

GENEVA COLLEGE  
Beaver Falls, Pennsylvania

Financial Statements  
For the years ended May 31, 2011 and 2010  
and Independent Auditors' Report Thereon

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INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Geneva College  
Beaver Falls, Pennsylvania

We have audited the accompanying statements of financial position of Geneva College (College) as of May 31, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the College's administration. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. 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 the administration, 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 the College as of May 31, 2011 and 2010, and 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.

*Schneider Downs & Co., Inc.*  
Pittsburgh, Pennsylvania  
September 27, 2011

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GENEVA COLLEGE

STATEMENTS OF FINANCIAL POSITION

	May 31	
	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,257,015	\$ 3,736,462
Student accounts receivable, net of allowance of \$42,000 and \$220,000, respectively	885,946	563,092
Pledges receivable, net of allowance of \$244,000 and \$170,000, respectively	568,322	735,950
Notes receivable net of allowance of \$325,000 for each year	2,447,608	2,619,852
Other receivables	140,640	228,434
Investments	32,931,719	27,425,663
Other assets	1,351,368	790,148
Land, buildings and equipment, net	35,529,802	36,865,639
Cash surrender value of life insurance	450,274	425,654
Perpetual trusts held by third parties	3,742,415	3,415,833
 Total Assets	 \$82,305,109	 \$76,806,727
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,954,077	\$ 2,005,786
Deposits and deferred income	1,657,984	1,601,747
Notes and bonds payable	16,391,677	17,704,397
Refundable federal student loan funds	1,767,068	1,789,656
Annuities and life income trusts payable	1,592,953	1,623,562
Postretirement benefit obligation	445,024	488,790
 Total Liabilities	 23,808,783	 25,213,938
 <b>NET ASSETS</b>		
Unrestricted:		
Board-designated	3,570,227	2,874,694
Unrestricted and undesignated	14,384,350	12,667,797
Temporarily restricted	24,414,873	20,751,700
Permanently restricted	16,126,876	15,298,598
 Total Net Assets	 58,496,326	 51,592,789
 Total Liabilities And Net Assets	 \$82,305,109	 \$76,806,727

See notes to financial statements.

GENEVA COLLEGE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED MAY 31, 2011 AND 2010

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES AND OTHER SUPPORT</b>				
Tuition and fees	\$38,852,608	-	-	\$38,852,608
Discretionary discounts	(12,849,698)	-	-	(12,849,698)
Funded scholarships	(703,736)	-	-	(703,736)
Net Tuition	25,299,174	-	-	25,299,174
Grants	991,666	-	-	991,666
Contributions	1,693,703	\$ 201,701	\$ 676,937	2,572,341
Investment income	188,246	607,303	24,404	819,953
Auxiliary enterprises	8,053,536	-	-	8,053,536
Other income	963,818	15,121	-	978,939
Total Income	37,190,143	824,125	701,341	38,715,609
Net assets released from restrictions	1,554,413	(1,509,082)	(45,331)	-
Total Income And Releases	38,744,556	(684,957)	656,010	38,715,609
<b>EXPENSES</b>				
Program services:				
Instruction	15,423,068	-	-	15,423,068
Academic support	2,826,674	-	-	2,826,674
Student services	7,675,086	-	-	7,675,086
Auxiliary enterprises	6,644,806	-	-	6,644,806
Total Program Services	32,569,634	-	-	32,569,634
Supporting services:				
Institutional support	3,028,306	-	-	3,028,306
Development and communications	1,146,931	-	-	1,146,931
Total Supporting Services	4,175,237	-	-	4,175,237
Total Expenses	36,744,871	-	-	36,744,871
Total Unrestricted Operating Results	1,999,685	-	-	1,999,685
<b>CHANGES IN TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS BEFORE OTHER CHANGES IN NET ASSETS</b>				
	-	(684,957)	656,010	(28,947)
	1,999,685	(684,957)	656,010	1,970,738
<b>OTHER CHANGES IN NET ASSETS</b>				
Actuarial adjustment on annuities	-	(60,345)	172,268	111,923
Realized and unrealized net gain on investments	412,401	4,408,475	-	4,820,876
Total Other Changes In Net Assets	412,401	4,348,130	172,268	4,932,799
Changes In Net Assets	2,412,086	3,663,173	828,278	6,903,537
<b>NET ASSETS</b>				
Beginning of year	15,542,491	20,751,700	15,298,598	51,592,789
Adjustment for endowed funds with deficiencies	-	-	-	-
End of year	\$17,954,577	\$24,414,873	\$16,126,876	\$58,496,326

## 2010

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$35,199,609	-	-	\$35,199,609
(11,013,732)	-	-	(11,013,732)
(860,704)	-	-	(860,704)
23,325,173	-	-	23,325,173
1,051,004	-	-	1,051,004
1,766,592	\$ 434,098	\$ 801,242	3,001,932
148,718	578,786	-	727,504
7,029,693	-	-	7,029,693
848,019	-	-	848,019
34,169,199	1,012,884	801,242	35,983,325
1,841,959	(1,656,384)	(185,575)	-
36,011,158	(643,500)	615,667	35,983,325
14,943,001	-	-	14,943,001
2,613,867	-	-	2,613,867
7,883,121	-	-	7,883,121
6,372,749	-	-	6,372,749
31,812,738	-	-	31,812,738
2,990,225	-	-	2,990,225
1,056,664	-	-	1,056,664
4,046,889	-	-	4,046,889
35,859,627	-	-	35,859,627
151,531	-	-	151,531
-	(643,500)	615,667	(27,833)
151,531	(643,500)	615,667	123,698
-	(82,088)	85,024	2,936
312,686	2,527,857	-	2,840,543
312,686	2,445,769	85,024	2,843,479
464,217	1,802,269	700,691	2,967,177
15,227,592	18,800,113	14,597,907	48,625,612
(149,318)	149,318	-	-
\$15,542,491	\$20,751,700	\$15,298,598	\$51,592,789

See notes to financial statements.

