust.

Investment Income or Loss

Investment income or loss includes (a) interest, dividends, and realized and unrealized gains and losses on investments controlled by the College, (b) net income derived from commercial property investments, (c) income received from, and changes in the fair value of, investments held in trusts by others, and (d) changes in valuation of alternative investments based on net asset value. In the absence of explicit donor stipulations for its use, investment income is reported as an increase in unrestricted net assets. Change in the fair value of investments held in trust by others is reported as permanently restricted investment income or loss, consistent with the classification of underlying assets.

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Auxiliary Enterprises

Auxiliary enterprises exist to furnish goods or services to students, faculty, staff, other institutional departments, or incidentally to the general public. A fee is charged for the goods or services, which may or may not equal the costs of the goods or services. Residence halls and food services make up the majority of auxiliary revenues. These revenues are recorded as earned.

Release from Restrictions

Temporary restrictions on net assets expire when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed. Donor-restricted contributions in which the restrictions are satisfied in the same reporting period in which the contribution is received are classified as temporarily restricted. Typically, temporary restrictions expire when assets are expended in accordance with donor instructions. Temporary restrictions on contributions made for the acquisition of long-lived assets are released when the stipulated assets are placed in service. Temporary restrictions also expire upon termination of a split-interest gift agreement, which does not contain restrictions on the use of the remainder assets. These events are reported as net assets released from restrictions on the consolidated statements of activities.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments that are not designated as long-term investments and with an original maturity of less than three months.

Contributions Receivable

Contributions receivable includes unconditional promises to give and bequests that have cleared probate, when information regarding the College's interest in a devise is deemed reasonably sufficient to form the basis for an accrual. Conditional promises to give are not recognized until the stipulated conditions are substantially met.

From time to time, the College is informed of intentions to give by prospective donors. Such expressions of intent are revocable and unenforceable. The ultimate values of these intentions have not been established nor have they been recognized in the accompanying consolidated financial statements.

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Land, Building, Equipment, and Books, Less Accumulated Depreciation

Long-lived assets are stated at cost if purchased or at fair value on the date of gift if acquired by contribution. The College's policy is to capitalize assets acquired for greater than $5,000. Depreciation is recognized on a straight-line basis over the estimated useful life of each major category of assets. These estimated useful lives are summarized in the following table:

Buildings	30-50 years
Improvements to land and buildings	5-10 years
Computers and software	3-10 years
Furniture, fixtures, equipment, and library books	7-20 years

Tenant improvements made to commercial properties are amortized over the term of the respective underlying lease.

Unamortized Bond Issue Costs

The costs relating to issuance of bonds are capitalized at the time of issue and are amortized using the straight-line method over the term of the related bonds.

Investments Held in Trust by Others

Investments held in trust by others represent resources neither in the possession nor under the control of the College, but held and administered by an outside party, with the College deriving income from such funds. The fair value of the College's share of investments held in trust by others is reflected in the consolidated statement of financial position and the income, including fair value adjustments, is recorded in the consolidated statement of activities.

Annuity and Life Income Payable

The College is the irrevocable remainder beneficiary for several forms of split-interest agreements, including charitable remainder trusts, charitable gift annuities, and pooled income agreements. In agreements where the College is trustee of the assets, the actuarial present value of the trust's liability for payments to an intermediate income beneficiary (or beneficiaries) over the term of the trust is recorded as annuity and life income payable. The College was trustee in 94 agreements at May 31, 2012, and 91 agreements at May 31, 2011. The ranges of discount and payout rates are detailed below:

Split-Interest Type	Number	Payout Rates	Discount Rates
Charitable Gift Annuities	77	6.0% - 18.2%	1.4% - 10.0%
Annuity Trusts	2	7.2% - 8.0%	6.2% - 7.6%
Unitrusts	5	6.0% - 7.0%	4.4% - 10.0%
Pooled Income Funds	10	N/A	N/A

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties. The College estimates the fair value of financial instruments using the hierarchical framework described below, segregated by Level I, Level II, and Level III for financial assets and liabilities that are measured and reported on a fair value basis.

Level I - Securities traded in an active market with available quoted prices for identical assets as of the reporting date.

Level II - Securities not traded on an active market but for which observable market inputs are readily available or Level I securities where there is a contractual restriction as of the reporting date. Level II also includes alternative investments for which the College has the ability to redeem in the near term.

Level III - Securities not traded in an active market and for which no significant observable market inputs are available as of the reporting date.

The fair values of *cash and cash equivalents, student receivables,* and *loans to students* of College funds are believed to approximate the carrying value of these instruments because of their short maturities. The carrying value of student receivables and loans to students of College funds has been reduced by an allowance for losses, based on historical collections experience.

The fair value of *contributions receivable* is believed to approximate carrying value and is calculated at the net present value of anticipated future cash flows reduced by an allowance for uncollectible contributions. (See Note 2.)

