# HAMPSHIRE COLLEGE
## FINANCIAL REPORT 2006–2007

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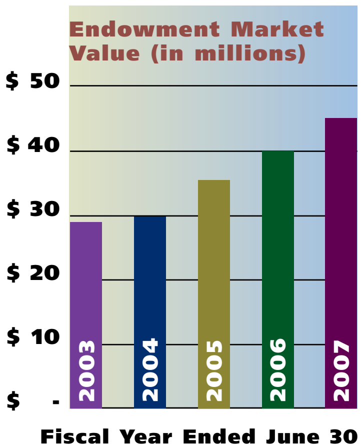
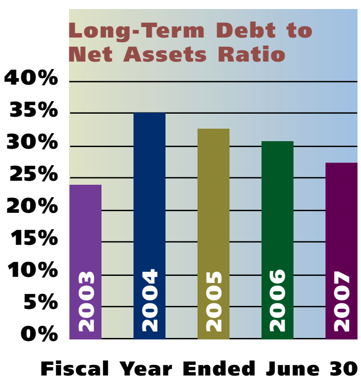
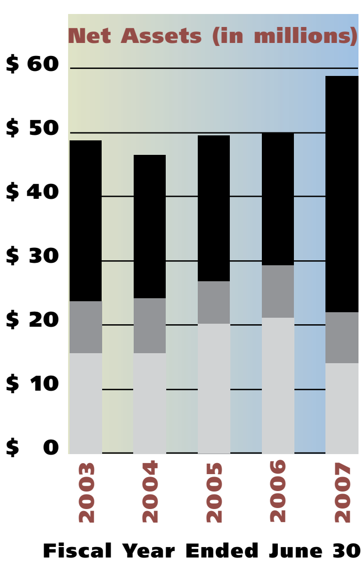
# Report of the Acting Treasurer




I am pleased to submit the financial report of Hampshire College for the fiscal year ended June 30, 2007. The financial statements, which have been audited by KPMG, LLP, are found on pages 6 to 17.

During fiscal year 2006-2007, Hampshire College improved its overall financial position and operating performance in several areas; net assets increased by approximately $8 million from $49.4 to $57.8 million, enrollment reached an all time high with an average of 1357 and the operating budget ended with a small surplus for the eighth consecutive year. In addition, the College continued to add to its internal reserves which amounted to $1.2 million at June 30, 2007.

The improvement in the College's net assets in 2006-2007 was primarily due to the stronger investment performance and appreciation in the endowment fund which earned an overall rate of return of 18.9% for the managed portfolio. The College's endowment investments appreciated in value approximately $5.2 million with an additional $1.3 million added through new gifts. The market value of the College's endowment (including land, insurance policies and trusts) was $45.4 million at June 30, 2007.

During fiscal year 2006-2007, Tuition, Room and Board revenues increased due to higher than expected enrollment. For the fourth consecutive year, the entering class exceeded 400 students and continued to show improvements in both quality and diversity. The additional tuition revenues generated by the higher enrollment were partially offset by increases in financial aid. The increase in financial aid costs was in response to greater need by students and families as well as ensuring an academically strong and diverse student body. The increased revenues also were used by the College to make improvements in student services, academic programming and upgrades in student social spaces including the refurbishment of the Prescott Tavern.

Operations were also supported by fundraising efforts of approximately $1.3 million from the Hampshire Fund and through budget relief. The College used the higher prevailing interest rate environment to increase interest earnings to $324,000 on its operating cash balances for the year. Auxiliary Enterprises earned $268,000 on a net basis to help provide additional support for the College's operations during the year.

The College added approximately $2.2 million in property, plant and equipment net of depreciation during fiscal year 2006-2007 which represented ongoing efforts to provide for the upkeep and renewal of campus facilities. Depreciation amounted to $2.3 million during the year. The College has future plans to add to its facilities including the construction of the $3.1 million Jerome Liebling Film, Photography and Video Center which is expected to be completed in spring 2009.

In 2006-2007 President Ralph J. Hexter presented 'The Making of the College 2.1' (MC 2.1) to the Hampshire community. This white paper outlines a re-visioning of the institution with respect to guiding principles developed around concepts of sustainability, responsibility, global horizons, new pedagogies and enhanced facilities in order to prepare students to be leaders and lifelong learners in an ever-changing and increasingly complex world. The aspirations contained in MC 2.1 are high and forward thinking and will affect the College as much if not more than the original plan that created Hampshire nearly fifty years ago.