GENEVA COLLEGE

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MAY 31, 2011 AND 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 6,903,537	\$ 2,967,177
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,691,400	2,815,060
Contributions restricted for investment in endowment	(676,937)	(801,242)
Realized and unrealized net gain on investments	(4,820,876)	(2,840,543)
Perpetual trusts held by third parties	(326,582)	(171,809)
Actuarial gain on annuity obligations	(111,923)	(544,501)
Change in allowance for doubtful accounts	(104,740)	163,217
Changes in assets and liabilities:		
Accounts and notes receivable	65,740	323,343
Cash surrender value of life insurance	(24,620)	(7,777)
Pledges receivable	94,328	280,345
Other receivables and assets	(473,426)	209,799
Accounts payable and accrued expenses	(51,709)	48,895
Deposits and deferred income	56,237	(378,545)
Postretirement benefit obligation	(43,766)	(30,883)
Annuities and life income trust payable	(30,609)	9,220
Refundable federal student loan funds	(22,588)	(22,890)
Net Cash Provided By Operating Activities	3,123,466	2,018,866
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of land, building and equipment	(1,355,563)	(3,132,184)
Proceeds from sale of investments	10,568,797	13,173,796
Purchases of investments	(11,142,053)	(12,353,980)
Loans issued to students	(374,241)	(485,909)
Collection on loans issued to students	335,930	321,037
Net Cash Used In Investing Activities	(1,967,130)	(2,477,240)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for investment in endowment	676,937	801,242
Repayment of principal on notes and bonds payable	(1,312,720)	(1,170,390)
Net Cash Used In Financing Activities	(635,783)	(369,148)
Net Increase (Decrease) In Cash And Cash Equivalents	520,553	(827,522)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	3,736,462	4,563,984
End of year	\$ 4,257,015	\$ 3,736,462
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 709,000	\$ 852,000

There was no interest capitalized for the years ended May 31, 2011 and 2010.

See notes to financial statements.

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Geneva College (College) is a private not-for-profit educational institution.

A summary of significant accounting policies consistently applied by the administration in the preparation of the accompanying financial statements follows:

**Codification** - The Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) is the single source of authoritative United States generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities.

**Accrual Basis Financial Statements** - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

**Net Assets** - Net assets and revenues (including gifts and pledges), gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of the College and changes therein are classified and reported as follows:

Unrestricted Net Assets - Unrestricted net assets include all resources that are not subject to donor-imposed restriction.

Temporarily Restricted Net Assets - Temporarily restricted net assets include net assets subject to donor-imposed restrictions that may or will be met by either actions of the College and/or the passage of time.

Permanently Restricted Net Assets - Permanently restricted net assets are those that are subject to donor-imposed restrictions that they be maintained in perpetuity by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

**Contributions and Pledges Receivable** - Contributions are recorded as revenue upon receipt. Unconditional promises to give (pledges) that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates ranging from 2.0% to 8.0%, applicable to the years in which the pledges are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are recognized as income when the conditions are substantially met.

**Restricted Resources** - The College reflects restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on deposit and cash on hand. The College maintains cash at banks that may exceed federally insured amounts at times.

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Loans to Students** - Loans to students are reported at their outstanding principal adjusted for any charge-offs and net of the allowance for loan losses. The allowance for loan losses is increased by charges to institutional support and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the College's loan loss experience, adverse situations that may affect the borrower's ability to repay, and current economic conditions. The loans to student receivable balances greater than 90 days approximated \$282,000 and \$288,000 at May 31, 2011 and 2010, respectively, with related interest of 5% included with those balances.

**Investments and Investment Income** - Investments in equity securities with readily determinable fair market values and all investments in debt securities are reported at fair market value, with gains and losses included in the statements of activities and changes in net assets. Donated investments are reflected as contributions at their fair market values at date of receipt. Property held for investment is valued based upon independent appraisals. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, changes in values of investment securities will occur in the near term, and it is reasonably possible that such changes could materially affect the amounts reported in the statements of financial position.

Alternative investments, which are not readily marketable, are carried at Net Asset Value (NAV) as provided by the investment managers. NAV is assessed by administration to approximate fair value. The College reviews and evaluates the values and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Due to the level of risk associated with certain investment securities, changes in values of investment securities will occur in the near term, and it is reasonably possible that such changes could materially affect the amounts reported in the statements of financial position.

Income and realized net gains and losses on investments of the endowment are reported as follows:

- As changes in permanently restricted net assets if so restricted by the donor;
- As changes in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the use of the income or gains and losses; and
- As changes in unrestricted net assets in all other cases.

**Land, Buildings and Equipment** - Recorded amounts for College property are stated at cost or, if donated, fair market value at the date of the gift. For items that are acquired or constructed through donor contributions, it is the College's policy to recognize a release from temporarily restricted net assets for the amount of depreciation recognized in the period. Provision for depreciation is recognized on physical properties by the straight-line method based upon the estimated useful lives of the net assets as follows:

Building and building improvements	15-50 years
Furniture, fixtures, library books and equipment	5-20 years

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The administration reviews the carrying amount of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of an asset to future net undiscounted flows expected to be generated by the asset. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset exceeds the related estimated fair value. There were no impairment losses recorded for the years ended May 31, 2011 and 2010.