The carrying amount of *loans to students* under government loan programs approximates fair value because they consist of variable-rate loans and therefore reflect current market rates for loans with similar maturities and credit quality.

Investments in commercial properties are valued at cost, less accumulated depreciation.

The fair value of *remainder interest in charitable trusts* is determined based on the fair value of underlying net assets, in accordance with the Level III classification described in Note 1, as adjusted using the net present value of the College's remainder interest. The calculation incorporates the actuarial lifespan of the youngest intermediate income beneficiary, discounted by the beneficiary income rate provided by the trust agreement.

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

The carrying amount of *bonds payable* with variable interest rates approximates fair value, because the variable rates reflect current market rates for bonds with similar maturities and credit quality. (See Note 10.)

The fair value of *bonds payable* with fixed interest rates is calculated by comparing the stated yield to current market yield and imputing a value that approximates what a purchaser would reasonably pay for a similar bond given current interest rates. (See Note 10.)

The interest rate swap agreement is reflected at fair value and is based on the estimated amount the College would receive or pay to terminate the swap agreement. (See Note 11.)

Artwork and Collections

The College does not record or capitalize its collections of works of art, historical treasures, or similar assets. These collections are held for public exhibition, education, and research in furtherance of the College's educational and public service mission. The collections are appropriately cared for and preserved and are subject to a College policy that requires the proceeds from sales, if any, of collection items to be used to acquire other items for the collection.

Income Taxes

The College has been recognized by the Internal Revenue Service as an organization exempt from federal income taxation under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code on related income and continues to meet the criteria to be recognized as such. Accordingly, no provision for income taxes is made in the consolidated financial statements.

The College's policy is to record a liability for any tax position taken that is beneficial to the College, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of May 31, 2012 or 2011 and, accordingly, no liability has been accrued.

The IRS generally subjects federal income tax returns to examinations for a period of three years after the returns were filed. For the College this would include returns for the 2011, 2010 and 2009 fiscal years.

Advertising Costs

The College expenses advertising costs as incurred. The College expended $892,000 and $995,000 for advertising for the years ended May 31, 2012 and 2011, respectively.

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Accrued Compensation

The College accrued for vacation pay and all other compensation earned but not paid. These items are included in accrued expenses and other liabilities in the consolidated statements of financial position.

Use of Estimates

The preparation of financial consolidated statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain 2011 balances have been reclassified to conform to the financial statement presentation used in 2012.

Subsequent Events

Subsequent events have been evaluated through September 13, 2012, which is the date of the independent auditors' report.

2. Contributions Receivable

Contributions receivable at May 31, 2012 and 2011 includes the following unconditional promises (in thousands):

	2012	2011
Contributions receivable, gross	**$ 22,948**	$ 19,534
Allowance for uncollectibles	**(1,269)**	(1,006)
	21,679	18,528
Discount	**(719)**	(1,036)
Contributions receivable, net	**$ 20,960**	$ 17,492

The allowance for uncollectible contributions is based upon management's judgment and analysis of contributions receivable, past collection experience, and other relevant factors that bear on the ultimate collectability of outstanding amounts. Changes to the allowance relating to pledges that are restricted are reported as other losses. Unrestricted changes are reported as institutional support expense.

2. Contributions Receivable (continued)

The discount is calculated using a risk-free rate as determined by the rate on U.S. Treasury Bills, applied to the following schedule of payments due during each fiscal year ending May 31 (in thousands):

2013	**$ 7,730**
2014	**3,075**
2015	**3,828**
2016	**2,815**
2017	**5,500**
Contributions receivable	**$ 22,948**

3. Remainder Interest in Charitable Trusts

Remainder interest in charitable trusts represents assets held in trust by others for which the College is irrevocably designated as remainder. The value of these assets is determined based on Level III criteria defined in Note 1 and is discounted based on the actuarial life expectancy of the intermediate beneficiary, according to the rate established in the trust agreement. The College recognizes changes for these trusts in actuarial estimates in the consolidated statement of activities.

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level III, in thousands):

	Level III Investments Year Ended May 31	
	2012	2011
Opening Balance	**$ 2,124**	$ 1,975
Change in present value of split interest agreements	**(115)**	172
Additions	**339**	-
Maturities/Distributions	**(21)**	(23)
Transfers in and/or out of Level III	**-**	-
Ending Balance	**$ 2,327**	$ 2,124
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 relating to assets still held at the reporting date	**$ (115)**	$ 172

4. Loans to Students

The College makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At May 31, 2012 and 2011, student loans represented .30% and .28% of total assets, respectively.

