HAMPSHIRE COLLEGE
FINANCIAL REPORT 2008–2009

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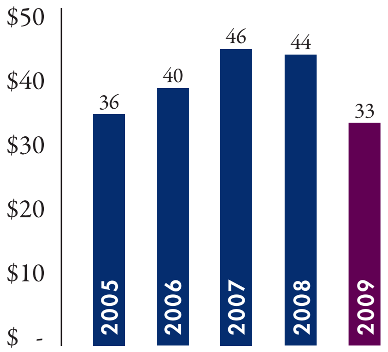
Hampshire College
Office of Finance and Administration
893 West Street
Amherst, Massachusetts 01002
Telephone: (413) 559-5528
Fax: (413) 559-5877
Web: www.hampshire.edu

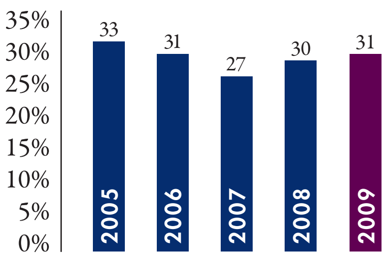
Report of the Vice President for Finance and Administration and Treasurer

Endowment and Other Similar Assets Market Value (in millions)



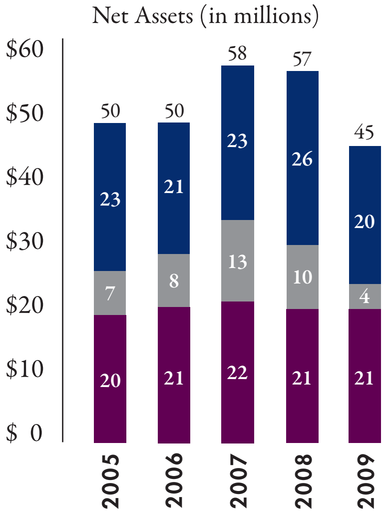
Fiscal Year Ended June 30

Long-Term Debt to Total Assets Ratio



Fiscal Year Ended June 30

Net Assets (in millions)



Fiscal Year Ended June 30

UNRESTRICTED

TEMPORARILY RESTRICTED

PERMANENTLY RESTRICTED

This year challenged many liberal arts colleges as institutional endowments dramatically declined in value and families attempted to respond to the effects of unprecedented unemployment, market losses, and declines in home equity. While the impact on family wealth and financial aid will clearly surface in fiscal year 2009–2010, net assets in 2008–2009 were significantly affected by the steep overall declines in endowment performance. At the same time, through careful stewardship of its resources and reduction of its operating expenses, the College was able to sustain its mission of providing a student-centered educational experience, extensive faculty and student collaboration, and a project-based learning paradigm. As it has for more than a decade, the College enjoyed a small operating surplus.

STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position reports the College's assets, liabilities, and net assets for the year. In short, it reflects assets owned and owed, and their net difference.

Total assets decreased by $12.1 million. A decline in the College's investment portfolio accounted for 90 percent of this decrease. Investments declined by $10.9 million or 29.7 percent reflecting a challenging year in each of the College's investment classes. Short term investments declined by $3.6 million as the College withdrew assets formerly held in the Commonfund. These withdrawals were made in response to the fund's draw down of its reserves, ultimately leading to a freeze of its assets. Property, plant and equipment increased by $2.5 million net of depreciation or 6.1 percent, reflecting completion of the Leibling Center (funded primarily through gifts) and various improvements made possible with proceeds from the Massachusetts Development and Finance Authority (MDFA) commercial paper debt issued in 2008.

Total liabilities decreased by $1.1 million largely as a result of debt service payments of $706,000 and a reduction in accounts payable balances of $429,000 reflecting the College's continuing commitment to conscientious cash management. Total net assets declined by $11 million, or 19.4 percent. This reduction primarily reflected investment losses discussed above and was particularly acute in the temporarily restricted and unrestricted net asset classes which experienced declines of $5.3 million and $5.9 million, respectively. Permanently restricted net assets increased slightly as a result of new gifts.