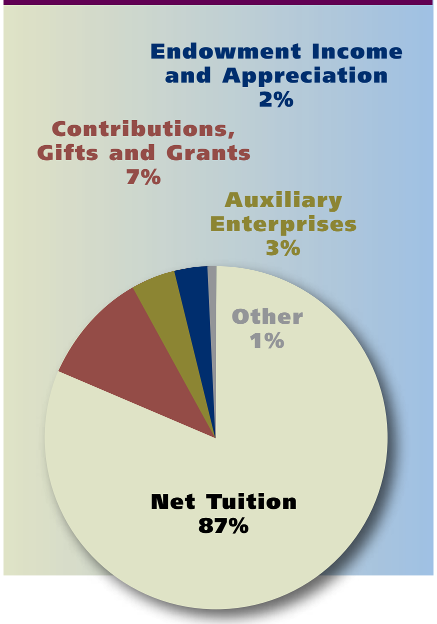
Looking ahead, Hampshire College's fiscal strategy is to maintain discipline in balancing its operating budgets, identify additional revenue sources and increase its net asset base, especially in regards to the endowment fund which will provide the financial anchor for its future. These fiscal strategies will help the College to realize the goals and ideals contained in MC 2.1.

In May 2007, Johan G. Brongers, Vice President for Finance and Administration and Treasurer left Hampshire after six years for a similar position with the American University in Kabul, Afghanistan. We want to take this opportunity to thank him for his mentoring and friendship and to wish him and his wife, Janet, all health, safety and success as they pursue (in their words) "this last adventure".

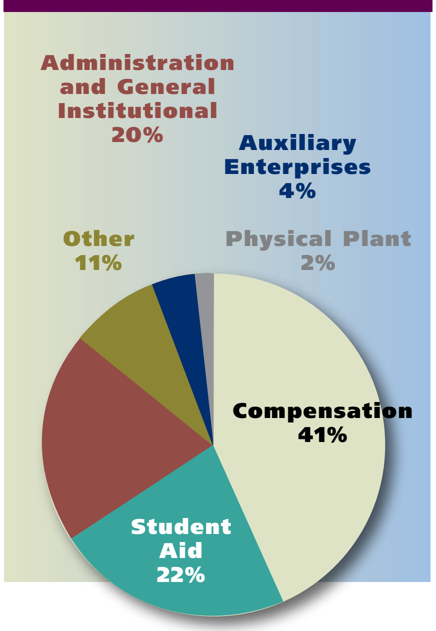
Respectfully Submitted,

GERALD M. BOHDANOWICZ
DIRECTOR OF FINANCE AND ACTING TREASURER

**2006–2007 OPERATING BUDGET INCOME ($65.3 MILLION)**




**2006–2007 OPERATING BUDGET EXPENSES ($65.3 MILLION)**




# Financial Highlights

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| **Operating Budget Results (000s)** | | | | | |
| Revenues | $65,289 | $59,491 | $56,862 | $53,902 | $50,315 |
| Expenses | $65,281 | $59,486 | $56,856 | $53,900 | $50,313 |
| Budget Surplus | $ 8 | $ 5 | $ 6 | $ 2 | $ 2 |
| **Endowment (000s)** | | | | | |
| Market Value | $45,373 | $39,695 | $35,302 | $29,602 | $27,519 |
| Total Return on Endowment | 18.9% | 9.6% | 12.8% | 12.3% | 2.0% |
| **Debt (000s)** | | | | | |
| Long-term Debt | $24,703 | $25,392 | $26,024 | $26,595 | $17,088 |
| **Giving (000s)** | | | | | |
| Hampshire Fund | $1,124 | $999 | $1,020 | $972 | $897 |
| **Enrollment and Financial Aid** | | | | | |
| Financial Aid as a Percent of Tuition and Fees | 33.4% | 31.3% | 31.4% | 31.3% | 28.4% |
| Enrollment FTE | 1,357 | 1,299 | 1,282 | 1,248 | 1,191 |
| **Faculty** | | | | | |
| Full-time Faculty FTE | 113 | 108 | 104 | 112 | 115 |