	in thousands	
	2012	2011
Federal Government Programs	**$ 1,609**	$ 1,460
Institutional Programs	**253**	297
	1,862	1,757
Less Allowance for Doubtful Accounts:		
Beginning of Year	**(149)**	(139)
Increases	**-**	(10)
End of Year	**(149)**	(149)
Student Loans Receivable, net	**$ 1,713**	$ 1,608

Allowances for doubtful accounts were 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. Institutional loan balances were written off only when they are deemed to be permanently uncollectible. Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program. At May 31, 2012 and 2011, the following amounts were past due under the student loan programs (in thousands):

	in thousands			
May 31,	1-60 days past due	60-90 days past due	90+days past due	Total past due
2012	**$2**	**1**	**146**	**$149**
2011	$1	2	146	$149

Loans to students include participation 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 $1,399,000 at May 31, 2012 and 2011 are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

5. Cash and Cash Equivalents, and Investments

The College invests cash in excess of daily requirements in money market and other short-term funds with maturities of three months or less. Due to long-term investment managers represents cash that, by donor designation, must be invested in the College's endowment.

Cash and cash equivalents consisted of the following at May 31 (in thousands):

	2012	2011
Cash in banks and money market funds	**$ 46,406**	$ 25,766
Due to long-term investment managers	**1,300**	96
Total cash and cash equivalents	**$ 47,706**	$ 25,862

Deposit Insurance

The College places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers $250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction accounts. During the year, the College had amounts on deposit in excess of the insured limits. As of May 31, 2012 and 2011, the College had on deposit $44 million and $20 million, respectively, which exceeded these insured amounts.

5. Cash and Cash Equivalents, and Investments (continued)

Investments

Investments consist of long-term assets controlled by the College. These assets are managed in the College endowment pool, are separately invested, or represent the investment of assets held in trust under split-interest gift agreements. Investments also include a reserve established for future debt service payments.

The investments of the College are reflected in the accompanying consolidated financial statements at fair value, as determined based on the fair value hierarchy discussed in Note 1. Fair value for alternative investments is calculated based on the net asset value of underlying assets as determined by the market approach for respective investment funds, consisting of hedge funds, open-ended private real estate investment trusts, closed-end private real estate investment funds and private equity funds.

Private Equity

At May 31, 2012, the College was invested in 12 private equity funds, which include equity buyouts, venture capital, natural resources investment funds, and special situations. As of May 31, 2012, remaining uncalled commitments approximated $9,459,000.

Hedge Funds

As of May 31, 2012, the College was invested in 13 hedge fund managers, collectively pursuing a widely diversified group of investment strategies. The broad investment strategies include long/short equity positions, long/short credit positions, investments in distressed equity and debt, and short credit. No hedge fund manager represented more than 3% of the value of the total Endowment investment portfolio. The College is not obligated to make additional investments with any of its hedge fund managers. The College has the ability to redeem its investment with each manager at varying intervals ranging from full redemptions every two years on 90 days notice to full redemption every three years with 60 days notice.

Real Assets and Real Estate and Other

As of May 31, 2012, the College was invested in four open-ended private real estate investment trusts and closed-end private real estate investment funds, with no investment representing more than 1% of the total Endowment investment portfolio. The College is obligated to make additional investments to its real estate trusts and funds at an amount substantially less than 1% of the total value of the Endowment investment portfolio. As of May 31, 2012, redemptions from the open-ended private real estate investment trusts had been suspended due to market factors. For the private real estate investments, the remaining dollar amount of commitments was, as of May 31, 2012, $76,000.

5. Cash and Cash Equivalents, and Investments (continued)

On May 31, the investment portfolio included the following assets (in thousands):

	2012			
	Endowment Pool	Separately Managed	Other	2012 Total
Level I:				
Short-term investments in US money market funds	$ 2,802	$ 284	$ -	$ 3,086
Domestic equities	31,251	1,738	-	32,989
Equity mutual funds:			-	
Domestic	59,377	1,263	-	60,640
International	61,915	-	-	61,915
Fixed income mutual funds	51,331	704	-	52,035
Total Level I	206,676	3,989	-	210,665
Level II:				
US treasuries and agencies	4,038	-	-	4,038
Total Level II	4,038	-	-	4,038
Level III:				
Private Equity	24,099	-	-	24,099
Hedge Funds	56,870	-	-	56,870
Real Assets	16,761	-	-	16,761
Real Estate and Other	-	465	-	465
Split Interest Trusts	-	-	4,770	4,770
Total Level III	97,730	465	4,770	102,965
Total investments	$ 308,444	$ 4,454	$ 4,770	$ 317,668

	2011			
	Endowment Pool	Separately Managed	Other	2011 Total
Level I:				
Short-term investments in US money market funds	$ 2,057	$ 140	$ -	$ 2,197
Domestic equities	21,719	1,521	-	23,240
Equity mutual funds:			-	
Domestic	70,060	1,126	-	71,186
International	80,749	820	-	81,569
Fixed income mutual funds	60,032	924	-	60,956
Total Level I	234,617	4,531	-	239,148
Level III:				
Private Equity	21,908	-	-	21,908
Hedge Funds	60,302	-	-	60,302
Real Assets	14,136	-	-	14,136
Real Estate and Other	-	485	-	485
Split Interest Trusts	-	-	5,259	5,259
Total Level III	96,346	485	5,259	102,090
Total investments	$ 330,963	$ 5,016	$ 5,259	$ 341,238

5. Cash and Cash Equivalents, and Investments (continued)

Level I investments consist of short-term investments, domestic equities, and equity in mutual funds. Level III investments consist of private equity, hedge funds, real/tangible assets and real estate and other investments.

