CENTRE COLLEGE OF KENTUCKY
Danville, Kentucky

FINANCIAL STATEMENTS
June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Centre College of Kentucky
Danville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Centre College of Kentucky (the "College"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 27, 2013

CENTRE COLLEGE OF KENTUCKY
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 18,117,730	$ 6,809,171
Pledges receivable (Note 2)	6,199,667	8,286,393
Accounts and loans receivable, less allowance for doubtful accounts of $141,136 and $136,442 in 2013 and 2012, respectively	314,674	279,803
Other receivables	80,857	196,062
Inventories	224,146	260,669
Prepaid expenses	544,227	715,872
Total current assets	25,481,301	16,547,970
Pledges receivable (Note 2)	16,283,172	13,407,159
Student loans, less allowance for uncollectible loans of $21,889 in 2013 and 2012	997,942	1,117,911
Long-term investments (Note 3)		
Endowment funds	195,859,590	180,250,051
Assets held in charitable remainder trusts	1,442,137	1,324,439
Annuity and life income funds	663,880	634,603
Total long-term investments	197,965,607	182,209,093
Property, plant and equipment, net (Note 5)	109,198,040	111,129,192
Bond issuance costs, net of accumulated amortization of $80,081 and $80,995 in 2013 and 2012, respectively (Note 6)	814,861	894,942
Funds held in trust by others	26,534,799	25,178,517
Total assets	$ 377,275,722	$ 350,484,784

(Continued)

	2013	2012
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 1,996,258	$ 3,073,877
Accrued salaries and wages	2,309,159	2,123,170
Deposits and agency funds	1,377,428	1,246,690
Current portion of long-term debt (Note 6)	731,741	726,741
Current portion of fair value adjustment in interest rate swaps (Note 4)	1,098,386	1,098,386
Total current liabilities	7,512,972	8,268,864
Other liabilities		
Advances from federal government for student loans	660,448	672,311
Annuity payment liability and life income obligations	811,558	811,417
Long-term debt (Note 6)	83,961,083	84,704,327
Fair value adjustment in interest rate swaps (Note 4)	6,086,328	11,267,790
Total liabilities	99,032,389	105,724,709
Net assets		
Unrestricted	109,197,498	91,383,968
Temporarily restricted (Note 11)	30,222,224	18,245,323
Permanently restricted (Note 11)	138,823,611	135,130,784
Total net assets	278,243,333	244,760,075
Total liabilities and net assets	$ 377,275,722	$ 350,484,784

See accompanying notes.

CENTRE COLLEGE OF KENTUCKY
STATEMENT OF ACTIVITIES
Year ended June 30, 2013
(With comparative 2012 totals)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Operating:					
Revenues, gains and other support					
Comprehensive fee	$ 58,433,209	$ -	$ -	$ 58,433,209	$ 55,635,787
Less financial aid and scholarships	23,399,274	-	-	23,399,274	21,570,118
Net tuition and fees	35,033,935	-	-	35,033,935	34,065,669
Gifts and grants	8,488,565	7,638,865	2,209,704	18,337,134	7,578,499
Federal grants	143,561	140,990	-	284,551	330,285
Investment income	339,816	485,274	448,255	1,273,345	1,702,346
Net realized gains on long-term investments	2,839,967	3,861,973	47,669	6,749,609	4,068,058
Net realized gains on funds held in trust by others	-	-	959,592	959,592	647,923
Auxiliary enterprises, including bookstore and arts center	1,245,747	-	-	1,245,747	1,036,855
Other income	517,599	36,229	-	553,828	326,174
Net assets released from restrictions	8,634,445	(8,634,445)	-	-	-
Total revenues, gains and other support	57,243,635	3,528,886	3,665,220	64,437,741	49,755,809
Expenses					
Instructional	17,077,011	-	-	17,077,011	16,232,121
Academic support	2,727,198	-	-	2,727,198	2,576,433
Student services	8,308,439	-	-	8,308,439	7,992,150
Institutional support	13,002,242	-	-	13,002,242	11,665,962
Operation and maintenance of plant	7,519,770	-	-	7,519,770	7,236,843
Auxiliary enterprises, including residence halls, food service, bookstore and arts center	8,996,122	-	-	8,996,122	8,697,403
Total expenses	57,630,782	-	-	57,630,782	54,400,912
Increase in net assets before non-operating income (expense)	(387,147)	3,528,886	3,665,220	6,806,959	(4,645,103)
Non-operating income (expense):					
Change in interest rate swap agreements	5,181,462	-	-	5,181,462	(8,680,736)
Adjustments for actuarial liability for annuity obligations	-	(57,420)	(70,773)	(128,193)	(62,862)
Net unrealized gains (losses) on long-term investments	8,576,828	12,947,822	(1,582,811)	19,941,839	(5,585,564)
Net unrealized gains on funds held in trust by others	-	-	1,681,191	1,681,191	(1,045,864)
Recovery of underwater endowments	4,442,387	(4,442,387)	-	-	-
Increase in net assets from non-operating income (expense)	18,200,677	8,448,015	27,607	26,676,299	(15,375,026)
Change in net assets	17,813,530	11,976,901	3,692,827	33,483,258	(20,020,129)
Net assets at beginning of year	91,383,968	18,245,323	135,130,784	244,760,075	264,780,204
Net assets at end of year	$ 109,197,498	$ 30,222,224	$ 138,823,611	$ 278,243,333	$ 244,760,075

