Hampshire College

FINANCIAL REPORT | 2012–2013

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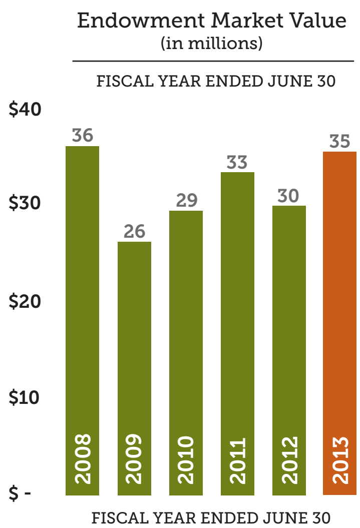
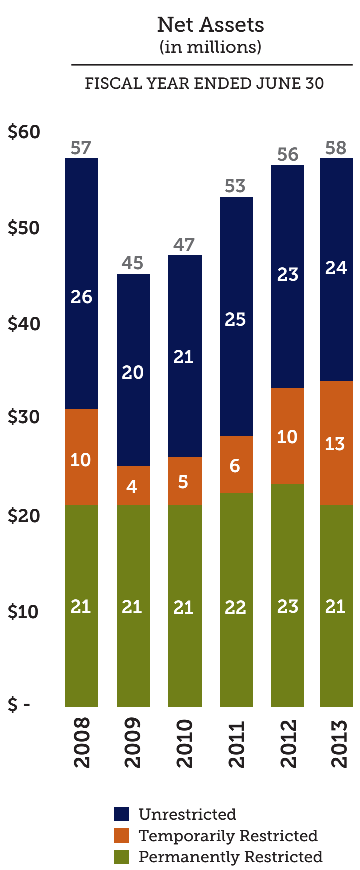
Report of the Vice President for Finance and Administration and Treasurer





Hampshire's overall financial position continued to strengthen in 2013 as a result of exceptional market performance and judicious reductions in expenses. Net assets, the College's core measure of financial health, increased by $3.1 million, or 5.6 percent. Hampshire's bond rating was reconfirmed as "BBB" with a "stable" outlook by Standard and Poor's, and the College was able to refinance $14.0 million in debt reducing debt service by nearly $0.4 million annually. Concurrently, credit card services were outsourced to a third-party saving the College approximately $0.3 million annually. Tuition, room, and board, net of financial aid, increased by $0.8 million, or a modest 1.9 percent, as the College maintained its commitment to provide broad access to a Hampshire education with nearly $28.0 million of financial aid. The College continued to invest in a core academic objective: enabling Hampshire students to benefit from the unique mentoring relationship between faculty and students that sharply distinguishes the College from its peers. Average annual enrollment declined as planned from 1,422 to 1,379, while the number of full-time faculty increased with the filling of five vacant and two new faculty lines. As a result, the number of students per faculty member improved from 12.0 to 11.3, its lowest level in five years.

STATEMENT OF FINANCIAL POSITION

A very good year for the College's endowment resulted in the most notable change in the College's financial position. Net assets increased from $55.3 million to $58.4 million, and investments increased from $31.2 million to $35.1 million.

Cash marginally increased over the period due to higher deposits of accrued revenues of gifts and grants. Bond trustee deposits decreased by $1.2 million as a $14.0 million bond was defeased and refinanced at an interest rate of 2.76 percent from a prior rate of 5.84 percent. Property, plant and equipment declined by $1.1 million, as depreciation on capitalized assets of $2.4 million outpaced the college's capitalized construction activity of $1.3 million. A decline in liabilities reflected a decrease in accounts payable due to a timing difference in check issuances between 2012 and 2013, and a reduction in long-term debt of $0.9 million as principal on existing debt continued to be paid down.

