STONEHILL COLLEGE, INC.

Financial Statements

June 30, 2011 and 2010

pwc

Report of Independent Auditors

To the Board of Trustees of Stonehill College, Inc:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Stonehill College, Inc. (the "College") at June 30, 2011 and 2010, 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. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 30, 2011

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us

STONEHILL COLLEGE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

ASSETS	**2011**	**2010**
Cash and cash equivalents	$ 14,961,558	$ 20,563,170
Accounts receivable, net	538,070	370,532
Other assets	1,738,343	1,158,126
Pledges receivable, net	3,255,624	5,863,126
Loans receivable, net	1,773,602	1,909,419
Perpetual trusts held by third parties	1,823,834	1,564,980
Restricted cash	2,180,785	7,219,997
Investments	160,599,222	137,864,606
Property, plant and equipment, net	140,525,715	129,217,553
Total assets	**$ 327,396,753**	**$ 305,731,509**
LIABILITIES		
Accounts payable	$ 1,675,033	$ 4,738,025
Accrued payroll and other benefits	3,099,249	3,702,003
Tuition received in advance	2,987,630	3,718,603
Other liabilities	6,122,791	5,815,630
Government advances for student loans	1,203,135	1,271,128
Interest rate swap agreements	6,541,375	8,023,967
Annuity obligations	279,604	292,263
Note and bonds payable	93,135,778	95,352,016
Total liabilities	**115,044,595**	**122,913,635**
NET ASSETS		
Unrestricted	171,431,820	146,006,304
Temporarily restricted	16,912,666	15,365,953
Permanently restricted	24,007,672	21,445,617
Total net assets	**212,352,158**	**182,817,874**
Total liabilities and net assets	**$ 327,396,753**	**$ 305,731,509**

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

STONEHILL COLLEGE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(with comparative totals for 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Total 2010
Operating					
Revenues and other support					
Tuition and fees, net (Note 9)	$52,563,964			$52,563,964	$47,561,232
Federal and state grants	1,007,716			1,007,716	1,166,170
Private gifts	772,596			772,596	867,624
Short-term investment income	1,038			1,038	1,020
Auxiliary services	29,620,881			29,620,881	26,828,359
Other income	3,315,096			3,315,096	1,961,157
Nonoperating assets used for operations	4,566,656	$2,332,961		6,899,617	6,948,162
Net assets released from restrictions	2,332,961	(2,332,961)		-	-
Total operating revenues and other support	**94,180,908**	**-**	**-**	**94,180,908**	**85,333,724**
Expenses					
Instruction	25,649,744			25,649,744	24,657,349
Research	193,140			193,140	296,707
Public service	155,519			155,519	178,128
Academic support	10,209,345			10,209,345	9,278,263
Student services	16,466,422			16,466,422	14,039,095
Institutional support	16,286,193			16,286,193	14,615,836
Auxiliary services	19,381,399			19,381,399	16,304,086
Total expenses	**88,341,762**	**-**	**-**	**88,341,762**	**79,369,464**
Increase in net assets from operations	5,839,146	-	-	5,839,146	5,964,260
Nonoperating revenues and expenses					
Private gifts and grants	1,243,452	188,424	$2,250,285	3,682,161	8,406,960
Investment return	21,683,062	5,306,385	258,854	27,248,301	15,455,478
Realized/unrealized (loss) on interest rate swap agreements	(335,707)			(335,707)	(4,370,024)
Nonoperating assets used for operations	(4,566,656)	(2,332,961)		(6,899,617)	(6,948,162)
Net assets reclassed/released from restrictions	1,562,219	(1,615,135)	52,916	-	-
Increase in net assets from nonoperating activities	**19,586,370**	**1,546,713**	**2,562,055**	**23,695,138**	**12,544,252**
Total change in net assets	25,425,516	1,546,713	2,562,055	29,534,284	18,508,512
NET ASSETS, BEGINNING OF YEAR	146,006,304	15,365,953	21,445,617	182,817,874	164,309,362
NET ASSETS, END OF YEAR	**$171,431,820**	**$16,912,666**	**$24,007,672**	**$212,352,158**	**$182,817,874**

