



H A M P S H I R E C O L L E G E

FINANCIAL REPORT 2011-2012





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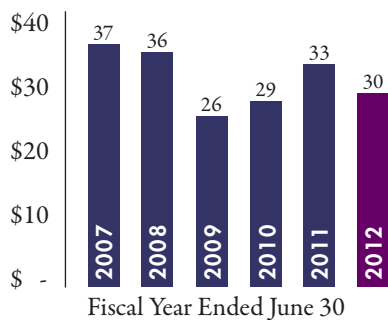
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H A M P S H I R E C O L L E G E

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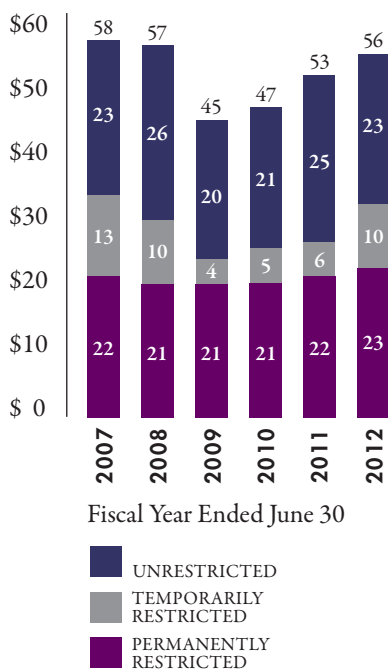
Report of the Vice President for Finance and Administration and Treasurer

Endowment and Other Similar Assets Market Value (in millions)



The fiscal year ended June 30, 2012 was by many measures the most successful in Hampshire's history. President Jonathan Lash was inaugurated and brought renewed energy and vision to the College. Applications reached an all-time high of 2,766 and donor contributions of \$11.3 million created a new high watermark, more than doubling the previous year's total. The College's bond rating was elevated by Moody's. Net assets increased by more than 5 percent as a result of a 95 percent increase in contributions and pledges designated for College programs. Total operating revenues increased from \$50.4 million to \$54.3 million reflecting modest growth in net tuition, room, and board and robust growth in contributions, gifts, and grants of 51.6 percent.

Net Assets (in millions)



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.

The College's total net assets increased from \$52.6 million to \$55.3 million, or 5.3 percent, as of June 30, 2012, primarily as a result of contributions receivable which increased from \$2.4 million in 2011 to \$5.2 million. Cash increased significantly over the period due to the cash flows of federal and private grants. Unrestricted net assets, the institution's most flexible source of funds, decreased by \$2.2 million or 8.9 percent due to challenging first and fourth quarter investment returns. For the year, total investments declined from \$34.6 million to \$31.2 million, a decrease of 9.8 percent. Property, plant and equipment, net of depreciation, declined by \$1.4 million as depreciation of about 1.0

percent of the replacement value of the physical plant outpaced the college's capitalized construction activity of about .43 percent.

Liabilities declined from \$32.7 million to \$30.9 million as the college continued to attend to accounts payable and its debt service responsibilities.

STATEMENT OF ACTIVITIES

The Statement of Activities presents the College's revenues and expenses and the change in net assets for the fiscal year.

The College diligently continued to ensure access to a Hampshire education by providing generous levels of financial aid while holding nominal price increases to close to annual inflation. Gross tuition and fee revenues increased by \$1.1 million from 2011 to 2012, while financial aid increased from \$27.7 million to \$27.9 million. Net tuition and fees increased by \$861,000. Contributions, gifts and grants

reflected a very successful fundraising year with a substantial increase of \$2.7 million, or 51.6 percent. Net assets from operating activities increased by \$2.0 million in 2012 in comparison with a loss of \$213,000 in 2011.

Enrollment decreased from an average of 1,457 FTE in 2011 to 1,422 FTE in 2012, a decline of 2.4 percent. A gradual decline in enrollment continued to reflect the College's long-term commitment to smaller classes and student mentoring and guidance through individualized faculty committees supporting each upper level student.