KPMG LLP
One Financial Plaza
Hartford, CT 06103-4103

## Independent Auditors' Report

The Board of Trustees
Hampshire College:

We have audited the accompanying statement of financial position of Hampshire College (the College) as of June 30, 2007, 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 2006 financial statements and, in our report dated October 20, 2006, we expressed an unqualified opinion on those financial statements.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Hampshire College as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 5, 2007

# Statements of Financial Position

As of June 30, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 2,554,768 | $ 2,895,432 |
| Deposits with bond trustee (Note 8) | 2,216,358 | 2,656,070 |
| Accounts and loans receivable, net (Note 3) | 1,007,461 | 1,066,551 |
| Contributions receivable, net (Note 4) | 4,631,180 | 4,057,334 |
| Prepaid expenses, inventories and other assets | 712,873 | 911,571 |
| Investments – at fair value (Note 2) | 37,322,133 | 32,034,013 |
| Funds held in trust by others (Note 5) | 2,148,593 | 1,265,759 |
| Property, plant and equipment, net (Notes 6 and 8) | 40,119,312 | 37,967,832 |
| TOTAL ASSETS | $ 90,712,678 | $ 82,854,562 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities | $ 3,767,629 | $ 3,228,160 |
| Deposits and deferred revenues | 1,168,983 | 1,502,954 |
| Contingent asset retirement obligation (Note 6) | 3,273,933 | 3,285,537 |
| Long term debt (Note 8) | 24,703,027 | 25,391,936 |
| TOTAL LIABILITIES | $ 32,913,572 | $ 33,408,587 |
| **NET ASSETS** | | |
| Unrestricted | $ 22,454,625 | $ 20,596,382 |
| Temporarily restricted (Note 9) | 12,646,496 | 7,843,962 |
| Permanently restricted (Note 9) | 22,697,985 | 21,005,631 |
| TOTAL NET ASSETS | $ 57,799,106 | $ 49,445,975 |
| TOTAL LIABILITIES AND NET ASSETS | $ 90,712,678 | $ 82,854,562 |

**The accompanying notes are an integral part of the financial statements.**

# Statement of Activities

For the year ended June 30, 2007 (with summarized comparative totals for the year ended June 30, 2006)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2007 | 2006 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| **Revenues and other additions:** | | | | | |
| Tuition, room, board and other fees | $ 54,861,585 | $ | $ | $ 54,861,585 | $ 49,536,005 |
| Less: student aid awarded | (18,308,099) | | | (18,308,099) | (15,502,104) |
| Net tuition and fees | 36,553,486 | — | — | 36,553,486 | 34,033,901 |
| Contributions, gifts and grants | 1,566,251 | 6,013,433 | 1,289,858 | 8,869,542 | 7,554,583 |
| Other income | 582,937 | 290,255 | | 873,192 | 591,557 |
| Investment income for operations (Note 2) | 413,611 | 794,266 | | 1,207,877 | 1,072,696 |
| Other auxiliary enterprises | 2,331,640 | | | 2,331,640 | 2,314,937 |
| Net assets released from restrictions for operating purposes (Note 9) | 5,307,119 | (5,307,119) | | — | — |
| Total operating revenues and other support | 46,755,044 | 1,790,835 | 1,289,858 | 49,835,737 | 45,567,674 |
| **Expenses and other deductions:** | | | | | |
| Instruction and related activities | 17,023,067 | | | 17,023,067 | 15,561,681 |
| Research and sponsored programs | 3,621,162 | | | 3,621,162 | 3,540,873 |
| Student services | 5,270,615 | | | 5,270,615 | 5,907,921 |
| Administration and general institutional | 10,225,955 | | | 10,225,955 | 9,315,269 |
| Academic support | 2,383,152 | | | 2,383,152 | 2,249,297 |
| Auxiliary enterprises | 7,104,221 | | | 7,104,221 | 6,767,028 |
| Other deductions | 16,177 | | | 16,177 | 290,344 |
| Total operating expenses and other deductions | 45,644,349 | — | — | 45,644,349 | 43,632,413 |
| Change in net assets from operating activities | 1,110,695 | 1,790,835 | 1,289,858 | 4,191,388 | 1,935,261 |
| **NON-OPERATING ACTIVITIES** | | | | | |
| Net return on long-term investments (Note 2) | 1,177,678 | 3,805,965 | 402,496 | 5,386,139 | 1,910,033 |
| Investment income for operations (Note 2) | (413,611) | (794,266) | — | (1,207,877) | (1,072,696) |
| Other deductions and additions | (16,519) | — | — | (16,519) | 91,850 |
| Cumulative effect of a change in accounting principle (Note 6) | — | — | — | — | (2,939,265) |
| Change in net assets from non-operating activities | 747,548 | 3,011,699 | 402,496 | 4,161,743 | (2,010,078) |
| Total change in net assets | 1,858,243 | 4,802,534 | 1,692,354 | 8,353,131 | (74,817) |
| Net assets, beginning of year | 20,596,382 | 7,843,962 | 21,005,631 | 49,445,975 | 49,520,792 |
| Net assets, end of year | $ 22,454,625 | $ 12,646,496 | $ 22,697,985 | $ 57,799,106 | $ 49,445,975 |

