CENTRE COLLEGE OF KENTUCKY
Danville, Kentucky

FINANCIAL STATEMENTS
June 30, 2011 and 2010

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Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Centre College of Kentucky
Danville, Kentucky

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

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

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

As discussed in Note 11, the College adopted UPMIFA effective July 15, 2010, and reclassified $3,656,075 of unexpended endowment earnings from unrestricted to temporarily restricted net assets.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 22, 2011

STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	$ 19,250,939	$ 9,040,998
Pledges receivable (Note 2)	14,480,452	3,999,411
Accounts and loans receivable, less allowance for doubtful accounts of $152,262 and $140,641 in 2011 and 2010, respectively	293,755	342,566
Other receivables	160,127	68,831
Inventories	254,321	222,729
Prepaid expenses	369,863	294,761
Total current assets	34,809,457	13,969,296
Pledges receivable (Note 2)	17,521,386	17,471,717
Student loans, less allowance for uncollectible loans of $21,889 in 2011 and 2010	1,207,838	1,308,536
Long-term investments (Note 3)		
Endowment funds	179,261,569	149,818,822
Assets held in charitable remainder trusts	1,446,667	1,263,796
Annuity and life income funds	694,063	1,123,451
Total long-term investments	181,402,299	152,206,069
Property, plant and equipment, net (Note 5)	100,317,367	97,598,906
Bond issuance costs, net of accumulated amortization of $148,764 and $61,991 in 2011 and 2010, respectively (Note 6)	975,937	976,250
Restricted cash (Note 6)	-	7,472,402
Funds held in trust by others	26,176,975	22,945,583
Total assets	$ 362,411,259	$ 313,948,759

(Continued)

CENTRE COLLEGE OF KENTUCKY

STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

	2011	2010
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 3,053,947	$ 2,944,561
Accrued salaries and wages	2,093,960	2,136,774
Deposits and agency funds	1,076,695	1,113,442
Current portion of long-term debt (Note 6)	745,000	265,000
Current portion of fair value adjustment in interest rate swaps (Note 4)	1,197,980	1,201,202
Total current liabilities	8,167,582	7,660,979
Other liabilities		
Advances from federal government for student loans	685,260	699,031
Annuity payment liability and life income obligations	876,842	1,098,973
Long-term debt (Note 6)	85,413,910	85,404,929
Fair value adjustment in interest rate swaps (Note 4)	2,487,461	2,478,517
Total liabilities	97,631,055	97,342,429
Net assets		
Unrestricted	99,630,710	80,725,672
Temporarily restricted (Note 11)	30,099,857	5,612,838
Permanently restricted (Note 11)	135,049,637	130,267,820
Total net assets	264,780,204	216,606,330
Total liabilities and net assets	$ 362,411,259	$ 313,948,759

See accompanying notes.

CENTRE COLLEGE OF KENTUCKY

STATEMENT OF ACTIVITIES

Year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Comprehensive fee	$ 50,739,072	$ -	$ -	$ 50,739,072
Less financial aid and scholarships	19,259,978	-	-	19,259,978
Net tuition and fees	31,479,094			31,479,094
Gifts and grants	6,075,154	16,857,740	1,084,375	24,017,269
Federal grants	187,351	1,177,757	-	1,365,108
Investment income	1,752,474	550,698	256,759	2,559,931
Net realized gains (losses) on long-term investments	2,162,509	759,319	(226,468)	2,695,360
Net realized losses on funds held in trust by others	-	-	580,470	580,470
Auxiliary enterprises, including bookstore and arts center	1,649,261	-	-	1,649,261
Other income	224,097	610,559	-	834,656
Net assets released from restrictions	7,913,810	(7,913,810)	-	-
Total revenues, gains and other support	51,443,750	12,042,263	1,695,136	65,181,149
Expenses				
Instructional	15,569,933	-	-	15,569,933
Academic support	2,535,457	-	-	2,535,457
Student services	7,467,641	-	-	7,467,641
Institutional support	8,876,334	-	-	8,876,334
Operation and maintenance of plant	6,725,493	-	-	6,725,493
Auxiliary enterprises, including residence halls, food service, bookstore and arts center	9,398,720	-	-	9,398,720
Total expenses	50,573,578	-	-	50,573,578
Change in net assets before other Income (expense)	870,172	12,042,263	1,695,136	14,607,571
Other income (expense)				
Adoption of UPMIFA	(3,656,075)	3,656,075	-	-
Change in interest rate swap agreements	(677,722)	-	-	(677,722)
Adjustments for actuarial liability for annuity obligations	(197,814)	(85,586)	343,094	59,694
Net unrealized gains (losses) on long-term investments	22,566,477	8,874,267	92,667	31,533,411
Net unrealized gains on funds held in trust by others	-	-	2,650,920	2,650,920
Increase in net assets from other income (expense)	18,034,866	12,444,756	3,086,681	33,566,303
Change in net assets	18,905,038	24,487,019	4,781,817	48,173,874
Net assets at beginning of year	80,725,672	5,612,838	130,267,820	216,606,330
Net assets at end of year	$ 99,630,710	$ 30,099,857	$ 135,049,637	$ 264,780,204

(Continued)

