

Spartanburg Methodist College

**Financial Statements
for the years ended
June 30, 2011 and 2010**

Spartanburg Methodist College

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Independent Auditors' Report

The Board of Trustees of
Spartanburg Methodist College
Spartanburg, South Carolina

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

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

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

Cherry Bekaert + Holland, C.C.P.A.

Greenville, South Carolina
October 18, 2011

Spartanburg Methodist College

**Statements of Financial Position
June 30, 2011 and 2010**

Assets

	2011	2010
Current assets:		
Cash and cash equivalents, unrestricted	\$ 3,226,846	\$ 3,068,222
Cash and cash equivalents, restricted	200,705	172,074
Accounts receivable, net	153,200	80,948
Pledges receivable, net	740,492	346,680
Due from Department of Education	56,226	100,327
Notes receivable, net	52,544	57,455
Inventories	11,124	8,489
Prepaid expenses	49,132	41,242
Bond issuance costs, net	9,591	7,019
Total current assets	4,499,860	3,882,456
Pledges receivable, net	908,174	434,713
Notes receivable, net	161,130	213,709
Bond issuance costs, net	201,206	100,215
Investments	19,426,910	16,232,664
Funds held in trust by others	351,076	301,114
Land, buildings and equipment, net	13,957,823	13,685,505
Total assets	\$ 39,506,179	\$ 34,850,376

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$ 169,775	\$ 262,081
Current portion of bonds payable	240,000	230,000
Current portion of capital lease obligation	3,596	3,224
Accrued liabilities	2,761	23,581
Student deposits	356,634	282,228
Total current liabilities	772,766	801,114
Long-term bonds payable, net of current portion	4,813,154	4,940,000
Long-term capital lease obligation, net of current portion	8,494	12,089
Annuities payable	448,512	465,466
Advances from federal government for student loans	375,545	386,253
Total liabilities	6,418,471	6,604,922
Net assets:		
Unrestricted		
Undesignated	2,627,720	3,002,194
Endowment funds	3,969,971	2,916,285
Land, buildings and equipment	9,093,284	8,672,266
Total unrestricted	15,690,975	14,590,745
Temporarily restricted		
Restricted for future period	1,000,000	1,000,000
Restricted for capital expenditures	2,214,186	-
Program restricted	2,851,984	1,694,824
Total temporarily restricted	6,066,170	2,694,824
Permanently restricted net assets	11,330,563	10,959,885
Total net assets	33,087,708	28,245,454
Total liabilities and net assets	\$ 39,506,179	\$ 34,850,376

See notes to financial statements.

Spartanburg Methodist College

Statement of Activities For the year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues and other support:				
Tuition and fees	\$ 9,922,998	\$ -	\$ -	\$ 9,922,998
Less: Tuition discounts	(4,199,244)	-	-	(4,199,244)
Net tuition and fees	5,723,754	-	-	5,723,754
Income from auxiliary enterprises	3,906,298	-	-	3,906,298
Private source gifts and grants	1,177,316	218,583	-	1,395,899
Investment return designated for operating activities	245,576	558,115	-	803,691
Grants from Federal Government	-	329,755	-	329,755
Other	51,598	-	-	51,598
Housing rental revenues	25,120	-	-	25,120
	<u>11,129,662</u>	<u>1,106,453</u>	<u>-</u>	<u>12,236,115</u>
Net assets released from restriction	1,061,416	(1,061,416)	-	-
	<u>12,191,078</u>	<u>45,037</u>	<u>-</u>	<u>12,236,115</u>
Operating expenses:				
Educational and general expenditures				
Instructional	2,081,049	-	-	2,081,049
Academic support	704,295	-	-	704,295
Student services	1,219,815	-	-	1,219,815
Institutional support	2,890,974	-	-	2,890,974
Auxiliary enterprises expenditures	2,482,144	-	-	2,482,144
Facilities and maintenance	2,433,227	-	-	2,433,227
Other	84,709	-	-	84,709
Total expenses	<u>11,896,213</u>	<u>-</u>	<u>-</u>	<u>11,896,213</u>
Operating revenues and other support over expenses	294,865	45,037	-	339,902
Non-operating revenues (expenses):				
Private source gifts and grants	-	2,214,186	185,028	2,399,214
Change in value of				
split-interest agreements	-	(120,623)	103,689	(16,934)
Change in valuation of pledges	(261,388)	-	(28,310)	(289,698)
Excess of investment gains over				
spending rate amount	1,066,753	1,232,746	110,271	2,409,770
Total non-operating revenues	<u>805,365</u>	<u>3,326,309</u>	<u>370,678</u>	<u>4,502,352</u>
Change in net assets	1,100,230	3,371,346	370,678	4,842,254
Net assets, beginning	<u>14,590,745</u>	<u>2,694,824</u>	<u>10,959,885</u>	<u>28,245,454</u>
Net assets, ending	<u>\$ 15,690,975</u>	<u>\$ 6,066,170</u>	<u>\$ 11,330,563</u>	<u>\$ 33,087,708</u>

See notes to financial statements.

