KPMG

DOANE COLLEGE

Financial Statements and Reports Required by
Government Auditing Standards and OMB Circular A-133

June 30, 2012
(with summarized financial information for 2011)

(With Independent Auditors' Report Thereon)

DOANE COLLEGE

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Independent Auditors' Report

The Board of Trustees
Doane College
Crete, Nebraska:

We have audited the accompanying statement of financial position of Doane College (the College) as of June 30, 2012, and the related statements of activities and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the College's 2011 financial statements, which were audited by other accountants and they expressed an unqualified opinion on them in their report dated September 27, 2011, but they have not performed any auditing procedures since that date.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Doane College as of June 30, 2012, and the changes in net assets and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2012, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 27, 2012

DOANE COLLEGE

Statement of Financial Position

June 30, 2012
(with summarized financial information for 2011)

Assets		2012	2011
Cash and cash equivalents	$	2,542,050	1,028,506
Accounts receivable, net of allowance for doubtful accounts of $851,503 for 2012 and $951,365 for 2011		1,948,057	2,055,434
Prepaid expenses, inventories, and other assets		685,227	1,028,788
Investments		100,825,217	100,308,542
Notes receivable		1,310,104	1,302,578
Pledges receivable		975,224	1,614,318
Funds held in trust by others		658,013	698,857
Land, buildings and equipment, net of accumulated depreciation		61,872,805	58,750,110
Total assets	$	170,816,697	166,787,133
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	1,284,183	1,688,069
Advance tuition		1,031,091	986,696
Deposits and deferred revenue		214,506	197,550
Amounts held on behalf of others		86,822	97,837
Annuities payable		1,190,564	1,221,356
Long-term debt		16,246,382	11,768,982
Refundable federal advances for student loans		1,125,494	1,163,488
Total liabilities		21,179,042	17,123,978
Net assets:			
Unrestricted		65,079,776	64,057,256
Temporarily restricted		43,341,329	44,484,960
Permanently restricted		41,216,550	41,120,939
Total net assets		149,637,655	149,663,155
Total liabilities and net assets	$	170,816,697	166,787,133

See accompanying notes to financial statements.

DOANE COLLEGE

Statement of Activities

Year ended June 30, 2012
(with summarized financial information for 2011)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	2012 Total	2011 Total
Revenues and gains:					
Student tuition and fees	$ 33,963,069	—	—	33,963,069	31,860,761
Less:					
Unfunded scholarships and grants	(9,628,579)	—	—	(9,628,579)	(8,936,050)
Funded scholarships and grants	(2,585,129)	—	—	(2,585,129)	(2,510,855)
Net tuition and fees	21,749,361	—	—	21,749,361	20,413,856
Government grants and contracts	1,812,101	—	—	1,812,101	1,738,689
Gifts and pledges	344,661	1,431,092	405,929	2,181,682	2,747,764
Investment income	251,406	1,646,050	96,559	1,994,015	2,402,303
Other income	508,650	71,500	—	580,150	578,616
Realized and unrealized gains and (losses)	(407,975)	447,687	(87,228)	(47,516)	13,961,878
Auxiliary enterprises	6,713,936	—	—	6,713,936	6,568,155
Total revenues and gains	30,972,140	3,596,329	415,260	34,983,729	48,411,261
Adjustment to annuities	—	—	(125,649)	(125,649)	83,909
Loan cancellations and loss provision	(29,068)	—	—	(29,068)	(28,237)
Net assets released from restriction	4,933,960	(4,739,960)	(194,000)	—	—
Total revenues and gains and other support	35,877,032	(1,143,631)	95,611	34,829,012	48,466,933
Expenses:					
Instruction	16,601,897	—	—	16,601,897	15,726,145
Academic support	2,062,596	—	—	2,062,596	1,946,661
Student services	5,799,374	—	—	5,799,374	5,513,514
Institutional support	4,546,356	—	—	4,546,356	5,167,253
Total educational and general expenses	29,010,223	—	—	29,010,223	28,353,573
Auxiliary enterprises	5,844,289	—	—	5,844,289	5,603,776
Total expenses	34,854,512	—	—	34,854,512	33,957,349
Change in net assets	1,022,520	(1,143,631)	95,611	(25,500)	14,509,584
Net assets, beginning of year	64,057,256	44,484,960	41,120,939	149,663,155	135,153,571
Net assets, end of year	$ 65,079,776	43,341,329	41,216,550	149,637,655	149,663,155

See accompanying notes to financial statements.