CENTRE COLLEGE OF KENTUCKY

STATEMENT OF ACTIVITIES

Year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Comprehensive fee	$ 47,233,516	$ -	$ -	$ 47,233,516
Less financial aid and scholarships	17,414,666	-	-	17,414,666
Net tuition and fees	29,818,850	-	-	29,818,850
Gifts and grants	2,373,583	2,124,221	1,360,940	5,858,744
Federal grants	368,323	-	-	368,323
Investment income	2,094,450	112,980	203,001	2,410,431
Net realized gains (losses) on long-term investments	(13,672)	(1,384)	335,462	320,406
Net realized losses on funds held in trust by others	-	-	(337,949)	(337,949)
Auxiliary enterprises, including bookstore and arts center	1,730,778	-	-	1,730,778
Other income	225,698	57,239	-	282,937
Net assets released from restrictions	2,415,406	(2,415,406)	-	-
Total revenues, gains and other support	39,013,416	(122,350)	1,561,454	40,452,520
Expenses				
Instructional	14,417,488	-	-	14,417,488
Academic support	2,395,756	-	-	2,395,756
Student services	6,844,515	-	-	6,844,515
Institutional support	9,098,015	-	-	9,098,015
Operation and maintenance of plant	5,602,599	-	-	5,602,599
Auxiliary enterprises, including residence halls, food service, bookstore and arts center	8,840,520	-	-	8,840,520
Total expenses	47,198,893	-	-	47,198,893
Change in net assets before other Income (expense)	(8,185,477)	(122,350)	1,561,454	(6,746,373)
Other income (expense)				
Reclassification of prior year balances (Note 1)	1,321,660	(1,321,660)	-	-
Change in interest rate swap agreements	(2,013,578)	-	-	(2,013,578)
Adjustments for actuarial liability for annuity obligations	65,003	(129,077)	(72,881)	(136,955)
Net unrealized gains (losses) on long-term investments	14,881,129	2,440,805	(406,134)	16,915,800
Net unrealized gains on funds held in trust by others	-	-	2,179,192	2,179,192
Increase in net assets from other income (expense)	14,254,214	990,068	1,700,177	16,944,459
Change in net assets	6,068,737	867,718	3,261,631	10,198,086
Net assets at beginning of year	74,656,935	4,745,120	127,006,189	206,408,244
Net assets at end of year	$ 80,725,672	$ 5,612,838	$ 130,267,820	$ 216,606,330

See accompanying notes.

CENTRE COLLEGE OF KENTUCKY

STATEMENTS OF CASH FLOWS

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	$ 48,173,874	$ 10,198,086
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized (gains) losses on long-term investments	(34,410,938)	(17,236,206)
Net realized and unrealized (gains) losses on funds held in trust by others	(3,231,392)	(1,841,243)
Change in interest rate swap valuation	678,444	2,013,578
Depreciation	4,879,547	4,413,265
Amortization of bond issuance costs	65,639	61,991
Amortization of premium and discount on bonds	(10,842)	(10,775)
(Gain) loss on sale/disposal of property, plant and equipment	(23,801)	138,485
Contributions restricted for long-term investments	(2,168,269)	(734,455)
Changes in cash due to changes in		
Accounts receivable, net	48,811	107,281
Other receivables	(91,296)	290,146
Inventories	(31,592)	(26,409)
Prepaid expenses	(75,102)	164,745
Pledges receivable	(10,530,710)	2,346,659
Accounts payable and accrued expenses	109,386	(911,270)
Accrued salaries and wages	(42,814)	14,474
Deposits and agency funds	(36,747)	22,378
Annuity payment liability and life income obligations	(59,694)	136,955
Net cash from operating activities	3,242,504	(852,315)
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,609,956)	(22,051,027)
Proceeds from sale of property	35,749	17,502
Proceeds from sale and maturity of investments	14,914,231	2,349,134
Purchases of investments	(9,699,525)	(9,392,337)
Termination of interest rate swaps	(672,722)	
Long-term student loans	(50,800)	(144,300)
Long-term student loan repayments	151,500	102,182
Net cash from investing activities	(2,931,523)	(29,118,846)

(Continued)

CENTRE COLLEGE OF KENTUCKY

STATEMENTS OF CASH FLOWS

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investments	$ 2,168,269	$ 734,455
Other financing activities:		
Proceeds from issuance of long-term note	9,034,823	-
Refunding of long-term debt	(8,270,000)	-
Payments on long-term debt	(265,000)	(255,000)
Payments of annuity obligations	(162,437)	(197,706)
Expenditures for bond issuance	(65,326)	-
Advance from federal government for student loans	(13,771)	(19,847)
Change in restricted cash from bond proceeds	7,472,402	24,037,564
Net cash from financing activities	9,898,960	24,299,466
Change in cash and cash equivalents	10,209,941	(5,671,695)
Cash and cash equivalents, beginning of year	9,040,998	14,712,693
Cash and cash equivalents, end of year	$ 19,250,939	$ 9,040,998
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 3,419,603	$ 3,497,926

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: Centre College of Kentucky (the "College") is an independent, selective educational community dedicated solely to liberal studies in the arts and sciences as the means to develop the intellectual, personal, and moral potential of its students. The College is accredited by the Southern Association of Colleges and Schools and is located in Danville, Kentucky.

Basis of Presentation: The financial statements of the College have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, net assets have been grouped into the following three categories:

> *Unrestricted Net Assets* - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.
>
> *Temporarily Restricted Net Assets* - Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.
>
> *Permanently Restricted Net Assets* - Net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the College.