**The accompanying notes are an integral part of the financial statements.**

# Statements of Cash Flow

For the years ended June 30, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| **Cash provided by operating activities:** | | |
| Change in net assets | $ 8,353,131 | $ (74,817) |
| Adjustments to reconcile change in net assets to Net cash provided by operating activities: | | |
| Depreciation and amortization | 2,280,956 | 2,232,310 |
| Cumulative effect of a change in accounting principle | — | 2,939,265 |
| Net realized and unrealized gains | (4,959,000) | (1,442,179) |
| Change in operating assets | (1,292,910) | (417,087) |
| Change in operating liabilities | 207,955 | 635,771 |
| Contributions for permanently restricted endowment | (1,124,425) | (897,418) |
| Net cash provided by operating activities | 3,465,707 | 2,975,845 |
| **Cash used by investing activities:** | | |
| Purchase of property, plant and equipment | (4,429,546) | (3,644,642) |
| Decrease in employee mortgages and notes receivable | 82,884 | (6,333) |
| Purchase of investments | (16,426,691) | (12,972,110) |
| Sales and maturities of investments | 16,097,571 | 10,498,978 |
| Change in actuarial liability for life income obligation | (2,457) | (18,753) |
| Net cash used by investing activities | (4,678,239) | (6,142,860) |
| **Cash provided from financing activities:** | | |
| Repayment of long term debt | (692,269) | (635,542) |
| Change in deposits from bond trustees | 439,712 | 1,815,403 |
| Contributions for permanently restricted endowment | 1,124,425 | 897,418 |
| Net cash provided by financing activities | 871,868 | 2,077,279 |
| Net change in cash and cash equivalents | (340,664) | (1,089,736) |
| Cash and cash equivalents, beginning of year | 2,895,432 | 3,985,168 |
| Cash and cash equivalents, end of year | $ 2,554,768 | $ 2,895,432 |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid during the year for interest | $ 709,249 | $ 1,016,279 |
| **Non-cash investing activity:** | | |
| Contribution of securities | $ 119,966 | $ 119,948 |

**The accompanying notes are an integral part of the financial statements.**

# Notes to Financial Statements

## NOTE 1 Summary of Significant Accounting Policies

### Organization

Hampshire College is a residential, coeducational, liberal arts college which offers an academic program leading to the Bachelor of Arts degree. The College was founded in 1965 and commenced academic classes in September 1970. The average student enrollment was 1,357 and 1,299 during fiscal years 2007 and 2006, respectively.

### Basis of Presentation

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

The classification of net assets and revenues, expenses, gains and losses are determined by the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined as follows:

**Unrestricted:** Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted:** Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College or that expire by the passage of time.

**Permanently restricted:** Net 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 all or part of the income earned on these assets. Such assets primarily include the College's permanent endowment funds.

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases on unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e. the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Exchange transactions are recorded as unrestricted revenues when they are earned.

### Operating Activities

The Statement of Activities includes all of the College's revenues and expenses as part of operating activities except for realized and unrealized gains (losses) on investments, investment management expenses and cumulative effect of a change in accounting principle which are classified as non-operating.

### Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase and are reported at cost which approximates fair value.

### Prepaid Expenses, Inventories, and Other Assets

Prepaid expenses, inventories, and other assets include costs of issuance under debt agreements which are amortized on a straight line basis over the term of the bonds, supplies and inventory for sale, and amounts paid in advance for future services.

### Investment in Plant

Constructed and purchased property, equipment and library books are carried at cost. Land, buildings, or equipment donated to the College are generally carried in the accounts at appraised value at the date of the gift. Long-lived fixed assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives.

The College recognized the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, in accordance with Statement of Financial Accounting Standards (SFAS) 143 and interpretation No. 47 (FIN 47), if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the College capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, the difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

### Deposits and Deferred Revenues

Deferred revenues represent amounts collected through June 30, from outside groups for summer conferences and from students, relating to student registration for the upcoming fall semester. Such amounts are reported as revenue during the subsequent fiscal year.

### Tax Status

The College is a tax-exempt organization as described in Section 501(3) of the Internal Revenue code and is generally exempt from federal taxes pursuant to Section 501(a) of the Code.

### Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

### Fair Value of Financial Instruments

The fair value of investments, which is based upon quoted market prices, is disclosed in note 2. Fair value of marketable securities is based upon quoted market prices. Fair values for trusts held by others and private equity investments are valued based upon net asset values as reported by third-parties responsible for administering and/or managing such investments. The fair value of long term debt is disclosed in note 8. For all other financial instruments, the carrying amount as disclosed in the accompanying financial statements approximates fair value.

### Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities, as well as the reported amounts of revenues and expenses. These estimates include the allowance for uncollectible accounts and loans receivable. Actual results could differ from these estimates.

### Risks and Uncertainties

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in values of such investments will occur in the near term and that such changes could materially affect the amount reported in the financial statements.

### Reclassification

Certain 2006 amounts have been reclassified to conform with the 2007 presentation.

## NOTE 2 Investments

The College's investments are summarized as follows at June 30:

| | 2007 | 2006 |
|---|---|---|
| Equities | $ 16,576,624 | $ 15,253,880 |
| Fixed income | 2,884,888 | 3,149,599 |
| Fund of funds | 10,815,924 | 6,837,227 |
| Investment in privately held company | 5,910,751 | 5,903,593 |
| Other investments | 1,133,946 | 889,714 |
| | $ 37,322,133 | $ 32,034,013 |

Investments are recorded at fair value and accordingly, gains or losses are recognized that result from market fluctuations in the period in which the fluctuations occur. Equity and fixed income securities, that are traded on a national exchange, are valued at closing market prices. Private equities are valued using current information obtained from the general partner of the respective fund.

Included in the above table of investments are approximately $11,466,000 of investments whose carrying values have been estimated by management in the absence of readily determinable market values. Management's estimates are based upon information provided by the fund managers or the general partners.

The College believes that the carrying amount of its alternative instruments is a reasonable estimate of fair value as of June 30, 2007 and 2006. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

Shares of stock in a privately held corporation are reported at their appraised value as of June 30, 2007 and 2006 and are subject to certain restrictions regarding their transferability.

Included in investments are endowment funds and pooled life income funds at their present value. The pooled life income funds are managed in a separate fund.

The College is committed to contribute up to approximately $88,532 at June 30, 2007 for future additional purchases of private equity funds. This amount is not recorded as a liability in the financial statements.

The College has interpreted relevant state law as generally permitting the spending of gains on endowment funds over a stipulated period of time. State law allows the Board to appropriate all of the income and a specified percentage of the net appreciation as is prudent considering the College's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. Under the College's current endowment spending policy, which is within the guidelines specified under state law, 5% of the average of the market value of qualifying endowment investments at the end of the previous three years is appropriated. This amounted to $1,207,877 and $1,072,696 for the years ended June 30, 2007 and 2006, respectively.

Of the total amount spent in fiscal 2007, $553,075 was derived from interest and dividends earned and $125,936 was used to pay for endowment management expenses.