DOANE COLLEGE

Statement of Cash Flows

Year ended June 30, 2012
(with summarized financial information for 2011)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(25,500)	14,509,584
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		3,076,925	2,697,540
Realized and unrealized (gains) losses on investments, net		47,516	(13,961,878)
Loss on disposal of equipment		8,469	—
Gifts received for long-term investment		(928,197)	(1,448,980)
Changes in assets and liabilities:			
Accounts receivable		107,377	(343,316)
Pledges receivable		639,094	—
Prepaid expenses, inventories, and other assets		331,100	(365,213)
Accounts payable and accrued expenses		(403,886)	(1,607,474)
Advance tuition		44,395	(47,172)
Deposits and deferred revenue		16,956	(13,450)
Total adjustments		2,939,749	(15,089,943)
Net cash provided by (used in) in operating activities		2,914,249	(580,359)
Cash flows from investing activities:			
(Increase) decrease in notes receivable		(7,526)	1,440
Decrease in annuities payable		(30,792)	(93,089)
Net purchases of investments		(523,347)	(855,131)
Purchase of land, buildings and equipment		(6,195,628)	(10,036,309)
Net cash used in investing activities		(6,757,293)	(10,983,089)
Cash flows from financing activities:			
(Decrease) increase in amounts held on behalf of others		(11,015)	4,045
Gifts received for long-term investment		928,197	1,448,980
Decrease in pledges receivable		—	2,190,179
Refundable federal advances for student loans		(37,994)	(38,697)
Issuance of long-term debt		4,950,000	8,606,954
Payments on long-term debt		(472,600)	(306,018)
Net cash provided by financing activities		5,356,588	11,905,443
Net increase in cash and cash equivalents		1,513,544	341,995
Cash and cash equivalents, beginning of year		1,028,506	682,511
Cash and cash equivalents, end of year	$	2,542,050	1,024,506
Supplemental disclosure of cash flow information:			
Interest paid	$	699,043	473,378

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Activities and Organization

Doane College (the College), established in 1872, operates as a not-for-profit, private college. The College was incorporated under the laws of the State of Nebraska and is an organization exempt from income taxes under Code Section 501 (c)(3) of the Internal Revenue Code (the Code).

(b) Basis of Accounting

The financial statements of Doane College have been prepared on the accrual basis of accounting.

(c) Basis of Presentation

The College reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the net asset categories used by the College follows:

Unrestricted net assets include net assets and contributions not subject to donor-imposed stipulations. Unrestricted net assets include realized and unrealized gains on investments and interest and dividend income on restricted endowments that are not stipulated by the donor or law for reinvestment.

Temporarily restricted net assets include amounts for which donor or other externally imposed restrictions have not yet been met. After the donor-imposed purpose or time restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported within the statement of activities as net assets released from restrictions.

Permanently restricted net assets include amounts which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for specific purposes in accordance with donor restrictions. Generally, the donors of these assets permit the College to use all of part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Investment income, including net realized and unrealized gains or losses on investments, is reported as increase or decrease in unrestricted net assets unless its use is restricted by donor stipulation or by law.

The financial statements present expenses in accordance with the principal educational mission of the College displayed in their functional classifications.

(d) Cash and Cash Equivalents

Cash equivalents include highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash. Cash equivalents exclude amounts held as a part of the investment portfolio.