**Collections** - The College has various literary, archival and artistic collections, which consist of evangelical manuscripts, private papers, rare books of several authors, and works of art. The collections, which were acquired through purchases and contributions since the College's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

**Conditional Asset Retirement Obligations** - The College follows the Codification topic on Accounting for Conditional Asset Retirement Obligations, which requires an entity to recognize a liability for the fair value of a conditional asset obligation if the fair value of the liability can be estimated. There are no conditional asset retirement obligations recorded for the years May 31, 2011 and 2010.

**Tuition Discounts** - Discretionary and Funded Scholarships - Tuition and fees are reported on the statements of activities and changes in net assets net of discretionary discounts and funded scholarships. Discretionary tuition discounts are College funds given to lower the net amount of tuition paid by students. They are reduced from gross tuition to determine the College's discretionary discount percentage.

Funded scholarships are shown separately and represent awards and prizes given to students. There is corresponding revenue funding these awards from endowed and non-endowed gifts and certain government grants. Revenues from those sources are included in investment income, contributions and grants categories of the statements of activities and changes in net assets. These scholarships are not considered part of what the College considers its discretionary tuition discount; however, they are reduced from gross tuition to derive the total tuition discount.

**Split-Interest Agreements** - The College's split-interest agreements with donors consist primarily of charitable gift annuities and charitable remainder trusts. Revenues and receivables are recognized upon the completion of these contracts and are reported at the present value of the estimated future cash flows with restrictions based on the donors' intent of the future use of the funds. Liabilities under unitrust and annuity arrangements are discounted to present value utilizing rates ranging from 6.2% to 10.0% for unitrusts and 6.0% for annuities. Payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

Contribution revenue for charitable gift annuities is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments. Contribution revenue for charitable remainder trusts is recognized upon establishment of the agreement, at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The present value of payments to beneficiaries of future receipts from charitable remainder trusts is calculated using discount rates, which represent the risk-free rate in existence at the date of the gift. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the respective net asset category in the statements of activities and changes in net assets.

**Perpetual Trusts Held by Third Parties** - The College has the irrevocable right, under the terms of the trusts, to receive the income earned on the trust asset in perpetuity but never receives the assets held in trust. Contribution revenue is recognized when notified of the trust's existence. Assets are recorded at fair value unless facts and circumstances indicate that the fair value of the beneficial interest differs from the fair value of the assets contributed.

**Annuities** - Unrestricted annuities are evaluated regularly to establish the amount that is to be recognized as earnings in the unrestricted net assets. Fair market values of the assets related to these contracts are compared to an amount equal to the net present value of future obligations under annuity contracts multiplied by a reserve factor released from restricted investments each year. No such releases occurred in either year presented.

**Deposits and Deferred Income** - Deposits and deferred income are composed of tuition and certain grants and sponsorship funds received in advance of the periods to which they relate.

**Government Loan Funds** - The College administers several federally funded loan programs for the benefit of its students. This liability represents the amount that must be returned to the federal government upon termination of the program.

**Health Insurance** - Other assets include approximately \$471,000 and \$399,000 as of May 31, 2011 and 2010, respectively, related to the College's interest in the Private College and University Consortium (Consortium). The Consortium provides health and welfare benefits to colleges and universities in Western Pennsylvania. The Consortium enters into cost-plus funding arrangements for the payment of health claims for the participants' employees and their eligible dependents. The funding deposits are used for claims payments, reserve requirements, stop-loss insurance and administrative expenses.

**Income Taxes** - The College is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986. Accordingly, no provision for income taxes has been made in the accompanying financial statements. However, to the extent that some auxiliary revenues exceed expenses, they are considered unrelated business income and subject to taxes.

The College follows the Codification topic on Income Taxes. The topic prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in financial statements. The College's statements of financial position at May 31, 2011 and 2010 do not include any liabilities associated with uncertain tax positions; further, the College has no unrecognized tax benefits. The College is no longer subject to examination of its tax returns for years before 2008.

**Expense Allocation** - Certain expenses are charged to program and supporting services on the basis of square footage used by functional area.

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Fair Value Measurement** - The College follows the Codification topic, Fair Value Measurement and Disclosures, which establishes a framework for measuring fair value and expands disclosures related to fair value measurements. The College has applied the provisions of the Fair Value Measurements and Disclosures topic to its recurring measurements (See Note 11.)

**Subsequent Events** - The administration of the College has evaluated subsequent events through September 27, 2011, the date on which the financial statements were available to be issued.

**Recent Accounting Pronouncements** - In January 2010, the FASB issued an Accounting Standards Update, Fair Value Measurements Disclosures, to require new disclosure for fair value measurements and provide clarification for existing disclosure requirements. More specifically, this update will require information about purchases, sales, issuances and settlements to be presented separately (i.e., present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The College does not anticipate that the adoption of this statement will materially expand its financial statement footnote disclosures. The disclosures are effective for fiscal years beginning after December 15, 2010.

**Reclassifications** - Certain reclassifications have been made to the accompanying financial statements for the year ended May 31, 2010 to conform to the current year's presentation.