Spartanburg Methodist College

Statement of Activities For the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues and other support:				
Tuition and fees	\$ 9,619,974	\$ -	\$ -	\$ 9,619,974
Less: Tuition discounts	(3,674,946)	-	-	(3,674,946)
Net tuition and fees	5,945,028	-	-	5,945,028
Income from auxiliary enterprises	3,597,858	-	-	3,597,858
Private source gifts and grants	951,009	227,949	-	1,178,958
Investment return designated for operating activities	57,955	675,799	-	733,754
Grants from Federal Government	-	332,931	-	332,931
Other	29,842	-	-	29,842
Housing rental revenues	25,800	-	-	25,800
	10,607,492	1,236,679	-	11,844,171
Net assets released from restriction	1,151,234	(1,151,234)	-	-
Total operating revenues and other support	11,758,726	85,445	-	11,844,171
Operating expenses:				
Educational and general expenditures				
Instructional	2,018,962	-	-	2,018,962
Academic support	670,833	-	-	670,833
Student services	1,122,825	-	-	1,122,825
Institutional support	2,580,174	-	-	2,580,174
Auxiliary enterprises expenditures	2,394,776	-	-	2,394,776
Facilities and maintenance	2,321,962	-	-	2,321,962
Other	42,098	-	-	42,098
Total expenses	11,151,630	-	-	11,151,630
Operating revenues and other support over expenses	607,096	85,445	-	692,541
Non-operating revenues (expenses):				
Private source gifts and grants	60,600	-	140,442	201,042
Change in value of				
split-interest agreements	-	60,654	(53,166)	7,488
Change in valuation of pledges	(9,424)	-	(29,419)	(38,843)
Loss on disposal of assets	(8,567)	-	-	(8,567)
Excess of investment gains over				
spending rate amount	565,746	667,975	33,832	1,267,553
Total non-operating revenues	608,355	728,629	91,689	1,428,673
Change in net assets	1,215,451	814,074	91,689	2,121,214
Net assets, beginning	13,375,294	1,880,750	10,868,196	26,124,240
Net assets, ending	\$ 14,590,745	\$ 2,694,824	\$ 10,959,885	\$ 28,245,454

See notes to financial statements.

Spartanburg Methodist College

Statements of Cash Flows For the years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 4,842,254	\$ 2,121,214
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	806,337	814,635
Amortization	9,591	7,019
Bad debt expense	23,972	-
Unrealized gain on marketable equity securities	(2,842,621)	(1,524,687)
Increase in cash surrender value	(1,541)	(1,438)
Loss on disposal of assets	-	8,567
Reinvestment of investment earnings	(422,371)	(518,906)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable and due from Department of Education	(28,151)	27,785
(Increase) decrease in pledges receivable	(867,273)	173,767
(Increase) decrease in inventories	(2,635)	2,619
Increase in prepaid assets	(7,890)	(41,242)
(Decrease) increase in accounts payable	(92,306)	191,706
Decrease in annuities payable	(16,954)	(28,342)
Increase (decrease) in other current liabilities	53,586	(59,181)
Contributions restricted for permanent investments and land, buildings and equipment	(2,399,214)	(251,459)
Net cash (used in) provided by operating activities	(945,216)	922,057
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(1,078,655)	(668,767)
Disbursements for loans to students	(44,304)	(28,750)
Collections on loans from students	77,822	40,475
Withdrawals from investments	22,325	-
Purchases of investments	-	(7,490)
Net cash used in investing activities	(1,022,812)	(664,532)
Cash flows from financing activities:		
Contributions restricted for:		
Endowment	185,028	140,442
Plant	2,214,186	111,017
Payment on bond issue	(116,846)	(220,000)
Payment on capital lease	(3,223)	(2,888)
(Decrease) increase advances from federal government student loans	(10,708)	36,910
Payment of new bond issuance cost	(113,154)	-
Net cash provided by financing activities	2,155,283	65,481
Net increase in cash and cash equivalents	187,255	323,006
Cash and cash equivalents at beginning of year	3,240,296	2,917,290
Cash and cash equivalents at end of year	\$ 3,427,551	\$ 3,240,296
Supplemental disclosure of cash flow information and non-cash activity:		
Capital lease incurred to purchase copiers	\$ -	\$ 18,201
Interest paid during the year	\$ 16,388	\$ 13,756

See notes to financial statements.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 1 - Summary of significant accounting policies

Nature of Activities

Spartanburg Methodist College (the “College”) is an independent residential two-year college in South Carolina. The College provides education for the freshmen and sophomore years of college and prepares students to move on to their junior and senior years of college.