INVESTMENTS

The College's total managed endowment lost 3.3 percent in 2012 after beginning the fiscal year with a steep slide of 11.2 percent in the first quarter. The bulk of this loss was due to a challenging year for the College's global /internal equity portfolio which declined by 10.8 percent. This loss was not atypical with the MSCI EAFE indexes declining by 14 to 16 percent for the fiscal year. The portfolio's best performer was Treasuries at 8.7 percent. Despite the difficult market, generous contributions for

long-term investment of \$3.3 million produced an increase of \$791,106 in non-operating activities.

In 2012 the College lowered its cap on investment income designated for operations from 5.0 percent to 4.5 percent of the average market value over the completed twelve trailing quarters to more effectively preserve the endowment's corpus. This change will take effect in the next fiscal year. This income, which provides support for the operating budget, scholarships, professorships, and specific programs, totaled \$1.4 million.

FACILITIES AND GROUNDS

Approximately \$1.3 million was invested in capital projects in 2012 to address deferred maintenance and modernization requirements.

The second phase of six phases was completed to completely refurbish the Prescott House Complex. The Cole Science Center roof was replaced. A new addition to the Health Services Building was added to improve the quality of mental health services provided to students. The entire energy management system, including all sensors and controllers throughout campus, were replaced after the previous system

reached the end of its useful life. The Admissions suite used to provide an orientation to prospective students and their families was thoroughly renovated and new offices and small conference areas created to better serve students interested in attending the College. The College electrical distribution system was upgraded to replace various oil-filled transformers and switches posing a potential fire hazard. Finally, the College's one-card access system was further extended to select areas of the campus.

It has been a pleasure and privilege to work with our many dedicated faculty, staff, students, alumni, parents, and friends again this year. My thanks to all of you for your generous contributions of time, talent, and resources.

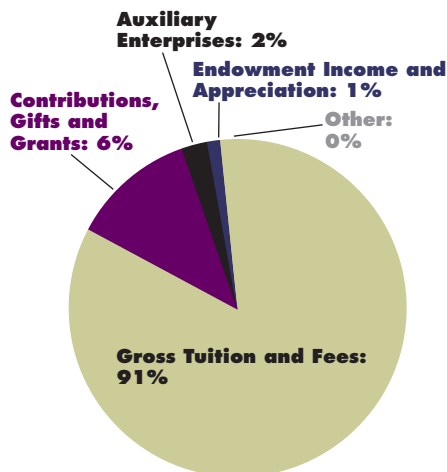
Respectfully submitted,

Mark K. Spiro

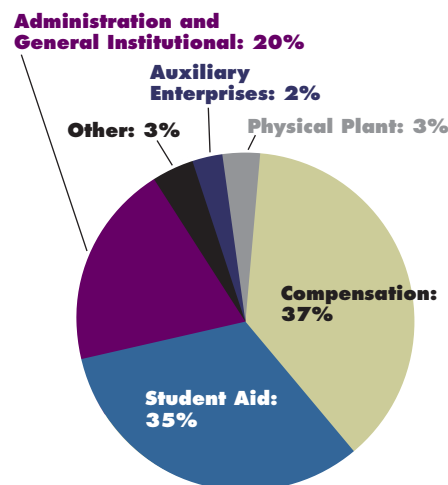


Vice President for Finance and Administration and Treasurer

2011–2012 OPERATING BUDGET INCOME (\$77.8 MILLION)



2011–2012 OPERATING BUDGET EXPENSES (\$77.8 MILLION)



FINANCIAL HIGHLIGHTS

	2012	2011	2010	2009	2008	2007	2006
Operating Budget Results (000s)							
Revenues	77,792	78,079	74,482	\$74,571	\$68,240	\$65,289	\$59,491
Expenses	77,774	77,750	74,653	\$74,512	\$68,236	\$65,281	\$59,486
Budget Surplus	\$ 18	\$ 329	-\$ 171	\$ 59	\$ 4	\$ 8	\$ 5
Endowment (000s)							
Market Value	\$30,493	\$33,226	\$29,178	\$25,582	\$35,535	\$37,413	\$38,815
Total Return on Endowment	-3.3%	18.9%	14.0%	-22.5%	-5.6%	18.9%	9.6%
Debt (000s)							
Long-term Debt	\$24,320	\$25,010	\$25,673	\$26,400	\$27,103	\$24,703	\$25,392
Giving (000s)							
Hampshire Fund	\$ 1,835	\$ 1,613	\$ 1,500	\$ 1,418	\$ 1,315	\$ 1,124	\$ 999
Enrollment and Financial Aid							
Financial Aid as a Percentage of							
Tuition and Fees	39.5%	39.7%	38.5%	33.3%	32.0%	33.4%	31.3%
Enrollment FTE	1422	1457	1387	1366	1351	1357	1299
Faculty							
Full-time Faculty FTE	116	115	114	112	111	113	108