NOTE 2 - PLEDGES RECEIVABLE

Unconditional promises to give recorded at May 31, along with the expected maturity of the gifts, are as follows:

	<u>2011</u>	<u>2010</u>
Unconditional promises to give	\$ 913,681	\$ 994,288
Less - Unamortized discount	<u>(101,659)</u>	<u>(87,938)</u>
	812,022	906,350
Less - Allowance for uncollectibles	<u>(243,700)</u>	<u>(170,400)</u>
Net unconditional promises to give	<u>\$ 568,322</u>	<u>\$ 735,950</u>
Amounts due in:		
Less than one year	\$ 397,282	\$ 422,955
One to five years	<u>414,740</u>	<u>483,395</u>
	<u>\$ 812,022</u>	<u>\$ 906,350</u>

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 3 - NOTES RECEIVABLE

The College's notes receivable at May 31 consist of the following:

	2011	2010
Perkins loan funds, net of allowance of \$325,000 in 2011 and 2010	\$ 2,279,302	\$ 2,255,541
Real estate notes with approximate monthly payments ranging from \$2,260 to \$2,304, including interest of 6% and maturing in March 2019.	168,306	364,311
	\$ 2,447,608	\$ 2,619,852

NOTE 4 - INVESTMENTS

The composition of the College's investments at May 31 consisted of the following:

	2011		2010	
	Market	Cost	Market	Cost
Domestic equities	\$ 13,155,504	\$ 9,824,330	\$ 9,783,697	\$ 8,713,529
Fixed income	9,455,467	8,944,416	8,055,721	7,842,103
Foreign investments	6,933,559	5,880,713	7,339,836	8,108,555
Cash and cash equivalents	2,041,834	2,041,834	1,262,657	1,262,657
Limited partnerships	884,980	821,686	523,377	528,781
Property held for investment	460,375	460,375	460,375	460,375
	\$ 32,931,719	\$ 27,973,354	\$ 27,425,663	\$ 26,916,000

Under terms of agreements to invest in certain limited partnerships, the College has outstanding capital commitments of approximately \$1,958,000 at May 31, 2011.

Investments include approximately \$39,000 and \$96,000 restricted under terms of a bond indenture as of May 31, 2011 and 2010, respectively.

Investment income for the years ended May 31 is composed of the following:

	2011	2010
Dividends and interest	\$ 819,953	\$ 727,504

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 4 - INVESTMENTS (Continued)

Realized and unrealized gains on investments for the years ended May 31 are composed of the following:

		<u>2011</u>		<u>2010</u>
Net realized gains	\$	753,183	\$	1,651,725
Net unrealized gains		4,254,822		1,367,884
Investment fees		<u>(187,129)</u>		<u>(179,066)</u>
	\$	<u>4,820,876</u>	\$	<u>2,840,543</u>

Quasi endowment funds, which are unrestricted funds designated by the Board of Trustees for long-term investment, total \$3,570,227 and \$2,874,694 at May 31, 2011 and 2010, respectively, and are included in the investment balances shown on the preceding page.

NOTE 5 - SPLIT-INTEREST AGREEMENTS

Of the \$32,931,719 and \$27,425,663 recorded as investments at May 31, 2011 and 2010, respectively, split-interest agreements and the associated liabilities are represented as follows:

		<u>2011</u>	
		<u>Fair Market Value of Assets</u>	<u>Net Present Value of Future Obligations</u>
Unitrusts	\$	2,533,950	\$ 827,885
Annuities		<u>1,223,515</u>	<u>765,068</u>
	\$	<u>3,757,465</u>	\$ <u>1,592,953</u>
		<u>2010</u>	
		<u>Fair Market Value of Assets</u>	<u>Net Present Value of Future Obligations</u>
Unitrusts	\$	2,198,664	\$ 809,852
Annuities		<u>1,236,960</u>	<u>813,710</u>
	\$	<u>3,435,624</u>	\$ <u>1,623,562</u>

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 6 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment, at cost, at May 31 are as follows:

	2011		
	Asset Cost	Accumulated Depreciation	Net Book Value
Land	\$ 1,980,752	-	\$ 1,980,752
Buildings	49,827,034	\$ 22,457,126	27,369,908
Furniture and equipment	22,068,734	15,914,754	6,153,980
Construction in process	25,162	-	25,162
	\$ 73,901,682	\$ 38,371,880	\$ 35,529,802
	2010		
	Asset Cost	Accumulated Depreciation	Net Book Value
Land	\$ 1,980,752	-	\$ 1,980,752
Buildings	49,499,100	\$ 20,735,713	28,763,387
Furniture and equipment	21,049,758	14,944,767	6,104,991
Construction in process	16,509	-	16,509
	\$ 72,546,119	\$ 35,680,480	\$ 36,865,639

In June 1998, the College acquired certain property and a building by the use of endowed funds, and the property included as an asset of the endowment for \$460,375. The Masters of Organizational Leadership (MSOL) program uses this property in operations and pays the endowment rent of \$1,500 per month for use of the building for the program. The building is not depreciated, since it is held as an investment of the endowment.

NOTE 7 - COLLATERAL

Federal Home Loan Bank securities with market value of \$211,389 and \$211,368 were pledged to secure the bonds payable to Housing & Home Finance Agency (HHFA) of \$223,000 and \$278,000 at May 31, 2011 and 2010, respectively. The amount of collateral required to be maintained under the terms of the trust indenture is \$200,000.