Affiliation

The College is a South Carolina nonprofit corporation affiliated with the United Methodist Church. The College is accredited by the Southern Association of Colleges and Schools Commission on Colleges to award Associate Degrees.

Basis of presentation

The financial statements of the College have been prepared on the accrual basis and, accordingly, reflect all significant receivables, payables and other liabilities.

Net assets

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) standard on financial statements for not-for-profit organizations. Under this standard, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported as follows:

Unrestricted net assets include the following:

Current fund – these funds included unrestricted contributions, gifts and income that are available for use as designated by the Board of Trustees of the College, less current operating expenses.

Endowment fund - funds which the Board of Trustees of the College has designated to be retained and invested in the endowment fund. The principal as well as the income may be totally utilized at the discretion of the Board of Trustees.

Plant fund - funds used for the acquisition of physical properties and to service long-term obligations of the College. This fund is also established to account for all fixed assets and related long-term obligations of the College.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 1 - Summary of significant accounting policies (continued)

Net assets (continued)

Temporarily restricted net assets include assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or the passage of time. These assets are accounted for in the endowment fund and the plant fund. Temporarily restricted net assets held in the endowment fund are primarily for scholarships and temporarily restricted net assets in the plant fund are held for capital improvements and additions. Temporarily restricted net assets held in the annuity fund represent assets under a charitable remainder unitrust. Temporarily restricted net assets also include the federal aid fund which is principally government and matching institution grants for student loans under the Perkins Loan Fund Program and board designated college funds for loans to students.

Permanently restricted net assets include assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use the income earned on related investments for general or specific purposes. Permanently restricted net assets are held in the endowment and annuity funds. True endowment funds are always permanently restricted. Permanently restricted assets in the annuity fund represent assets that will be transferred to endowment scholarships after the life of the annuitant is over. Permanently restricted net assets in the endowment fund are to be used for endowment scholarships.

Contributions

Contributions received are generally recorded as revenues and assets when an unconditional promise to give (pledge) is made by a donor. They are recorded and displayed in the financial statements as unrestricted, temporarily restricted or permanently restricted based on the existence and nature of donor stipulations that limit the use of the assets, or if they are designated as support for future periods. When the stipulated time restriction ends, or when the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The College recognizes written pledges as revenue when the pledge is made, less a reserve for uncollectible amounts and a present value discount of future cash flows if payment periods extend beyond one year. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, using a credit risk adjusted discount rate of return appropriate for the expected term of the promise to give. Amortization of the discounts is recorded as contribution revenue in accordance with donor restrictions on the contributions.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 1 - Summary of significant accounting policies (continued)

Contributions (continued)

An allowance for uncollectible contributions receivable is provided based upon management's judgment of such factors as prior collection history, type of contribution and fund raising activity. Pledges from employees of the College that extend beyond one year are generally recognized on a cash basis because it is not practicable to determine uncollectible amounts. Oral pledges and testamentary gifts are recognized as revenue when the money or other assets are actually received.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the College reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The College reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Conditional promises to give are not included as support until the conditions are substantially met. At June 30, 2011 and 2010, the College had \$2,055,418 and zero respectively, in conditional promises to give.

Estates

Due to characteristic uncertainties, the College has not recognized an estimate for bequest intentions. Unless the ultimate amount available for distribution can be determined before the close of the probate proceedings, the College does not record revenue from estates until the time of asset distribution.

Accounts receivable

Accounts receivable is stated at cost less an allowance for doubtful accounts and includes student accounts held by the College's collection agency, accounts receivable returned to the College by the collection agency after collection efforts have been exhausted, and all other student accounts outstanding at June 30, 2011 and 2010. Management's determination of the allowance for doubtful accounts is based on a review of the accounts along with an analysis of historical losses and recoveries. Receivables are written off when deemed to be uncollectible. Students' accounts receivable are considered past due six months past the end of the applicable semester. The allowance for doubtful accounts is \$221,146 and \$465,677 at June 30, 2011 and 2010, respectively.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 1 - Summary of significant accounting policies (continued)

Notes receivable

Notes receivable are for loans granted under the Perkins Loan Program. Collections are administered by a fiscal agent. The loans are made and administered in accordance with regulations established by the Department of Education. The allowance for uncollectible accounts is \$409,019 and \$385,048 at June 30, 2011 and 2010, respectively.

Investments

Investments in equity securities that have readily determinable fair value and all debt securities are measured at fair value with realized and unrealized gains and losses reported in the statements of activities. Fair value is determined by reference to exchange or dealer quoted market prices for similar investment securities.