Report of Independent Auditors



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

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, 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 and, in our report dated November 18, 2011, 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, 2012, 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

December 21, 2012

Statements of Financial Position

As of June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 3,820,647	846,488
Accounts and loans receivable, net (note 2)	660,211	759,587
Contributions receivable, net (note 3)	5,195,439	2,373,380
Prepaid expenses, inventories and other assets	525,326	467,466
Deposits with bond trustee (note 4)	1,782,698	1,735,523
Investments – at fair value (note 4)	31,216,049	34,618,186
Funds held in trust by others (notes 4 and 6)	2,366,024	2,387,504
Property, plant and equipment, net (note 7)	40,659,740	42,072,638
Total assets	<u>\$ 86,226,134</u>	<u>85,260,772</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 2,145,168	2,982,274
Deposits and deferred income	1,309,241	1,694,652
Conditional asset retirement obligation	3,137,746	3,023,186
Long term debt (note 9)	24,320,945	25,010,486
Total liabilities	<u>30,913,100</u>	<u>32,710,598</u>
NET ASSETS:		
Unrestricted	22,609,846	24,814,195
Temporarily restricted (note 10)	10,020,018	5,617,084
Permanently restricted (note 10)	22,683,170	22,118,895
Total net assets	<u>55,313,034</u>	<u>52,550,174</u>
Total liabilities and net assets	<u>\$ 86,226,134</u>	<u>85,260,772</u>

See accompanying notes to financial statements.

Statement of Activities

For the year ended June 30, 2012 (with summarized comparative totals for the year ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012	2011
OPERATING ACTIVITIES					
Revenues and other additions					
Tuition, room, board and other fees	\$ 70,800,587			70,800,587	69,678,062
Less student aid awarded	(27,934,762)			(27,934,762)	(27,673,803)
Net tuition and fees	42,865,825	—	—	42,865,825	42,004,259
Contributions, gifts, and grants	2,973,243	4,991,027		7,964,270	5,252,198
Other income	374,847	40,404		415,251	330,873
Investment income for operations (note 4)	497,616	915,557		1,413,173	1,481,578
Other auxiliary enterprises	1,595,212			1,595,212	1,302,236
Net assets released from restrictions for operating purposes	3,037,932	(3,037,932)		—	—
Total operating revenues and other support	51,344,675	2,909,056	—	54,253,731	50,371,144
Expenses and other deductions					
Instruction and related activities	19,304,935			19,304,935	18,503,127
Research and sponsored programs	2,825,460			2,825,460	3,682,541
Student services	8,449,617			8,449,617	7,828,138
Administration and general	12,614,314			12,614,314	12,813,476
Academic support	2,946,659			2,946,659	2,286,535
Auxiliary enterprises	6,140,992			6,140,992	5,470,347
Other deductions	—	—	—	—	—
Total operating expenses and other deductions	52,281,977	—	—	52,281,977	50,584,164
Change in net assets from operating activities	(937,302)	2,909,056	—	1,971,754	(213,020)
NONOPERATING ACTIVITIES					
Contributions for long-term investment	219,889	2,529,489	578,113	3,327,491	551,128
Net return on long-term investments (note 4)	(938,780)	(128,198)	21,010	(1,045,968)	5,683,181
Investment income for operations (note 4)	(497,616)	(900,847)		(1,398,463)	(1,481,578)
Other deductions and additions	(50,540)	(6,566)	(34,848)	(91,954)	48,650
Change in net assets from nonoperating activities	(1,267,047)	1,493,878	564,275	791,106	4,801,381
Total change in net assets	(2,204,349)	4,402,934	564,275	2,762,860	4,588,361
Net assets, beginning of year	24,814,195	5,617,084	22,118,895	52,550,174	47,961,813
Net assets, end of year	\$ 22,609,846	10,020,018	22,683,170	55,313,034	52,550,174

See accompanying notes to financial statements.