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

STONEHILL COLLEGE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating				
Revenues and other support				
Tuition and fees, net (Note 9)	$47,561,232			$47,561,232
Federal and state grants	1,166,170			1,166,170
Private gifts	867,624			867,624
Short-term investment income	1,020			1,020
Auxiliary services	26,828,359			26,828,359
Other income	1,961,157			1,961,157
Nonoperating assets used for operations	4,908,219	$2,039,943		6,948,162
Net assets released from restrictions	2,186,511	(2,186,511)		-
Total operating revenues and other support	**85,480,292**	**(146,568)**	**-**	**85,333,724**
Expenses				
Instruction	24,657,349			24,657,349
Research	296,707			296,707
Public service	178,128			178,128
Academic support	9,278,263			9,278,263
Student services	14,039,095			14,039,095
Institutional support	14,615,836			14,615,836
Auxiliary services	16,304,086			16,304,086
Total expenses	**79,369,464**	**-**	**-**	**79,369,464**
Increase (decrease) in net assets from operations	6,110,828	(146,568)	-	5,964,260
Nonoperating revenues and expenses				
Private gifts and grants	1,013,833	5,321,706	$2,071,421	8,406,960
Investment return	12,713,299	2,682,931	59,248	15,455,478
Realized/unrealized (loss) on interest rate swap agreements	(4,370,024)	-	-	(4,370,024)
Nonoperating assets used for operations	(4,908,219)	(2,039,943)	-	(6,948,162)
Net assets released from restrictions	1,404,961	(1,493,081)	88,120	-
increase in net assets from nonoperating activities	**5,853,850**	**4,471,613**	**2,218,789**	**12,544,252**
Total change in net assets	11,964,678	4,325,045	2,218,789	18,508,512
NET ASSETS, BEGINNING OF YEAR	134,041,626	11,040,908	19,226,828	164,309,362
NET ASSETS, END OF YEAR	**$146,006,304**	**$15,365,953**	**$21,445,617**	**$182,817,874**

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

STONEHILL COLLEGE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	$29,534,284	$18,508,512
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in government advances for student loans	(67,993)	(40,175)
Amortization of discounts, premiums and issuance costs	31,308	31,646
Depreciation and amortization	5,621,790	4,912,437
Net realized and unrealized gains on investments	(25,777,312)	(13,975,047)
Unrealized (gains) / losses on interest rate swap agreements	(1,482,592)	2,526,887
Gain on disposal of property, plant and equipment and other	(402,581)	(198,970)
Change in operating assets and liabilities		
Accounts receivable	(167,538)	62,661
Pledges receivable	2,804,287	(2,339,729)
Other assets	(605,776)	(18,955)
Accounts payable	(172,576)	(1,219,597)
Accrued payroll and other benefits	(602,754)	395,378
Tuition received in advance	(730,973)	282,435
Other liabilities	(344,532)	2,364,266
Contributions to be used for long-term investment	(4,069,278)	(2,971,397)
Net cash provided by operating activities	3,567,764	8,320,352
Cash flows from investing activities		
Loans granted	(195,256)	(252,438)
Loans collected	335,181	330,192
Purchase of property, plant and equipment	(19,073,659)	(24,559,420)
Purchase of investments	(28,515,927)	(29,356,331)
Proceeds from sale of investments	31,500,886	37,686,299
Change in restricted cash	5,039,212	(5,226,301)
Net cash (used for) investing activities	(10,909,563)	(21,377,999)
Cash flows from financing activities		
Payments on long-term debt and capital lease obligations	(2,329,091)	(3,738,837)
Net proceeds from long-term debt	-	22,061,833
New bond issuance costs	-	(222,278)
Contributions to be used for long-term investment	4,069,278	2,971,397
Net cash provided by financing activities	1,740,187	21,072,115
Net increase in cash and cash equivalents	(5,601,612)	8,014,468
Cash and cash equivalents, beginning of year	**20,563,170**	**12,548,702**
Cash and cash equivalents, end of year	**$14,961,558**	**$20,563,170**
Supplemental Disclosure:		
Cash paid for interest, net of capitalized interest	$1,235,004	$521,427
Amounts included in accounts payable and accrued expenses related to construction	1,093,311	3,983,726
Property, plant and equipment acquired through capital leases	710,558	-

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

1. Summary of Significant Accounting Policies

Stonehill College, Inc. (the "College") was founded in 1948 by members of the Congregation of Holy Cross. It is an independent, undergraduate, church-related institution in Easton, Massachusetts and offers Bachelor's degrees in the Arts and Sciences.

Basis of Presentation
The accompanying financial statements have been prepared on the accrual basis and in accordance with the reporting principles of not-for-profit accounting.

The College has classified net assets and its revenues, expenses, gains and losses into three categories based on the existence or absence of externally-imposed restrictions. The categories, unrestricted, temporarily restricted, and permanently restricted net assets, are defined as follows:

***Unrestricted* -** Net assets which are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees, the "Board".

Temporarily Restricted - Net assets whose use is limited by law or donor-imposed stipulations that will either expire with the passage of time or be fulfilled by actions of the College.