Management estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Certain estimates, such as the fair value of investments and the allowance for uncollectible receivables are sensitive to economic and other factors and could change in the near term. These changes could be significant to the financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits and investments with original maturities of three months or less when acquired. The College presents all cash and cash equivalents held by investment managers as investments in the statements of financial position. A Sinking Trust Fund, as required by the terms of the Series 2005 bond agreement, has been established to escrow the principal payments of the bond. The balance is \$200,705 and \$172,074 as of June 30, 2011 and 2010, respectively, and has been reflected as restricted cash and cash equivalents.

Concentration of credit risk

The College places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts. During the year, the College from time to time may have had amounts on deposit in excess of the insured limits. As of June 30, 2011, the College had \$3,306,072 which exceeds these insured amounts.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 1 - Summary of significant accounting policies (continued)

Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or market and consists of mass mailing supplies.

Land, buildings and equipment

Purchases of land, buildings and equipment having a unit cost of \$5,000 or more are capitalized at cost and donations are capitalized at estimated fair market value at the date of donation. Renovations and significant improvements to existing structures are capitalized. Renewals and replacements are expensed when purchased. Depreciation is recorded on the straight-line basis over the estimated useful life of the assets, varying from five to forty years, with a residual value of ten percent on certain depreciable items.

Refundable government advances

Advances from the Federal government under the Perkins Loan Program are distributable to the Federal government upon liquidation of the funds and thus are reflected as a liability on the statements of financial position.

Income taxes

The College was organized exclusively for educational purposes and, as such, is exempt from taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and accompanying regulations, and files an information return, Form 990, annually. However, income unrelated to its exempt function, if any, is subject to income taxation.

The College follows the provisions of FASB guidance on income taxes related to the accounting for uncertainty in income taxes. This guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The College's policy is to record a liability for any tax position taken that is beneficial to the College, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of June 30, 2011 and 2010 and, accordingly, no liability has been accrued.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 1 - Summary of significant accounting policies (continued)

New Accounting Pronouncements

During the year ended June 30, 2011, the College adopted the provisions of Accounting Standards Update (“ASU”) ASU 2010-06. This standard provides users with a greater level of disaggregated information and more robust disclosures about the valuation techniques and inputs to fair value measurements.

Reclassifications

Certain 2010 amounts have been reclassified, where appropriate, in order to correspond with 2011 financial statement presentation.

Note 2 - Pledges receivable

The following is a summary of pledges receivable as of June 30, 2011 and 2010:

	2011	2010
Unconditional pledges expected to be collected in:		
Less than one year	\$ 771,344	\$ 364,250
One to five years	1,068,938	577,000
Over five years	100,470	101,970
Pledges receivable	1,940,752	1,043,220
Less:		
Unamortized discount	(223,388)	(229,269)
Allowance for uncollectible pledges	(68,698)	(32,558)
Pledges receivable, net	1,648,666	781,393
Current portion	(740,492)	(346,680)
Long term portion	\$ 908,174	\$ 434,713

The discount rate used for pledges receivable ranged from 2% to 6% at June 30, 2011 and ranged from 3% to 6% at June 30, 2010.

Note 3 - Investments

The fair value of investments at June 30 was as follows:

	2011	2010
Time deposits and money market	\$ 1,049,188	\$ 1,756,633
Equity funds	13,504,418	9,104,149
Bond funds	4,621,326	5,114,346
Municipal securities	205,442	212,541
Cash surrender value of life insurance	46,536	44,995
Total fair value	\$ 19,426,910	\$ 16,232,664

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 3 - Investments (continued)

Cash held by investment managers in short-term accounts is classified as investments.

For the years ended June 30, 2011 and 2010, investment return consisted of the following:

	2011	2010
Interest and dividends	\$ 369,298	\$ 475,182
Net realized/unrealized gains	2,842,621	1,524,687
Increase in cash surrender value	1,541	1,438
Return on investments	3,213,461	2,001,307
Return designated for operating activities	(803,691)	(733,754)
Excess of investment gains over spending rate amount	\$ 2,409,770	\$ 1,267,553

Investment advisory fees of \$38,461 and \$36,088 were recorded for the years ended June 30, 2011 and 2010, respectively.

The College invests in a combination of stocks, bonds, fixed income securities, money market funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the College's investment balances reported in the statements of financial position.

Note 4 - Fair value measurements of assets and liabilities

The College follows FASB guidance on fair value measurements for financial assets and liabilities measured at fair value. This statement requires fair value measurements be classified and disclosed in one of the following three categories ("Fair Value Hierarchy"):

- Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2: Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active or private markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value.

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

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 4 - Fair value measurements of assets and liabilities (continued)

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

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

Funds held in trusts by others are valued at the fair market value of the trust's assets. The present value is calculated by using the future distributions expected to be received over the term of the agreement with a discount rate adjusted for credit risk.