STATEMENT OF ACTIVITIES

The Statement of Activities presents the College's revenues and expenses for the completed fiscal year and the change in net assets. Operating revenues net of financial aid totaled $51.6 million, an increase of $942,000, or 1.9 percent, over the previous fiscal year. Operating expenses totaled $51.4 million, an increase of $2.5 million, or 5.1 percent. Net income from operations totaled $146,700.

Tuition

The College's primary source of revenue, tuition and fees net of financial aid, constituted 78.4 percent of net revenues. Net tuition increased by $1.5 million over the previous year, or 3.8 percent. The discount rate (the amount of aid provided subtracted from gross tuition) was 33.3 percent, rising over the previous year's 32.1 percent but remaining within a stable range of 31.2 percent to 33.4 percent over the last five years.

Financial Aid

Hampshire strives to ensure that the benefits of its educational programs are broadly accessible across the spectrum of family wealth. This policy is reflected in the growing number of students receiving financial aid. In 2003, 817 students, or 65 percent of the student body, received aid. That figure increased to 1,051, or 77 percent of full time equivalent students, in 2009. The nominal price of a Hampshire education (published price of tuition, room, board, and fees) was $49,769. The average price paid (after financial aid) was $29,802, or 59.9 percent of the nominal price.

Investments

The College's endowment supports a broad range of activities and programs, including the operating budget, scholarships, professorships, and specific programs. Hampshire's modest endowment reflects the relative youth of the institution, and in turn fewer and younger alumni. Nevertheless, the College's endowment enjoyed steady growth between 2004 and 2007, increasing from $29.6 million to $46.2 million. However, the economic downturn which began in 2008 and continued throughout 2009 contributed to a decline of $11.1 million resulting in an ending balance of $32.7 million. Similarly, the total return on the endowment had increased from 12.3 percent to 18.9 percent from 2004 to 2007 but declined by 5.6 percent in 2008 and 22.5 percent in 2009.

The College mitigates its exposure to significant swings in endowment market value by following a spending rule of 5.0 percent of the average market value over the completed twelve trailing quarters. This draw supports the operating budget.

The College's endowment asset mix as of June 30, 2009 included 24.8 percent domestic equity, 21.3 percent international equity, 30.9 percent hedge and absolute return, 11.9 percent fixed income, 10.1 percent real assets, and 1.0 percent cash.

Annual Giving

Giving to Hampshire's annual fund increased from $.97 million to $1.4 million from 2004 through 2009, the highest annual total in the history of the College. The goal is to increase this total by approximately 10.0 percent annually. Despite the dramatic decline in personal wealth, this growth in contributions is a tribute to the commitment of Hampshire's alumni and friends. Gifts and grants totaled $6.9 million, or 13.5 percent of revenues, representing a decrease of $742,000, or 9.6 percent from the previous year.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows details the sources and uses of cash, and the net change in cash position from the beginning to the end of the fiscal year.

The net change in cash and cash equivalents from July 1, 2008 through June 30, 2009 was a reduction of $41,000 compared to a $2.4 million reduction in 2008.

In 2008, net cash provided by operating activities was $3.2 million. In 2009, net cash provided by operating activities was $644,581. This reduction was primarily a result of investment losses which increased from $2.9 million in 2008 to $9.5 million in 2009. Contributions to permanently restricted endowment decreased by $129,000 or 25 percent.

Cash used for investing activities totaled $291,219. In 2008, investing activities used $8.5 million in cash. Cash used for investment purchases declined from $48.9 million in 2008 to $13.6 million in 2009. Similarly, sales and maturities of investments declined from $44.5 million in 2008 to $18.5 million in 2009. The difference reflects a decision by the College's trustees to invest in the SSgA Real Asset CTF, a socially screened fund. Further, in 2008 investments in the Commonfund were reclassified as a consequence of the freeze on the College's limited remaining investment in that fund. In 2009, the College liquidated its holdings in the Commonfund.