(e) Accounts Receivable

The College uses the allowance method to account for uncollectible accounts receivable. The allowance for uncollectible receivable is estimated based on history of uncollectible accounts and analysis of current aging.

(f) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

(g) Investments

Investments in equity securities that have a readily determinable fair value and all investments in debt securities are stated at fair value, with gains and losses included in the statement of activities. Fair value is determined by quoted market values. Real estate held for investment purposes consists of property, which was donated to the College. The properties are stated at estimated fair value using appraisals and comparable land sales.

For investments not traded on organized exchanges, the College estimates fair value using net asset value per share or its equivalent as provided by the investment managers.

(h) Split Interest Agreements

The College is the beneficiary of various trust and annuities. The College's interest in these split interest agreements is reported as a contribution in the year received at its net present value discounted at prevailing rates, based upon actuarially determined mortality rates. The assets of these agreements, for which the College is the trustee, are included in investments on the statement of financial position.

(i) Property and Equipment

Property and equipment are stated at cost, if purchased or fair value, if donated. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis over 3 to 50 years. Maintenance, repairs, and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. Interest cost incurred on borrowed funds during the period of construction is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during the years ended June 30, 2012 and 2011.

(Continued)

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the statement of financial position.

(j) Advance Tuition

Tuition income is received in advance for summer term classes prior to the end of the fiscal year. Portions of the tuition income are recognized as advance income when class sessions extend into the new fiscal year or when sessions begin in the new fiscal year.

(k) Deposits and Deferred Revenue

Deposits consist of refundable student room and key deposits for students living in a residence hall on the Crete campus. The deposits may be returned to the students once they no longer live in a residence hall, subject to any loss or damage charges. The College has deferred revenue in connection with a long-term contract with its third-party dining services provider in which a portion of the advance deposit is earned ratably over the term of the contract. The College also has deferred revenue for designated scholarship support received for the coming academic year.

(l) Refundable Federal Advances for Student Loans

Funds provided by the U.S. government under the Federal Perkins Loan program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the U.S. government and are included as a liability in the statement of financial position.

(m) Endowment Funds

The College has adopted the provisions of FASB ASC Subtopic 958-205 – *Presentation of Financial Statements, as it relates to Endowments of Not-for-Profit Organizations: Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*, and enhanced disclosures for all endowment funds, including any changes required to net asset classification of donor-restricted endowment funds and the incremental disclosure requirements for all endowment funds (including both donor-restricted and board-designated endowment funds).

(n) Fair Value of Financial Instruments

The College follows the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined 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. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. See note 9.

(o) Contributions

Contributions, including unconditional promises to give in future periods, are recognized as revenue in the period received. Unconditional promises to give due in future periods are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions revenue.

Contributions received with donor-imposed restrictions that are satisfied in the same year as the contribution is received are reported as revenue of the unrestricted net asset class. Conditional contributions receivable which depend upon specified future and uncertain events are recognized as revenue when the conditions upon which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of assets other than cash are recorded at their estimated fair value. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

(p) Revenue Recognition

Tuition and fees are recognized as revenue in the applicable enrollment period, as the College provides services to its students. Tuition discounts and scholarships are recorded commensurate with the related tuition.

(q) Income Taxes

The College has been recognized as a tax-exempt organization by the Internal Revenue Service as described in Section 501(c)(3) of the Code and, therefore, is exempt from income taxes on related income under Section 501(a) of the Code. However, income from certain activities not directly related to the College's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the College qualifies for the charitable contribution deduction under Section 170(b)(I)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

(Continued)

The College applies the provisions of FASB ASC 740-10, *Accounting for Uncertain Tax Positions*. The College recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During the year ended June 30, 2012, the College did not record any amounts related to uncertain tax positions or any accrued interest and penalties.

(r) Summarized Financial Information

The financial statements include certain prior year summarized information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles.

(s) Use of Estimates

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

(2) Investments

The investments of the College consist of the following as of June 30, 2012 and 2011.