STATEMENT OF ACTIVITIES

Operating Activities

Total operating revenues decreased from $54.3 million to $52.8 million from 2012 to 2013, primarily due to a $2.4 million decline in gift and grant revenue. This reduction followed extraordinary giving in 2012 that accompanied President Lash's arrival and a strong fundraising initiative to develop seed funds for a new building, the Campus Portal. While the nominal price of tuition, room, board and fees increased by 3.5 percent, tuition, room, board and fees net of financial aid increased by $0.8 million, or 1.9 percent. Financial aid awarded remained stable at $27.9 million, with fewer students receiving higher levels of aid. The overall discount rate applied to tuition, room, board and fees was 39.0 percent compared with 39.4 percent in 2012. The average net price of a Hampshire education per student FTE increased from $30,145 to $31,681. Enrollment declined, as planned, from an average of 1,422 FTE in 2012 to 1,379 FTE in 2013. This gradual decline in enrollment reflects the College's long-term commitment to smaller classes and student mentoring and guidance through individualized faculty committees supporting each upper level student. The student faculty ratio (where faculty includes full-time faculty and visitors) improved from 12.0 to 11.3.

Total expenses increased by $0.7 million, or 1.4 percent. Expenses net of research and sponsored programs (primarily funded by outside granting agencies) increased by $0.4 million, or 0.9 percent, in comparison with the Higher Education Price Index increase of 2.2 percent for private baccalaureate institutions (2013 HEPI Update, the Commonfund Institute, 2013). A 5.6 percent increase in Instruction and Related Activities reflected, in part, an addition of two faculty lines and the refilling of five vacancies. Administrative expenses declined by 7.5 percent as vacant positions were kept open as long as possible, credit card operations were outsourced, and debt interest declined with the refinanced bond.

Non-Operating Activities

Major changes occurred in three areas: contributions for long-term investments, net return on long-term investments, and debt retirement. Contributions totaled $1.9 million for the year, a decline of $1.4 million from 2012, reflecting a hiatus in a successful effort in 2012 to raise seed funding for a new building, the "Portal." Net return on investments totaled $4.2 million. An annual endowment draw of $1.4 million, or 4.5 percent of the market value of the endowment over the trailing twelve quarters, supported the operating budget. A 2004 bond was defeased and refinanced to take advantage of significantly lower interest rates.

INVESTMENTS

The endowment fund supports activities that enable the College to accomplish its mission. Its governing document provides a "framework for a disciplined process that seeks to add value and minimize risk (Hampshire College Statement of Investment Objectives, Goals and Policy Guidelines, revised June 22, 2012). The Fund's investment objective is "to preserve its purchasing power, while providing a continuing and stable funding source to support the current and future mission of Hampshire College. It is a core value of Hampshire College and consistent with its historical practice, that the College invest in a socially responsible way (Hampshire College Policy on Environmental, Social and Governance Investing)."

The managed portion of the endowment of $28.6 million gained 12.9 percent in 2013 in comparison with the key performance index of Consumer Price Index + 4.5 percent, or 6.3 percent for the year. The index is designed to ensure that principal is preserved through growth at the level of inflation or above plus annual spending, the draw, supporting the operating budget. The Board of Trustees, upon the advice of its Investment Committee, determines the annual draw, currently 4.5 percent. To date the managed fund has recovered 94.0 percent of its high watermark value of $30.4 million on June 30, 2007. With the addition of the College's non-marketable investments, private equity of $5.7 million and real assets totaling $0.6 million, the endowment totaled $33.8 million.

The school's investments have beaten the CPI benchmark for the 1 year period (12.9 to 6.3 percent) and 3 year period (9.2 to 6.9 percent), while falling short for the 5 year period (2.4 to 5.9 percent) and 10 year period (5.3 to 7.0 percent). A second benchmark, Policy Index (I), is an index comprising each asset class weighted by the percent of the portfolio invested in that asset class. The index is 55.0 percent MSCI AC World Index, 25.0 percent HFRI Fund-of-Funds Diversified Index, 10.0 percent BC US Treasury 5-10 Year Index and 10.0 percent Inflation Hedging Composite Index (since February 2013, the inflation hedging index has included 50.0 percent UBS Real Estate Investors and 50.0 percent Dow Jones UBS Commodity Index). The managed fund has beaten the index for the 1 year period (12.9 to 10.9 percent), lost to the index for the 3 year period (9.2 to 9.7 percent), tied the index for the 5 year period (2.4 percent), and lost to the index for the 10 year period (5.3 to 5.8 percent). Over the long term, the endowment performance has equaled that of the policy index of 5.5 percent since inception in 1997.