Cash used for financing activities totaled $395,000 in 2009 reflecting payments on the College's long term debt. In 2008, financing activities provided $2.9 million in cash representing the last MDFA borrowing used to reduce the College's deferred maintenance backlog.

FACILITIES

Despite the decline in endowment market value, the College has historically maintained a modest ratio of debt to total assets, and debt to net revenues. As in past years, the College was able to allocate funds from its operating budget to improve the quality of its plant by addressing some deferred maintenance and completing construction on the new Ken Burns Wing of the Jerome Liebling Center for Film, Photography and Video, among other projects. This project has been submitted for Gold Certification by the U.S. Green Building Council. Concurrently, twenty-two student apartments were renovated in the Enfield and Greenwich apartment complexes.

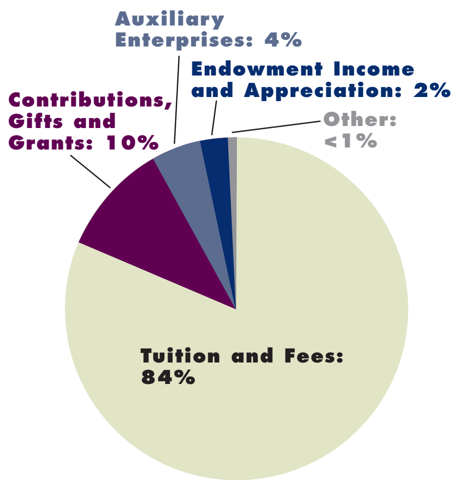
As I have in previous years, I conclude by sincerely thanking our many alumni, parents, students, trustees, friends, and employees who have so generously provided time, talent, and resources to support Hampshire College.

Respectfully submitted,

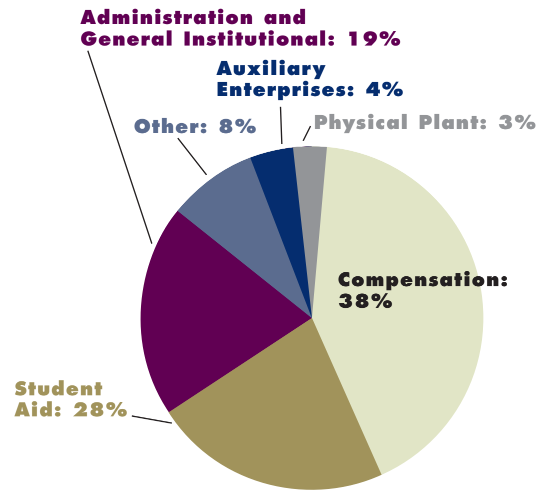
Mark K. Spiro

Mark K. Spiro
Vice President for Finance and
Administration and Treasurer

2008–2009 OPERATING BUDGET INCOME ($74.6 MILLION)



2008–2009 OPERATING BUDGET EXPENSES ($74.5 MILLION)



FINANCIAL HIGHLIGHTS

	2009	2008	2007	2006	2005
Operating Budget Results (000s)					
Revenues	$74,571	$68,240	$65,289	$59,491	$56,862
Expenses	$74,512	$68,236	$65,281	$59,486	$56,856
Budget Surplus	$ 59	$ 4	$ 8	$ 5	$ 6
Endowment and Other Similar Assets (000s)					
Market Value	$32,719	$43,861	$46,197	$39,695	$35,302
Total Return on Endowment and Other Similar Assets	-22.5%	-5.6%	18.9%	9.6%	12.8%
Debt (000s)					
Long-term Debt	$26,400	$27,103	$24,703	$25,392	$26,024
Giving (000s)					
Hampshire Fund	$ 1,418	$ 1,315	$ 1,124	$ 999	$ 1,020
Enrollment and Financial Aid					
Financial Aid as a Percentage of Tuition and Fees	33.3%	32.0%	33.4%	31.3%	31.4%
Enrollment FTE	1,357	1,351	1,357	1,299	1,282
Faculty					
Full-time Faculty FTE	112	111	113	108	104

Report of Independent Auditors

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, 2009, 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 2008 financial statements and, in our report dated October 30, 2008, 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 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 Hampshire College as of June 30, 2009, 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