The College's pooled endowment investment return is summarized below:

| | 2007 | 2006 |
|---|---|---|
| Dividends and interest | $ 553,075 | $ 595,234 |
| Net gains on investments | 4,959,001 | 1,442,179 |
| Management fees and other costs | (125,936) | (127,380) |
| Total return on endowment investments | $ 5,386,140 | $ 1,910,033 |
| Investment income used for operations | (1,207,877) | (1,072,696) |
| | $ 4,178,262 | $ 837,337 |

## NOTE 3 Accounts and Loans Receivable

Accounts and loans receivable are summarized as follows at June 30:

| | 2007 | 2006 |
|---|---|---|
| Student accounts | $ 340,379 | $ 409,485 |
| Contracts and grants | 605,530 | 481,119 |
| Employee mortgages, notes and others | 189,348 | 272,232 |
| Student loans | 74,548 | 130,637 |
| | 1,209,805 | 1,293,473 |
| Less allowance for uncollectible accounts | (202,344) | (226,922) |
| | $ 1,007,461 | $ 1,066,551 |

## NOTE 4 Contributions Receivable

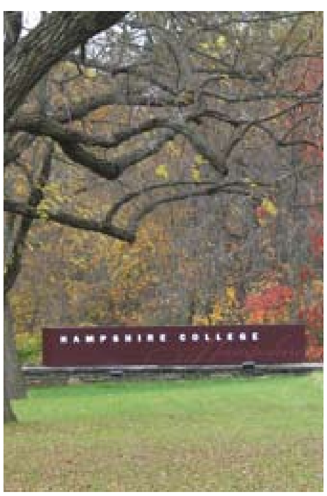
Contributions receivable are summarized as follows at June 30:

| Unconditional promises expected to be collected: | 2007 | 2006 |
|---|---|---|
| In one year or less | $ 2,359,245 | $ 1,860,017 |
| Between one and five years | 2,428,519 | 2,405,587 |
| | 4,787,764 | 4,265,604 |
| Less unamortized discount and allowance for uncollectible accounts | (156,584) | (208,270) |
| | $ 4,631,180 | $ 4,057,334 |

Discount rates used to calculate the present value of pledges receivable ranged from 3.72% to 5.16%.

## NOTE 5 Funds Held in Trust by Others

The College is irrevocably named as a beneficiary of funds held by third-party trustees, the purpose of which may be restricted by the donor. Generally, the College will receive a specified portion of the assets remaining when the third-party trusts are terminated. The present value of the amounts to be received upon termination are recorded by the College as assets on the statements of financial position and as contribution revenue on the statements of activities using a discount rate of 3.79% for 2007 and 3.79% for 2006, respectively. Funds held in trust by others totaled $2,148,593 and $1,265,759 at June 30, 2007 and 2006 respectively.

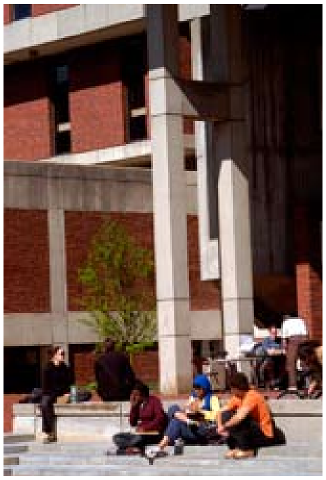



## NOTE 6 Property, Plant and Equipment

Property, plant and equipment consisted of the following at June 30:

| | Useful life | 2007 | 2006 |
|---|---|---|---|
| Land | | $ 2,781,956 | $ 2,781,956 |
| Land improvements | 30 | 3,662,112 | 3,635,876 |
| Library collection | 10 | 6,092,513 | 5,793,861 |
| Vehicles | 10 | 925,092 | 889,040 |
| Equipment | 3 – 5 | 16,645,120 | 16,102,481 |
| Buildings | 10 – 50 | 54,622,595 | 53,428,366 |
| | | 84,729,388 | 82,631,580 |
| Accumulated depreciation | | (48,101,921) | (45,835,459) |
| | | 36,627,467 | 36,796,121 |
| Construction in progress | | 3,491,845 | 1,171,711 |
| | | $ 40,119,312 | $ 37,967,832 |

As of July 1, 2005, the College adopted the provisions of FASB Interpretation No. 47 to account for conditional asset retirement obligations. The College determined that it had conditional asset retirement obligations at that date related to the removal and disposal of asbestos insulation in several buildings. Accordingly, the College recognized $2,939,265 as the cumulative effect of change in accounting principle in the statement of activities. As of June 30, 2007, $3,273,933 of conditional asset retirement obligations is included in the statement of financial position.