***Permanently Restricted* -** Reflects the historical value of gifts subject to donor-imposed stipulations, which require the corpus to be invested in perpetuity to produce income for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reclassified as "net assets released from restrictions" in the Statement of Activities.

Gifts and investment return with donor-imposed restrictions, which are reported as temporarily restricted revenues, are reclassified to unrestricted net assets when an expense is incurred that satisfied that restriction. Gifts restricted for the purchase of property, plant and equipment are reported as temporarily restricted revenues and are reclassified to unrestricted net assets upon the asset being placed into service, or when a time restriction expires. Fundraising expenses totaled $1,998,991 and $1,979,575 in 2011 and 2010, respectively.

Gifts received for annual operating purposes are recorded as operating revenues. Nonoperating revenues include all other gifts, investment income, and realized and unrealized gains and losses on long-term investments held during the year and realized and unrealized gains and losses related to the College's interest rate swap agreements. To the extent investment return is authorized by the Board and gifts are permitted by the donor to fund operations, they are reclassified as "nonoperating assets used for operations" on the Statement of Activities. All other activity is classified as operating revenue.

Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include operating cash accounts and short-term investments with maturities from date of purchase of three months or less. The carrying amount of these cash equivalents is a reasonable estimate of fair value due to their short-term nature.

Restricted cash represents amounts on deposit with the Trustee in accordance with bond requirements for construction funds. These securities are primarily invested in money market funds and are recorded at cost which approximates fair value.

Cash is deposited in several institutions; however, at times cash held in a single institution may exceed federally insured limits. The College has not experienced any losses in such accounts. The College believes it is not exposed to any significant credit risk on cash and cash equivalents.

A portion of money market funds are classified as cash and cash equivalents on the financial statements. These funds are classified as cash and cash equivalents as it is anticipated that they may be needed for immediate cash needs. The remaining balance of money market funds is classified as investments since it is anticipated that these funds are not to be used for immediate needs.

Investments

Investments are recorded at fair value. The value of securities listed on a national exchange is based upon quoted market prices and net asset values. The value of securities that represent interests in partnerships or other nonmarketable securities for which there are no market quotations available are valued by the managers of those entities and reviewed by management. The majority of alternative investments are carried at estimated fair value provided by the management of the alternative investment partnerships or funds as of June 30, 2011 and 2010.

Purchases and sales of investments are recorded on a trade date basis. Gains or losses from the sale of investment securities are computed on the specific identification cost basis, or for pooled funds, on the average cost basis.

Summary of Significant Accounting Policies (continued)

Perpetual Trusts Held by Third Parties
The College is the beneficiary of certain perpetual trusts held and administered by others. The estimated fair values of trust assets, which approximate the present values of expected future cash flows from the trusts, are recognized as assets and as gift revenue when the trusts are established. The College had $1,823,834 and $1,564,980 in perpetual trusts held by third parties at June 30, 2011 and 2010, respectively.

Property, Plant, and Equipment
Property, plant, and equipment are recorded at cost at the date of acquisition or at fair value at the date of gift for donated assets. Depreciation is computed on a straight-line basis over the estimated useful lives of the individual assets: land improvements (20 years), buildings (30-60 years) and equipment (5-15 years). Depreciation and amortization, totaling $5,621,790 and $4,912,437 for the years ended June 30, 2011 and 2010, respectively, has been allocated to functional expenses based on square foot usage calculations.

Property, plant, and equipment are removed from the College’s records at the time of disposal and any resulting gain or loss is reflected in the Statement of Activities.

Replacements and major improvements are capitalized; expenses for maintenance and repairs are charged as incurred. Operation and maintenance expense totaling $13,878,933 and $11,807,781 for the years ended June 30, 2011 and 2010, respectively, has been allocated to functional expenses based on square foot usage calculations.

Contracts and Grants
Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The College recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated with the government.

Collections
The College maintains a collection of historical artifacts for public exhibition and education in furtherance of public service and not for financial gain. The College does not capitalize its collection of historical artifacts. The cost of collection items purchased is recorded as a decrease in the appropriate category of net assets.

Gifts
Gifts, including unconditional promises to give (pledges), are recorded as revenue when the donor’s commitment is received. Unconditional pledges are recorded at the present value of their expected cash flows, net of allowances for doubtful accounts using a discount factor based on the appropriate United States Treasury Bill rates adjusted for market risk at the date of the pledge or June 30, 2011 and 2010.