The College follows the policy of reporting donor-imposed restricted contributions whose restrictions are met in the same period as unrestricted revenue. The College follows the policy of reporting temporarily restricted contributions and temporarily restricted endowment income, for which stipulations are not met in the same period, in the statements of activities as increases in temporarily restricted net assets in the period received. Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one category of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Cash and Cash Equivalents: The College considers all highly liquid investments with a maturity of three months or less to be cash equivalents. The College maintains cash and cash equivalents with various financial institutions. At times, such cash and cash equivalents may be in excess of the FDIC and international insurance levels.

Accounts and Loans Receivable: Accounts receivable consists of student charges, employee advances and amounts owed from vendors. Payment is due immediately unless the student has been set up on a specific payment plan. Interest is assessed monthly when payments are past due. A reserve for student receivables is established when collection is considered questionable and accounts are written off when the College deems further collection efforts will not produce additional recoveries.

The loans receivable consist of student financial aid granted through the Perkins Student Loan program. The loans are guaranteed by the Federal government and bear a current interest rate of 5% and are payable over 10 years upon graduation.

Investments: Investments in marketable debt and equity securities are stated at fair value based upon quoted market prices; real estate investments from gifts are stated at fair value based upon appraisals; alternative and private equity securities are valued at estimated fair value at their net asset value per share as determined by the fund managers. Net unrealized and realized gains or losses are reflected in the statement of activities.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The College believes that the carrying amount of its alternative and private equity securities is a reasonable estimate of fair value as of June 30, 2011 and 2010. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

Investment Management Policy of Endowment and Annuity Funds: The College follows the policy of pooling securities and other assets for investment of all nonsegregated endowment and annuity funds. The method used to account for principal and income transactions is the market value method utilizing a unit basis. This method, among other things, provides for (i) maintaining the identity of the individual participating funds; (ii) accounting for the principal of each fund separately; (iii) computing and accounting for the income of each fund separately so that all restrictions relating to it are observed; (iv) maintaining the equities of each of the funds on the basis of the market value of the pooled investments through the use of units; and (v) maintaining and distributing to a separate account all realized gains and losses on investment transactions. Earnings of unrestricted quasi endowment funds are available for use at the discretion of the governing board.

In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the unspent market appreciation of donor restricted endowment funds is presented as temporarily restricted assets until appropriated for expenditure by the College. When losses on the investments of a donor-restricted endowment fund exceed the net appreciation classified in temporarily restricted net assets, the excess loss reduces unrestricted net assets. Gains that restore the fair value of the assets of the endowment fund to the fund's required level (historic dollar value) are classified as an increase to the same class of net assets that was previously reduced for the excess loss - unrestricted net assets. After the fair value of the assets of the endowment fund equals the required level, gains are again available for expenditure, and those gains that are restricted by the donor are classified as increases in temporarily restricted net assets. During the year ended June 30, 2011, $22,694,716 of net gains increased, and during the year ended June 30, 2010, $4,104,191 of net gains increased, unrestricted net assets resulting in $8,693,537 and $19,297,726, respectively, of endowment funds remaining below their historic dollar value.

Investment income is reported in the statement of activities net of related investment management fees of $1,275,762 and $998,164 for 2011 and 2010, respectively.

Inventories: Inventories consist of supplies and are carried at the lower of cost (first-in, first-out) or market.

Split-Interest Agreements**:** The College's beneficial interest in charitable lead and remainder trusts, for which the College is not the trustee, are included in pledges receivable on the statements of financial position at fair value. Assets held in charitable remainder trusts, for which the College is trustee, are included in long-term investments on the statements of financial position at fair value. For the liabilities, the federal midterm rate applicable to each charitable remainder trust at its inception, or at the date the College adopted applicable accounting measurement standards, whichever is later, is used for every subsequent determination of the net present value of the College's remainder interest under that trust until the trust's maturity.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment: Property, plant and equipment is recorded at cost at the date of acquisition or fair value at the date of gift, if donated. Generally, expenditures of greater than $2,500 which increase values or extend useful lives of the respective assets are capitalized. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	20-100 years
Building improvements	10-20 years
Furniture and equipment	5-20 years
Library books	20 years

The College follows the policy of lifting the restrictions on contributions of cash or other assets received for the acquisition of long-lived assets when the long-lived assets are acquired. It is the College's policy not to fund depreciation.

When assets are sold or retired, the cost and any related depreciation is eliminated from the account and any resulting gain or loss is included in the statement of activities.

The College capitalizes interest in connection with the construction of capital assets. Actual costs incurred related to capital projects qualify for interest capitalization. Interest capitalization ceases when the construction of an asset is complete and available for use.

Impairment of Long-Lived Assets: On an ongoing basis, the College reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The College recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of June 30, 2011 and 2010, management believes that no impairments existed.

Funds Held in Trust by Others: Funds 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. These investments are recorded at the fair value of the principal amount.

Advances from Federal Government for Student Loans: Funds provided by the United States Government under the Federal Perkins Loan program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and, therefore, recorded as a liability in the accompanying financial statements.

Self-Insurance: The College is primarily self-insured for health insurance costs, with losses insured in excess of a maximum amount on both a per claim and annual aggregate claim amount. The self-insurance liability is based on claims filed and an estimate of claims incurred but not yet reported.