February 22, 2010

Statements of Financial Position

As of June 30, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 441,234	$ 482,419
Deposits with bond trustee (Note 2)	2,283,935	2,202,893
Accounts and loans receivable, net (Note 4)	934,021	623,586
Contributions receivable, net (Note 5)	3,704,694	4,321,218
Short-term investments (Note 2)	358,242	3,922,212
Prepaid expenses, inventories and other assets	732,164	634,741
Investments - at fair value (Note 2)	25,916,153	36,846,500
Funds held in trust by others (Notes 2 and 6)	2,174,947	2,194,568
Property, plant and equipment, net	44,073,842	41,525,666
TOTAL ASSETS	$ 80,619,232	$ 92,753,803
LIABILITIES		
Accounts payable and accrued liabilities	$ 3,457,830	$ 3,886,849
Deposits and deferred income	1,204,996	1,839,266
Conditional asset retirement obligation (Note 7)	3,657,167	3,006,880
Long term debt (Note 9)	26,400,494	27,103,866
TOTAL LIABILITIES	$ 34,720,487	$ 35,836,861
NET ASSETS		
Unrestricted	$ 19,803,483	$ 25,700,110
Temporarily restricted (Note 10)	4,827,118	10,108,439
Permanently restricted (Note 10)	21,268,144	21,108,393
TOTAL NET ASSETS	$ 45,898,745	$ 56,916,942
TOTAL LIABILITIES AND NET ASSETS	$ 80,619,232	$ 92,753,803

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

Statement of Activities

For the year ended June 30, 2009 (with summarized comparative totals for the year ended June 30, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009	2008
OPERATING ACTIVITIES					
Revenues and other additions:					
Tuition, room, board and other fees	$ 60,654,545	$	$	$ 60,654,545	$ 57,331,619
Less: student aid awarded	(20,213,808)			(20,213,808)	(18,373,926)
Net tuition and fees	40,440,737	—	—	40,440,737	38,957,693
Contributions, gifts and grants	1,913,643	4,736,138	293,054	6,942,835	7,684,544
Other income	79,426			79,426	352,470
Investment income for operations (Note 3)	505,161	989,781		1,494,942	1,393,968
Other auxiliary enterprises	2,603,667			2,603,667	2,230,990
Net assets released from restrictions for operating purposes (Note 10)	8,124,891	(8,124,891)		—	—
Total operating revenues and other support	53,667,525	(2,398,972)	293,054	51,561,607	50,619,665
Expenses and other deductions:					
Instruction and related activities	18,445,814			18,445,814	17,614,079
Research and sponsored programs	3,969,553			3,969,553	3,858,775
Student services	6,677,043			6,677,043	6,242,009
Administration and general institutional	11,104,818			11,104,818	10,922,260
Academic support	3,123,085			3,123,085	2,595,371
Auxiliary enterprises	7,976,067			7,976,067	7,673,838
Other deductions	118,503			118,503	20,526
Total operating expenses and other deductions	51,414,883	—	—	51,414,883	48,926,858
Change in net assets from operating activities	2,252,642	(2,398,972)	293,054	146,724	1,692,807
NON-OPERATING ACTIVITIES					
Net return on long-term investments (Note 3)	(7,334,985)	(1,620,577)	(133,303)	(9,088,865)	(2,040,814)
Investment income for operations (Note 3)	(505,161)	(989,781)	—	(1,494,942)	(1,393,968)
Other deductions and additions	(309,123)	(271,991)	—	(581,114)	859,811
Change in net assets from non-operating activities	(8,149,269)	(2,882,349)	(133,303)	(11,164,921)	(2,574,971)
Total change in net assets	(5,896,627)	(5,281,321)	159,751	(11,018,197)	(882,164)
Net assets, beginning of year	25,700,110	10,108,439	21,108,393	56,916,942	57,799,106
Net assets, end of year	$ 19,803,483	$ 4,827,118	$ 21,268,144	$ 45,898,745	$ 56,916,942