Accounts and Loans Receivables
Accounts and loans receivable are stated net of allowances for doubtful accounts of $43,838 and $47,946 for the years ended June 30, 2011 and 2010, respectively. Loans receivable are principally amounts due from students under federally sponsored loan programs, which are subject to significant restrictions.

Summary of Significant Accounting Policies (continued)

Accordingly, it is not practicable to determine the fair values of such amounts.

Federal Income Tax
The College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Service Code and, accordingly, does not provide for income taxes.

Recent Accounting Pronouncements
In January 2010, the Financial Accounting Standards Board (FASB) issued new guidance amending fair value measurements and disclosures. This guidance requires a gross presentation of activities within the Level 3 roll forward and adds a new requirement to disclose significant transfers in and out of Level 1 and Level 2 measurements, and the reasons for those transfers. The guidance further clarifies the existing disclosure requirements regarding: 1) the level of disaggregation of fair value measurements, and 2) the disclosures regarding inputs and valuation techniques. This guidance is effective for the College's fiscal year beginning July 1, 2010, except for the gross presentation of the Level 3 activity, which is effective for the College's fiscal year beginning July 1, 2011. The principal impact from this guidance is expanded fair value measurement disclosures.

2. Fair Value Measurements

The College applies the fair value measurements and disclosure guidance ASC 820 (157), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- *Level 1* - Observable inputs such as quoted prices in active markets for identical assets and liabilities;
- *Level 2* – Observable inputs, other than the quoted prices in active markets, that are observable either directly or indirectly for identical assets and liabilities; and
- *Level 3* - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Following is a description of the College's valuation methodologies for assets and liabilities measured at fair value.

Fair value for Level 1 is based upon quoted prices in active markets that the College has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The College does not adjust the quoted price for such assets and liabilities.

Fair Value Measurements (continued)

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets, inputs other than quoted prices that are observable for the instruments, and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

The quoted prices, observable inputs and calculations reflect the assumptions market participants would use in pricing the instruments. They are obtained from sources including dealers, brokers and market data providers and are independent of Stonehill.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The College utilizes the best available information in measuring fair value. The following tables summarize the valuation of our financial instruments by the above ASC 820 pricing levels as of:

	June 30, 2011					
	Total	Level 1	Level 2	Level 3	Liquidity	Day's Notice
ASSETS						
Investments:						
Cash and Equivalents	$9,871,424	$9,871,424	-	-	Daily	1
Equities:						
Domestic	13,809,775	13,809,775	-	-	Daily	1
International	9,146,527	9,146,527	-	-	Daily	1
Fixed Income	18,396,621	18,396,621	-	-	Daily	1
Hedge Funds:						
Commingled	25,359,007	-	$25,359,007	-	Daily/Monthly	1
Alternative	73,452,171	-	33,409,527	$40,042,644	Quarterly/Annually	1-90 days
Private Equities	10,563,697	-	-	10,563,697	Subject to lock up	Not applicable
Total Investments	$160,599,222	$51,224,347	$58,768,534	$50,606,341		
Perpetual Trusts	1,823,834	-	-	1,823,834		
Total Assets	$162,423,056	$51,224,347	$58,768,534	$52,430,175		
LIABILITIES						
Interest Rate Swap	$6,541,375	-	$6,541,375	-		
Total Liabilities	$6,541,375	-	$6,541,375	-		

Fair Value Measurements (continued)

	June 30, 2010					
	Total	Level 1	Level 2	Level 3	Liquidity	Day's Notice
ASSETS						
Investments:						
Cash and Equivalents	$10,713,837	$10,713,837	-	-	Daily	1
Equities:						
Domestic	10,375,059	10,375,059	-	-	Daily	1
International	6,962,001	6,962,001	-	-	Daily	1
Fixed Income	19,852,881	19,852,881	-	-	Daily	1
Hedge Funds:						
Commingled	19,908,027	-	$19,908,027	-	Daily/Monthly	1
Alternative	61,715,342	-	24,886,292	$36,829,050	Quarterly/Annually	1-90 days
Private Equities	8,337,459	-	-	8,337,459	Subject to lock up	Not applicable
Total Investments	$137,864,606	$47,903,778	$44,794,319	$45,166,509		
Perpetual Trusts	1,564,980	-	-	1,564,980		
Total Assets	$139,429,586	$47,903,778	$44,794,319	$46,731,489		
LIABILITIES						
Interest Rate Swap	$8,023,967	-	$8,023,967	-		
Total Liabilities	$8,023,967	-	$8,023,967	-		

Investments included in Level 3 primarily consist of the College's ownership in alternative investments. The College is invested in alternative investments with an estimated fair market value of $102,165,955 and $78,915,397 in 2011 and 2010, respectively. As of June 30, 2011, the College is committed to investing an additional $9,148,368 in alternative investments (private equities).