The following tables present a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level III, in thousands):

	Level III Investments Year Ended May 31, 2012					
	Private Equity	Hedge Funds	Real Assets	RE & Other	Split Interest Trusts	Total
Opening Balance	$ 21,908	$ 60,302	$ 14,136	$ 485	$ 5,259	$102,090
Total gains or losses (realized and unrealized) included in changes in net assets	1,226	307	2,290	-	-	3,823
Purchases	6,713	3,739	2,222	-	-	12,674
Sales	(5,748)	(7,478)	(1,887)	(20)	-	(15,133)
Change in present value of split interest trusts	-	-	-	-	(489)	(489)
Transfers in and / or out of Level III	-	-	-	-	-	-
Ending Balance	$ 24,099	$ 56,870	$ 16,761	$ 465	$ 4,770	$102,965
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 relating to assets still held at the reporting date	$ 269	$ 747	$ 1,713	$ -	$ -	$ 2,729

	Level III Investments Year Ended May 31, 2011					
	Private Equity	Hedge Funds	Real Assets	RE & Other	Split Interest Trusts	Total
Opening Balance	$ 19,770	$ 64,254	$ 11,073	$ 400	$ 5,354	$100,851
Total gains or losses (realized and unrealized) included in changes in net assets	1,576	5,821	2,339	-	-	9,736
Purchases	7,407	9,773	2,960	100	-	20,240
Sales	(6,845)	(19,546)	(2,236)	(15)	-	(28,642)
Change in present value of split interest trusts	-	-	-	-	(95)	(95)
Transfers in and / or out of Level III	-	-	-	-	-	-
Ending Balance	$ 21,908	$ 60,302	$ 14,136	$ 485	$ 5,259	$102,090
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 relating to assets still held at the reporting date	$ 86	$ 5,708	$ 2,110	$ -	$ -	$ 7,904

5. Cash and Cash Equivalents, and Investments (continued)

Investment Income (in thousands)

	May 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends:				
Cash in bank	$ 63	$ 8	$ -	$ 71
Net income from real property investments	1,295	-	-	1,295
Endowment pool	1,603	2,697	1,147	5,447
Income from perpetual trusts	162	557	-	719
	3,123	3,262	1,147	7,532
Realized gain on investments	3,430	5,593	2,454	11,477
Unrealized gain on investments	(7,632)	(12,662)	(7,390)	(27,684)
Investment management fees	(373)	(615)	(262)	(1,250)
Net investment income	$ (1,452)	$ (4,422)	$ (4,051)	$ (9,925)

	May 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends:				
Cash in bank	$ 228	$ -	$ -	$ 228
Net income from real property investments	1,303	-	-	1,303
Endowment pool	2,012	2,382	196	4,590
Income from perpetual trusts	77	559	-	636
	3,620	2,941	196	6,757
Realized gain on investments	6,073	7,361	635	14,069
Unrealized gain on investments	16,826	20,841	3,984	41,651
Investment management fees	(504)	(625)	(52)	(1,181)
Net investment income	$ 26,015	$ 30,518	$ 4,763	$ 61,296

Net investment income is presented on the Consolidated Statement of Activities as appropriation of endowment assets for expenditure, investment income, and endowment income and other investment income.

Investments in the College's endowment pool are managed utilizing the total return concept, which includes interest and dividends (yield) and appreciation. The College has adopted an endowment pool spending policy designed to stabilize annual endowment income available for operations, while preserving the real value of the underlying principal. In years when yield exceeds the amount appropriated under the spending policy, the excess is returned to principal as appreciation. When annual yield is insufficient to support spending appropriations, the balance is provided from accumulated appreciation.

A significant portion of the College's investments consist of REITs, hedge funds, and private equity. Management relies on various factors to estimate the fair value of these investments. Management believes its processes and procedures for valuing investments are effective, and that its estimate of value is reasonable. However, the factors used by management are subject to change in the near term, and accordingly, investment values and performance can be affected. The effect of these changes could be material to the consolidated financial statements.