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

Statements of Cash Flow

For the years ended June 30, 2009 and 2008

	2009	2008
Cash provided by operating activities:		
Change in net assets	$ (11,018,197)	$ (882,164)
Adjustments to reconcile change in net assets to		
Net cash provided by operating activities:		
Depreciation and amortization	2,530,452	2,459,701
Net realized and unrealized losses	9,514,726	2,868,966
Change in accounts and loans receivable	(122,125)	579,302
Change in funds held in trust by others	19,621	(45,975)
Change in contributions receivable	616,524	309,962
Change in prepaid expenses, inventories, and other assets	(97,423)	78,132
Change in accounts payable and accrued expenses	(421,787)	(2,064,388)
Change in deposits payable and deferred revenues	(634,270)	670,283
Change in conditional asset retirement obligation	650,287	(267,053)
Contributions for permanently restricted endowment	(393,227)	(522,190)
Net cash provided by operating activities	644,581	3,184,576
Cash used by investing activities:		
Purchase of property, plant and equipment	(5,075,268)	(3,862,694)
Change in employee mortgages and notes receivable	(188,310)	(195,427)
Purchase of investments	(13,566,678)	(48,922,820)
Sales and maturities of investments	18,546,269	44,501,259
Change in actuarial liability for life income obligation	(7,232)	(7,083)
Net cash used in investing activities	(291,219)	(8,486,765)
Cash provided from financing activities:		
Repayment of long term debt	(706,732)	(677,523)
Proceeds from new borrowing	—	3,075,000
Change in deposits with bond trustee	(81,042)	13,465
Contributions for permanently restricted endowment	393,227	522,190
Net cash (used in)/provided by financing activities	(394,547)	2,933,132
Net change in cash and cash equivalents	(41,185)	(2,369,057)
Cash and cash equivalents, beginning of year	482,419	2,851,476
Cash and cash equivalents, end of year	$ 441,234	$ 482,419
Supplemental disclosure:		
Interest paid	$ 1,064,268	$ 1,157,724
Purchases of plant and equipment included in accounts payable	12,112	356,850
Contribution of securities	44,000	75,036

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

Notes to Financial Statements

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 1,351 during fiscal years 2009 and 2008, 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 in 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 other deductions and additions which are classified as non-operating.

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 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.

Investments Investments are reported at fair value. If an investment is held directly by the College and an active market with quoted prices exists, the College reports the fair value as the market price of an identical security. The College also holds shares or units in alternative investments such as hedge funds, private equity, venture capital, distressed securities and real asset strategies. Such funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, those investments may hold assets which require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The College has utilized the net asset value (NAV) reported by each of the underlying funds as a practical expedient to estimating the fair value of the investments. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the College's interest in the funds. Furthermore, changes in the liquidity provisions of the funds may significantly impact the fair value of the College's interests in the funds. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the College were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

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 represent amounts collected through June 30, from outside groups for summer conferencesand 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, 2008, from which the summarized information was derived.

Fair Value of Financial Instruments The fair value of investments is disclosed in Note 2. Fair value for 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 and the fair value of certain investments. Actual results could differ from these estimates.

Recently Issued Accounting Standards Effective July 1, 2008, the College adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. 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. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The College adopted Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value Per Share (or its Equivalent)* in conjunction with the adoption of SFAS 157. This guidance amends Statement 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent.

Effective July 1, 2008, the College adopted FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and requires disclosures about endowment funds.

Effective June 30, 2009, the College adopted FASB Statement No. 165, Subsequent Events (Statement 165). Statement 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The College evaluated events subsequent to June 30, 2009 and through February 22, 2010. The adoption of Statement 165 had no impact on the College's financial statements.

Reclassification Certain 2008 amounts have been reclassified to conform with the 2009 presentation.

2. FAIR VALUE

Statement 157 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the College has the ability to access at measurement date.

Level 2: Quoted prices, other than those included in Level 1, that are either directly or indirectly observable for the assets or liabilities.

Level 3: No observable quoted prices, reliance on assumptions market participants would use if a market existed for the assets or liabilities.