The net asset values or "NAV" of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The College has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30, 2011 and 2010.

Fair Value Measurements (continued)

The College's interest rate swap is valued using a model by an independent valuation consultant to the College that does not have a vested interest in the swap. The value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The inputs can be corroborated by market data and are therefore classified within Level 2.

Perpetual trusts held by third parties are valued based upon quoted market prices of the underlying assets, which approximates the present value of the future distributions expected to be received over the term of the agreements.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is a rollforward of the Statement of Financial Position amounts for financial instruments classified by the College within Level 3 of the fair value hierarchy defined above.

	Perpetual Trusts	**Investments**	**Total**
Fair value, July 1, 2010	$1,564,980	$45,166,508	$46,731,488
Net realized gains		3,430,611	3,430,611
Net unrealized gains	258,854	4,004,505	4,263,359
Net purchases and sales		(1,995,283)	(1,995,283)
Fair value, June 30, 2011	$1,823,834	$50,606,341	$52,430,175
Changes in unrealized gains included in earnings related to Level 3 investments still held at reporting date	$ 258,854	$ 4,004,505	$ 4,263,359

Fair Value Measurements (continued)

	Perpetual Trusts	Investments	Total
Fair value, July 1, 2009	$1,505,732	$84,781,194	$86,286,926
Net realized (losses)		(836,090)	(836,090)
Net unrealized gains	59,248	5,949,177	6,008,425
Net purchases and sales		(3,793,508)	(3,793,508)
Transfers out		(40,934,265)	(40,934,265)
Fair value, June 30, 2010	$1,564,980	$45,166,508	$46,731,488
Changes in unrealized gains included in earnings related to Level 3 investments still held at reporting date	$ 59,248	$ 5,949,177	$ 6,008,425

All net realized and unrealized gains/(losses) in the table above are reflected in the accompanying Statement of Activities in the investment return line item. Net unrealized gains/(losses) relate to those financial instruments held by the College at June 30, 2011. The transfers out relate to the additional guidance on ASU 2009-12 and are investments that could be redeemed at NAV on June 30, 2010.

3. Pledges Receivable

Pledges receivable as of June 30, 2011 and 2010 are expected to be realized in the following time frame:

	2011	2010
In one year or less	$818,355	$ 2,859,618
Between one year and five years	2,662,829	3,425,853
Total	3,481,184	6,285,471
Less:		
Discount to present value	(145,285)	(213,273)
Allowance for unfulfilled pledges	(80,275)	(209,072)
Pledges Receivable, net	$3,255,624	$5,863,126

The discount on pledges less than $10,000 was calculated using the U.S. Treasury note rate, for the length of the pledge, as of June 30, 2011, plus a .5% premium to incorporate market risk into the discount rate. The discount on pledges over $10,000 was calculated using the U.S. Treasury note rate, for the length of the pledge, for the date the pledge was made, plus a .5% premium to incorporate market risk into the discount rate.

4. Endowments

The College's endowment consists of approximately 185 individual restricted endowment funds and 21 Board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivables and split interest agreements. The net assets associated with endowment funds including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board has interpreted the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") as requiring the preservation 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 and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the College also considers the following factors in making a determination to appropriate endowment funds:

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$10,185,692	$21,645,080	$31,830,772
Board-designated endowment funds	$119,394,795	--	--	119,394,795
Total endowment funds	$119,394,795	$10,185,692	$21,645,080	$151,225,567

Endowments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$6,359,961	$19,341,887	$ 25,701,848
Board-designated endowment funds	$ 101,904,566	--	--	101,904,566
Total endowment funds	$ 101,904,566	$6,359,961	$19,341,887	$ 127,606,414

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 101,904,566	$6,359,961	$19,341,887	$127,606,414
Investment return:				
Investment income	1,042,090	254,197	-	1,296,287
Net appreciation (realized and unrealized)	20,899,712	4,771,479	-	25,671,191
Total investment return, net	21,941,802	5,025,676	-	26,967,478
Contributions	34,402	-	2,303,193	2,337,595
Distribution of endowment assets for expenditure	(4,485,975)	(1,199,945)	-	(5,685,920)
Endowment net assets, end of year	$119,394,795	$10,185,692	$ 21,645,080	$151,225,567