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table summarizes the valuation of the College's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and 2010, respectively, based on the level of input utilized to measure fair value:

Description	Fair Value Measurements at June 30, 2011			
	Using:			Total
	Level 1	Level 2	Level 3	
Time deposits and money market	\$ 1,049,188	\$ -	\$ -	\$ 1,049,188
Mutual fund	1,554,883	-	-	1,554,883
Equity fund	5,466,373	-	-	5,466,373
International equity fund	-	1,126,625	-	1,126,625
Multi-strategy bond fund	-	3,066,443	-	3,066,443
Equity index fund	-	3,935,662	-	3,935,662
Multi-strategy equity fund	-	2,975,758	-	2,975,758
Municipal securities	-	205,442	-	205,442
Cash surrender value of life insurance	46,536	-	-	46,536
Total investments – recurring basis	\$ <u>8,116,980</u>	\$ <u>11,309,930</u>	\$ <u>-</u>	\$ <u>19,426,910</u>
Funds held in trust by others	\$ <u>-</u>	\$ <u>-</u>	\$ <u>351,076</u>	\$ <u>351,076</u>

Spartanburg Methodist College

Notes to Financial Statements June 30, 2011 and 2010

Note 4 - Fair value measurements of assets and liabilities (continued)

Description	Fair Value Measurements at June 30, 2010			
	Using:			
	Level 1	Level 2	Level 3	Total
Time deposits and money market	\$ 1,756,633	\$ -	\$ -	\$ 1,756,633
Equity fund	4,102,370	-	-	4,102,370
International equity fund	-	865,241	-	865,241
Multi-strategy bond fund	-	5,114,346	-	5,114,346
Equity index fund	-	2,410,065	-	2,410,065
Multi-strategy equity fund	-	1,726,473	-	1,726,473
Municipal securities	-	212,541	-	212,541
Cash surrender value of life insurance	44,995	-	-	44,995
Total investments – recurring basis	\$ 5,903,998	\$ 10,328,666	\$ -	\$ 16,232,664
Funds held in trust by others	\$ -	\$ -	\$ 301,114	\$ 301,114

The following summarizes the activities in the Level 3 category of assets for the year ended June 30, 2011:

	Funds Held in Trust by Others
Beginning balance of level 3 assets – July 1, 2010	\$ 301,114
Contributions	6,498
Withdrawals	(12,250)
Unrealized gains	55,714
Ending balance of level 3 assets – June 30, 2011	\$ 351,076

The following summarizes the activities in the Level 3 category of assets for the year ended June 30, 2010:

	Funds Held in Trust by Others
Beginning balance of level 3 assets – July 1, 2009	\$ 278,468
Contributions	5,650
Withdrawals	(11,360)
Unrealized gains	28,356
Ending balance of level 3 assets – June 30, 2010	\$ 301,114

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 4 - Fair value measurements of assets and liabilities (continued)

For investments in entities that calculate net asset value or its equivalent whose fair value is not readily determinable, the following table provides information about the probability of investments being sold at amounts different from their net asset value per share at June 30, 2011:

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Redemption Terms and Restrictions</u>
International equity fund (The strategy's objective is to offer a program that seeks to diversify a U.S. equity portfolio with equity investments in companies domiciled abroad. The fund is designed to outperform its benchmark, the Morgan Stanley Capital International World ex-U.S. Index, over a full market cycle.)	\$ 1,126,625	Monthly	5 days	None
Multi-strategy bond fund (The strategy's objective is to offer an actively managed, multi-manager investment program that will provide, in a single fund, broad exposure to global debt markets. The fund is designed to add value above the return of the broad U.S. bond market over a full market cycle, as measured by the Barclays Aggregate Bond Index and, due to its strategy and manager diversification, to reduce volatility in comparison to that of investing in the index.)	3,066,443	Monthly	5 days	None
Index equity fund (The strategy's objective is to track the S&P 500 Index. The investment objective of this fund is to pool Member assets to obtain an index product at a competitive price giving the benefit to investors.)	3,935,662	Daily	1 day	None
Multi-strategy equity fund (The strategy's objective is to offer an investment program that will provide, in a single fund, all of the strategy and manager diversification that an endowment would normally require for its equity allocation. The fund is designed to add value over long periods of time, above the return of the U.S. equity market as measured by the S&P 500 Index and, due to its strategy and manager diversification, to reduce volatility in comparison to that of investing in the index.)	2,975,758	Monthly	5 days	None
Other municipal securities	205,442			
Total	<u>\$ 11,309,930</u>			

There were no unfunded commitments outstanding at June 30, 2011.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 5 - Land, buildings and equipment

Land, buildings and equipment consists of the following as of June 30:

	2011	2010
Land and buildings	\$ 21,151,398	\$ 20,817,961
Furniture and fixtures	1,106,869	1,087,668
Equipment	3,918,764	3,675,549
Construction in progress	494,445	86,110
	26,671,476	25,667,288
Less accumulated depreciation	(12,713,653)	(11,981,783)
	\$ 13,957,823	\$ 13,685,505

Depreciation expense amounted to \$806,337 and \$814,635 at June 30, 2011 and 2010, respectively.