The level in the fair value hierarchy used to classify an item is based on the lowest level that is significant to the fair value being established.

The College owns interests in alternative investment funds rather than in securities underlying each fund, and therefore it is generally required to consider such investments as Level 2 or 3 for the purposes of applying SFAS No. 157, even though the underlying securities may not be difficult to value or may be readily marketable. Also, because of the use of NAV as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the College's ability to redeem interest in the fund at or near the date of the statement of financial position. Accordingly, the inputs of methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with holding those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

The College's assets at June 30, 2009 that are reported at fair value are summarized in the following table by their fair value hierarchy.

	Level 1	Level 2	Level 3	2009 Total	2008 Total
LONG TERM INVESTMENTS:					
Cash and Cash Equivalents	$ 228,316	$	$	$ 228,316	$ 1,091,757
U.S. Equity	5,390,853			5,390,853	7,472,323
Non-U.S. Equity	4,623,080			4,623,080	6,940,157
Fixed Income	2,597,890			2,597,890	3,244,271
Alternative Equity			8,896,600	8,896,600	11,376,749
Private Equity			3,466,188	3,466,188	5,755,498
Private Partnerships			482,961	482,961	610,770
Funds held or administered by others			230,265	230,265	354,975
Total investments	12,840,139	—	13,076,014	25,916,153	36,846,500
OTHER ASSETS:					
Short term investments			358,242	358,242	3,922,212
Funds held or administered by others			2,174,947	2,174,947	2,194,568
Funds held by bond trustee	2,283,935			2,283,935	2,202,893
Total	$ 15,124,074	$ —	$ 15,609,203	$ 30,733,277	$ 45,166,173

The following table presents the College's activity for the fiscal year ended June 30, 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in Statement 157:

	Alternative Equity	Private Equity	Private Partnerships	Funds Held by Others	Short Term Investments	Total
Fair Value June 30, 2008	$ 11,376,749	$ 5,755,498	$ 610,770	$ 2,549,543	$ 3,922,212	$ 24,214,772
Transfers						—
Acquisitions	80,935		11,250	37,010	8,788,752	8,917,947
Dispositions			(5,756)	(43,123)	(12,400,907)	(12,449,786)
Investment return					48,185	48,185
Unrealized gains (losses)	(2,561,084)	(2,289,310)	(133,303)	(138,218)		(5,121,915)
Fair Value June 30, 2009	$ 8,896,600	$ 3,466,188	$ 482,961	$ 2,405,212	$ 358,242	$ 15,609,203

At June 30, 2009, the College's remaining outstanding commitments to private equity partnerships totaled $37,366 based on the provisions of the individual agreements, with adjustments as to amounts and timing based on prior actions of the partnerships and expectations as to future opportunities. There can be no assurance that the timing or amounts of the capital calls will materialize as indicated. The projected capital call amounts are summarized in the table below.

Fiscal Year	Projected Capital Calls
2010	$ 21,183
2011	16,183
Total	$ 37,366

The private equity partnerships have ten year terms, with extensions of one to four years. As of June 30, 2009, the average remaining life of the private equity partnerships is approximately 2 years.

At June 30, 2009, the College had alternative investments of $3,382,704 that are restricted from redemption for lock-up periods. At June 30, 2008, the College had alternative investments of $3,904,723 that were restricted from redemption for lock-up periods. These redemption lock-up periods expire on December 31, 2010.

Short term investments represent the College's remaining interest in the Commonfund for Short Term Investments (the Fund). Proceedings to terminate the Fund and distribute its holdings began on September 29, 2008. These funds are held by Law Debenture Trust Company of New York.

The College's total investment return is summarized below:

	2009	2008
Dividends and interest	$ 543,017	$ 934,728
Net losses on investments	(9,514,726)	(2,868,966)
Management fees and other costs	(117,156)	(106,576)
Total return on investments	(9,088,865)	(2,040,814)
Investment income used in operations	(1,494,942)	(1,393,968)
Non-operating investment income	$(10,583,807)	$(3,434,782)

3. ENDOWMENT FUNDS

The College's endowment consists of 136 individual funds established for a variety of purposes, including both donor restricted endowment funds and funds designated by the College to function as endowments (quasi endowments).