	2012	2011
Money market certificates and certificates of deposit	$ 3,855,592	10,009,106
Equity securities	51,408,096	51,460,971
Fixed income securities	21,402,260	17,848,000
Alternative investments	15,734,198	16,103,887
Real estate and Real Estate Investment Trusts (REITS)	8,425,071	4,886,578
	$ 100,825,217	100,308,542

The College's endowment includes the majority of the investments shown above and consists of individual funds established for a variety of purposes. The endowment includes both donor-restricted funds and funds designated to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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 stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the College, and (7) the College’s investment policies.

(a) Investment Return Objectives, Risk Parameters, and Strategies

The College has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity, debt securities, and illiquid alternative investments, which is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make a maximum annual distribution of 5%, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

(b) Spending Policy

The College has a policy of appropriating for distribution each year a percentage, currently 4.8%, of the average fair market value of the endowment assets for the prior three calendar years. In establishing this policy, the College considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. This is consistent with the College’s objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of June 30, 2012 and 2011 is as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
2012:					
Donor-restricted endowment funds	$	(54,607)	40,559,513	37,255,221	77,760,127
Quasi-endowment funds		13,231,823	—	—	13,231,823
Total funds	$	13,177,216	40,559,513	37,255,221	90,991,950
2011:					
Donor-restricted endowment funds	$	(36,074)	41,666,349	36,682,516	78,312,791
Quasi-endowment funds		12,669,759	—	—	12,669,759
Total funds	$	12,633,685	41,666,349	36,682,516	90,982,550

Changes in endowment net assets for the years ended June 30, 2012 and 2011 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
2012:				
Endowment net assets, beginning of year	$ 12,633,685	41,666,349	36,682,516	90,982,550
Contributions	—	—	394,594	394,594
Investment income (net)	111,903	2,923,256	—	3,035,159
Net appreciation (depreciation)	(472,302)	(735,604)	—	(1,207,906)
Transfers	1,463,834	—	178,111	1,641,945
Amounts appropriated for expenditure	(559,904)	(3,294,488)	—	(3,854,392)
Endowment net assets, end of year	$ 13,177,216	40,559,513	37,255,221	90,991,950
2011:				
Endowment net assets, beginning of year	$ 9,726,251	32,324,606	36,312,540	78,363,397
Contributions	—	—	369,976	369,976
Investment income (net)	(93,791)	3,777,819	—	3,684,028
Net appreciation (depreciation)	2,541,137	9,006,802	—	11,547,939
Transfers	990,312	—	—	990,312
Amounts appropriated for expenditure	(530,224)	(3,442,878)	—	(3,973,102)
Endowment net assets, end of year	$ 12,633,685	41,666,349	36,682,516	90,982,550

As of June 30, 2012 and 2011, individual named endowment funds had estimated fair values that were $54,607 and $36,074 less than their permanently restricted or historic dollar value. This was the result of net declines in financial markets since these endowment funds were established. Though the College is not required by donor-imposed restriction or law to use its unrestricted resources to restore the endowments to their historic dollar value, accounting guidance for not-for-profit organizations require that such losses and subsequent gains be reflected as changes to unrestricted net assets until the fair values again reach the historical dollar values.

(c) Investments

The estimated value of certain alternative investments and nonmarketable securities, such as partnerships, was provided by the respective companies and independent appraisals. For these alternative investments, the College used the net asset value (or its equivalent) reported by the underlying fund to estimate the fair value of the investment. Below is a summary of investments accounted for at net asset value:

		Fair value	Unfunded commitments	* Redemption frequency (if currently eligible)	Redemption notice period
Hedge Funds (i)	$	6,864,851	—	sa	105 days
Venture Capital (ii)		4,127,071	608,700	ne	N/A
Limited Partnerships (iii)		1,154,919	490,000	ne	N/A
Real Assets (iv)		3,587,357	976,100	ne	N/A
	$	15,734,198	2,074,800		

* m – monthly, q – quarterly, sa – semiannual, a – annual, ne – not eligible

(i) This category includes investments in hedge funds, which buy and sell securities of public and privately held companies and derivatives of such securities. The individual hedge funds may invest up to 40% of total partnership capital into one fund, which cannot exceed ten percent of the fund's capital. The hedge funds invest in securities of United States limited partnership hedge funds. The fair value of the investments in this class has been estimated using the net asset value of the College's ownership interest in the partners' capital. These investments can be redeemed from the fund with notice of 105 days on a semiannual basis.