Statements of Cash Flow

For the years ended June 30, 2012 and 2011

	2012	2011
Cash provided by operating activities		
Change in net assets	\$ 2,762,860	4,588,361
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,510,298	2,630,728
Net realized and unrealized gains	1,695,642	(5,257,704)
Change in accounts and loans receivable	184,685	18,123
Change in funds held in trust by others	21,480	(121,567)
Change in contributions receivable	(2,822,059)	439,118
Change in prepaid expenses, inventories, and other assets	(68,994)	50,534
Change in accounts payable and accrued expenses	(835,115)	1,201,497
Change in deposits payable and deferred revenues	(385,411)	79,891
Change in conditional asset retirement obligation	114,560	(452,658)
Contributions for permanently restricted endowment	(917,424)	(742,616)
Contributions for long term investments	(45,022)	
Net cash provided by operating activities	<u>2,215,500</u>	<u>2,433,707</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,082,906)	(1,473,302)
Change in employee mortgages and notes receivable	(85,309)	330,752
Purchase of investments	(8,356,021)	(2,526,911)
Sales and maturities of investments	10,062,516	2,879,318
Change in actuarial liability for life income obligation	(1,991)	(2,975)
Net cash provided by (used in) investing activities	<u>536,289</u>	<u>(793,118)</u>
Cash flows from financing activities		
Repayment of long term debt	(692,901)	(658,725)
Repayment of line of credit	—	(2,500,000)
Change in deposits with bond trustee	(47,175)	596,396
Contributions for permanently restricted endowment	917,424	742,616
Contributions for long term investments	45,022	
Net cash provided by (used in) financing activities	<u>222,370</u>	<u>(1,819,713)</u>
Net change in cash and cash equivalents	2,974,159	(179,124)
Cash and cash equivalents, beginning of year	846,488	1,025,612
Cash and cash equivalents, end of year	<u>\$ 3,820,647</u>	<u>846,488</u>
Supplemental disclosures		
Interest paid	\$ 969,946	1,006,928

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2012 and 2011

(NOTE 1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization Hampshire College (the 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 1,422 and 1,457 during fiscal years 2012 and 2011, respectively.

(b) Basis of Presentation The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

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.

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 based on the existence or absence of donor-imposed restrictions, are reported as increases or decreases in temporarily restricted or unrestricted net assets generally based on the donor imposed restriction or the use of gains or losses as well as by the College's interpretation of relevant state 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.

(c) 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, net of amount appropriated for operations, changes in value of split interest agreements, capital gifts and endowment gifts.

(d) 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.

(e) 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.

(f) 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, 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 from the reported value.

(g) 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 recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the

obligation is incurred, 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.

(h) Deposits and Deferred Revenues Deposits and 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.

(i) Tax Status The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from federal taxes pursuant to Section 501(a) of the Code. The College has assessed uncertain tax positions and determined that there were no such positions that have a material effect on the financial statements.

(j) 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 GAAP. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

(k) Fair Value of Financial Instruments The fair value of investments is disclosed in note 4. Fair value for marketable securities is based upon quoted market prices. Fair values for trusts held by others, private equity and other alternative 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.

The fair value hierarchy 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.

For those investments measured at net asset value as a practical expedient to fair value, classification in Level 2 or Level 3 is based up 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.

(l) Use of Estimates The preparation of the financial statements in conformity with GAAP 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, pledges and loans receivable, and the fair value of certain investments. Actual results could differ from these estimates.

(m) Reclassification Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

(NOTE 2) ACCOUNTS AND LOANS RECEIVABLE

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

	2012	2011
Student accounts	\$ 200,246	226,263
Contracts and grants	—	186,966
Other	503,773	418,464
Student loans	65,235	62,907
	<u>769,254</u>	<u>894,600</u>
Less allowance for uncollectible accounts	<u>(109,043)</u>	<u>(135,013)</u>
	<u>\$ 660,211</u>	<u>759,587</u>

(NOTE 3) CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows at June 30:

Unconditional promises expected to be collected:

	2012	2011
In one year or less	\$ 2,519,136	1,660,027
Between one and five years	2,742,265	762,266
In more than five years	—	10,000
	<u>5,261,401</u>	<u>2,432,293</u>
Less unamortized discount and allowance for uncollectible accounts	<u>(65,962)</u>	<u>(58,913)</u>
	<u>\$ 5,195,439</u>	<u>2,373,380</u>

Discount rates used to calculate the present value of pledges receivable ranged from 0.45% to 5.10%

(NOTE 4) FAIR VALUE AND INVESTMENTS

The College's investments and other assets at June 30, 2012 that are reported at fair value are summarized in the following table by their fair value hierarchy.