The managed fund's strongest performer was global equity (55.2 percent of the managed portfolio) which increased by 18.8 percent, fitting comfortably within the range of MSCI AC World Index (Net) benchmarks of 16.6 to 21.5 percent. Flexible capital (25.4 percent of the portfolio) yielded 12.9 percent, outperforming its HFRI FOF: Diversified Funds benchmark of 7.2 percent. Fixed income (8.4 percent of the portfolio) lost 1.6 percent but outperformed the Barclays U.S. Treasury 5-10 Year benchmark of -2.6 percent. Inflation hedging (real assets) (8.7 percent of the portfolio) lost 3.3 percent against the index of 0.3 percent. The managed fund was rounded out with $0.7 million in liquid capital. An important addition to the endowment in the second quarter of the fiscal year was the Generation IM Global Equity Fund (16.1 percent of the portfolio) that according to its website "focuses on long term economic, environmental, social and governance risks and opportunities that can materially impact a company's ability to sustain profitability and deliver returns."

FACILITIES

Approximately $1.3 million was invested in capital projects in 2013 to address deferred maintenance and modernization objectives.

Planning for a new campus building to facilitate the admissions process, add critically needed modern instructional spaces, and accommodate a new bookstore, "the Portal," began with the formation of an all-campus committee, the development of a building program with input from all elements of the campus community, the recommendation of a site, and selection of a design team. The project benefited from the enthusiastic support of the Hampshire community, Board of Trustees, and the College's many friends and families. Construction is scheduled to begin in fall 2014.

Phase III of the Prescott Apartment gut renovation project was completed in which apartments were thoroughly renovated with new hydronic heating systems, kitchens, ventilation, and surface treatments. Lemelson Hall was gut renovated to bring together CASA and Central Records to provide better service to students who often need access to resources in both departments. College Advancement was moved to an off-campus suite to provide the required space. The first floor offices of the Dean of Faculty and adjacent classrooms were renovated to improve temperature control and provide modern, functional office spaces. The heating systems in Greenwich Apartments, mods 1, 2, and 5, were converted from electric to gas heat to reduce utility expenses and carbon footprint. The College's electrical distribution system upgrade was completed in which oil-filled transformers and switches posing a fire hazard were replaced with solid state equipment. Emergency generators were replaced in Merrill House and Dakin House. The theater and dance classroom was equipped with new LED lighting to replace a system that had exceeded its useful life through a grant provided by the College's SURF (Sustainability Revolving Fund). A conceptual design and detailed estimate for a renovation of the Robert Crown Center was completed. Other capital projects involving small renovations, new equipment, and furnishing replacements were completed throughout the campus.

As in past years, it has been a 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

Mark K. Spiro

Vice President for Finance and Administration and Treasurer

Five Years in Review

FISCAL YEARS 2008 - 2009 TO 2012-2013

	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009
Statement of Financial Position (000s)					
Assets	87,902	86,226	85,261	83,009	80,619
Liabilities	29,498	30,913	32,711	35,047	34,720
Net Assets	58,404	55,313	52,550	47,962	45,899
Investments at Market Value	35,148	31,216	34,618	29,713	25,916
Net Property, Plant and Equipment	39,538	40,660	42,073	43,222	44,074
Long-Term Debt	23,404	24,321	25,010	25,673	26,400
Statement of Activities (000s)					
Operating Revenues	52,830	54,254	50,371	49,968	51,562
Operating Expenses	52,991	52,282	50,584	49,887	51,415
Change in Net Assets from Operating Activities	(161)	1,972	(213)	81	147
Change in Non Operating Activities	3,253	791	4,801	1,982	(11,165)
Total Change in Net Assets	3,092	2,763	4,588	2,063	(11,018)
Operating Budget (000s)					
Net Tuition and Fees	45,037	43,780	42,990	40,764	42,132
Other Revenue	7,464	6,991	8,011	7,521	11,453
Expenses	52,471	50,754	50,673	48,456	53,526
Operating Margin	30	17	328	(171)	59
Other (000s)					
Student FTE *	1,379.0	1,422.3	1,452.3	1,387.0	1,356.0
Faculty FTE **	122.3	118.7	115.0	114.0	112.0
Student:Faculty Ratio	11.3	12.0	12.6	12.2	12.1
Tuition, Room, Board, and Fees	$55,200	$53,080	$51,279	$49,545	$47,869
Cost per Student Net of Aid	$22,541	$22,292	$21,671	$20,155	$16,821
Discount Rate for All Students ***	43.8%	45.2%	45.0%	44.2%	37.4%
Students Paying Full Price	19.6%	20.5%	17.2%	14.0%	19.0%
Students Receiving Aid	80.4%	79.5%	82.8%	86.0%	81.0%