See accompanying notes

CENTRE COLLEGE OF KENTUCKY
STATEMENT OF ACTIVITIES
Year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating:				
Revenues, gains and other support				
Comprehensive fee	$ 55,635,787	$ -	$ -	$ 55,635,787
Less financial aid and scholarships	21,570,118	-	-	21,570,118
Net tuition and fees	34,065,669	-	-	34,065,669
Gifts and grants	4,834,540	1,654,170	1,089,789	7,578,499
Federal grants	143,561	186,724	-	330,285
Investment income	695,105	805,364	201,877	1,702,346
Net realized gains on long-term investments	985,360	1,351,591	1,731,107	4,068,058
Net realized gains on funds held in trust by others	-	-	647,923	647,923
Auxiliary enterprises, including bookstore and arts center	1,036,855	-	-	1,036,855
Other income	261,132	65,042	-	326,174
Net assets released from restrictions	17,335,194	(17,335,194)	-	-
Total revenues, gains and other support	59,357,416	(13,272,303)	3,670,696	49,755,809
Expenses				
Instructional	16,232,121	-	-	16,232,121
Academic support	2,576,433	-	-	2,576,433
Student services	7,992,150	-	-	7,992,150
Institutional support	11,665,962	-	-	11,665,962
Operation and maintenance of plant	7,236,843	-	-	7,236,843
Auxiliary enterprises, including residence halls, food service, bookstore and arts center	8,697,403	-	-	8,697,403
Total expenses	54,400,912	-	-	54,400,912
Change in net assets before non-operating income (expense)	4,956,504	(13,272,303)	3,670,696	(4,645,103)
Non-operating income (expense):				
Change in interest rate swap agreements	(8,680,736)	-	-	(8,680,736)
Adjustments for actuarial liability for annuity obligations	-	(57,420)	(5,442)	(62,862)
Net unrealized losses on long-term investments	(1,818,328)	(1,228,993)	(2,538,243)	(5,585,564)
Net unrealized losses on funds held in trust by others	-	-	(1,045,864)	(1,045,864)
Transfer to restore underwater endowments	(2,704,182)	2,704,182	-	-
Decrease in net assets from non-operating income (expense)	(13,203,246)	1,417,769	(3,589,549)	(15,375,026)
Change in net assets	(8,246,742)	(11,854,534)	81,147	(20,020,129)
Net assets at beginning of year	99,630,710	30,099,857	135,049,637	264,780,204
Net assets at end of year	$ 91,383,968	$ 18,245,323	$ 135,130,784	$ 244,760,075

See accompanying notes.