6. Investment in Commercial Properties

Investment in commercial properties includes the real property and operating assets associated with SunTrust Plaza and the Lawrence Center, retail/office developments located in downtown Winter Park. Investment in these properties excludes a reduction for long-term debt issued to finance the acquisition of these assets; the payment of principal and interest on this obligation is secured by a pledge of the general resources of the College. Please refer to Note 10 for further comment. Investment in commercial properties valued at historical cost includes the following at May 31 (in thousands):

	2012	2011
Property, plant, and equipment:		
Property, plant, and equipment in service	**$ 22,946**	$ 22,782
Accumulated depreciation	**(8,620)**	(7,977)
Cash and cash equivalents	**503**	328
Unamortized prepaid expenses	**235**	299
Accounts payable and accrued expenses	**(524)**	(158)
Unearned income	**(207)**	(202)
Investment in commercial properties, net	**$ 14,333**	$ 15,072

Depreciation expense charged to commercial properties was $643,000 and $743,000 for the years ended May 31, 2012 and 2011, respectively.

7. Land, Buildings, Equipment, and Books

The following is a summary of land, buildings, equipment, and books supporting the educational activities of the College, as of May 31 (in thousands):

	2012	2011
Land and land improvements	**$ 38,353**	$ 35,777
Buildings	**140,850**	136,498
Equipment	**40,702**	38,199
Library books	**4,316**	4,316
Construction in progress	**10,988**	2,763
	235,209	217,533
Less accumulated depreciation	**(93,422)**	(83,000)
	$ 141,787	$ 134,553

Depreciation expense charged was $10,498,000 and $10,361,000 for years ended May 31, 2012 and 2011, respectively.

7. Land, Buildings, Equipment, and Books (continued)

The College writes off certain building improvements when the underlying facilities are subjected to significant renovations, the majority of which consists of renovation projects that are fully depreciated or almost fully depreciated. There were no such write offs for the year ended May 31, 2012. For the year ended May 31, 2011, these write offs had an aggregate cost of $868,000 with associated accumulated depreciation of $763,000.

8. Investments Held in Trust by Others

Investments held in trust by others represent assets held in trust by outside trustees for which the College is irrevocably designated as the remainder. The value of these assets is determined based on Level III criteria defined in Note 1. The College generally receives an annual spending amount from these trusts as determined by the trustees. Distributions are recorded as Income from perpetual trusts and are detailed in Note 5. Other changes in value are recorded as unrealized gain or loss on investments and are also shown in Note 5.

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level III, in thousands):

	Level III Investments Year Ended May 31	
	2012	2011
Opening Balance	**$ 16,958**	**$ 14,727**
Unrealized Gains (Losses)	**(1,421)**	**2,649**
Distributions	**(507)**	**(418)**
Ending Balance	**$ 15,030**	**$ 16,958**
The amount of total gains and losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	**$ (1,421)**	$ 2,649

9. Employee Retirement

Retirement benefits are provided through a defined contribution plan with either Fidelity Tax Exempt Services or the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Vesting provisions are full and immediate under this plan. Contribution amounts are determinable by the Board as it deems appropriate. For the years ended May 31, 2012 and 2011, the College contributed 7%, 8%, 9%, or 10% of compensation to the plan on behalf of employees who contributed, respectively, 0%, 1%, 2%, or 3% or more of their compensation voluntarily to the plan. Expenses related to the above plan amounted to $3,461,000 and $3,390,000 for the years ended May 31, 2012 and 2011, respectively.

10. Long-Term Debt

Bonds and notes payable include the following at May 31 (in thousands):

	Interest Rate	Maturity Dates	Balance at May 31		Fair Value at May 31	
			2012	2011	**2012**	2011
Bonds Payable						
Orange County Educational Facilities Authority - 2002 Bonds	Fixed - (5.25%)	n/a	**$ -**	$ -	**$ -**	$ 17,994
Orange County Educational Facilities Authority - 2007 Bonds	Fixed - (5.20%)	2013-2037	**23,690**	24,145	**25,858**	25,012
Taxable Revenue Bonds Series 2010	Fixed - (5.95%)	2013-2026	**25,830**	25,830	**29,254**	26,917
Non-Taxable HEFFA Bonds 2010 Loan	Fixed - (4.93%)	2016-2038	**37,545**	37,545	**40,889**	37,550
Non-Taxable HEFFA Bonds 2012 Loan (A&B)	Fixed - (4.40%)	2013-2037	**46,990**	-	**48,718**	-
Capital Lease Payable	Fixed - (2.91%)	2013-2014	**773**	1,089	**-**	-
Principal Due			**134,828**	106,139	**144,719**	107,473
Premium on 2007 Non-Taxable OCEFA Bonds			**390**	416	**-**	-
Discount on 2010 Taxable Bonds			**(1,238)**	(1,364)	**-**	-
Discount on 2010 Non-Taxable HEFFA Bonds			**(401)**	(420)	**-**	-
Premium on 2012 Non-Taxable HEFFA Bonds			**1,427**	-	**-**	-
TOTAL			**$ 135,006**	$ 104,771	**$ 144,719**	$ 107,473