## NOTE 7 Line of Credit

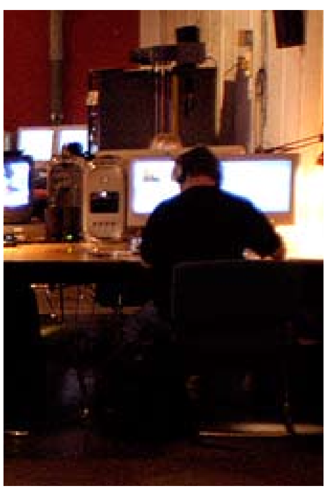
The College has an uncollateralized line of credit with the Bank of Western Massachusetts in the amount of $2,500,000 for current operations with interest payable at .25% above prime rate. The prime rate was 8.5% and 8.25% at June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, no amounts were outstanding against this line.

## NOTE 8 Long Term Debt

The College has debt agreements with the Massachusetts Development Finance Agency (MDFA), the Department of Housing and Urban Development (HUD), a realty trust, and certain banks for the financing of certain buildings and equipment.

The details of the outstanding debt as of June 30 are as follows:

| Issue | Maturity Date | Interest Rate at June 30, 2007 | Amount Outstanding 2007 | 2006 |
|---|---|---|---|---|
| HUD Project 136 (D) | 2019 | 3% | $ 925,000 | $ 1,055,000 |
| HUD Project 154 (D) | 2014 | 3% | 779,260 | 886,316 |
| Bank Project Debt 163 (D) | 2013 | 3% | 198,451 | 225,715 |
| Bank Project Debt 180 (D) | 2014 | 3% | 740,980 | 834,782 |
| Bank Debt Performing Arts Building | 2006 | 3% | 0 | 17,000 |
| Realty Trust Note | 2022 | 6.019% | 1,012,994 | 1,051,456 |
| MDFA Series 2004 Bond Issue | 2035 | 5.84% | 16,110,000 | 16,388,685 |
| MDFA CP Program | 2031 | Variable, 3.74% | 5,025,000 | 5,025,000 |
| | | | 24,791,685 | 25,483,954 |
| Less original issue discount | | | (88,658) | (92,018) |
| | | | $ 24,703,027 | $ 25,391,936 |



The HUD and bank project debt provide for a first mortgage on the related project, a pledge of net revenues derived from the operation of the project and the establishment of certain restricted cash accounts for project maintenance, repair and replacement, and debt service. Cash balances for these purposes were $852,963 and $877,839 at June 30, 2007 and 2006, respectively.

The MDFA Series 2004 bond issue requires the College to maintain a debt service coverage ratio, tested on an annual basis, equal to at least 1.10:1. The College has pledged certain property as collateral under this obligation.

The MDFA bonds provide for the establishment of project fund and debt service funds. Balances in these funds totaled $1,363,395 and $1,778,231 at June 30, 2007 and 2006, respectively.

The mortgage notes are collateralized by the related buildings and equipment.

The realty trust note is collateralized by certain premises in Amherst, Massachusetts.

Principal payments on all long term debt are as follows:

| | Amount |
|---|---|
| 2008 | $ 670,855 |
| 2009 | 685,855 |
| 2010 | 725,178 |
| 2011 | 645,862 |
| 2012 | 681,650 |
| Thereafter | 21,382,285 |
| | $ 24,791,685 |

The fair market value of the College's long term debt approximates $25,700,000 at June 30, 2007.

## NOTE 9 Net Assets

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

| | 2007 | 2006 |
|---|---|---|
| Educational services and general | $ 6,778,129 | $ 3,730,129 |
| Student aid | 36,719 | 22,969 |
| Library | 22,116 | 18,331 |
| Research and public programs | 5,809,532 | 4,072,533 |
| | $12,646,496 | $ 7,843,962 |

Included in temporarily restricted net asset total is $3,011,699 of endowment gains ($550,860 in 2006).