	Level 1	Level 2	Level 3	2012 total	Redemption	Days notice
Long term investments:						
Cash and cash equivalents	\$ 315,740	—	—	315,740	Daily	1
U.S. equity						
Large Cap	5,270,909	—	—	5,270,909	Daily	1
Small Cap	3,791	—	—	3,791	Daily	1
Exchange Traded Treasury Administered Fund	1,069,135	—	—	1,069,135	Daily	1
Non-U.S. equity funds	4,413,028	3,225,750	—	7,638,778	Daily/monthly	1 to 10
Fixed income	2,428,996	—	—	2,428,996	Daily	1
Hedge Funds	—	6,425,900	—	6,425,900	Quarterly	90/65
Real asset commingled funds	—	2,556,557	—	2,556,557	Daily	1
Private equity	—	—	4,763,460	4,763,460	Illiquid	N/A
Private partnerships	—	—	476,687	476,687	Illiquid	N/A
Funds held or administered by others ²	—	—	266,096	266,096	N/A	N/A
Total investments	13,501,599	12,208,207	5,506,243	31,216,049		
Other assets:						
Funds held in trust by others	—	—	2,366,024	2,366,024	N/A	N/A
Funds held by bond trustee ¹	1,782,698	—	—	1,782,698	Daily	1
Total	\$ 15,284,297	12,208,207	7,872,267	35,364,771		

¹ Funds held by bond trustee are primarily cash equivalents and U.S. Treasury securities.

² Pooled Life Income Funds and Insurance Policies

The College's investments and other assets at June 30, 2011 that are reported at fair value are summarized in the following table by their fair value hierarchy.

	Level 1	Level 2	Level 3	2011 total	Redemption	Days notice
Long term investments:						
Cash and cash equivalents	\$ 292,290	—	—	292,290	Daily	1
U.S. equity						
Large Cap	\$ 4,836,748	—	—	4,836,748	Daily	1
Small Cap	1,382,308	—	—	1,382,308	Daily	1
Exchange Traded Treasury Administered Fund	1,144,425	—	—	1,144,425	Daily	1
Non-U.S. equity fund	3,502,707	4,024,438	—	7,527,145	Daily/Monthly	1 to 10
Fixed income	2,911,046	—	—	2,911,046	Daily	1
Hedge Funds ²	—	8,078,695	—	8,078,695	Quarterly	90/65
Real asset commingled funds	—	2,651,329	—	2,651,329	Daily	1
Private equity	—	—	5,081,024	5,081,024	Illiquid	N/A
Private partnerships	—	—	443,134	443,134	Illiquid	N/A
Funds held or administered by others	—	—	270,042	270,042	N/A	N/A
Total investments	14,069,524	14,754,462	5,794,200	34,618,186		
Other assets:						
Funds held in trust by others	—	—	2,387,504	2,387,504	N/A	N/A
Funds held by bond trustee ¹	1,735,523	—	—	1,735,523	Daily	1
Total	\$ 15,805,047	14,754,462	8,181,704	38,741,213		

¹ Funds held by bond trustee are primarily cash equivalents and U.S. Treasury securities.

² Pooled Life Income Funds and Insurance Policies

The following table presents the College's activity for the fiscal years ended June 30, 2012 and 2011 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

	Hedge funds	Private equity	Private partnerships	Funds held by others	Total
Fair value June 30, 2011	\$ —	5,081,024	443,134	2,657,546	8,181,704
Acquisitions	—	—	12,542	106	12,648
Dispositions	—	—	—	(4,212)	(4,212)
Unrealized losses	—	(317,564)	21,011	(21,320)	(317,873)
Fair value June 30, 2012	\$ —	4,763,460	476,687	2,632,120	7,872,267
Fair value June 30, 2010	\$ 3,763,258	4,525,287	412,835	2,509,904	11,211,284
Transfers ¹	(3,763,258)	—	—	—	(3,763,258)
Acquisitions	—	—	—	19,256	19,256
Dispositions	—	—	(49,284)	(2,663)	(51,947)
Unrealized gains	—	555,737	79,583	131,049	766,369
Fair value June 30, 2011	\$ —	5,081,024	443,134	2,657,546	8,181,704

¹Transfer relates to expiration of lock-up provisions and the fund now has quarterly redemption with 65 days' notice.