Revenue: Revenue from tuition is recognized during the semester in which the student attends class. Revenue from government grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreement. Deferred revenue includes amounts received from tuition and fees prior to the end of the fiscal year but related to the subsequent reporting period. Deferred revenue of $204,536 and $190,716 for the years ended June 30, 2011 and 2010, respectively, is included with deposits and agency funds on the statement of financial position.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Issuance Costs: Certain costs were incurred for the issuance of the Kentucky Refunding and Improvement Revenue Bonds described in Note 6. As the bonds consist of various components, the issuance costs have been allocated among those components based on comparative size. The bond issuance costs are being amortized using the effective interest method over the life of the bond component or the optional redemption date of June 1, 2017, whichever is earlier.

Allocations of Expenses: The majority of expenses can generally be directly identified with the programs or supporting service to which they relate and are charged, accordingly. Other expenses have been allocated among program and supporting service classifications on a basis determined by the College's management.

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

Income Taxes: The College operates as a nonprofit corporation and is exempt from income taxes under Internal Revenue Code Section 501(c)(3).

Additionally, the College is in compliance with guidance issued by the Financial Accounting Standards Board ("FASB") with respect to accounting for uncertainty in income taxes as of January 1, 2009. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit will be recorded.

Fair Value of Financial Instruments Other Than Investments: The fair values of financial instruments other than investments, which include cash and cash equivalents, accounts receivable, student fees and deposits, pledges, student loans, accounts payable, interest rate swaps, and debt, are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments. In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk. Accordingly, the fair values may not represent actual values that could have been realized at year-end or that will be realized in the future.

The carrying value of the College's bonds approximates market value based on the bonds payable bearing the rate of interest commensurate to that of similar instruments and current rates.

Reclassifications: A review conducted during 2010 of certain temporarily restricted net assets identified an error in the classification of certain assets. This resulted in net reductions to temporarily restricted net assets and a net increase to unrestricted net assets of $1,321,660.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2011 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2011. Management has performed their analysis through September 22, 2011, the date the financial statements were issued.

(Continued)

NOTE 2 – PLEDGES RECEIVABLE

Unconditional promises are included in the financial statements as pledges receivable and as revenue in the appropriate net asset category. Pledges to be received within one year are recorded at their fair value, net of allowances. Pledges to be received in more than one year have been recorded at the net present value of the expected future cash flows, net of allowances. The net present value of unconditional promises made in 2011 and 2010 was calculated using a discount rate of 0.92% and 1.04%, respectively, which approximates the average yield rate at the time the pledges were made on U.S. Treasury securities with comparable maturity dates. Management estimates the net present value of charitable remainder trusts included in pledges receivable, for which the College is not the trustee, based on a representative published high-quality bond index (i.e., Moody's Aa), which was approximately 0.92% and 1.04% at June 30, 2011 and 2010, respectively.

The College receives intentions to give from potential donors throughout the year. However, the College does not record intentions to give in the financial statements until such time, if any, as the potential donor executes an unconditional promise to give or makes a cash donation to the College.

Unconditional promises at June 30, 2011 are expected to be realized in the following periods:

	2011			
	Less Than One Year	One Year to Five Years	Over Five Years	Total
Unconditional promises for:				
Unrestricted net assets	$ 189,129	$ 183,000	$ -	$ 372,129
Buildings and equipment	12,023,750	3,281,250	-	15,305,000
Endowment funds	2,267,573	12,346,745	-	14,614,318
	14,480,452	15,810,995	-	30,291,447
Beneficial interest in charitable remainder trusts	-	-	3,080,333	3,080,333
Less discount to net present value	-	(335,013)	(1,034,929)	(1,369,942)
	$ 14,480,452	$ 15,475,982	$ 2,045,404	$ 32,001,838

(Continued)

NOTE 2 – PLEDGES RECEIVABLE (Continued)

Unconditional promises at June 30, 2010 are expected to be realized in the following periods:

	2010			
	Less Than One Year	One Year to Five Years	Over Five Years	Total
Unconditional promises for:				
Unrestricted net assets	$ 115,000	$ 15,000	$ -	$ 130,000
Buildings and equipment	23,750	591,250	-	615,000
Endowment funds	2,860,661	13,560,633	2,000,000	18,421,294
	2,999,411	14,166,883	2,000,000	19,166,294
Beneficial interest in trust	1,000,000	-	-	1,000,000
Beneficial interest in charitable remainder trusts	-	-	2,786,472	2,786,472
	3,999,411	14,166,883	4,786,472	22,952,766
Less discount to net present value	-	(383,976)	(1,097,662)	(1,481,638)
	$ 3,999,411	$ 13,782,907	$ 3,688,810	$ 21,471,128

NOTE 3 – INVESTMENTS

Long-term investments consist of the following fair value as of June 30, 2011 and 2010:

	2011	2010
Endowment funds and assets held in charitable remainder trusts:		
Cash equivalents	$ 37,397	$ 32,721
Obligations of the U. S. Government	1,296,521	1,307,261
Equity securities	52,130,106	39,558,064
Private equity securities	53,182,583	40,876,517
Alternative equity securities	28,939,004	30,414,133
International equity securities	31,584,883	26,194,941
Debt securities	10,846,767	10,250,344
Other notes receivable	1,147,720	1,057,066
Other	96,588	127,775
Total endowment funds and assets held in charitable remainder trusts	179,261,569	149,818,822
Annuity and life income funds:		
Equity securities	2,140,730	2,387,247
Total long-term investments	$ 181,402,299	$ 152,206,069

(Continued)

NOTE 3 – INVESTMENTS (Continued)

The College is committed to fund $22.9 million in future required capital calls relating to its investment in certain private equity securities. Such commitments are generally called over a period of years and contain fixed expiration dates or other termination clauses.