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 8 - NOTES AND BONDS PAYABLE

The indebtedness of the College at May 31 consisted of the following:

	2011	2010
<p>Bonds dated November 1, 1964 with HHFA for construction/renovation of the Student Center and four dormitories. The above bonds are general obligation bonds of the College issued and secured by a trust indenture, dated November 1, 1964, between the College and the trustee, Wells Fargo. The mortgaged facilities include the Student Center, Clarke Hall, Pearce Hall, McKee Hall and Memorial Hall, together with the sites. There is a first lien on and a pledge of all the gross revenue of the above mortgaged facilities, including a student center fee, to be charged to all students of not less than \$62,000, in the aggregate, per fiscal year. Series B bonds maturing in November 2014 at 3.625%, payable semiannually principal and interest.</p>	\$ 223,000	\$ 278,000
<p>Pennsylvania Higher Educational Facilities Authority College Revenue Bond dated August 1, 2007 used to repay the 1998 College Revenue Bonds and the 2002 College Revenue Bonds, to pay for a Voice Over (VoIP) telephone installation, to finance capital projects associated with the Beyond the Bend Project and to pay for costs of issuance. The interest rate is 3.89%, and the bond matures on September 1, 2021. Principal payments are due monthly, and the bonds are secured by a mortgage on certain College assets. The bonds are subject to certain annual financial covenants, including debt service and leverage ratios.</p>	16,168,677	17,426,397
	\$ 16,391,677	\$ 17,704,397

On October 7, 2010, the College modified its existing 2007 Series bonds. The modification of the bonds resulted in a reduction of the amortization period of the bonds from April 1, 2023 to September 1, 2021. The modification also resulted in a reduction of the fixed-interest rate from 4.600% to 3.89%. In accordance with the Debt topic of the Codification, the transaction was determined to be a modification, and as a result, no gain or loss was recognized with the transactions in the statements of changes in net assets.

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 8 - NOTES AND BONDS PAYABLE (Continued)

The aggregate amounts of principal due for each of the next five years ending May 31 and after are as follows:

<u>Fiscal Year</u> <u>Ending May 31</u>	<u>2007 and</u> <u>1964 Bonds</u>
2012	\$ 1,394,595
2013	1,452,644
2014	1,507,795
2015	1,553,129
Thereafter	<u>10,483,514</u>
	<u>\$ 16,391,677</u>

On June 29, 2010, the College obtained a \$1,500,000 line of credit from the same institution that serves as custodian for a majority of the College's investment portfolio. Any borrowings that are made in the line must be made in \$500,000 minimum increments. Any borrowings are subject to an interest rate elected at the time of the borrowing of the bank's prime lending rate plus 1% or London InterBank Offered Rate (LIBOR) plus 1.75% for borrowing under \$1,000,000 and 1.5% for borrowings in excess of \$1,000,000. Interest on any borrowings is payable monthly until the balance is repaid. The agreement is secured by certain investments held by the custodian. Under the terms of the agreement, the College is permitted to borrow based upon a tiered scale of rates based upon the types of investments held in the accounts held by the custodian. As of May 31, 2011, there were no outstanding borrowings on the line.

Total interest expense on notes and bonds payable approximated \$709,000 and \$852,000 for the fiscal years ended May 31, 2011 and 2010, respectively.

NOTE 9 - RETIREMENT PLAN

The Board of Trustees of the College, as of January 1, 1948, established a retirement plan at the College. Contributions under this defined contribution (money purchase) plan are applied to individual annuities issued to each participant by Teachers Insurance and Annuity Association (TIAA) and/or College Retirement Equities Fund (CREF). Contributions under the retirement plan are made in accordance with the following schedule:

	<u>Participant</u>	<u>College</u>	<u>Total</u>
Plan contributions as a percent of regular salary	5%	5%	10%

College contribution expense to the plan for the years ended May 31, 2011 and 2010 were \$612,985 and \$580,163, respectively.

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 10 - POSTRETIREMENT BENEFIT OBLIGATION

The College provides, upon retirement, group health and life insurance benefits to employees who were full time on May 1, 2002, at least 55 years of age on that date and have a combination of age and years of services equal to 77 years or greater. The employee and his or her spouse may continue on the College's group medical insurance as individuals receiving the same benefits as the current employees for up to three years, or until he/she reaches Medicare eligibly, whichever comes first. Provisions of the benefit plan require that retirees participate in the health insurance plan by paying between 0.3% and 1.0% of base wage rate in the year immediately preceding their retirement, based upon individual or family coverage of the health insurance premium cost. Retirees pay no portion of the premium cost for the life insurance. Highmark Blue Cross/Blue Shield (Community Blue) provides health insurance through a self-insured plan.

The group health plan pays health-related expenses of covered procedures and items. The group life insurance plan provides a death benefit of \$5,000 upon death after retirement. Life insurance premiums are paid monthly as billed by the insurance provider; there is no prefunding. Reliance Standard Life Insurance Company provides life insurance through a term plan.

The College follows the Codification topic on Retirement Benefits. This topic requires that the College recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its postretirement benefit plans in the statement of financial position, with a corresponding adjustment to net assets. Actuarial gains and losses are recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in net assets. The plan has no assets, and payments on benefit obligations are made by the College.

Net periodic postretirement benefit cost for the years ended May 31 includes the following:

	<u>2011</u>	<u>2010</u>
Service cost with interest to end of year	\$ 7,344	\$ 6,830
Interest cost	24,388	29,717
Amortization of unrecognized gain	<u>(95,576)</u>	<u>(91,671)</u>
Net periodic postretirement benefit cost	\$ <u>(63,844)</u>	\$ <u>(55,124)</u>

The discount rate used in determining the accumulated postretirement benefit obligation was 4.80% and 5.40% for the years ended May 31, 2011 and 2010, respectively.