At June 30, 2012, the College did not have any remaining outstanding commitments to private equity partnerships 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 private equity partnerships generally have ten year terms, with extensions of one to four years. As of June 30, 2012, the average remaining life of the private equity partnerships is approximately 2 years.

The College's total investment return is summarized below:

	2012	2011
Dividends and interest	\$ 640,373	541,893
Realized/unrealized(loss)/gain on investments	(1,695,642)	5,257,704
Management fees and other costs	(101,894)	(116,416)
Total return on investments	(1,157,163)	5,683,181
Investment income used in operations	(1,413,173)	(1,481,578)
Nonoperating investment income	\$(2,570,336)	4,201,603

(NOTE 5) ENDOWMENT FUNDS

The College's endowment consists of approximately 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 2012 and 2011, the percentage distributed was 5%.

Giving consideration to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of the Commonwealth of Massachusetts, the College has prepared these financial statements on

the basis that the original gifts of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary, must be preserved. 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. In accordance with UPMIFA, the College considers the following factors in determining appropriate spending levels from donor-restricted endowment funds: duration and preservation of the endowment fund, purposes of the College and the endowed fund, general economic conditions, possible effects of inflation or deflation, expected total return from income and the appreciation of investments, other resources of the College, and the investment policy of the College.

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 \$1,904,965 and \$884,847 at June 30, 2012 and 2011, respectively. 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, 2012 and 2011.

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
June 30, 2012:				
Donor restricted	\$ (1,904,965)	275,364	18,993,681	17,364,080
Board designated (Quasi)	10,081,100	—	—	10,081,100
Total	<u>\$ 8,176,135</u>	<u>275,364</u>	<u>18,993,681</u>	<u>27,445,180</u>
June 30, 2011:				
Donor restricted	\$ (884,847)	739,275	18,271,567	18,125,995
Board designated (Quasi)	10,791,074	—	—	10,791,074
Total	<u>\$ 9,906,227</u>	<u>739,275</u>	<u>18,271,567</u>	<u>28,917,069</u>

Changes in endowment funds for the fiscal year ended June 30, 2012 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
June 30, 2011	\$ 9,906,227	739,275	18,271,567	28,917,069
Investment income	185,633	394,435	—	580,068
Net realized and unrealized (losses)/gains	(1,694,084)	86,993	—	(1,607,091)
Contributions	222,489	—	722,114	944,603
Appropriated to operations	(444,130)	(945,339)	—	(1,389,469)
June 30, 2012	<u>\$ 8,176,135</u>	<u>275,364</u>	<u>18,993,681</u>	<u>27,445,180</u>

Changes in endowment funds for the fiscal year ended June 30, 2011 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
June 30, 2010	\$ 7,542,150	105,455	17,396,568	25,044,173
Investment income	178,951	336,490	—	515,441
Net realized and unrealized gains	3,553,642	1,231,237	—	4,784,879
Contributions	2,150	—	874,999	877,149
Distributions	(547,671)	(933,907)	—	(1,481,578)
Transfers	(822,995)	—	—	(822,995)
June 30, 2011	<u>\$ 9,906,227</u>	<u>739,275</u>	<u>18,271,567</u>	<u>28,917,069</u>

(NOTE 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 is recorded by the College as funds held in trust on the statements of financial position and as contribution revenue on the statement of activities using a discount rate of 3.79% for 2012 and 2011, respectively. Funds held in trust by others totaled \$2,366,024 and \$2,387,504 at June 30, 2012 and 2011, respectively.