** Student FTE is based on full-time students plus part-time and field study students being calculated as a 1/3 FTE; this is based on the reporting standards set by the Higher Education Data Sharing Consortium (HEDS).*

*** Faculty FTE is based on full-time permanent and visiting faculty plus part-time faculty being calculated as a 1/3 FTE; this is based on the reporting standards set by the Higher Education Data Sharing Consortium (HEDS). For consistency, the HEDS calcuation is based on the Integrated Postsecondary Education Data Systems (IPEDS) and the American Association of University Professors (AAUP).*

****This discount rate is based on the College's financial aid given to students from operating and restricted funding sources divided by the tuition and manadatory fees; this is based on the reporting standards set by the National Association of College and University Business Officers (NACUBO).*

Report of Independent Auditors

KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

The Board of Trustees
Hampshire College:

We have audited the accompanying financial statements of Hampshire College, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarize Comparative Information
We have previously audited the Hampshire College 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statement from which it has been derived.

KPMG LLP

January 14, 2014

Statements of Financial Position

AS OF JUNE 30, 2013 AND 2012

ASSETS		2013	2012
Cash and cash equivalents	$	3,994,033	3,820,647
Accounts and loans receivable, net (note 2)		616,833	660,211
Contributions receivable, net (note 3)		5,122,918	5,195,439
Prepaid expenses, inventories and other assets		456,437	525,326
Deposits with bond trustee (note 4)		559,169	1,782,698
Investments – at fair value (note 4)		35,148,479	31,216,049
Funds held in trust by others (notes 4 and 6)		2,466,328	2,366,024
Property, plant and equipment, net (note 7)		39,538,291	40,659,740
Total assets	$	87,902,488	86,226,134

LIABILITIES AND NET ASSETS

Liabilities:			
Accounts payable and accrued liabilities	$	1,281,698	2,145,168
Deposits and deferred income		1,653,646	1,309,241
Conditional asset retirement obligation		3,158,081	3,137,746
Long term debt (note 8)		23,404,340	24,320,945
Total liabilities		29,497,765	30,913,100
Net Assets:			
Unrestricted		22,327,755	22,609,846
Temporarily restricted (note 9)		12,074,303	10,020,018
Permanently restricted (note 9)		24,002,665	22,683,170
Total net assets		58,404,723	55,313,034
Total liabilities and net assets	$	87,902,488	86,226,134

See accompanying notes to financial statements.

Statement of Activities

FOR THE YEAR ENDED JUNE 30, 2013 (WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