CENTRE COLLEGE OF KENTUCKY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 33,483,258	$ (20,020,129)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized (gains) losses on long-term investments	(26,691,448)	1,517,507
Net realized and unrealized (gains) losses on funds held in trust by others	(1,356,282)	998,458
Change in interest rate swap valuation	(5,181,462)	8,680,736
Depreciation	5,590,553	5,215,936
Amortization of bond issuance costs	80,081	80,995
Amortization of premium and discount on bonds	(11,503)	(11,101)
(Gain) loss on sale/disposal of property, plant and equipment	(6,860)	32,623
Contributions restricted for long-term investments	(1,946,689)	(1,014,867)
Changes in cash due to changes in		
Accounts receivable, net	(34,871)	13,952
Other receivables	115,205	(35,935)
Inventories	36,523	(6,348)
Prepaid expenses	171,645	(346,009)
Pledges receivable	(789,287)	10,308,286
Accounts payable and accrued expenses	(1,077,619)	19,930
Accrued salaries and wages	185,989	29,210
Deposits and agency funds	130,738	169,995
Annuity payment liability and life income obligations	128,193	62,862
Net cash from operating activities	2,826,164	5,696,101
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,696,657)	(16,094,305)
Proceeds from sale of property	44,117	33,921
Proceeds from sale and maturity of investments	20,066,096	25,764,922
Purchases of investments	(9,131,163)	(28,089,224)
Long-term student loans	(44,600)	(59,350)
Long-term student loan repayments	164,569	149,277
Net cash from investing activities	7,402,362	(18,294,759)

(Continued)

	2013	2012
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investments	$ 1,946,689	$ 1,014,867
Other financing activities:		
Payments on long-term debt	(726,741)	(716,741)
Payments of annuity obligations	(128,052)	(128,287)
Advance from federal government for student loans	(11,863)	(12,949)
Net cash from financing activities	1,080,033	156,890
Change in cash and cash equivalents	11,308,559	(12,441,768)
Cash and cash equivalents, beginning of year	6,809,171	19,250,939
Cash and cash equivalents, end of year	$ 18,117,730	$ 6,809,171
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 3,512,093	$ 3,614,050

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.

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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, 2013 and 2012. 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.

<u>Investment Management Policy of Endowment and Annuity Funds</u>: 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, 2013, $4,442,387 of net gains increased, and during the year ended June 30, 2012 $(2,704,182) of net losses decreased, unrestricted net assets resulting in $6,955,332 and $11,397,719, 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 $1,335,766 and $1,033,209 for 2013 and 2012, respectively.

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

<u>Split-Interest Agreements</u>**:** 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 mid-term 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.

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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, 2013 and 2012, 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 $283,430 and $291,679 for the years ended June 30, 2013 and 2012, 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 follows accounting standards applicable to uncertain tax positions. 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.

The College would recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The College recognized and accrued no amounts for interest and penalties as of June 30, 2013 or 2012 or for the years then ended. As of June 30, 2013 and 2012, there were no uncertain tax positions identified. Management does not expect the total amount of unrecognized tax benefits to change significantly in the next 12 months.

Forms 990 and 990-T filed by the College are subject to examination by the Internal Revenue Service (IRS) for up to three years from the extended due date of each return. Management believes Forms 990 and 900-T have been filed appropriately. Forms 990 and 990-T filed by the College are no longer subject to examination for the fiscal years ended June 30, 2009 and prior.

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.

The fair values of financial instruments other than investments, which include the items listed in the preceding paragraph, are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments (Level 1 inputs - market approach). In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

cash flows and assumed discount rates reflecting varying degrees of risk (Level 2 inputs - income approach). 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. All other financial instruments' carrying values approximate fair value as of June 30, 2013 and 2012.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2013 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2013. Management has performed their analysis through September 27, 2013, the date the financial statements were issued and has determined that there are no subsequent events to disclose.

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 2013 and 2012 was calculated using a discount rate of 0.74% and 0.45%, 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 0.74% and 0.45% at June 30, 2013 and 2012, 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, 2013 are expected to be realized in the following periods:

	2013			
	Less Than One Year	One Year to Five Years	Over Five Years	Total
Unconditional promises for:				
Unrestricted net assets	$ 126,667	$ 70,000	$ -	$ 196,667
Buildings and equipment	4,009,000	54,000	-	4,063,000
Endowment funds	2,064,000	6,598,000	-	8,662,000
	6,199,667	6,722,000	-	12,921,667
Beneficial interest in charitable remainder trusts	-	-	25,361,759	25,361,759
Less discount to net present value	-	(101,528)	(15,699,059)	(15,800,587)
	$ 6,199,667	$ 6,620,472	$ 9,662,700	$ 22,482,839

(Continued)

NOTE 2 - PLEDGES RECEIVABLE (Continued)

Unconditional promises at June 30, 2012 are expected to be realized in the following periods:

	2012			
	Less Than One Year	One Year to Five Years	Over Five Years	Total
Unconditional promises for:				
Unrestricted net assets	$ 116,333	$ 225,334	$ -	$ 341,667
Buildings and equipment	6,007,500	7,500	-	6,015,000
Endowment funds	2,162,560	9,169,556	-	11,332,116
	8,286,393	9,402,390	-	17,688,783
Beneficial interest in charitable remainder trusts	-	-	9,339,545	9,339,545
Less discount to net present value	-	(101,875)	(5,232,901)	(5,334,776)
	$ 8,286,393	$ 9,300,515	$ 4,106,644	$ 21,693,552

NOTE 3 - INVESTMENTS

Long-term investments consist of the following fair value as of June 30, 2013 and 2012:

	2013	2012
Endowment funds:		
Cash equivalents	$ 39,423	$ 21,740
Obligations of the U. S. Government	1,258,925	1,315,347
Equity securities	63,705,785	54,287,330
Private equity securities	64,265,171	60,605,610
Alternative equity securities	27,663,690	28,308,912
International equity securities	27,599,389	24,799,454
Debt securities	9,703,419	9,601,292
Other notes receivable	1,488,780	1,213,583
Other	135,008	96,783
Total endowment funds	195,859,590	180,250,051
Assets held in charitable remainder trusts and annuity and life income funds:		
Equity securities	2,106,107	1,959,042
Total long-term investments	$ 197,965,607	$ 182,209,093

The College is committed to fund $16.1 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

(Continued)

NOTE 3 - INVESTMENTS (Continued)

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, 2013 and 2012, 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 1, 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 2012, the College terminated these three swaps while entering into a new swap agreement. At June 30, 2013 and 2012, the remaining interest rate swap had a total notional amount of $21,310,000. 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, 2013 and 2012, the fair value of the two swap agreements reflected an obligation of the College of $7,184,714 and $12,366,176, respectively. This change in value is recognized as a nonoperating increase 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, 2013 and 2012, the net settlements resulted in an increase to interest expense in the amounts of $1,245,731 and $1,327,659, respectively.

As part of the interest rate swap agreements, the College is required to maintain a margin call deposit in its cash accounts, which is restricted for such use. Amounts totaling $0 and $830,245 at June 30, 2013 and 2012, respectively, for this purpose are included in cash and cash equivalents on the statement of financial position.

(Continued)

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2013 and 2012:

	2013	2012
Land and land improvements	$ 11,698,012	$ 9,334,311
Buildings	143,217,938	129,895,886
Furniture and equipment	23,281,871	22,125,386
Construction in progress	606,665	13,867,251
	178,804,486	175,222,834
Less accumulated depreciation	(69,606,446)	(64,093,642)
	$ 109,198,040	$ 111,129,192

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2013 and 2012:

	2013	2012
$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%.	$ 42,620,000	$ 42,895,000
$34,385,000 County of Boyle, Kentucky College Refunding and Improvement Revenue Bonds, Series 2008A, 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	34,385,000
$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%.	8,131,341	8,583,082
Unamortized net discount on 2007A Bonds	(443,517)	(432,014)
	84,692,824	85,431,068
Less current portion	(731,741)	(726,741)
Total long-term debt	$ 83,961,083	$ 84,704,327

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 (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.

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

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 to (i) pay off the 2008B Bond of $8,270,000, and (ii) 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, 2013, 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, 2013 are as follows:

2014	$ 731,741
2015	741,741
2016	756,741
2017	7,096,118
2018	1,350,000
Thereafter	74,460,000
	$ 85,136,341

NOTE 7 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets are released from donor restrictions when expenses are, 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 2013 and 2012 follows:

	2013	2012
Restricted contributions for:		
Instruction	$ 3,175,902	$ 2,792,230
Academic support	67,983	72,395
Student services	243,739	283,418
Institutional support	68,558	59,679
Operation of plant	1,866,580	9,091,124
Student aid	5,215,925	4,882,091
	10,638,687	17,180,937
Auxiliary enterprises	148,758	154,257
Total before transfer of charitable remainder trust funds	10,787,445	17,335,194
Transfer of charitable remainder trust funds	(2,153,000)	-
Total net assets released from restrictions	$ 8,634,445	$ 17,335,194

(Continued)

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 $1,668,284 and $1,557,290 for 2013 and 2012, 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 $2,644,968.