Endowment funds share in an investment pool on a unit market value basis. Funds are added to and withdrawn from the pool at the then current unit market value of the pooled assets. The College uses a total return approach to managing endowment investments. Funds are invested to maximize total return consistent with prudent risk without regard to the mix of current investment income and realized and unrealized gains or losses.

Investment return is distributed for operations on a unit share basis. The spending policy limits the annual distribution of return based upon a twelve quarter average market value. For 2009 and 2008, the percentage distributed was 5%.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) of the Commonwealth of Massachusetts became effective June 30, 2009. In accordance with FASB Staff Position (FSP) 117-1, the College has prepared these financial statements on the basis of 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, the College classifies as permanently restricted net assets (a) the original value of the 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.

As a result of market declines, the fair value of certain donor-restricted endowments may fall below original contributed value. Deficiencies of this nature were reported as reductions of unrestricted net assets in the amount of $3,566,063 at June 30, 2009 and $26,681 at June 30, 2008. Future market gains will be used to restore this reduction in unrestricted net assets before any net appreciation above the UPMIFA or donor required value of such funds increases temporarily restricted net assets.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. Donor restricted amounts reported below include term endowments reported as temporarily restricted net assets; and cumulative unspent appreciation, reported as temporarily restricted net assets.

Endowment funds, which include pooled endowment funds but exclude split interest agreements and pledges, consisted of the following at June 30, 2009 and June 30, 2008.

June 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	$(3,566,063)	$ 27,362	$17,295,186	$13,756,485
Board Designated (Quasi)	9,729,850			9,729,850
Total	$ 6,163,787	$ 27,362	$17,295,186	$23,486,335

June 30, 2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	$ (26,681)	$ 2,637,720	$16,929,506	$19,540,545
Board Designated (Quasi)	15,094,638			15,094,638
Total	$15,067,957	$ 2,637,720	$16,929,506	$34,635,183

Changes in endowment funds for the fiscal year ended June 30, 2009 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2008	$ 15,067,957	$ 2,637,720	$ 16,929,506	$ 34,635,183
Investment income	202,042	340,975		543,017
Realized and unrealized gains (losses)	(7,537,027)	(1,961,552)		(9,498,579)
Contributions	132,575		216,287	348,862
Distributions	(505,161)	(989,781)		(1,494,942)
Other changes			149,393	149,393
Transfers	(1,196,599)			(1,196,599)
June 30, 2009	$ 6,163,787	$ 27,362	$ 17,295,186	$ 23,486,335

Changes in endowment funds for the fiscal year ended June 30, 2008 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2007	$ 12,983,807	$ 5,653,686	$ 18,347,829	$ 36,985,322
Investment income	292,099	642,629		934,728
Realized and unrealized gains (losses)	(167,066)	(2,764,339)		(2,931,405)
Contributions	316,148		649,049	965,197
Distributions	(499,712)	(894,256)		(1,393,968)
Other changes			75,309	75,309
Clarification of donor intent	2,142,681		(2,142,681)	—
June 30, 2008	$ 15,067,957	$ 2,637,720	$ 16,929,506	$ 34,635,183

4. ACCOUNTS AND LOANS RECEIVABLE

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

	2009	2008
Student accounts	$ 268,062	$ 257,551
Contracts and grants	166,445	45,246
Other	573,085	384,775
Student loans	56,881	56,043
	1,064,473	743,615
Less allowance for uncollectible accounts	(130,452)	(120,029)
	$ 934,021	$ 623,586

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows at June 30:

Unconditional promises expected to be collected:

	2009	2008
In one year or less	$ 1,844,399	$ 1,598,098
Between one and five years	1,980,471	2,838,010
In more than five years	8,145	108,048
	3,833,015	4,544,156
Less unamortized discount and allowance for uncollectible accounts	(128,321)	(222,938)
	$ 3,704,694	$ 4,321,218

Discount rates used to calculate the present value of pledges receivable ranged from .56% to 5.64%

6. 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 amount to be received upon termination are recorded by the College as assets on the Statements of Financial Position and as contribution revenue on the Satement of Activities using a discount rate of 3.79% for 2009 and 2008, respectively. Funds held in trust by others totaled $2,174,947 and $2,194,568 at June 30, 2009 and 2008, respectively.