The status of the health and life insurance benefit obligation reconciled with the College's financial statements at May 31 is as follows:

	<u>2011</u>	<u>2010</u>
Accumulated postretirement benefit obligation:		
Inactives	\$ 257,674	\$ 278,776
Fully eligible active plan participants and other active plan participants	<u>187,350</u>	<u>210,014</u>
Accumulated postretirement benefit obligation	\$ <u>445,024</u>	\$ <u>488,790</u>

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 10 - POSTRETIREMENT BENEFIT OBLIGATION (Continued)

The healthcare cost trend rate assumption has a significant impact on the amounts reported. Increasing or decreasing the assumed healthcare cost trend rate by one percentage point for all future years will have an insignificant impact on the postretirement benefit obligation as of May 31, 2011.

Trends in the per capita claim cost were assumed to start at 8% for medical and prescription benefits in 2010 and grade down to 7% on a linear basis to the year 2015. The trend is then expected to remain at that level into the future.

A reconciliation of the accumulated postretirement benefit obligation at May 31 is as follows:

	2011	2010
Accumulated postretirement benefit obligation as of June 1	\$ 488,790	\$ 519,673
Service and interest cost for the year	31,732	36,547
Net contributions (e.g., benefit payments) made during the year	(75,311)	(89,772)
Assumption change	(187)	22,342
Accumulated postretirement benefit obligation	\$ 445,024	\$ 488,790

The approximate amounts of expected benefits to be paid in the next five fiscal years are as follows: \$36,200 in 2012, \$41,900 in 2013, \$27,600 in 2014, \$29,700 in 2015 and \$22,600 in 2016.

On December 7, 2003, the Medicare Prescription Drug Improvement and Modernization Act (Act) was passed and impacts postretirement benefit plans that provide prescription drug benefits. The accumulated postretirement benefit obligation and net periodic postretirement benefit cost as of May 31, 2011 and 2010 do not reflect any amount associated with the subsidy for either year presented, since any such amounts are considered to be immaterial.

NOTE 11 - FAIR VALUE MEASUREMENTS

The College follows the Codification topic Fair Value Measurement and Disclosures, which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurement.

The Fair Value Measurement and Disclosures topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The topic requires disclosures that categorize assets and liabilities measured at fair value into three different levels, depending on the assumptions used in the valuation. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant administration judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The Fair Value Measurement hierarchy is defined as follows:

Level 1 - Valuations are based on unadjusted quoted prices in an active market for identical assets or liabilities.

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 11 - FAIR VALUE MEASUREMENTS (Continued)

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect administration's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

The College's financial instruments consist primarily of cash and cash equivalents, student accounts receivable, contributions receivable, notes receivable, investments, perpetual trusts held by third parties, accounts payable annuities and life income trusts payable and bonds payable.

The carrying amount of cash and cash equivalents, student accounts receivable, pledges receivable and accounts payable approximates their fair value due to the short-term nature of such instruments. The carrying value of the College's bonds payable is fixed-rate debt, which approximates a rate that the College would be able to obtain in the current market.

The valuation of the College's financial assets and liabilities according to the fair value hierarchy at May 31 is summarized as follows:

	2011			
	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Investments:				
Cash and cash equivalents	\$ 2,041,834	-	-	\$ 2,041,834
Domestic equities	13,155,504	-	-	13,155,504
Limited partnerships	-	-	\$ 884,980	884,980
Fixed income	9,455,467	-	-	9,455,467
Foreign investments	6,933,559	-	-	6,933,559
Property held for investment	-	-	460,375	460,375
Total investments	<u>31,586,364</u>	<u>-</u>	<u>1,345,355</u>	<u>32,931,719</u>
Cash surrender value of life insurance	-	\$ 450,274	-	450,274
Perpetual trusts held by third parties	-	<u>3,742,415</u>	-	<u>3,742,415</u>
Total fair value of assets	<u>\$ 31,586,364</u>	<u>\$ 4,192,689</u>	<u>\$ 1,345,355</u>	<u>\$ 37,124,408</u>
<b>LIABILITIES:</b>				
Annuities and life income trusts payable	-	<u>\$ (1,592,953)</u>	-	<u>\$ (1,592,953)</u>

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 11 - FAIR VALUE MEASUREMENTS (Continued)

	2010			
	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Investments:				
Cash and cash equivalents	\$ 1,262,657	-	-	\$ 1,262,657
Domestic equities	9,783,697	-	-	9,783,697
Limited partnerships	-	-	\$ 523,377	523,377
Fixed income	8,055,721	-	-	8,055,721
Foreign investments	7,339,836	-	-	7,339,836
Property held for investment	-	-	460,375	460,375
Total investments	<u>26,441,911</u>	<u>-</u>	<u>983,752</u>	<u>27,425,663</u>
Cash surrender value of life insurance	-	\$ 425,654	-	425,654
Perpetual trusts held by third parties	-	3,415,833	-	3,415,833
Total fair value of assets	<u>\$ 26,441,911</u>	<u>\$ 3,841,487</u>	<u>\$ 983,752</u>	<u>\$ 31,267,150</u>
<b>LIABILITIES:</b>				
Annuities and life income trusts payable	<u>-</u>	<u>\$ (1,623,562)</u>	<u>-</u>	<u>\$ (1,623,562)</u>

During the year ended May 31, 2011, the College changed its classification of annuities and life income trusts liabilities from Level 3 to Level 2. The determination was made to classify these items as Level 2 liabilities, since there are significant inputs that are observable and used by other entities to measure the fair value of these liabilities.