Endowments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$93,653,287	$4,952,415	$17,182,345	$115,788,047
Investment return:				
Investment income	1,202,627	252,008	-	1,454,635
Net appreciation (realized and unrealized)	11,699,096	2,160,258	-	13,859,354
Total investment return, net	12,901,723	2,412,266	-	15,313,989
Contributions	13,836	-	2,159,542	2,173,378
Distribution of endowment assets for expenditure	(4,664,280)	(1,004,720)	-	(5,669,000)
Endowment net assets, end of year	$101,904,566	$6,359,961	$19,341,887	$127,606,414

***Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)**

Permanently restricted net assets
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA:

	2011	2010
Restricted for scholarship support	$ 19,420,524	$17,214,561
Restricted for faculty support	1,286,574	1,280,074
Restricted for program support	937,982	847,252
Total endowment assets classified as permanently restricted net assets	$ 21,645,080	$19,341,887

Temporarily restricted net assets
The portion of temporary endowment funds that is required to be retained until spent according to explicit donor stipulation or by UPMIFA:

Restricted for scholarship support	$ 9,262,280	$6,011,676
Restricted for faculty support	131,610	-
Restricted for program support	791,802	348,285
Total endowment assets classified as temporarily restricted net assets	$10,185,692	$6,359,961

Endowments (continued)

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were immaterial as of June 30, 2011 and $266,798 as of June 30, 2010. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized distribution that was deemed prudent.

Return Objectives and Risk Parameters

The investment objective of the endowment funds, through the careful management of assets, is designed to preserve the funds' purchasing power and to ensure a total return (income plus capital appreciation) necessary to preserve and enhance (in real dollar terms) the principal of the funds, and at the same time provide a dependable source of income for current operations and programs. To accomplish this objective, the funds seek to generate a total return that will exceed not only its spending authority, but also the eroding effects of inflation and its operating expenses over the long term. To meet this long-term objective, all total return (interest income, dividends, realized gains and unrealized gains), above and beyond the amount approved for expenditure, will be reinvested in the funds.

Strategies Employed for Achieving Investment Objectives

The funds have a long-term investment horizon with relatively low liquidity needs. For this reason the funds can tolerate short- and intermediate-term volatility provided that long-term returns meet or exceed its investment objective. Consequently, the funds can take advantage of less liquid investments, such as private equity, hedge funds, and other partnership vehicles, which typically offer higher risk-adjusted return potential as compensation for forfeiture of liquidity. Nonetheless, to ensure liquidity for distributions and to facilitate rebalancing, the maximum allocation to illiquid assets, defined as funds locked-up for greater than one year, shall be limited to 30% of the funds' market value.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of the College determines the method to be used to distribute endowment funds for expenditure. Under the College's endowment spending policy for the years ended June 30, 2011 and 2010, the College applied a rate of 4.5% to a weighted average calculation based on the previous year's ending endowment value and the previous year's endowment spending. In establishing this policy, the Board considered the expected long term rate of return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

5. Investments

The following schedule summarizes total investment return and its classification in the Statements of Activities for the years ended June 30:

	2011	2010
Investment income	$1,299,528	$1,480,431
Net realized and unrealized gains on investments	25,948,773	13,975,047
Total return on investment	$27,248,301	$15,455,478

Management, custodial and performance fees for the endowment investments and other College investments are charged to the investment portfolios and were estimated to be $1,616,479 and $1,471,443 at June 30, 2011 and 2010, respectively. Net realized and unrealized results are presented net of these fees.

6. Property, Plant, and Equipment

Property, plant, and equipment at June 30, 2011 and 2010 are as follows:

	2011	2010
Land	$752,119	$ 752,119
Land improvements	17,058,471	16,855,745
Buildings and improvements	153,644,088	122,253,244
Leasehold improvements	512,765	496,036
Equipment	37,121,884	32,533,331
Construction in progress	2,540,236	22,469,131
	$211,629,563	$195,359,606
Less: Accumulated depreciation	(71,103,848)	(66,142,053)
	$140,525,715	$ 129,217,553

Included in property, plant, and equipment as of June 30, 2011 are assets under capital lease for equipment with a cost of $850,558 and related accumulated amortization of $198,279. Capitalizable interest expense was $196,983 offset by $3,216 of interest income for a total of $193,767 in capitalized interest for the year ending June 30, 2011.