Note 6 - Endowment funds

The College's endowment consists of approximately 180 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP 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.

Interpretation of relevant law

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

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

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 6 - Endowment funds (continued)

6. Other resources of the College
7. The investment policies of the College

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (453,853)	\$ 2,291,971	\$ 11,330,563	\$ 13,168,681
Board-designated endowment funds	4,423,824	-	-	4,423,824
Total funds	<u>\$ 3,969,971</u>	<u>\$ 2,291,971</u>	<u>\$ 11,330,563</u>	<u>\$ 17,592,505</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,247,119)	\$ 1,091,038	\$ 11,075,824	\$ 10,919,743
Board-designated endowment funds	4,163,404	-	-	4,163,404
Total funds	<u>\$ 2,916,285</u>	<u>\$ 1,091,038</u>	<u>\$ 11,075,824</u>	<u>\$ 15,083,147</u>

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning endowment net asset balance	\$ 2,916,285	\$ 1,091,038	\$ 11,075,824	\$ 15,083,147
Investment return:				
Investment income	115,838	247,963	6,593	370,394
Net appreciation	1,183,424	1,511,085	91,428	2,785,937
Total investment return	1,299,262	1,759,048	98,021	3,156,331
Contributions	-	-	185,028	185,028
Change in valuation of pledges	-	-	(28,310)	(28,310)
Appropriation of endowment assets for expenditure	(245,576)	(558,115)	-	(803,691)
Ending net asset balance	<u>\$ 3,969,971</u>	<u>\$ 2,291,971</u>	<u>\$ 11,330,563</u>	<u>\$ 17,592,505</u>

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 6 - Endowment funds (continued)

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning endowment net asset balance	\$ 2,349,883	\$ 526,308	\$ 10,942,329	\$ 13,818,520
Investment return:				
Investment income	112,385	352,298	5,651	470,334
Net appreciation	511,972	888,231	16,821	1,417,024
Total investment return	624,357	1,240,529	22,472	1,887,358
Contributions	-	-	140,442	140,442
Change in valuation of pledges	-	-	(29,419)	(29,419)
Appropriation of endowment assets for expenditure	(57,955)	(675,799)	-	(733,754)
Ending net asset balance	\$ 2,916,285	\$ 1,091,038	\$ 11,075,824	\$ 15,083,147

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 the state UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$453,853 and \$1,247,119 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level will be classified as an increase in unrestricted net assets or permanently restricted net assets, as applicable.

Return objectives and risk parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period as well as board designated funds. 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 the S&P 500 index while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average annual real rate of return of approximately 7.75% annually. Actual returns in any given year may vary from this amount.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 6 - Endowment funds (continued)

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 that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

It is the College's policy to distribute annually 5.25% of a trailing three year average of the endowment's total asset value, with the understanding that this spending rate plus a 2% principal enhancement rate plus inflation (as defined by the Consumer Price Index) normally will not exceed the total return from the investment. In establishing these policies, the College considered the expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of 7.75% annually. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 7 - Split-interest arrangements

The College participates in various split-interest arrangements, including charitable remainder unitrusts. A charitable remainder unitrust provides for the payment of distributions to the grantor or other designated beneficiaries over the designated beneficiary's lifetime. At the end of the trust's term, the remaining assets are available for the College's use. The portion of the trust attributable to the present value of the estimated future benefits to be received by the College is recorded in the statement of activities as a temporarily or permanently restricted contribution in the period the trust is established. Assets held in the charitable remainder unitrust totaled \$216,231 and \$218,430 at June 30, 2011 and 2010, respectively, and are reported at fair market value in the College's statements of financial position. Periodically, the College revalues the liability for future payments to beneficiaries based on actuarial assumptions. The present value of the estimated future payments of \$71,234 and \$74,091 at June 30, 2011 and 2010, respectively is calculated using a discount rate of 8.2% and applicable mortality tables.

Note 8 - Charitable gift annuity

The College has received contributions from various donors to be used to establish life annuities. The present value of the annuity has been established as a liability and the remaining amount has been recorded as a permanently restricted contribution in the statement of activities in the period the gift is given. Assets held in the charitable gift annuity totaled \$1,153,738 and \$1,076,285 at June 30, 2011 and 2010, respectively, and are reported at fair value in the College's statements of financial position.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 8 - Charitable gift annuity (continued)

Periodically, the College revalues the liability for future payments to beneficiaries based on actuarial assumptions. The present value of the estimated future payments of \$377,278 and \$391,375 at June 30, 2011 and 2010, respectively, is calculated using discount rates ranging from 3.2% to 16.7% and applicable mortality tables.