The valuation of the College's investments in limited partnerships requires significant judgment due to the absence of quoted market prices, inherent lack of liquidity, heavy reliance on Level 3 inputs, and the long-term nature of such investments. Limited partnership investments are valued initially at their transaction value, and subsequently adjusted to reflect expected exit values at the measurement date by utilizing assumptions that market participants would normally use to estimate a fair market value. These valuation adjustments include, but are not limited to, material changes in an organization's operations and or financial performance, subsequent or anticipated rounds of equity financings, specific rights or terms associated with the investment (e.g., conversion features, liquidation preferences or restrictions), expected exit timing and strategy, industry valuations or comparable public companies, changes in economic conditions, and changes in legal or regulatory environments. The College's investments in limited partnerships are considered to be relatively illiquid in that they are not easily transferable and typically achieve liquidity over multi-year periods when and if managers return invested capital or distribute proceeds realized from underlying partnership assets.

The changes in investments measured at fair value for which the College has used Level 3 inputs to determine fair value for the years ended May 31, 2011 and 2010 are as follows:

	Investments in Limited Partnerships
Balance, May 31, 2009	\$ 767,567
Purchases	180,952
Unrealized appreciation, net	<u>35,233</u>
Balance, May 31, 2010	983,752
Purchases	242,865
Unrealized appreciation, net	<u>118,738</u>
Balance, May 31, 2011	<u>\$ 1,345,355</u>

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 11 - FAIR VALUE MEASUREMENTS (Continued)

Realized gains and unrealized appreciation are included in investment return in excess of amount designated for current operations. Unrealized appreciation, net of Level 3 investments, relates to investments held as of May 31, 2011.

NOTE 12 - RELATED-PARTY TRANSACTIONS

The College signed a formal affiliation agreement in June 1996 with the Center for Urban Theological Studies (CUTS), which is a not-for-profit organization designed to provide education, training and resources to develop servant-leaders for the urban church, community and marketplace. The College amended the 1996 agreement in June 2009, whereby the contract revises the responsibilities of both parties, and permits for a termination of the partnership, no later than December 31, 2017. At the College's option, the agreement can be terminated prior to December 31, 2017 if CUTS fails to perform under certain provisions of the contract. The revised contract also provides for fees to be earned by the College of 2% of the tuition revenue related to CUTS beginning in March 2012 and increasing to 4% in March 2014 through the scheduled termination of the agreement. The agreement outlines the interaction between the two entities' academic programs and administrations. Financial responsibilities for each entity are delineated.

Amounts recorded as revenues and expenses in the statements of activities and changes in net assets and the statement of position related to CUTS for the years ended May 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
CUTS revenue	\$ 1,295,000	\$ 1,245,000
CUTS expenses	1,278,000	1,201,000
Accounts and student receivable	25,000	49,000
Accounts payable	-	93,000

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at May 31 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Scholarships	\$ 6,514,588	\$ 4,809,944
Capital projects	9,292,974	9,738,172
Other programs	<u>8,607,311</u>	<u>6,203,584</u>
	<u>\$ 24,414,873</u>	<u>\$ 20,751,700</u>

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at May 31, the income earned from which is expendable, are as follows:

		2011		2010
Scholarships	\$	10,987,905	\$	10,587,910
Capital projects		533,475		416,710
Other programs		4,605,496		4,293,978
	\$	16,126,876	\$	15,298,598

NOTE 15 - ENDOWMENT

The College applies the provisions of the Codification topic of Presentation of Financial Statements for Not-for-Profit Entities. The topic provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that are subject to an enacted version of the Uniform Prudent Administration of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds. The College, as a not-for-profit organization residing in the Commonwealth of Pennsylvania, is not subject to UPMIFA, but is subject to the additional disclosure requirements associated with the aforementioned topic.

The College's endowment consists of various investment funds established primarily for support of its mission. Its endowment includes board-designated and donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the College to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Trustees (Board) of the College has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141). Act 141 permits utilization of a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's permanently restricted investments as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. On an annual basis, the Endowment Investment Committee of the Board, in writing, elects a spending rate of between 2% and 7%. In accordance with Act 141, the College annually transfers a percentage of the previous three years' market value average of the endowment fund. This percentage is applied to a three-year average market value of the investments at November 30th of the previous year. For the years ended May 31, 2011 and 2010, the College transferred 4.00%. The College classifies as permanently restricted net assets the original and subsequent value of gifts donated to the permanent endowment. In accordance with Act 141, the College has adopted a written investment policy, of which a section specifically relates to the endowment fund. The College considers the following factors in making a determination to set a spending rate:

1. Protecting the corpus of the endowment fund.
2. Preserving the spending power of the assets.
3. Obtaining maximum investment return with reasonable risk and operational consideration.
4. Complying with applicable laws.

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 15 - ENDOWMENT (Continued)

Board-designated and donor-restricted endowment funds net assets as of May 31 comprise the following:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
May 31, 2011	\$ <u>3,570,227</u>	\$ <u>13,342,504</u>	\$ <u>16,126,876</u>	\$ <u>33,039,607</u>
May 31, 2010	\$ <u>2,874,694</u>	\$ <u>10,044,061</u>	\$ <u>15,298,598</u>	\$ <u>28,217,353</u>

The change in Board-designated and donor-restricted endowment funds by net asset type for the year ended May 31 is as follows:

	<u>2011</u>			
	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets:				
Beginning of year	\$ 2,874,694	\$ 10,044,061	\$ 15,298,598	\$ 28,217,353
Contributions	291,624	-	676,937	968,561
Investment return:				
Investment income	95,057	509,895	-	604,952
Market value changes - realized and unrealized	412,704	4,119,434	-	4,532,138
Change in donor designation - temporarily restricted to permanently restricted	-	(32,668)	32,668	-
Increase in allowance for doubtful accounts for pledges for endowment	-	-	(78,000)	(78,000)
Reconciling adjustment	1,191	-	12,855	14,046
Actuarial adjustment to annuities	-	(172,268)	172,268	-
Capital call on Private Equity	-	-	11,550	11,550
Appropriation of endowment assets for expenditures	(85,357)	(978,099)	-	(1,063,456)
Investment fees	(19,686)	(147,851)	-	(167,537)
End of year	\$ <u>3,570,227</u>	\$ <u>13,342,504</u>	\$ <u>16,126,876</u>	\$ <u>33,039,607</u>

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 15 - ENDOWMENT (Continued)

	2010			
	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets:				
Beginning of year	\$ 2,577,710	\$ 8,166,326	\$ 14,597,907	\$ 25,341,943
Contributions	41,624	-	801,242	842,866
Investment return:				
Investment income	70,381	532,778	-	603,159
Market value changes - realized and unrealized	333,745	2,529,331	-	2,863,076
Change in donor designation - temporarily restricted to permanently restricted	-	(49,250)	49,250	-
Increase in allowance for doubtful accounts for pledges for endowment	-	-	(140,250)	(140,250)
Actuarial adjustment to annuities	-	9,605	85,024	94,629
Write-off of endowed asset	-	-	(94,575)	(94,575)
Appropriation of endowment assets for expenditures	(130,800)	(1,006,029)	-	(1,136,829)
Investment fees	(17,966)	(138,700)	-	(156,666)
End of year	\$ <u>2,874,694</u>	\$ <u>10,044,061</u>	\$ <u>15,298,598</u>	\$ <u>28,217,353</u>

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 applicable law (Act 141) requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in temporarily restricted net assets are a total of \$429,523 and \$149,418 at May 31, 2011 and 2010, respectively. These deficiencies resulted from extraordinary market conditions that occurred shortly after the investment of new permanently restricted contributions.

Return Objectives and Risk Parameters - The College has adopted investment and spending policies for endowment assets that attempt to provide a reasonable level of funding to programs supported by its endowment while seeking to enhance the purchasing power of the fund's corpus by striving for long-term growth. Endowment assets include those assets that are donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a blended benchmark of equity, fixed income, private equity and real estate peer groups.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Investment advisors, at the discretion of the Endowment Investment Committee of the Board of Trustees, are given guidelines with respect to the percentage that can be committed to a particular investment or investment category.

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 15 - ENDOWMENT (Continued)

Spending Policy and Investment Objectives Related to Spending Policy - In accordance with Act 141, the College annually transfers 4% of the previous three years' market value average of the permanently restricted endowment fund to unrestricted net assets for use in current and future operations. In 2011 and 2010, the spendable return totaled \$903,288 and \$953,989, respectively. The College believes that this spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

NOTE 16 - LEASES

The College leases equipment under operating lease agreements. Total rental payments during the fiscal years ended May 31, 2011 and 2010 were approximately \$507,000 and \$426,000, respectively.

In June 2009, the College signed a lease for the commencement of an educational program in Rome, Italy. The lease contains provisions for both instructional and living space for students participating in the program. The lease is denominated in a foreign currency, and accordingly, the dollar value of the annual lease commitment fluctuates with the exchange rate. The lease requires payments of approximately \$260,000 per annum that commenced in August 2009. The lease is revised annually based upon costs incurred by the lessor. If the costs cause the lease payments to increase more than 5% per year, the College has the option of not renewing the lease, otherwise the lease expires in August 2012.

The approximate minimum future obligations under the noncancelable operating leases in effect as of May 31, 2011 are as follows:

<u>Fiscal Year</u> <u>Ending May 31</u>	<u>Amount</u>
2012	\$ 451,000
2013	151,000
2014	131,000
2015	58,000
2016	<u>15,000</u>
	<u>\$ 806,000</u>

NOTE 17 - COMMITMENTS AND CONTINGENCIES

The College entered in a ten-year extension of its administration services contract with ARAMARK Administration Services Limited Partnership (ARAMARK) on October 1, 2005. ARAMARK supervises the College's housekeeping, maintenance and groundskeeping functions on campus and provides energy administration services under the terms of the agreement. The agreement is cancelable at any point by either party. Fees for the services are approximately \$310,000 annually (subject to annual CPI increases) plus the actual costs of utilities that are managed and paid for through ARAMARK.

GENEVA COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010

NOTE 17 - COMMITMENTS AND CONTINGENCIES (Continued)

As part of the contract, ARAMARK has provided approximately \$750,000 in sponsorship funds to the College, which was used to replace the underground steam distribution system throughout campus. These dollars are refundable to ARAMARK on a pro rata basis, should the contract be terminated early. The College retains title to the asset and depreciates it over its useful life. Sponsorship dollars are recognized as contribution revenue ratably over the term of the contract. As of May 31, 2011 and 2010, the College had deferred revenue of \$300,000 and \$375,000, respectively, associated with this agreement.

The College is a defendant in certain legal proceedings arising out of the normal conduct of its business. In the opinion of the administration, based upon discussion with counsel, the ultimate outcome of these matters will not have a material adverse effect on the financial position of the College.

Amounts received and expended by the College under various federal and state programs are subject to adjustment based upon review by the granting agencies. The College does not anticipate that adjustments, if any, arising from such reviews will have a material effect on the financial statements.