The College's long-term investments include stocks, bonds, government obligations, investments in funds that invest in derivative instruments, and other investment securities. Other notes receivable consist of life insurance contracts with certain officers of the College whereby the College will be fully reimbursed for amounts paid in addition to related earnings. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of long-term investments and net assets of the College.

NOTE 4 – DERIVATIVE INSTRUMENTS

As noted below, the College has entered into certain interest rate swaps to receive market rate interest and pay fixed rate interest to various major financial institutions that lock in the College's interest rate paid on certain variable rate bonds. The variable interest on the bonds is hedged by these interest rate swaps. Net interest payments will be effectively fixed at the rates indicated during the period. The College intends to hold these interest rate swaps until maturity. These interest rate swaps are considered derivatives and are recognized on the statement of net assets at their fair value. Changes in the fair value of these derivatives are reported as non-operating revenue or expense on the statement of activities.

During 2008, the College entered into three interest rate swaps to receive market rate interest and pay fixed rate interest to a major financial institution that locked in the College's interest rate paid on a portion of its bonds. The interest rate swap agreements are for the purpose of reducing certain exposures to interest rate fluctuations. During 2011, in conjunction with paying off the 2008B bond, the College terminated two related swap agreements. At June 30, 2011 and 2010, the remaining interest rate swap had a total notional amount of $13,075,000. Under this agreement, the College pays interest at a rate of 4.436% and receives a rate based on the SIFMA index. This agreement expires June 2037.

During 2009, the College entered into three other interest rate swaps to receive market rate interest and pay fixed rate interest to a major financial institution that locked in the College's interest rate paid on a portion of its bonds payable. During 2011, the College terminated these three swaps while entering into a new swap agreement. At June 30, 2011 and 2010, these interest rate swaps had a total notional amount of $21,310,000 and 21,400,000, respectively. Under the new agreement, the College pays interest at 3.865% and receives rates based on the SIFMA index. This agreement expires June 1, 2037.

At June 30, 2011 and 2010, the fair value of the two swap agreements reflected an obligation of the College of $3,685,441 and $3,679,719, respectively. This change in value is recognized as a nonoperating decrease in net assets.

In addition to the unrealized loss shown above, the net settlements from the interest rate swap agreements are included within interest expense, which is allocated across the expense classifications in the statement of activities. For the years ended June 30, 2011 and 2010, the net settlements resulted in an increase to interest expense in the amounts of $1,269,032 and $1,323,700, respectively.

(Continued)

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2011 and 2010:

	2011	2010
Land and land improvements	$ 7,117,877	$ 6,813,092
Buildings	128,243,952	104,521,046
Furniture and equipment	21,838,182	21,260,753
Construction in progress	2,155,716	19,257,955
	159,355,727	151,852,846
Less accumulated depreciation	(59,038,360)	(54,253,940)
	$ 100,317,367	$ 97,598,906

The estimated cost to complete current construction projects is $15,500,000 at June 30, 2011.

The College follows the practice of capitalizing interest during construction on the capital projects paid with the proceeds of bond issues. Interest in the amount of $399,572 and $1,356,507 was capitalized during the years ended June 30, 2011 and 2010, respectively.

NOTE 6 – LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2011 and 2010:

	2011	2010
$44,535,000 County of Boyle, Kentucky College Refunding and Improvement Revenue Bond, Series 2007A, payable in annual installments commencing June 1, 2008 ranging from $255,000 to $8,355,000 with the final installment due June 1, 2037. Interest is due semi-annually at interest rates ranging from 4.0% to 5.0%.	$ 43,160,000	$ 43,425,000
$42,655,000 County of Boyle, Kentucky College Refunding and Improvement Revenue Bonds, Series 2008A and B, with no installments due until the end of the term on June 1, 2037. Interest is payable monthly based on a weekly market variable rate reset by the remarketing agent.	34,385,000	42,655,000
$9,034,823 PNC Note Payable with installments due annually until the end of the term of June 1, 2017. Interest is payable quarterly at the rate equal to daily LIBOR plus 2.00%.	9,034,823	-
Unamortized net discount on 2007A Bonds	(420,913)	(410,071)
	86,158,910	85,669,929
Less current portion	(745,000)	(265,000)
Total long-term debt	$ 85,413,910	$ 85,404,929

(Continued)

NOTE 6 – LONG-TERM DEBT (Continued)

In August 2007, the College issued $86,760,000 of County of Boyle, Kentucky College Refunding and Improvement Revenue Bond, Series 2007A, B and C. Proceeds were used to (i) refund the City of Danville, Kentucky Economic Development Revenue Bonds, Series 2002, in the outstanding principal and accrued interest amount of $220,331, (ii) refund the City of Danville, Kentucky Economic Development revenue Bonds, Series 2004, in the outstanding principal and accrued interest amount of $397,693, and to (iii) refund the Kentucky Economic Development Finance Authority Refunding and Improvement Revenue Bonds, Series 2002, in the outstanding principal and accrued interest amount of $39,225,930. The early extinguishment of the KEDFA Bonds resulted in a redemption loss of $196,102. At June 30, 2011, there are no remaining proceeds.