Total medical insurance cost to the College under this plan was $1,512,717 and 1,134,562 for 2013 and 2012, respectively.

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting standards define 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. 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.

Equities and bonds: 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) [market approach].

(Continued)

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Swap agreements: 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 30 (Level 2 inputs)[market approach].

Beneficial interests: 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 [income approach]. Real estate and energy related holdings within the perpetual trust assets are recorded based on annual appraised values.

Alternative Investments: 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 30. 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.

<u>Description of Alternative Investments Strategy and Liquidity</u>:

As of June 30, 2013, 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; and 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.

(Continued)

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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.

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 $730,564 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, 2013, is presented as follows:

	Balance at June 30, 2013	Unfunded Commitments	Redemption Notice	Redemption Frequency
Private equity	$ 64,265,171	$ 16,099,658	N/A	Fund Dissolved
Alternative asset funds	$ 27,663,690	$ -	90-95 Days	Quarterly and Semi-Annually
Perpetual trusts	$ 26,534,799	$ -	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	$ 55,520,129	$ 8,613,080	$ 131,962	$ 64,265,171

(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, 2013 Using		
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities			
Large cap	$ 15,659,201	$ 29,049,800	$ -
Small cap	-	21,032,745	-
International equities	27,599,389	-	-
Alternative public equities	-	11,292,173	16,371,517
Private equity	-	-	64,265,171
Fixed income mutual funds			
Government bonds	9,561,875	-	-
Corporate bonds	1,509,947	-	-
Beneficial interests in perpetual trusts	-	-	26,534,799
Total	$ 54,330,412	$ 61,374,718	$ 107,171,487
Interest rate swaps	$ -	$ 7,184,714	$

	Fair Value Measurements at June 30, 2012 Using		
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities			
Large cap	$ 14,111,564	$ 24,090,206	$ -
Small cap	-	18,057,216	-
International equities	24,799,454	-	-
Alternative public equities	-	13,489,048	14,819,864
Private equity	-	-	60,605,610
Fixed income mutual funds			
Government bonds	9,448,305	-	-
Corporate bonds	1,477,462	-	-
Beneficial interests in perpetual trusts	-	-	25,178,517
Total	$ 49,836,785	$ 55,636,470	$ 100,603,991
Interest rate swaps	$ -	$ 12,366,176	$ -

(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, 2013:

	Alternative Public Equity	Private Equity	Beneficial Interests in Perpetual Trust
Beginning balance	$ 14,819,864	$ 60,605,610	$ 25,178,517
Purchases and capital contributions	-	7,321,508	-
Sales and disbursements	-	(12,970,180)	(1,284,501)
Unrealized gains (losses)	1,750,500	3,553,481	1,238,926
Interest and dividends	-	1,269,170	564,700
Realized gains	-	5,318,334	959,592
Investment fees	(198,847)	(832,752)	(122,435)
Ending balance	$ 16,371,517	$ 64,265,171	$ 26,534,799

All unrealized gains and losses shown in the table above relate to investments still held by the College at June 30, 2013.

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, 2012:

	Alternative Public Equity	Private Equity	Beneficial Interests in Perpetual Trust
Beginning balance	$ 14,856,234	$ 53,182,583	$ 26,176,975
Purchases and capital contributions	-	9,828,816	-
Sales and disbursements		(5,503,909)	(600,519)
Unrealized gains (losses)	147,332	1,639,395	(1,757,772)
Interest and dividends	-	995,520	816,999
Realized gains	-	993,573	647,923
Investment fees	(183,702)	(530,368)	(105,089)
Ending balance	$ 14,819,864	$ 60,605,610	$ 25,178,517

All unrealized gains shown in the table above relate to investments still held by the College at June 30, 2012.

NOTE 11 - RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION

Temporarily restricted net assets are available for the following purposes:

	2013	2012
Financial aid	$ 8,592,186	$ 4,139,577
Educational and general operations	20,967,618	13,770,691
Auxiliary enterprises	490,117	284,601
Other	172,303	50,454
	$ 30,222,224	$ 18,245,323

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

	2013	2012
Financial aid	$ 93,533,390	$ 90,968,717
Educational and general operations	41,454,791	40,835,614
Auxiliary enterprises	2,068,849	2,068,849
Other	1,766,581	1,257,604
	$ 138,823,611	$ 135,130,784