(ii) This category includes investments in securities of private funds, which invest venture capital in private companies. The fair value of the investments in this class has been estimated using the net asset value of the College's ownership interest in the partners' capital. These investments can never be redeemed with the fund. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

(iii) This category includes interest in portfolio funds and direct investments. The fair value of the investments in this class has been estimated using the net asset value of the College's ownership interest in the partners' capital. These investments can never be redeemed with the fund. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

(iv) This class includes real estate funds that employ a value-add strategy across multiple property types. The fair values of the investments in the real estate funds have been estimated using the net asset value of the College's ownership interest in partners' capital. These investments can never be redeemed with the fund. Distributions from real estate funds will be received as the underlying investments of the funds are liquidated.

Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the College's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the College were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

(3) Land, Buildings, and Equipment

At June 30, 2012 and 2011, land, buildings, and equipment consist of the following:

		2012	2011
Land	$	582,882	582,882
Buildings and improvements		75,935,594	69,892,772
Leasehold improvements		1,024,630	1,024,630
Equipment		16,819,916	15,614,961
Construction in progress		36,069	1,204,977
		94,399,091	88,320,222
Less accumulated depreciation		(32,526,286)	(29,570,112)
Total land, buildings, and equipment, net	$	61,872,805	58,750,110

(4) Long-Term Debt

(a) Bond and Note Payable

At June 30, 2012 and 2011, bonds and notes payable consist of the following:

		2012	2011
$3,120,000 issuance of Nebraska Education Finance Authority 2004 bonds – semi-annual principal payments through 2018; interest rates 4.00-4.55% (secured by revenues, Deed of Trust, and security in the land and improvements in Crete)	$	1,575,000	1,805,000
$10,000,000 issuance of Nebraska Education Finance Authority 2009 – monthly principal payments through 2039; interest rate of 4.66%*		9,735,833	9,913,982
$5,000,000 issuance of Nebraska Education Finance Authority 2011 – monthly principal payment through 2041; interest rate of 4.62%**		4,935,549	50,000
	$	16,246,382	11,768,982

* The interest rate will be reset on May 1, 2019, and every 5 years thereafter. There is no pre-payment penalty unless the note is moved to another financial institution.

** The interest rate will be reset on November 1, 2021, and every 5 years thereafter. There is no pre-payment penalty unless the note is moved to another financial institution.

(b) Estimated Future Maturities on Bonds and Notes Payable

The following is a schedule of future bonds and notes payable maturities at June 30, 2012:

Years ending June 30:		
June 30, 2013	$	502,448
June 30, 2014		525,147
June 30, 2015		548,449
June 30, 2016		572,383
June 30, 2017		601,978
June 30, 2018, thereafter		13,495,977
	$	16,246,382

(5) Operating Leases

The College has signed a two-year lease for building space in Grand Island, Nebraska through June 30, 2013. The actual lease amount for this space is $84,112 per year.

The College has also entered into a four-year lease for building space in Lincoln, Nebraska through February 28, 2015. The actual lease amount for this space is $121,737 per year.

Future minimum payments under the existing lease agreements as of June 30, 2012 are:

Years ending June 30:		
2013	$	205,849
2014		121,737
2015		81,158

Capital Leases

The College has signed a three-year noncancelable lease to purchase technology equipment. The gross lease amount for this equipment is $134,935.