The College subsequently issued $42,655,000 of County of Boyle, Kentucky College Refunding and Improvement Revenue Bonds, Series 2008A and B. Proceeds were used to refund the aforementioned Series 2007B and C bonds in the outstanding principal amount of $42,225,000. The underlying uses of the 2008A and B bonds are the same as the refunded 2007B and C bonds. During the year ended June 30, 2011, the Series 2008B bond, in the amount of $8,270,000, was paid using the note payable described below.

Effective June 2, 2011, the College entered into a loan agreement with PNC bank. Proceeds were used (i) to pay off the 2008B bond of $8,270,000 and (ii) to terminate the related taxable UBS swaps for $672,000.

The bond agreement contains certain financial covenants that require the College to maintain certain debt ratios, a certain liquidity ratio and certain other guidelines or limitations related to the College's indebtedness. At June 30, 2011, the College was in compliance with all requirements.

Some of the 2007A Bonds maturing on or after June 1, 2018 are subject to optional redemption prior to maturity at the direction of the College on or after June 1, 2017 at a redemption price equal to the principal amount of the bonds to be redeemed, together with accrued interest. The bonds were originally issued at a net discount of $378,620, which is being amortized by the effective interest method over the terms of each of the bonds or up to the optional redemption date of June 1, 2017, whichever is earlier.

Scheduled maturities of long-term debt at June 30, 2011 are as follows:

2012	$ 745,000
2013	755,000
2014	760,000
2015	770,000
2016	785,000
Thereafter	82,764,823
	$ 86,579,823

(Continued)

NOTE 7 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by the donors. The purpose of the restricted contributions released during 2011 and 2010 follows:

	2011	2010
Restricted contributions for:		
Instruction	$ 3,343,518	$ 1,047,879
Academic support	84,177	85,396
Student services	236,379	308,470
Institutional support	-	23,689
Operation of plant	2,482	2,607
Student aid	3,528,559	843,449
	7,195,115	2,311,490
Auxiliary enterprises	718,695	103,916
Total net assets released from restrictions	$ 7,913,810	$ 2,415,406

NOTE 8 – RETIREMENT PLANS

The College has retirement plans for the benefit of all eligible employees through contracts with the Teachers Insurance and Annuity Association of America. Contract premium costs are based on a specified percentage of each employee's annual salary and are funded as they accrue. Total cost to the College under these defined contribution plans was $1,556,116 and $1,566,743 for 2011 and 2010, respectively.

NOTE 9 – SELF-FUNDED HEALTH INSURANCE

The College maintains a self-funded health insurance plan for all full time employees and their eligible dependents. Funded amounts are based on claims processed and submitted for payment on a weekly basis by a third-party plan administrator. Stop loss liability insurance purchased by the College reimburses for individual claims beyond $45,000 and aggregate claims beyond $1,685,629.

Total medical insurance cost to the College under this plan was $1,129,047 and $768,938 for 2011 and 2010, respectively.

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In 2006, the FASB issued new guidance on fair value measurements of financial instruments. This guidance defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the College's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

(Continued)

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

This guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair values of large cap equities, small cap equities, international equities, and government and corporate bonds are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). Certain large cap equities and alternative equities are determined by quoted market prices of similar securities with similar due dates or matrix pricing, which is a mathematical technique widely used in the industry to value large cap and alternative private equities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of the interest rate swap agreements, which are provided directly by the Counterparty (See Note 4), are based on the expected cash flows over the life of the trade of the instruments and were estimated using the closing mid-market market rate/price environment at June 30th (Level 2 inputs).

The fair value of the beneficial interests in the perpetual trust assets (or any type of beneficial interest) is based on a valuation model that calculates the present value of estimated distributed income. The valuation model incorporates assumptions that market participants would use in estimating future distributed income. The College is able to compare the valuation model inputs and results to widely available published industry data for reasonableness, but because interests in perpetual trusts are not redeemable, they are classified as a level 3 input. Real estate and energy related holdings within the perpetual trust assets are recorded based on annual appraised values.

(Continued)

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

For other investments for which there is no active market, generally referred to as "alternative investments", such as alternative public and private equities and beneficial interests in perpetual trusts, the fair values are initially based on valuations determined by the investment managers using Net Asset Values ("NAV") as of their most recent statements, adjusted for cash receipts, cash disbursements, and other anticipated income or loss through June 30th. The NAVs of the investment funds are determined on the accrual basis of accounting in conformity with U.S. GAAP; in certain instances, secondary investments require reporting other than U.S. GAAP such as International Financial Reporting Standards or Tax Basis accounting, in which case the investment managers adjust values to more accurately comply with U.S. GAAP. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values, and holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, appraisals and/or the income approach. Pursuant to U.S. GAAP, management has considered redemption restrictions to assess classification of fair value inputs. For alternative investments with redemption periods of 90 days or less, the assets are considered a Level 2 fair value measurement. Investments that are redeemable in greater than 90 days are considered Level 3 fair value measurements due to the inability to redeem the asset at NAV in the near term.

College management has done considerable independent review of valuations reported by investment managers and determined that NAV is a reasonable and prudent estimate of fair value. Alternative investments are not readily marketable and their estimated value is subject to uncertainty. Therefore, there may be a material difference between their estimated value and the value that would have been used had a readily determinable fair value for such investments existed.

Description of Alternative Investments Strategy and Liquidity:

As of June 30, 2011, the College's alternative investments consist of private equity funds, alternative asset funds, and perpetual trusts. Additional disclosure relative to the underlying strategies for these types of investments is as follows:

Strategies for Private Equities:

These funds invest in private capital such as limited partnerships, securities of companies in both domestic and international markets, securities in companies undergoing financial distress, operating difficulties or restructuring through fund investments or co-investments. These investments are long-term in duration and may provide little if any current income.