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, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets				
Donor-restricted funds	$ (6,955,332)	$ 13,777,934	$ 137,946,340	$ 144,768,942
Board-designated funds	86,475,018	-	-	86,475,018
Total endowment assets	79,519,686	13,777,934	137,946,340	231,243,960
Pledges toward endowment	-	-	677,027	677,027
Permanently restricted loan funds	-	-	200,244	200,244
Total endowment, pledges toward endowment and restricted loan funds	$ 79,519,686	$ 13,777,934	$ 138,823,611	$ 232,121,231

(Continued)

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets				
Donor-restricted funds	$ (11,397,719)	$ 7,680,314	$ 134,516,534	$ 130,799,129
Board-designated funds	76,517,228	-	-	76,517,228
Total endowment assets	65,119,509	7,680,314	134,516,534	207,316,357
Pledges toward endowment	-	-	414,006	414,006
Permanently restricted loan funds	-	-	200,244	200,244
Total endowment, pledges toward endowment and restricted loan funds	$ 65,119,509	$ 7,680,314	$ 135,130,784	$ 207,930,607

Changes in endowment net assets for year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, July 1, 2012	$ 65,119,509	$ 7,680,314	$ 134,516,534	$ 207,316,357
Investment return:				
Realized and unrealized gains	21,936,524	6,187,646	1,034,868	29,159,038
Interest and dividends, net of investment fees	356,898	485,331	448,249	1,290,478
Total investment return	22,293,422	6,672,977	1,483,117	30,449,516
Contributions	541,199	-	1,946,689	2,487,888
Transfer	-		-	-
Appropriation of endowment assets for expenditure	(8,434,444)	(575,357)	-	(9,009,801)
Endowment assets, June 30, 2013	79,519,686	13,777,934	137,946,340	231,243,960
Pledges toward endowment, July 1, 2012	-	-	414,006	414,006
New pledges toward endowment	-	-	304,108	304,108
Payment of pledges	-	-	(41,087)	(41,087)
Pledges toward endowment, June 30, 2013	-	-	677,027	677,027
Permanently restricted loans, (no activity for year)	-	-	200,244	200,244
Total endowment, pledges toward endowment and restricted loan funds	$ 79,519,686	$ 13,777,934	$ 138,823,611	$ 232,121,231

(Continued)

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

Changes in endowment net assets for year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, July 1, 2012	$ 69,075,657	$ 10,634,431	$ 134,410,303	$ 214,120,391
Investment return:				
Realized and unrealized gains	1,721,215	(4,087,108)	292,588	(2,073,305)
Interest and dividends, net of investment fees	1,220,947	1,674,738	(1,301,224)	1,594,461
Total investment return	2,942,162	(2,412,370)	(1,008,636)	(478,844)
Contributions	1,353,653	-	1,014,867	2,368,520
Transfer	-	-	100,000	100,000
Appropriation of endowment assets for expenditure	(8,251,963)	(541,747)	-	(8,793,710)
Endowment assets, June 30, 2013	65,119,509	7,680,314	134,516,534	207,316,357
Pledges toward endowment, July 1, 2012	-	-	436,684	436,684
New pledges toward endowment	-	-	46,516	46,516
Payment of pledges	-	-	(69,194)	(69,194)
Pledges toward endowment, June 30, 2013	-	-	414,006	414,006
Permanently restricted loans, (no activity for year)	-	-	200,244	200,244
Total endowment, pledges toward endowment and restricted loan funds	$ 65,119,509	$ 7,680,314	$ 135,130,784	$ 207,930,607

(Continued)

NOTE 11 - RESTRICTIONS ON NET ASSETS AND 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. 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. 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.

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 2013 and 2012, the Board authorized spending above the 5% payout rate which approximated 5.51% and 5.66%, respectively. Using the spending formula and additional payout authorizations, approximately $10,784,000 and $10,391,000 of total return was appropriated from the pooled endowment and similar funds for operating purposes in 2013 and 2012, 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 2013 and 2012, the Board approved $0 million and $2.7 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 - RESTRICTIONS ON NET ASSETS AND 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 approximately $7.0 million and $11.4 million at June 30, 2013 and 2012, respectively.

NOTE 12 - CONTINGENCIES

The College is a defendant in certain litigation matters arising in the normal course of business. It is the opinion of management that pending litigation will likely be resolved without any material adverse effect upon the financial statements of the College.