Future minimum payments under the existing lease agreements as of June 30, 2012 are:

		Principal	Interest	Total
Year ending June 30:				
2013	$	41,233	3,746	44,979
Total	$	41,233	3,746	44,979

(6) Pension Costs

The College maintains retirement plans for College employees, under which contributions are made to the Teacher's Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) and Fidelity Investments for the purchase of retirement annuities for employees. Total pension expense for this plan for the years ended June 30, 2012 and 2011 amounted to $570,909 and $536,789, respectively. The College's policy is to fund current pension costs accrued.

(Continued)

(7) Promises to Give

Unconditional promises to give are pledges receivable to be received by the College for years subsequent to June 30, 2012 and are deemed, by management, to be fully collectible. Promises have been discounted using a rate of 5% annually.

		Total June 30	
		2012	**2011**
Receivable in less than one year	$	281,361	850,789
Receivable in one to five years		898,983	1,016,120
		1,180,344	1,866,909
Less discount to present value		205,120	252,591
Net pledges receivable	$	975,224	1,614,318

(8) Net Assets Released from Restrictions

The sources of net assets released from restrictions are as follows:

		2012	**2011**
Acquisition of land, buildings, and equipment	$	824,256	3,913,257
Scholarships, instruction, and other departmental support		3,915,704	4,883,473
	$	4,739,960	8,796,730

Permanently restricted net assets released during the current period due to the release of restrictions by the donor amounted to $194,000.

(9) Fair Value of Financial Instruments

The College has adopted FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value under generally accepted accounting principles. FASB ASC 820-10 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in FASB ASC 820-10, fair value is 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. In determining fair value, the College uses various methods including market, income, and cost approaches. Based on these approaches, the College often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The College utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the College is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

> Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
>
> Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.
>
> Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the years ended June 30, 2012 and 2011, the application of valuation techniques applied to similar assets has been consistent. The College considers the carrying amounts of all financial instruments to be a reasonable estimate of fair value.

Certain investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the College's interest therein, its classification in Levels 2 and 3 is based on the College's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(Continued)

The tables below presents the balances of assets measured at June 30, 2012 and 2011 at fair value on a recurring basis.

	2012			
	Total	**Level 1**	**Level 2**	**Level 3**
Short-term investments and cash and cash equivalents:				
Cash and money markets	$ 6,397,645	6,397,645	—	—
Long-term investments:				
Equity securities:				
Domestic	40,133,535	40,133,535	—	—
Foreign	11,274,560	11,274,560	—	—
Fixed income securities:				
U.S Treasury bonds and Agencies	7,640,595	7,640,595		—
Municipal bonds	90,094	—	90,094	—
Corporate bonds:				
Domestic	11,122,769	—	11,122,769	—
Foreign	2,548,800	—	2,548,800	—
Alternative investments:				
Hedge Fund	6,864,851	—	—	6,864,851
Venture capital	4,127,071	—	—	4,127,071
Limited partnership	1,154,919	—	—	1,154,919
Real assets	3,587,357	—	—	3,587,357
Funds held in trust by others:				
Endowment funds held by others	658,013	—	—	658,013
Real estate:				
Real estate	8,425,071	—	8,425,071	—
Total long-term investments	97,627,635	59,048,690	22,186,734	16,392,211
Total assets	$ 104,025,280	65,446,335	22,186,734	16,392,211

(Continued)

	2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and money markets	$ 10,009,106	10,009,106	—	—
Equity securities	51,460,971	51,460,971	—	—
Fixed income securities	17,848,000	4,506,573	13,341,427	—
Alternative investments	16,103,887	—	—	16,103,887
Funds held in trust by others	698,857	—	—	698,857
Real estate and REITS	4,886,578	—	4,886,578	—
Total assets	$ 101,007,399	65,976,650	18,228,005	16,802,744

The following table presents the College's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2012:

	Alternative investments	**Funds held in trust by others**	**Total**
Balance at June 30, 2011	$ 16,103,887	698,857	16,802,744
Total realized and unrealized gains and losses included in changes in net assets, net	(240,562)	(40,844)	(281,406)
Purchases	102,500	—	102,500
Sales	—	—	—
Settlements	—	—	—
Transfers into and/or out of Level 3	(231,627)	—	(231,627)
Balance at June 30, 2012	$ 15,734,198	658,013	16,392,211

Realized and unrealized gains (or losses) included in the increase of net assets for 2012 for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are reported in the statement of activities:

	Alternative investments	**Funds held in trust by others**	**Total**
Total realized gains	$ (3,978)	—	(3,978)
Change in unrealized gains or losses relating to assets still held	(236,584)	(40,844)	(277,428)
Loss	—	—	—
	$ (240,562)	(40,844)	(281,406)

The College's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were transfers out of level 3 of $231,627 for the year ended June 30, 2012.

(10) Concentration of Credit Risk

The College has deposits in various financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2012 and 2011, the College has in place an additional $500,000 Bank Deposit Guaranty Bond. At various times throughout the year, deposits held were in excess of insurance.

Financial instruments which potentially subject the College to concentrations of credit risk consist primarily of trade receivables with a variety of customers. The College generally does not require collateral from its customers. Such credit risk is considered by management to be limited due to the College's broad customer base and its customers' financial resources.

(11) Restricted Net Assets

Temporarily restricted net assets are available for the following as of June 30, 2012 and 2011:

	2012	2011
Contributions for college programs and projects	$ 2,781,816	2,818,611
Contributions for endowments	40,559,513	41,666,349
	$ 43,341,329	44,484,960

Permanently restricted net assets are annuity funds and restricted endowments in which the principal is invested in perpetuity. Permanently restricted net assets were $41,216,550 and $41,120,939 at June 30, 2012 and 2011, respectively.

(12) Subsequent Events

In preparing the financial statements, the College has evaluated events and transactions for potential recognition or disclosure through September 27, 2012, the date the financial statements were available to be issued.

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Doane College
Crete, Nebraska:

We have audited the financial statements of Doane College as of and for the year ended June 30, 2012, and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Doane College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Doane College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Doane College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Doane College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Doane College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, audit committee, management, others within Doane College and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 27, 2012

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
Doane College
Crete, Nebraska:

Compliance

We have audited Doane College's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Doane College's major federal programs for the year ended June 30, 2012. Doane College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Doane College's management. Our responsibility is to express an opinion on Doane College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Doane College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Doane College's compliance with those requirements.

In our opinion, Doane College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-01 and 2012-02.

Internal Control over Compliance

Management of Doane College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Doane College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Doane College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified two deficiencies in internal control over the compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-01 and 2012-02. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Doane College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Doane College's responses and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Board of Trustees, audit committee, management, others within the organization and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 27, 2012

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: **Unqualified**

(b) Significant deficiencies in internal control that were disclosed by the audit of the financial statements: **None reported**

(c) Material weaknesses in internal control that were disclosed by the audit of the financial statements: **No**

(d) Noncompliance that is material to the basic financial statements: **No**

(e) Significant deficiencies in internal control over compliance for major programs: **Yes**

(f) Material weaknesses in internal control over major programs: **No**

(g) The type of report issued on compliance for major programs: **Unqualified**

(h) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**

(i) Major programs:

- *U.S. Department of Education – Student Financial Aid Cluster (CFDA #84.007, 84.033, 84.063, 84.268, and 84.379)*
- *National Science Foundation and U.S. Department of Health and Human Services National Institutes of Health – Research and Development Cluster (CFDA #47.049, 47.074, 47.081, and 93.389)*

(j) Dollar threshold used to distinguish between Type A and Type B programs: **$300,000**

(k) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

(3) Findings and Questioned Costs Relating to Federal Awards

Finding *#2012-01, Equipment and Real Property Management*

Program: Research and Development Cluster. CFDA #47.049, 47.074, 47.081, and 93.389

Federal Awarding Agency: National Science Foundation and U.S. Department of Health and Human Services

Criteria: OMB Circular A-21 requires that Doane College conduct a physical inventory count at least once every two years.