Property, Plant, and Equipment (continued)

The changes in the carrying value of the College's asset retirement obligations for years ended June 30, 2011 and 2010 are as follows:

	2011	2010
Beginning balance	$767,132	$ 733,804
Settlement of liability	(3,775)	(696)
Accretion expense	35,580	34,024
Ending balance	$ 798,937	$ 767,132

7. Note and Bonds Payable

Note and bonds payable at June 30, 2011 and 2010 are as follows:

	2011	2010
Series H, revenue, dated August 1, 2003, interest rates ranging from 3% to 5% due serially on July 1, from 2004 to 2018, inclusive and in 2020 (2)	$ 6,895,000	$ 7,550,000
Series K, variable rate demand, dated April 1, 2008 interest rates ranging from .15% to 2.5% due serially from May 1, 2008 to July 1, 2037, inclusive (2)	63,355,000	64,840,000
Series L, revenue, dated July 14, 2010, interest rates ranging from 2.5% to 5.375% due serially on July 1, from July 1, 2011 to July 1, 2029, inclusive (2)	22,000,000	22,000,000
United States Department of Education issues (E.D.) Dated April 1, 1990, at an interest rate of 5.5% due serially from November 1, 1990 to May 1, 2020, inclusive (1)	977,363	1,059,349
	$93,227,363	$ 95,449,349
Less unamortized original issue discount	(91,585)	(97,333)
	$93,135,778	$95,352,016

(1) Collateralized by Alumni Hall building, land and equipment.
(2) Collateralized by tuition receipts.

In 2008, MHEFA Series J Variable Rate Revenue Bonds were issued in the amount of $30,000,000 to finance construction of a new science building. During 2008, the MHEFA Series J Variable Rate Revenue Bonds were redeemed with the issuance of MHEFA Series K Variable Rate Demand Bonds.

Notes and Bonds Payable (continued)

In 2010, MHEFA Series L Revenue Bonds were issued in the amount of $22,000,000 to finance construction of a new residence building.

At June 30, 2011, the approximate fair value of outstanding debt on the Statement of Financial Position is $94,565,785 based on estimates using current interest rates available for debt with similar remaining maturities.

Under its bonds payable agreements, the College is subject to certain restrictive financial covenants, the most restrictive of which is that the College must maintain a ratio of non-donor restricted fund balances to plant debt. The College was in compliance with bond covenants for the years ending June 30, 2011 and 2010.

In accordance with bond requirements, the College has on deposit with the Trustee (classified as restricted cash) at June 30, 2011 and 2010 the following amounts:

	2011	2010
MHEFA	$ 2,117,156	$7,191,797

Mandatory annual principal payments on long-term debt for the next five fiscal years and thereafter are as follows.

2012	$2,561,558
2013	2,646,384
2014	2,741,479
2015	2,831,858
2016	2,927,538
Thereafter	79,518,546
	$93,227,363

Interest expense was $1,508,800 and $737,303, net of capitalized interest for the years ended June 30, 2011 and 2010, respectively.

Included in the College's debt is $63,355,000 of variable rate demand bonds (VRDBs). The College has entered into an irrevocable letter of credit (LOC) with Bank of America, NA to secure bond repayment and interest obligations associated with its VRDBs. If the VRDBs are unable to be remarketed, the trustee for the VRDB will request purchase under the LOC scheduled repayment terms. Based on the existing repayment and maturity terms of the underlying LOC, the scheduled payments under the VRDB related LOC would be as follows: $15,548,373 in 2012, $14,914,823 in 2013, $14,281,273 in 2014, $13,647,723 in 2015 and $13,014,173 in 2016 (assuming a LIBOR rate of 3.5% and 1.5% LIBOR rate increment).

8. Net Assets

The net assets as of June 30, 2011 are summarized as follows:

Detail of Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds:				
Undesignated	$ 1,650,043			$1,650,043
Investment in plant	47,389,937			47,389,937
College designated	2,366,055			2,366,055
Donor restricted		$6,058,883		6,058,883
Total Operating	$51,406,035	$6,058,883		$57,464,918
Funds for facilities and student loans	630,990	618,221		1,249,211
Annuity and life income funds		49,870	$2,362,592	2,412,462
Endowment funds and other funds functioning as endowment	119,394,795	10,185,692	21,645,080	151,225,567
Total Net Assets	$171,431,820	$16,912,666	$24,007,672	$212,352,158

The net assets as of June 30, 2010 are summarized as follows:

Detail of Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds:				
Undesignated	$8,166,311			$8,166,311
Investment in plant	33,865,537			33,865,537
College designated	1,417,591			1,417,591
Donor restricted		$8,926,186		8,926,186
Total Operating	$43,449,439	$8,926,186		$52,375,625
Funds for facilities and student loans	652,299	31,836		684,135
Annuity and life income funds		47,970	$2,103,730	2,151,700
Endowment funds and other funds functioning as endowment	101,904,566	6,359,961	19,341,887	127,606,414
Total Net Assets	$146,006,304	$15,365,953	$21,445,617	$182,817,874