Note 9 - Retirement plan

The College participates in the Teachers Insurance and Annuity Association Contributory Retirement Plan which is a retirement plan whereby the College contributes 5% of total employee compensation after the employee has maintained two consecutive years of service or was eligible to participate in their previous employer's retirement plan if previously employed by an institution of higher learning. The College contributed \$206,750 and \$213,799 to this plan for the years ended June 30, 2011 and 2010, respectively.

Note 10 - Long-term debt

Outstanding long-term debt as of June 30, 2011 and 2010 was as follows:

Educational Facilities Revenue Bonds:	2011	2010
Series 2005, due in varying installments through August 2025. The bonds bear interest, payable monthly, at the variable Bond Market Association (BMA) Municipal Swap Index rate adjusted weekly (0.17% and 3.22% at June 30, 2011 and 2010, respectively, plus .03%).	\$ 4,940,000	\$ 5,170,000
Series 2010, due in varying installments through December 2032. The bonds bear interest, payable monthly, at 68% of one-month LIBOR plus 1.46%, with a floor of 2.25% (2.25% at June 30, 2011).	113,154	-
	5,053,154	5,170,000
Less current portion	(240,000)	(230,000)
Long-term portion	\$ 4,813,154	\$ 4,940,000

The Educational Facilities Revenue Bonds, Series 2005 (the "Series 2005 Bonds") are collateralized by a letter of credit that has a value equal to the outstanding balance of the bonds at June 30, 2011 which will expire at the close of business August 1, 2015, unless the College chooses to extend.

In August 2005, the College entered into a borrowing agreement with a local financial institution for a revolving line of credit totaling \$1,000,000 which matures December 1, 2012 to be used for campus improvements or general working capital needs. Interest is payable monthly based on the 30 day "LIBOR" rate plus 1.625% basis points. At June 30, 2011 and 2010, there were no draws against the line of credit.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 10 - Long-term debt (continued)

Collateral for the Series 2005 Bonds, including the letter of credit and line of credit includes the College's general revenues and accounts, Sinking Trust Fund and all pledged bond collateral, and any substitutions or replacements thereof and any products and proceeds thereof, including without limitation, insurance proceeds. The College also has a negative pledge agreement not to lien or encumber its real or personal assets without the express consent of the lending institution.

In December 2010, the College issued \$7,000,000 of bank qualified Educational Facilities Revenue Bonds, Series 2010 (the "Series 2010 Bonds"). The proceeds from the Series 2010 Bonds are being used to cover the cost of construction and renovation of student housing, classroom renovations and improvement to administration buildings, including equipping of education facilities located on the campus of the College. At June 30, 2011 the College had drawn \$113,154 of the Series 2010 Bonds for use in construction.

Principal payments will begin on January 1, 2013 and continue each month, with final principal payment due on December 1, 2033. Interest is due on the first of every month until December 1, 2033.

The terms of the bonds, including the letter of credit and line of credit, require that the College comply with various covenants. At June 30, 2011, the College was in compliance with all these covenants.

The College capitalizes and amortizes on a straight-line basis the issue costs related to bond issuances. Unamortized bond issue costs of \$210,797 and \$107,234 are included in the College's statements of financial position at June 30, 2011 and 2010, respectively. Total amortization expense for issue costs was \$9,591 and \$7,019 for the years ended June 30, 2011 and 2010, respectively.

The College incurred interest expense of \$16,388 and \$13,756 for the years ended June 30, 2011 and 2010, respectively.

Aggregate maturities of long-term debt for each of the subsequent years as of June 30, 2011 are as follows:

Payable in fiscal year:		
2012	\$	240,000
2013		250,000
2014		512,579
2015		531,135
2016		550,106
Thereafter		9,856,180
Total		<u>11,940,000</u>
Unadvanced portion of the Series 2010 Bonds		<u>(6,886,846)</u>
Total	\$	<u><u>5,053,154</u></u>

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 11 - Compensated absences

All full-time staff members earn two weeks leave annually, plus additional days based on length of service. Staff members who have been employed by the College for less than a year accrue annual leave at a rate of one day per month up to ten days. Staff members are urged to use their annual leave each year but are permitted to rollover up to 10 days annual leave.

Sick leave accumulates to all full-time staff members at a rate of one day per month up to twelve days per year. Part-time staff members (nine month employees) also accrue sick leave at a rate of one day per month; however, they are limited to nine days per year.