OPERATING ACTIVITIES	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2013	2012
Revenues and other additions					
Tuition, room, board and other fees	$71,581,900	—	—	71,581,900	70,800,587
Less student aid awarded	(27,893,166)	—	—	(27,893,166)	(27,934,762)
Net tuition and fees	43,688,734	—	—	43,688,734	42,865,825
Contributions, gifts, and grants	2,950,817	2,608,060	—	5,558,877	7,964,270
Other income	446,455	37,811	—	484,266	415,251
Investment income for operations (note 4)	460,119	1,061,528	—	1,521,647	1,413,173
Other auxiliary enterprises	1,576,425	—	—	1,576,425	1,595,212
Net assets released from restrictions for operating purposes	3,560,336	(3,560,336)	—	—	—
Total operating revenues and other support	52,682,886	147,063	—	52,829,949	54,253,731
Expenses					
Instruction and related activities	20,391,608	—	—	20,391,608	19,304,935
Research and sponsored programs	3,099,970	—	—	3,099,970	2,825,460
Student services	8,658,632	—	—	8,658,632	8,449,617
Administration and general	11,668,283	—	—	11,668,283	12,614,314
Academic support	3,277,226	—	—	3,277,226	2,946,659
Auxiliary enterprises	5,895,763	—	—	5,895,763	6,140,992
Total operating expenses	52,991,482	—	—	52,991,482	52,281,977
Change in net assets from operating activities	(308,596)	147,063	—	(161,533)	1,971,754
NONOPERATING ACTIVITIES					
Contributions for long-term investment	2,531	687,703	1,193,560	1,883,794	3,327,491
Net return on long-term investments (note 4)	2,664,236	1,572,648	(12,271)	4,224,613	(1,045,968)
Investment income for operations (note 4)	(460,168)	(945,785)	—	(1,405,953)	(1,398,463)
Other deductions and additions	(698,914)	592,656	138,206	31,948	(91,954)
Loss on debt extinguishment	(1,481,180)	—	—	(1,481,180)	—
Change in net assets from nonoperating activities	26,505	1,907,222	1,319,495	3,253,222	791,106
Total change in net assets	(282,091)	2,054,285	1,319,495	3,091,689	2,762,860
Net assets, beginning of year	22,609,846	10,020,018	22,683,170	55,313,034	52,550,174
Net assets, end of year	$22,327,755	12,074,303	24,002,665	58,404,723	55,313,034

See accompanying notes to financial statements.

Statements of Cash Flow

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash provided by operating activities		
Change in net assets	$ 3,091,689	2,762,860
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,499,727	2,510,298
Net realized and unrealized gains	(4,042,641)	1,695,642
Change in accounts and loans receivable	(123,958)	184,685
Change in funds held in trust by others	(100,304)	21,480
Change in contributions receivable	72,521	(2,822,059)
Change in prepaid expenses, inventories, and other assets	31,237	(68,994)
Change in accounts payable and accrued expenses	(854,835)	(835,115)
Change in deposits payable and deferred revenues	344,405	(385,411)
Change in conditional asset retirement obligation	20,335	114,560
Contributions for permanently restricted endowment	(1,193,560)	(917,424)
Contributions for long term investments	(1,131,395)	(45,022)
Net cash (used in) provided by operating activities	(1,386,779)	2,215,500
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,266,712)	(1,082,906)
Change in employee mortgages and notes receivable	167,336	(85,309)
Purchase of investments	(8,680,654)	(8,356,021)
Sales and maturities of investments	8,790,865	10,062,516
Change in actuarial liability for life income obligation	(8,635)	(1,991)
Net cash (used in) provided by investing activities	(997,800)	536,289
Cash flows from financing activities		
Repayment of long term debt	(15,215,519)	(692,901)
Proceeds from long term debt	14,225,000	—
Change in deposits with bond trustee	1,223,529	(47,175)
Contributions for permanently restricted endowment	1,193,560	917,424
Contributions for long term investments	1,131,395	45,022
Net cash provided by financing activities	2,557,965	222,370
Net change in cash and cash equivalents	173,386	2,974,159
Cash and cash equivalents, beginning of year	3,820,647	846,488
Cash and cash equivalents, end of year	$ 3,994,033	3,820,647
Supplemental disclosures		
Interest paid	$ 736,215	969,946

See accompanying notes to financial statements.

(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 1379 and 1,422 during fiscal years 2013 and 2012, 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 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, 2012, 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.

(NOTE 2) ACCOUNTS AND LOANS RECEIVABLE

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

	2013	2012
Student accounts	$ 357,188	200,246
Contracts and grants	36,818	—
Other	336,437	503,773
Student loans	52,254	65,235
	782,697	769,254
Less allowance for uncollectible accounts	(165,864)	(109,043)
	$ 616,833	660,211

(NOTE 3) CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows at June 30:
Unconditional promises expected to be collected:

	2013	2012
In one year or less	$ 3,013,717	2,519,136
Between one and five years	2,009,565	2,742,265
In more than five years	168,751	—
	5,192,033	5,261,401
Less unamortized discount and allowance for uncollectible accounts	(69,115)	(65,962)
	$ 5,122,918	5,195,439

Discount rates used to calculate the present value of pledges receivable ranged from 0.15% to 5.20%.