Strategies for Alternative Asset Funds:

These funds have broadly diversified strategies and are designed to target attractive risk-adjusted returns and lower volatility than most traditional asset classes. These strategies generally aim to have a low beta to equity, credit and interest rate markets, achieved through a highly diversified combination of allocations to hedge fund managers and customized vehicles.

(Continued)

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Strategies for Perpetual Trusts:

These funds were established by the donors to provide perpetual income to the College. They are invested 60% equities, 40% fixed income on average, and can never be liquidated. Included in perpetual trusts are $859,046 in real estate and energy related assets.

A summary of the alternative investments by strategy, including restrictions on redemption and liquidity as of June 30, 2011, is presented as follows:

	Balance at June 30, 2011	Unfunded Commitments	Redemption Notice	Redemption Frequency
Private equity	$ 53,182,583	$ 22,900,000	N/A	Fund Dissolved
Alternative asset funds	$ 28,939,004	$ -	90-95 days	Quarterly and Semi-Annually
Perpetual trusts	$ 26,176,975	$ -	N/A	N/A

The investments in the private equity do not allow for withdrawals from the partnership until the partnership is dissolved, unless special approval is awarded by the general partner. In nearly all of the partnerships, there are special provisions that allow for the life of the partnership to be extended beyond the original dissolution date. The schedule below lists the remaining numbers of years until the partnerships are estimated to be dissolved without extension, allowing the College to withdraw its investment:

	1 – 5 Years	6 – 10 Years	> 10 Years	Total
Private Equity	$ 40,885,824	$ 12,283,123	$ 13,636	$ 53,182,583

(Continued)

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets and Liabilities Measured on a Recurring Basis: Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2011 Using		
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities			
Large cap	$ 24,306,245	$ 12,166,820	$ -
Small cap	17,828,602	-	-
International equities	31,584,883	-	-
Alternative public equities	-	14,082,770	14,856,234
Private equity	-	-	53,182,583
Fixed income mutual funds			
Government Bonds	10,704,601	-	-
Corporate Bonds	1,445,253	-	-
Beneficial interests in perpetual trusts	-	-	26,176,975
Total	$ 85,869,584	$ 26,249,590	$ 94,215,792
Interest rate swaps	$ -	$ 3,685,441	$ -

	Fair Value Measurements at June 30, 2010 Using		
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities			
Large cap	$ 20,409,274	$ 8,825,633	$ -
Small cap	12,742,078	-	-
International equities	26,194,941	-	-
Alternative public equities	-	14,696,630	15,717,503
Private equity	-	-	40,876,517
Fixed income mutual funds		-	-
Government Bonds	10,143,963	-	-
Corporate Bonds	1,414,689	-	-
Beneficial interests in perpetual trusts	-	-	22,945,583
Total	$ 70,904,945	$ 23,522,263	$ 79,539,603
Interest rate swaps	$ -	$ 3,679,719	$ -

(Continued)

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2011:

	Alternative Public Equity	Private Equity	Beneficial Interests in Perpetual Trust
Beginning balance	$ 15,717,503	$ 40,876,517	$ 22,945,583
Purchases and capital contributions	-	7,910,736	-
Sales and disbursements	(2,000,000)	(6,628,712)	(660,704)
Unrealized gains	1,334,442	8,243,297	2,452,763
Interest and dividends	-	1,986,370	940,441
Realized gains	-	1,601,247	580,473
Investment fees	(195,711)	(806,872)	(81,581)
Ending balance	$ 14,856,234	$ 53,182,583	$ 26,176,975

All unrealized gains and losses shown in the table above relate to investments still held by the College at June 30, 2011.

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2010:

	Alternative Public Equity	Private Equity	Beneficial Interests in Perpetual Trust
Beginning balance	$ 14,366,118	$ 33,303,077	$ 21,104,340
Purchases and capital contributions	-	5,219,718	-
Sales and disbursements	-	(2,155,497)	(704,571)
Unrealized gains	1,546,301	4,280,302	1,847,526
Interest and dividends	-	752,851	735,598
Realized gains	-	73,448	-
Investment fees	(194,916)	(597,382)	(37,310)
Ending balance	$ 15,717,503	$ 40,876,517	$ 22,945,583

All unrealized gains and losses shown in the table above relate to investments still held by the College at June 30, 2010.

(Continued)

NOTE 11 – RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION

Temporarily restricted net assets are available for the following purposes:

	2011	2010
Financial aid	$ 6,475,310	$ 1,451,153
Educational and general operations	23,156,599	4,048,299
Auxiliary enterprises	399,587	98,799
Other	68,361	14,587
	$ 30,099,857	$ 5,612,838

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

	2011	2010
Financial aid	$ 90,954,203	$ 86,933,553
Educational and general operations	40,854,166	40,241,862
Auxiliary enterprises	2,064,031	2,064,842
Other	1,177,237	1,027,563
	$ 135,049,637	$ 130,267,820

The College's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by applicable standards, 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.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets				
Donor restricted funds	$ (8,693,537)	$ 10,634,431	$ 134,410,303	$ 136,351,197
Board-designated funds	77,769,194	-	-	77,769,194
Total endowment assets	69,075,657	10,634,431	134,410,303	214,120,391
Pledges toward endowment	-	-	436,690	436,690
Permanently restricted loan funds	-	-	202,644	202,644
Total endowment, pledges toward endowment and restricted loan funds	$ 69,075,657	$ 10,634,431	$ 135,049,637	$ 214,759,725