Note 12 - Net assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2011	2010
Instruction and academic support	\$ 1,560,013	\$ 1,603,786
Capital expenditures	2,214,186	-
Portion of perpetual endowment subject to a time and/or purpose restriction under UPMIFA	2,291,971	1,091,038
Total	\$ 6,066,170	\$ 2,694,824

In accordance with donor stipulations, permanently restricted assets are held in perpetuity. The income derived from these net assets is to be used as follows at June 30:

	2011	2010
Endowment funds	\$ 11,330,563	\$ 11,075,824
Split-interest agreements	-	(115,939)
Total	\$ 11,330,563	\$ 10,959,885

Net assets released from restriction were for student aid and amounted to \$1,061,416 and \$1,151,234 for June 30, 2011 and 2010, respectively.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 13 - Functional allocation of expenses

The College excludes facilities and maintenance expenses, including depreciation and amortization from functional expense categories in the statements of activities for the years ended June 30, 2011 and 2010. Those expenses would be distributed to the functional areas using a proportional allocation as follows:

	Year ended June 30, 2011		
	As Reported in the Statement of Activities	Facilities and Maintenance	Full Functional Allocation of Expenses
Instruction	\$ 2,081,049	\$ 539,935	\$ 2,620,984
Academic support	704,295	182,732	887,027
Student services	1,219,815	316,485	1,536,300
Institutional support	2,890,974	750,073	3,641,047
Auxiliary activities	2,482,144	644,002	3,126,146
Facilities and maintenance	2,433,227	(2,433,227)	-
	\$ 11,811,504	\$ -	\$ 11,811,504
	Year ended June 30, 2010		
	As Reported in the Statement of Activities	Facilities and Maintenance	Full Functional Allocation of Expenses
Instruction	\$ 2,018,962	\$ 533,475	\$ 2,552,437
Academic support	670,833	177,256	848,089
Student services	1,122,825	296,687	1,419,512
Institutional support	2,580,174	681,766	3,261,940
Auxiliary activities	2,394,776	632,778	3,027,554
Facilities and maintenance	2,321,962	(2,321,962)	-
	\$ 11,109,532	\$ -	\$ 11,109,532

Note 14 - Development expenses

The College incurred expenses related to development and fundraising amounting to \$678,075 and \$579,837 during the years ended June 30, 2011 and 2010, respectively. Such amounts are included in institutional support in the accompanying statements of activities.

Note 15 - Capital leases

In fiscal year 2010, the College entered into a five year capital lease for copiers. The cost of assets acquired under capital leases is included in property, plant and equipment in the accompanying statements of financial position.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 15 - Capital leases (continued)

At June 30, 2011 and 2010, property and equipment included the following amounts for assets recorded under capital leases:

	2011	2010
Equipment	\$ 18,201	\$ 18,201
Less accumulated depreciation	(7,280)	(3,640)
	\$ 10,921	\$ 14,561

Approximate total future minimum lease payments under capital leases as of June 30, 2011 are as follows:

	Capital
Year ended June 30:	
2012	\$ 4,749
2013	4,749
2014	4,749
Total minimum lease payments	14,247
Less interest portion	(2,157)
Present value of minimum lease payments	12,090
Less current portion	(3,596)
Long-term obligation	\$ 8,494

Note 16 - Fair value of financial instruments

Fair value approximates book value for the following financial instruments due to their short-term nature: cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses.

The carrying amount of pledges receivable reported in the statements of financial position approximate fair value since pledges to be received after one year are discounted at a rate commensurate with the risk involved.

Fair values for investments and funds held in trust by others are based on quoted market prices. If a quoted market price is not available, fair value is estimated using market prices for similar securities.

In addition, the carrying amounts for notes receivable, cash surrender value and note payable approximate fair value since the interest rates for each of these instruments approximate market rates.

Spartanburg Methodist College

Notes to Financial Statements
June 30, 2011 and 2010

Note 17 – Related Parties

At June 30, 2011 and 2010, written unconditional promises to give from members of the Board of Trustees and Officers of the College were \$1,420,803 and \$939,220, respectively. During the year ended June 30, 2011, the College paid \$22,480 to a related party for carpet cleaning services and \$5,000 to a related party for golf memberships.

Note 18 - Commitments and contingencies

Litigation

Loss contingencies are situations involving uncertainties as to possible loss. The uncertainties are resolved when certain events occur or fail to occur. Loss contingencies may result from litigation, claims, audit disallowances, threatened property loss, or uncollectible receivables. Such situations are loss contingencies at June 30 if the related liability has not been recorded, yet a loss is reasonably possible. Guarantees of others' debts are loss contingencies, however, even if the probability of loss is remote. At the date of this report, the College's management is not aware of any material contingencies which are not insured.

Federal Aid

Federal and state funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College. No such audits have occurred as of the date of the audit report; therefore, no provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

Note 19 - Subsequent events

The College has evaluated subsequent events through October 18, 2011, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.