Condition:	A physical inventory count has not been performed by Doane College in the past two years.
Context:	Doane College has identified in their policy that a physical inventory count should be performed at least once every two years, however, the physical inventory has not been conducted.
Cause:	Internal controls over equipment are properly designed, however, a physical inventory was not conducted.
Effect:	An inventory count has not been performed.
Recommendation:	We recommend that Doane College reinstate their policy and perform an inventory count at least once over a two-year period.
Management's Response:	Doane intends to reinstate its physical count policy and will complete a physical count of fixed asset inventory by June 30, 2013, and at least every two years thereafter.

Finding *#2012-02*, *Reporting*

Program: Research and Development Cluster. CFDA# 47.074 and 47.049

Federal Awarding Agency:	National Science Foundation
Criteria:	OMB Circular A-21 requires that the College submit a Federal Financial Report (FFR), on a quarterly basis.
Condition:	There is no segregation of duties in the submission process of the Federal Financial Report.
Context:	The Assistant Accountant is responsible for compiling the report for submission through the National Science Foundation website. Once the report has been submitted for "Certification," this triggers an email to three individuals, including the Assistant Accountant to "Certify" the report. Once the report is certified, the Assistant Accountant completes final submission through the National Science Foundation website. The Assistant Accountant certifies the email and submits the final report through the National Science Foundation website. The other two individuals do not review the report.
Cause:	Segregation of duties over submission of the Federal Financial Report is ineffective.
Effect:	There is no review process before the submission of the Federal Financial Report.

Recommendation: We recommend that Doane College assign responsibility to review the Federal Financial Report before it is submitted.

Management's Response: Doane will assign responsibility for review of the Federal Financial Report to at least one of the individuals receiving the request and remove the assistant accountant's ability to certify. The reviewer will sign off on the preparer's documentation before it is certified.

DOANE COLLEGE

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal grantor/program title	CFDA number		Federal expenditures
U.S. Department of Education:			
Trio Student Support Services:			
Special Services for Disadvantaged Students	84.042	$	266,033
Student Financial Assistance Programs:			
Federal Supplemental Educational Opportunity Grant Program	84.007		96,393
Federal Work-Study Program	84.033		90,116
Federal Pell Grant Program (PELL)	84.063		3,005,283
Federal Direct Student Loans	84.268		16,734,679
Teacher Education Assistance for College and Higher Education Grants (TEACH)	84.379		135,000
Federal Perkins Loans outstanding	84.038		1,285,918
Total Student Financial Assistance Programs Cluster			21,347,389
Total U.S. Department of Education			21,613,422
Research and Development Cluster:			
National Science Foundation:			
Mathematical and Physical Sciences:			
Research Instrumentation Grant	47.049		374,400
Faculty Early Career Development Grant	47.049		84,950
Subtotal for CFDA 47.049			459,350
Biological Sciences:			
Pass through University of Wisconsin:			
Plant Genome Research Grant	47.074		48,443
Office of Experimental Program to Stimulate Competitive Research:			
Pass through University of Nebraska – Lincoln:			
Research Infrastructure Improvement Grant	47.081		144,012
Total National Science Foundation			651,805
U.S. Department of Health and Human Services National Institutes of Health:			
Pass through University of Nebraska Medical Center:			
National Center for Research Resources	93.389		235,234
Total U.S. Department of Health and Human Services National Institutes of Health			235,234
Total Research and Development Cluster			887,039
Total Federal Expenditures		$	22,500,461

See accompanying notes to schedule of expenditures of federal awards.

DOANE COLLEGE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Doane College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, federal financial reports.

(2) Subrecipients

Doane College provided no federal awards to subrecipients.

(3) Federal Financial Assistance Loan Programs Outstanding

Federal Perkins Loan Program loans outstanding at June 30, 2012 were $1,285,918.