10. Long-Term Debt (continued)

In March 2012, the College borrowed $29,505,000 funded by the issuance of Higher Educational Facilities Financing Authority Revenue Bonds (HEFFA), Series 2012A. The proceeds of this issuance are for the renovation, expansion and improvements of two College buildings, the construction of two new residential halls and various capital infrastructure improvements called for in the College's master plan. The bonds mature between 2013 and 2037 and carry a weighted average fixed rate of interest of 4.40%. Under the terms of the loan agreement with HEFFA, the College is responsible for payment of principal and interest on the bonds. Payment of the principal and interest is secured by a pledge of College resources. These bonds are subordinate with regard to repayment to the College's outstanding Orange County Educational Facilities Authority (OCEFA) Series 2007 Bonds.

Concurrent with the HEFFA Series 2012A Bond financing, the College issued an additional $17,485,000 of HEFFA Series 2012B Bonds. The proceeds of this issuance will be utilized for the refunding of the College's OCEFA Series 2002 Bonds, fixed rate bonds carrying a weighted average rate of interest of 5.25%. The OCEFA Series 2002 Bonds are not callable until December 2012. The proceeds from this issuance were placed in escrow with the College's Bond Trustee, US Bank (Trustee). As of May 31, 2012, the Trustee held assets of $18,086,000 which will be used to redeem the OCEFA Series 2002. The assets held by the Trustee are invested in Short Term US Treasury Time Deposits. Management believes these resources are sufficient to redeem the OCEFA Series 2002 Bonds principal and accrued interest; therefore, neither the assets held by the Trustee or the liability related to the OCEFA Series 2002 Bonds are shown as assets or liabilities of the College in the accompanying Statement of Financial Position as of May 31, 2012. The HEFFA Series 2012B Bonds carry a weighted average fixed rate of interest of 3.25% and mature between 2013 and 2032. Under the terms of the loan agreement with HEFFA, the College is responsible for payment of principal and interest on the bonds. Payment of the principal and interest is secured by a pledge of College resources. These bonds are subordinate with regard to repayment to the College's outstanding OCEFA Series 2007 Bonds.

In April 2010, the College borrowed $25,830,000 funded by the issuance of Taxable Capital Improvement Revenue Bonds (Taxable), Series 2010. Proceeds from this borrowing were utilized to refund the College's taxable loan from City National Bank, issued in October 2008. The bonds mature between 2013 and 2026 and carry a weighted average fixed rate of interest of 5.951%. These bonds are subordinate with regard to repayment to the College's outstanding OCEFA Series 2007 Bonds.

Also in April 2010, the College borrowed $37,545,000 funded by the issuance of HEFFA Series 2010 Bonds. $8.2 million of the proceeds of this issuance were used for renovation of residential halls and other capital projects of the College; the remaining proceeds were used to refund the OCEFA Series 2008 Bonds and OCEFA Series 2001 Bonds, both variable rate issues. The HEFFA Series 2010 Bonds mature between 2016 and 2038 and carry a weighted average fixed rate of interest of 4.93%. Under the terms of the loan agreement with HEFFA, the College is responsible for payment of principal and interest on the bonds. Payment of the principal and interest is secured by a pledge of College resources. These bonds are subordinate with regard to repayment to the College's outstanding OCEFA Series 2007 Bonds.

10. Long-Term Debt (continued)

In September 2007, the College borrowed $25 million, funded by the issuance of OCEFA 2007 Bonds. This borrowing was for the purpose of capital projects, including building renovations, construction or acquisition of certain facilities, and real property. Under the terms of the loan agreement with OCEFA, the College is responsible for payment of principal and interest on the bonds. Payment of the principal and interest on the bonds is secured by a pledge of College resources. The OCEFA 2007 Bonds mature between 2013 and 2037, and carry a weighted average fixed interest rate of approximately 5.20%. There are debt covenant requirements associated with the OCEFA Series 2007 bonds, most notably a debt service coverage ratio. Management believes the College is in compliance with these covenants.

Principal payments on the outstanding obligations for each of the next five fiscal years and thereafter are as follows (in thousands):

Year	Principal Payments
2013	$ 1,830
2014	3,399
2015	3,319
2016	3,565
2017	2,330
Thereafter	120,385
	$ 134,828

11. Interest Rate Swap

On August 5, 1998, the College entered into a variable-to-fixed interest rate swap agreement in the initial notional amount of $19 million. The purpose of the agreement was initially to hedge the interest rate risk on the taxable, variable-rate demand bonds issued by the College to finance the construction of the commercial real estate project described above. Under the terms of the agreement, the College pays a fixed rate of 6.11% to a counterparty and receives an amount based upon the London Interbank Offered Rate (LIBOR). The term of the agreement extends over the maturity period of the Taxable Revenue Bonds—Series 1998, with the notional amount being reduced in accordance with the original maturity of the Series 1998 Bonds through fiscal year 2027.