(Continued)

NOTE 11 – RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets				
Donor restricted funds	$ (15,641,651)	$ 1,301,481	$ 128,544,598	$ 114,204,428
Board-designated funds	61,938,058	-	-	61,938,058
Total endowment assets	46,296,407	1,301,481	128,544,598	176,142,486
Pledges toward endowment	-	-	1,520,578	1,520,578
Permanently restricted loan funds	-	-	202,644	202,644
Total endowment, pledges toward endowment and restricted loan funds	$ 46,296,407	$ 1,301,481	$ 130,267,820	$ 177,865,708

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, July 1, 2010	$ 46,296,407	$ 1,301,481	$ 128,544,598	$ 176,142,486
Investment return:				
Realized and unrealized gains	24,599,993	9,354,179	3,440,684	37,394,856
Interest and dividends	1,568,475	550,737	256,758	2,375,970
Total investment return	26,168,468	9,904,916	3,697,442	39,770,826
Contributions	4,792,046	-	2,168,263	6,960,309
Appropriation of endowment assets for expenditure	(8,181,264)	(571,966)	-	(8,753,230)
Endowment assets, June 30, 2011	69,075,657	10,634,431	134,410,303	214,120,391
Pledges toward endowment, July 1, 2010	-	-	1,520,578	1,520,578
Payment of pledges	-	-	(1,083,888)	(1,083,888)
Pledges toward endowment, June 30, 2011	-	-	436,690	436,690
Permanently restricted loans, (no activity for year)	-	-	202,644	202,644
Total endowment, pledges toward endowment and restricted loan funds	$ 69,075,657	$ 10,634,431	$ 135,049,637	$ 214,759,725

(Continued)

NOTE 11 – ENDOWMENT COMPOSITION (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, July 1, 2009	$ 33,218,776	$ 350,966	$ 125,909,452	$ 159,479,194
Investment return:				
Realized and unrealized gains	15,795,794	1,397,007	1,697,690	18,890,491
Interest and dividends	1,115,769	112,949	203,001	1,431,719
Total investment return	16,911,563	1,509,956	1,900,691	20,322,210
Contributions	4,124,299	-	734,455	4,858,754
Appropriation of endowment assets for expenditure	(7,958,231)	(559,441)	-	(8,517,672)
Endowment assets, June 30, 2010	46,296,407	1,301,481	128,544,598	176,142,486
Pledges toward endowment, July 1, 2009	-	-	894,086	894,086
New pledges toward endowment	-	-	1,000,000	1,000,000
Payment of pledges	-	-	(373,508)	(373,508)
Pledges toward endowment, June 30, 2010	-	-	1,520,578	1,520,578
Permanently restricted loans, (no activity for year)	-	-	202,644	202,644
Total endowment, pledges toward endowment and restricted loan funds	$ 46,296,407	$ 1,301,481	$ 130,267,820	$ 177,865,708

Interpretation of UPMIFA: UPMIFA was enacted in Kentucky effective July 15, 2010. The Board of Directors of the College have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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.

(Continued)

NOTE 11 – ENDOWMENT COMPOSITION (Continued)

In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization 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 organization
(7) The investment policies of the organization.

Interpretation of UMIFA: The Board of Trustees of Centre College has interpreted the *Uniform Management of Institutional Funds Act* ("UMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Effective July 15, 2010, the Board adopted UPMIFA.

As a result of this interpretation, the College classified 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.

As a result of the adoption of UPMIFA, $3,656,075 of unrestricted net assets were reclassified as temporarily restricted net assets, representing unexpended endowment earnings.

Return Objectives and Risk Parameters: The primary objective of the investments for the Endowment Fund is to adequately support Centre College's current financial needs while preserving assets for future generations by providing long-term growth of income and principal.

Strategies Employed for Achieving Objectives: The objective shall be accomplished utilizing a diversified strategy of public and private equities, including traditional long-only public equity portfolios as well as low-leverage alternative public equity strategies, and fixed income securities in a mix which is conducive to participation in rising markets while allowing for adequate protection in falling markets.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The College uses the "total return" approach for pooled investments of endowment and similar funds. The spending policy of the Board is a 5% payout rate based on a twelve quarter moving average and is determined annually in conjunction with budget authorization. However, during 2011 and 2010, the Board authorized spending above the 5% payout rate which approximated 5.59% and 5.34%, respectively. Using the spending formula and additional payout authorizations, approximately $10,145,859 and $9,644,000 of total return was appropriated from the pooled endowment and similar funds for operating purposes in 2011 and 2010, respectively.

The Board of Trustees always has the authority to revert the designation of unrestricted net assets and to use them for other purposes in connection with the charter of Centre College and governing laws, regulations and Board policies. In 2011 and 2010, the Board approved $2.19 million and $4.98 million, respectively, of the total authorized payout to be funded from quasi endowment funds to supplement spending for endowments that were underwater. These funds will be repaid to the quasi endowment funds as the endowment emerges from its underwater state.

(Continued)

NOTE 11 – ENDOWMENT COMPOSITION (Continued)

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration, resulting in “underwater endowments”. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. Underwater endowments totaled $8.7 million and $19.3 million at June 30, 2011 and 2010, respectively.