(NOTE 4)
FAIR VALUE AND INVESTMENTS

The College's investments and other assets at June 30, 2013 that are reported at fair value are summarized in the following table by their fair value hierarchy.

	LEVEL 1	LEVEL 2	LEVEL 3	2013 TOTAL	REDEMPTION	DAY'S NOTICE
Long term investments:						
Cash and cash equivalents	$ 873	—	—	873	Daily	1
U.S. equity:						
Large Cap	3,951,886	—	—	3,951,886	Daily	1
Small Cap	1,181,252	—	—	1,181,252	Daily	1
Exchange Traded Treasury Administered Fund	1,036,848	—	—	1,036,848	Daily	1
Non-U.S. equity funds	1,783,589	8,881,276	—	10,664,865	Daily/monthly	1 to 10
Fixed income	3,529,670	—	—	3,529,670	Daily	1
Hedge Funds	—	7,258,344	—	7,258,344	Quarterly	90/65
Real asset commingled funds	—	1,337,399	—	1,337,399	Daily	1
Private equity	—	—	5,477,980	5,477,980	Illiquid	N/A
Private partnerships	—	—	464,416	464,416	Illiquid	N/A
Funds held or administered by others[2]	—	—	244,946	244,946	N/A	N/A
Total investments	11,484,118	17,477,019	6,187,342	35,148,479		
Other assets:						
Funds held in trust by others	—	—	2,466,328	2,466,328	N/A	N/A
Funds held by bond trustee[1]	559,169	—	—	559,169	Daily	1
Total	$ 12,043,287	17,477,019	8,653,670	38,173,976		

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	DAY'S 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, 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, 2013 and 2012 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

	PRIVATE EQUITY	PRIVATE PARTNERSHIPS	FUNDS HELD BY OTHERS	TOTAL
Fair value June 30, 2012	$ 4,763,460	476,687	2,632,120	7,872,267
Acquisitions	—	—	13,383	13,383
Dispositions	—	(30,598)	(48,810)	(79,408)
Unrealized gains	714,520	18,327	114,581	847,428
Fair value June 30, 2013	$ 5,477,980	464,416	2,711,274	8,653,670
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 gains (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

At June 30, 2013, 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, 2013, the average remaining life of the private equity partnerships is approximately 1 year.

The College's total investment return is summarized below:

	2013	2012
Dividends and interest	$ 422,004	640,373
Realized/unrealized (loss) gain on investments	4,042,641	(1,695,642)
Management fees and other costs	(124,338)	(101,894)
Total return on investments	4,340,307	(1,157,163)
Investment income used in operations	(1,521,647)	(1,413,173)
Nonoperating investment income	$ 2,818,660	(2,570,336)

(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 2013 and 2012, the percentage distributed was 4.5% in 2013 and 5.0% in 2012.

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 921,344 and $1,904,965 at June 30, 2013 and 2012, 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, 2013 and 2012.

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
June 30, 2013				
Donor restricted	$ (921,344)	902,292	20,084,510	20,065,458
Board designated (quasi)	10,974,473	—	—	10,974,473
Total	$ 10,053,129	902,292	20,084,510	31,039,931
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	$ 8,176,135	275,364	18,993,681	27,445,180

Changes in endowment funds for the fiscal year ended June 30, 2013 were as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
June 30, 2012	$ 8,176,135	275,364	18,993,681	27,445,180
Investment return	2,507,181	1,572,713	—	4,079,894
Contributions	2,981	—	1,090,829	1,093,810
Appropriated to plant	(173,000)	—	—	(173,000)
Appropriated to operations	(460,168)	(945,785)	—	(1,405,953)
June 30, 2013	$ 10,053,129	902,292	20,084,510	31,039,931

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

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
June 30, 2011	$ 9,906,227	739,275	18,271,567	28,917,069
Investment return	(1,508,451)	481,428	—	(1,027,023)
Contributions	222,489	—	722,114	944,603
Appropriated to operations	(444,130)	(945,339)	—	(1,389,469)
June 30, 2012	$ 8,176,135	275,364	18,993,681	27,445,180

(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 2013 and 2012, respectively. Funds held in trust by others totaled $2,466,328 and $2,366,024 at June 30, 2013 and 2012, respectively.