During 2008 the College refunded the 1998 Bonds, for which the swap agreement was originally intended as a hedge. However, the College has elected to retain the swap agreement. A termination may result in the College making or receiving a termination payment generally equal to the fair value of the swap agreement at the time of termination. Losses on the interest rate swap for the fiscal years ended May 31, 2012 and 2011, amounted to $1,677,000 and $56,000, respectively, and are included with nonoperating activities in the accompanying consolidated statement of activities. The interest rate swap is presented at fair value, based on Level II criteria defined in Note 1, which was ($5,413,000) and ($3,736,000) as of May 31, 2012 and 2011, respectively.

11. Interest Rate Swap (continued)

Using an interest rate swap may increase the College's exposure to credit risk and market risk. The College minimizes the credit (or repayment) risk in derivative instruments by (1) entering into transactions with high-quality counterparties, (2) limiting the amount of exposure to each counterparty, and (3) monitoring the financial condition of its counterparties. Market risk is the adverse effect on the value of a derivative financial instrument that results from a change in interest rates. The College manages the market risk associated with derivative financial instruments by requiring approval of the Board of Trustees for all such activities.

12. Endowment

The College's endowment consists of approximately 500 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. 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 has interpreted the *Florida Uniform Management of Institutional Funds Act of 2003* (the Act) 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 stipulation 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.

Further, the College interprets that it may spend a prudent portion of its endowment regardless of underwater conditions so long as it does so in accordance with a predetermined, Board-approved spending policy that takes into consideration the following factors:

1. The purposes of the institution;
2. The intent of the donors of the endowment fund;
3. The terms of the applicable instrument;
4. The long-term and short-term needs of the institution in carrying out its purposes;
5. The general economic conditions;
6. The possible effect of inflation or deflation;
7. The other resources of the institution; and
8. Perpetuation of the endowment.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted net assets until those amounts are appropriated for expenditure by the College in accordance with the College's endowment spending policy.

12. Endowment (continued)

The State of Florida adopted legislation during June 2011 that incorporates the provisions outlined in the Uniform Prudent Management Institutional Funds Act (UPMIFA), to be effective for fiscal years ending after July 1, 2012. The effect of applying UPMIFA in fiscal year 2013 is anticipated to result in a reclassification of endowment net assets from unrestricted to temporarily restricted to the extent amounts are not appropriated for expenditure.

The management objective for the endowment pool is to provide a sustainable and increasing level of distribution to support the College's annual operating budget while preserving the real (inflation adjusted) purchasing power of the endowment pool exclusive of gift additions. The level of distribution is expected to grow over time, at least at the same rate as the annual average increase in the College's operating budget.

The investment objective for the endowment pool is to attain a compound return (net of fees) of at least 9.0% over the long term, as measured over rolling five-year time periods. The table below summarizes the calculation of the compound return need:

Spending Rate	4.5%
Inflation	2.5%
Real Growth	2.0%
Compound Return Need, net of expenses	9.0%

The College’s investment policies assume that annual appropriation of endowment assets for spending over the long term will represent 4.5% of the market value of the endowment pool. The “corridor method” is used to calculate the appropriation amount -- gift and other endowment additions earn appropriation amounts equivalent to an annual rate of 4.5% of the principal addition in the first fiscal year of investment. Each fiscal year thereafter, the appropriation amount, in dollars, is increased by 3%. The annual appropriation amount will not be less than 3.5% nor will it exceed 5.5% of the endowment’s fair market value measured by a four-quarter rolling average, lagged by one quarter, at the beginning of any fiscal year.

The annual appropriation distribution will primarily come from current income (dividends and interest); however, a prudent portion of realized and unrealized capital gains will be used. The College periodically reviews the spending policy and issues statements of change as appropriate.

12. Endowment (continued)

To attain the investment objective, the endowment pool assets are divided into three groups: fixed income, equities, and alternative investments. The purpose of using the asset allocation model is to ensure that the overall asset allocation among the major asset classes remains under the scrutiny of the Trustees and is not permitted to become the residual of separate manager decisions. The College's asset allocation targets were as follows as of May 31, 2012:

Asset Class	Allocation Policy
Equities:	
Domestic Equity	13.5%
Non-U.S. Developed Equity	13.5%
Emerging Markets Equity	9.0%
Total Equities	36.0%
Fixed Income:	
Multi-Strategy Fixed Income	17.0%
Total Fixed Income	17.0%
Alternative Investments:	
Global Private Equity	10.0%
Flexible Capital (Hedge Funds)	20.0%
Inflation Hedging (Real Assets)	17.0%
	47.0%
Cash	0.0%
	100.0%

Investment in alternative asset categories is an incremental process that normally requires several years to be fully implemented. Assets awaiting deployment to alternative investments may be invested in other authorized asset classes, resulting in a transitional allocation that is not compliant with the model.