The original gift value of permanently restricted net assets consist of the following at June 30:

| | 2007 | 2006 |
|---|---|---|
| Educational services and general | $17,894,710 | $16,637,026 |
| Student aid | 405,597 | 2,333,128 |
| Library | 2,001,353 | 224,525 |
| Research and public programs | 2,396,325 | 1,810,952 |
| | $22,697,985 | $21,005,631 |

Temporarily restricted net assets released from restrictions during 2007 for the College's activities were for the following purposes:

| | 2007 | 2006 |
|---|---|---|
| Educational services and general | $ 3,530,942 | $ 3,498,567 |
| Student aid | 1,460,938 | 1,393,029 |
| Library | 5,448 | 2,653 |
| Research and public programs | 309,791 | 277,030 |
| | $ 5,307,119 | $ 5,171,279 |

Included in unrestricted net assets are internally designated reserves amounting to $1,217,140 and $1,059,702 at June 30, 2007 and 2006, respectively.

# NOTE 10 Net Assets of Pooled Endowment and Similar Funds

Included in unrestricted, temporarily restricted and permanently restricted net assets are the College's endowment and similar funds. These funds are reported at fair value. The per share market value of the College's endowment fund was $1,803.37 and $1,499.16 at June 30, 2007 and 2006 respectively. The total endowment shares were 20,509.05 and 20,948.06 at June 30, 2007 and 2006, respectively.

Additions, redemptions, and transfers to Pooled Endowment funds are assigned shares based upon their market value at the date of receipt or withdrawal. Interest and dividend income are distributed among the funds based upon their respective shares. Realized investment gains or losses are determined by using the average cost of the investment.

Endowment and similar funds is a commonly used term to refer to the resources that have been restricted by the donor or designated by the Trustees that will be invested to provide future revenue to support the College's activities.

Net assets included the following endowment and similar funds at June 30, 2007:

| Endowment funds | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| PERMANENT ENDOWMENT | | | | |
| Appreciation | $ — | $ 5,653,686 | $ — | $ 5,653,686 |
| Historical book value | — | — | 18,347,829 | 18,347,829 |
| QUASI ENDOWMENT | | | | |
| Unrestricted | 8,693,584 | — | — | 8,693,584 |
| Board designated | 4,290,223 | — | — | 4,290,223 |
| | $ 12,983,807 | $ 5,653,686 | $ 18,347,829 | $ 36,985,322 |

# NOTE 11 Retirement Plan

Contributions made by the College for the TIAA-CREF Retirement Plan were $1,584,000 and $1,393,000 during fiscal years 2007 and 2006, respectively, for eligible and enrolled employees based on a portion of salaries ranging from 8.5 % to 10%. In addition, the employees enrolled in the plan contributed a portion of their salaries ranging from 3% to 5%.

# NOTE 12 Commitments Under Operating Leases

The College has entered into certain operating lease agreements. Lease expense in 2007 and 2006 amounted to $386,481 and $381,481, respectively.

| | | Amount |
|---|---|---|
| Payments under these agreements are as follows: | 2008 | $ 413,621 |
| | 2009 | 187,421 |
| | 2010 | 152,079 |
| | 2011 | 152,079 |
| | 2012 | 149,319 |
| | | $1,054,519 |

# NOTE 13 Expenses After Allocations

The College has allocated all expenditures for physical plant operations, depreciation and interest expenses to the functional expenditure categories based on square footage of facilities identified for each functional expenditure category. The expenditures and allocations for fiscal 2007 and 2006 are as follows:

| Expenditures | 2007 | 2006 |
|---|---|---|
| Physical plant and utilities | $1,836,400 | $1,621,941 |
| Depreciation | 2,266,462 | 2,173,789 |
| Interest | 612,394 | 670,068 |
| Total expenditures to be allocated | $4,715,256 | $4,465,798 |

Allocation to functional categories:

| | 2007 | 2006 |
|---|---|---|
| Instruction and related activities | $1,467,321 | $1,392,475 |
| Student services | 1,062,543 | 1,036,539 |
| Administration and general institutional | 708,362 | 669,561 |
| Auxiliary enterprises | 1,477,030 | 1,367,223 |
| Total allocation | $4,715,256 | $4,465,798 |

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As of June 30, 2007

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**July 1, 2006 – June 30, 2007**

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