9. Scholarships and Other Awards

Tuition and fees are presented net of tuition discounts, which include the following for the years ended June 30, 2011 and 2010:

	2011	2010
Institutional scholarships (funded by the College)	$28,378,376	$26,200,005
Endowed scholarships (funded)	960,854	786,065
External grants (donor funded)	903,306	902,728
	$30,242,536	$27,888,798

In addition, a total of $960,341 and $822,009 of tuition remission expenses are included in functional expenses at June 30, 2011 and 2010, respectively.

10. Lease Commitments

The College leases property for terms ranging from one to fifteen years. The annual minimum operating lease commitments through the year 2016 are as follows:

2012	$408,659
2013	388,010
2014	342,165
2015	348,445
2016	354,854

Total rental expense for the College was $400,354 and $389,167 for the years ended June 30, 2011 and 2010, respectively.

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments at June 30, 2011.

2012	$150,526
2013	149,841
2014	146,416
2015	146,416
2016	73,208
	$666,407
Interest	(24,036)
	$642,371

11. Employee Benefit Plans

The College offers its employees a defined contribution plan and participates in the Teachers Insurance and Annuity Association contributory retirement program. This program covers substantially all full-time employees of the College. The College made contributions of $2,921,365 and $2,589,529 for the fiscal years ended June 30, 2011 and 2010, respectively. The College also maintains a self-insured medical plan for its employees. The Plan is funded by both employee and College contributions.

12. Related Parties

Certain members of the Board are members, employees or officers of companies which do business with the College. The College engaged in these transactions as part of its normal course of business (i.e., the borrowing of money from a bank of which the trustee may be an employee or officer). Related party transactions were $3,166,073 and $1,884,672 for the fiscal years ended June 30, 2011 and 2010, respectively. The College had $340,534 payable to related parties as of June 30, 2011.

13. Commitments and Contingencies

The College is engaged in numerous activities which expose the College to risk of litigation. These matters may include disputes with contractors, subcontractors and other claims arising from employment matters with the College. The College does not expect that these matters will require any amounts to be paid which, in the aggregate, will be material to the results of operations.

As of June 30, 2011, the College has outstanding construction/engineering contracts of approximately $1,384,066.

14. Interest Rate Swap Agreements

The College entered into an interest rate swap agreement with a financial institution counterparty in October 2005 on HEFA Series I variable rate bonds. The purpose of the agreement was to swap the variable rate on the HEFA Series I bonds for a fixed rate of 3.369% for the life of the bonds.

The College entered into this agreement to manage the cash flows attributable to interest payments on the HEFA Series I bonds and does not use such instruments for speculative purposes. The swap's fair value as of June 30, 2011 and 2010 of ($2,475,268) and ($2,979,951), respectively, is reported on the Statement of Financial Position.

On May 1, 2007, the College entered into a swap agreement with a financial institution counterparty on HEFA Series G variable rate bonds. The purpose of the agreement is to swap the variable rate on the HEFA Series G bonds for a fixed rate. The agreement is effective as of April 3, 2008 and provides for a fixed interest rate of 3.594% from May 1, 2008 to July 1, 2028. The swap's fair value as of June 30, 2011 and 2010 of ($1,271,226) and ($1,522,628), respectively is reported on the Statement of Financial Position.

On September 6, 2007, the College entered into a swap agreement with a financial institution counterparty on $19,000,000 of the $30,000,000 outstanding HEFA Series J variable rate bonds. The purpose of the agreement is to swap the variable rate on that portion of the HEFA Series J bonds for a fixed rate of 3.651% for the life of the bonds. The swap's fair value as of June 30, 2011 and 2010 of ($2,794,881) and ($3,521,388) is reported on the Statement of Financial Position.

The value of the swap instruments represents the estimated benefit or cost to the College to cancel the agreement as of the reporting date and is based on the option-pricing models that consider risk and other market factors. All of the swaps remain in place against HEFA Series K bonds which were issued during 2008 to refinance HEFA I and HEFA J and advance refund HEFA G.

15. Consideration of Subsequent Events

In accordance with ASC 855, the College has reviewed subsequent events through September 30, 2011 which is the date the financial statements were issued. The College has concluded that no material events have occurred that are not accounted for in the accompanying financial statements or disclosed in the accompanying notes.