12. Endowment (continued)

Changes in endowment net assets for the years ended May 31, 2012 and 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 16,854	$ 57,584	$ 191,175	$ 265,613
Board-designated endowment funds	55,228	11,422	-	66,650
Endowment net assets, May 31, 2012	$ 72,082	$ 69,006	$ 191,175	$ 332,263
Investment return:				
Investment income	1,239	2,030	885	4,154
Net appreciation	(4,202)	(7,125)	(4,936)	(16,263)
Total investment return	(2,963)	(5,095)	(4,051)	(12,109)
Contributions	135	641	1,585	2,361
Appropriation of endowment assets for expenditure	(7,747)	(7,847)	-	(15,594)
Change in net assets	(10,575)	(12,301)	(2,466)	(25,342)
Donor-restricted endowment funds	22,356	69,725	193,641	285,722
Board-designated endowment funds	60,301	11,582	-	71,883
Endowment net assets, May 31, 2011	$ 82,657	$ 81,307	$ 193,641	$ 357,605
Investment return:				
Investment income	$ 1,382	$ 1,579	$ 144	$ 3,105
Net appreciation	22,768	28,206	4,612	55,586
Total investment return	24,150	29,785	4,756	58,691
Contributions	20,222	116	2,114	22,452
Appropriation of endowment assets for expenditure	(6,839)	(7,560)	-	(14,399)
Change in net assets	37,533	22,341	6,870	66,744
Donor-restricted endowment funds	12,848	48,274	186,771	247,893
Board-designated endowment funds	32,276	10,692	-	42,968
Endowment net assets, May 31, 2010	$ 45,124	$ 58,966	$ 186,771	$ 290,861

13. Net Assets

Net assets consist of the following as of May 31, 2012 and 2011 (in thousands):

	2012	2011
Unrestricted net assets:		
Available for current operations	**$ 6,892**	$ 10,827
Funds functioning as endowment	**55,228**	60,301
Accumulated appreciation on unrestricted endowments	**16,854**	22,356
Plant and commercial property assets, net of outstanding debt and accumulated depreciation	**40,175**	47,005
Unrestricted net assets	**$ 119,149**	$ 140,489
Temporarily restricted net assets:		
Restricted for specified programs (education and general programs and scholarships)	**$ 9,282**	$ 8,310
Restricted for student loans	**775**	744
Restricted for plant acquisition	**18,491**	11,487
Restricted gifts functioning as endowments	**11,422**	11,582
Split-interest trusts	**3,304**	2,704
Accumulated appreciation on restricted endowments (educational and general programs and scholarships)	**57,584**	69,725
Temporarily restricted net assets	**$ 100,858**	$ 104,552
Permanently restricted net assets:		
Split-interest trusts	**$ 1,713**	$ 1,478
Endowments restricted for education and general programs and scholarships	**191,175**	193,641
Permanently restricted net assets	**$ 192,888**	$ 195,119

14. Related-Party Transactions

The College maintains business relationships with companies owned or operated by trustee members. These relationships are disclosed to the organization and other trustee members. The College maintains a policy requiring trustees to abstain from voting on matters regarding business operations where potential conflicts of interest exist.

During the years ended May 31, 2012 and 2011, the College paid approximately $1,171,000 and $1,142,000 respectively, for various services to eight and nine firms, respectively, related to board members.

During the years ended May 31, 2012 and 2011, the College received approximately $3,427,000 and $763,000, respectively, in contributions from members of its Board of Trustees which are included in contributions and private grants revenue in the accompanying consolidated financial statements.

14. Related-Party Transactions (continued)

At May 31, 2012 and 2011, total contributions receivable included approximately $10,442,000 and $5,815,000, respectively, in pledged contributions from current members of the Board of Trustees.

15. Commitments

The College had committed to campus construction projects that, at May 31, 2012, were at various stages of completion. The estimated costs of these projects are $25,453,000, of which $2,409,000 had been accrued or paid for as of May 31, 2012.

16. Contingencies

Amounts received by the College under federal and state financial assistance programs are subject to audit and adjustment by those agencies. If expenses under those programs were to be disallowed as a result of such audits, the reimbursement to the federal or state government would be recorded as a liability of the College. In the opinion of management, any such adjustment would not be material to the College's consolidated financial statements or its financial assistance programs.

In the conduct of its operations, claims are occasionally made against the College. Some of the claims result in filing of lawsuits. In most cases, the College is insured by its commercial insurance carrier. Management is of the opinion that no significant financial losses to the College will result from the resolution of such matters currently pending.