(NOTE 7)
PROPERTY, PLANT AND EQUIPMENT

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

	USEFUL LIFE	2013	2012
Land	—	$ 3,877,606	3,877,606
Land improvements	30	4,049,981	3,991,279
Library collection	10	7,422,209	7,366,715
Vehicles	10	1,119,716	1,126,783
Equipment	3 – 5	19,981,927	19,561,784
Building and building improvements	10 – 50	67,007,753	65,924,668
		103,459,192	101,848,835
Accumulated depreciation		(64,053,563)	(61,672,467)
		39,405,629	40,176,368
Construction in progress		132,662	483,372
		$39,538,291	40,659,740

Depreciation expense was $2,388,161 and $2,495,804 at June 30, 2013 and 2012, 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, 2013	AMOUNT OUTSTANDING 2013	2012
HUD Project 136(D)	2019	3.00%	$350,000	405,000
HUD Project 154(D)	2014	3.00	65,443	193,441
Bank Debt Project 163(D)	2013	3.00	16,666	49,263
Bank Debt Project 180(D)	2014	3.00	115,540	227,691
Realty Trust Note	2022	6.01	718,468	781,964
MDFA Series 2004 Bond Issue	2035	5.15 - 5.7	—	14,637,500
Series 2012 Bond	2032	2.76	14,038,223	—
MDFA Commercial Paper	2031 – 2038	Variable, 0.31%	8,100,000	8,100,000
			23,404,340	24,394,859
Less original issue discount			—	(73,914)
			$23,404,340	24,320,945

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.

Principal payments on all long term debt are as follows:

	AMOUNT
2014	$ 715,969
2015	533,410
2016	553,049
2017	570,229
2018	587,034
Thereafter	20,444,649
	$ 23,404,340

The estimated fair value of the College's long term debt approximates the amount outstanding of $23,404,340 at June 30, 2013. The valuation methodology considers certain observable inputs and thus would be categorized as level 2 within the fair value hierarchy. The College further determined that the differences between the carrying value and estimated fair values of its other financial assets and liabilities at June 30, 2013 were not material.

(NOTE 9)
NET ASSETS

The composition of the categories of net assets as of June 30, 2013 and 2012 consists of:

	2013	2012
Temporarily restricted net assets:		
Accumulated net gains on permanently endowed funds	$902,292	561,338
Amounts restricted by donors for programs	7,040,504	5,110,019
Contributions receivable for programs	4,131,507	4,348,661
	$ 12,074,303	10,020,018
Permanently restricted net assets:		
Morgan Venture Fund	$464,416	476,687
Contributions receivable for permanent endowment	987,411	846,778
Funds Held in Trust by Others	2,466,328	2,366,024
Permanent endowment and similar funds	20,084,510	18,993,681
	$ 24,002,665	22,683,170

(NOTE 10)
COMMITMENTS UNDER OPERATING LEASES

The College has entered into certain operating lease agreements. Lease expense in 2013 and 2012 amounted to $308,676 and $247,431, respectively. Payments under these agreements are as follows:

	AMOUNT
2014	$ 315,703
2015	315,703
2016	315,703
2017	220,903
2018	184,380
	$ 1,352,392

(NOTE 11)
RETIREMENT PLAN

Contributions made by the College for the TIAA-CREF Retirement Plan were $2,099,530 and $1,904,500 during fiscal years 2013 and 2012, 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, 2013. In addition, the employees enrolled in the plan contributed a portion of their salaries ranging from 3% to 5%.

(NOTE 12)
SUBSEQUENT EVENTS

The College evaluated subsequent events for potential recognition or disclosure through January 14, 2014 the date on which the financial statements were issued. There were no subsequent events.

Trustees and Officers

AS OF JUNE 30, 2013