(NOTE 7) PROPERTY, PLANT AND EQUIPMENT

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

	Useful life	2012	2011
Land	—	\$ 3,877,606	3,877,606
Land improvements	30	3,991,279	3,976,098
Library collection	10	7,366,715	7,310,403
Vehicles	10	1,126,783	1,126,783
Equipment	3 – 5	19,561,784	19,237,953
Building and building improvements	10 – 50	65,924,668	65,222,129
		101,848,835	100,750,972
Accumulated depreciation		(61,672,467)	(59,176,663)
		40,176,368	41,574,309
Construction-in-progress		483,372	498,329
		<u>\$ 40,659,740</u>	<u>42,072,638</u>

Depreciation expense was \$2,495,804 and \$2,622,953 at June 30, 2012 and 2011, respectively.

(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 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, 2012	Amount outstanding 2012	2011
HUD Project 136(D)	2019	3.00%	\$ 405,000	455,000
HUD Project 154(D)	2014	3.00%	193,441	317,685
Bank Debt Project 163(D)	2013	3.00%	49,263	80,903
Bank Debt Project 180(D)	2014	3.00%	227,691	336,552
Realty Trust Note	2022	6.01%	781,964	833,870
MDFA Series 2004 Bond Issue	2035	5.15–5.70%	14,637,500	14,963,750
MDFA Commercial Paper	2031–2038	Variable, .31%	8,100,000	8,100,000
			24,394,859	25,087,760
Less original issue discount			(73,914)	(77,274)
			<u>\$ 24,320,945</u>	<u>25,010,486</u>

The HUD, bank project and Realty Trust debt are collateralized by certain facilities, equipment and premises. The College is required to meet various covenants on an annual basis with respect to its long term debt.

	Amount
2013	\$ 724,108
2014	671,166
2015	497,132
2016	463,750
2017	558,797
Thereafter	21,479,906
	<u>\$ 24,394,859</u>

The fair value of the College's long term debt was \$25,798,439 at June 30, 2012.

(NOTE 9) NET ASSETS

The composition of the categories of net assets as of June 30, 2012 and 2011 consists of:

	<u>2012</u>	<u>2011</u>
Temporarily restricted net assets:		
Accumulated net gains on permanently endowed funds	\$ 561,338	739,275
Amounts restricted by donors for programs	5,110,019	3,521,119
Contributions receivable for programs	<u>4,348,661</u>	<u>1,356,690</u>
	<u>\$ 10,020,018</u>	<u>5,617,084</u>
Permanently restricted net assets:		
Morgan Venture Fund	\$ 476,687	443,134
Contributions receivable for permanent endowment	846,778	1,016,690
Funds held in trust by others	2,366,024	2,378,504
Permanent endowment and similar funds	<u>18,993,681</u>	<u>18,280,567</u>
	<u>\$ 22,683,170</u>	<u>22,118,895</u>

(10) COMMITMENTS UNDER OPERATING LEASES

The College has entered into certain operating lease agreements. Lease expense in 2012 and 2011 amounted to \$247,431 and \$205,068, respectively. Payments under these agreements are as follows:

	<u>Amount</u>
2013	\$ 246,282
2014	180,059
2015	180,059
2016	180,059
2017	<u>180,059</u>
	<u>\$ 966,518</u>

(11) RETIREMENT PLAN

Contributions made by the College for the TIAA-CREF Retirement Plan were \$1,904,500 and \$1,797,400 during fiscal years 2012 and 2011, respectively, for eligible and enrolled employees based on a portion of salaries ranging from 9% to 10% from July 1, 2011 through December 31, 2011 and from 9.5% to 10% from January 1, 2012 through June 30, 2012. In addition, the employees enrolled in the plan contributed a portion of their salaries ranging from 3% to 5%.

(12) SUBSEQUENT EVENTS

The College issued \$14,225,000 of fixed rate debt on December 17, 2012, which was issued as a serial bond maturing December 28, 2032. The proceeds included a net premium amount of 0.25 bps that is being amortized using the 360 day year with a 25 year amortization over the remaining life of the series with an initial interest rate of 2.76% fixed for 10 years from date of closing. The bond is subject to a 10-year call period and will re-price at the 10-year anniversary. Debt proceeds including premium totaled \$14,225,000 was used for the refinancing of an existing series 2004 and funded applicable re-issuance costs.

The College evaluated subsequent events for potential recognition or disclosure through December 21, 2012, the date on which the financial statements were issued.

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As of June 30, 2012

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July 1, 2011–June 30, 2012

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