7. PROPERTY, PLANT AND EQUIPMENT

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

	Useful life	2009	2008
Land	—	$ 3,671,362	$ 3,634,742
Land improvements	30	3,782,129	3,782,129
Library collection	10	6,601,630	6,337,516
Vehicles	10	974,971	925,092
Equipment	3–5	17,992,677	17,461,373
Buildings	10–50	63,729,257	58,453,797
		96,752,026	90,594,649
Accumulated depreciation		(53,085,354)	(50,558,262)
		43,666,672	40,036,387
Construction-in-progress		407,170	1,489,279
		$ 44,073,842	$ 41,525,666

8. 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 0.25% above prime rate. The prime rate was 3.25% and 5.0% at June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, no amounts were outstanding against this line.

9. 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 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, 2009	Amount Outstanding 2009	2008
HUD Project 136(D)	2019	3%	$ 650,000	$ 790,000
HUD Project 154(D)	2014	3%	555,342	668,968
Bank Debt Project 163(D)	2013	3%	141,427	170,363
Bank Debt Project 180(D)	2014	3%	544,785	644,343
Realty Trust Note	2022	6.01%	928,795	972,155
MDFA Series 2004 Bond Issue	2035	5.84%	15,562,083	15,843,333
MDFA CP Program	2038	Variable, .48%	8,100,000	8,100,000
			26,482,432	27,189,162
		Less original issue discount	(81,938)	(85,296)
			$ 26,400,494	$ 27,103,866

The HUD and bank project debt provide for first mortgages on certain facilities.

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

The Realty Trust note is collateralized by certain premises in Amherst, Massachusetts.

The College is required to meet various covenants on an annual basis with regards to its long term debt.

Principal payments on all long term debt are as follows:

	Amount
2010	$ 725,478
2011	645,862
2012	681,650
2013	708,138
2014	641,166
Thereafter	23,080,138
	$ 26,482,432

The market value of the College's long term debt approximates $24,113,107 at June 30, 2009.

10. NET ASSETS

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

	2009	2008
Educational services and general	$ 1,165,643	$ 3,065,286
Student aid	32,632	59,377
Library	151,726	501,753
Research and public programs	3,477,117	6,482,023
	$ 4,827,118	$ 10,108,439

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

	2009	2008
Educational services and general	$ 18,007,700	$ 18,076,730
Student aid	2,748,792	2,557,186
Library	511,652	474,477
	$ 21,268,144	$ 21,108,393

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

	2009	2008
Educational services and general	$ 3,757,817	$ 3,707,755
Library	7,808	10,870
Research and public programs	87,007	95,114
Buildings & improvements	2,705,606	317,693
Student Aid	1,566,653	1,479,039
	$ 8,124,891	$ 5,610,471

Included in unrestricted net assets are internally designated reserves amounting to $1,230,972 and $3,080,651 at June 30, 2009 and 2008, respectively.

11. RETIREMENT PLAN

Contributions made by the College for the TIAA-CREF Retirement Plan were $1,877,000 and $1,692,000 during fiscal years 2009 and 2008, respectively, for eligible and enrolled employees based on a portion of salaries ranging from 9% to 10%. In addition, the employees enrolled in the plan contributed a portion of their salaries ranging from 3% to 5%.

12. COMMITMENTS UNDER OPERATING LEASES

The College has entered into certain operating lease agreements. Lease expense in 2009 and 2008 amounted to $422,548 and $360,702 respectively.

Payments under these agreements are as follows:

	Amount
2010	$ 216,195
2011	216,195
2012	216,195
2013	204,939
2014	204,939
	$ 1,058,463

Trustees and Officers

As of June 30, 2009