Hampshire College

FINANCIAL REPORT | 2013–2014

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HAMPSHIRE COLLEGE

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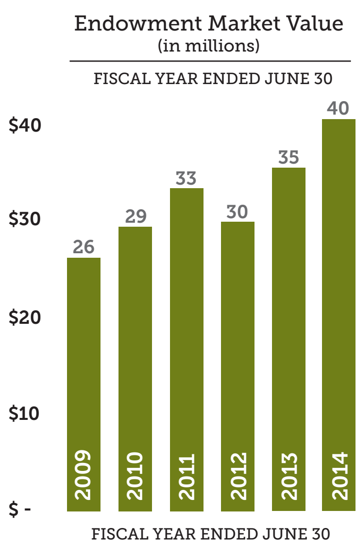
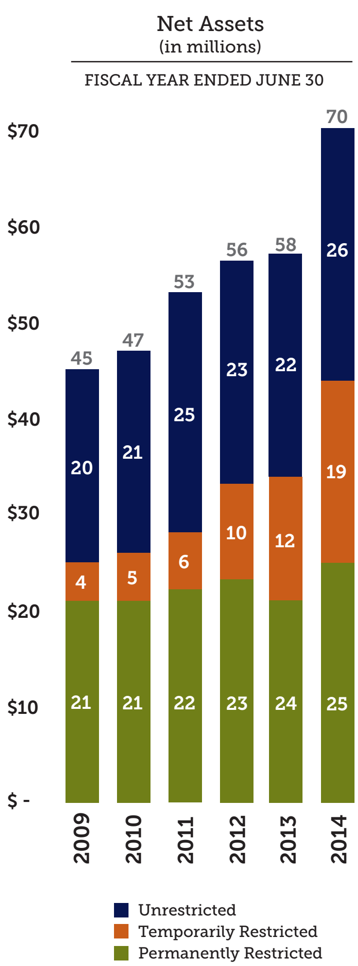
Report of the Vice President for Finance and Administration and Treasurer





Hampshire's overall financial position continued to strengthen in fiscal year 2014 as a result of exceptional market performance and increased enrollment revenue. Net assets, the College's core measure of financial health, increased by $12.0 million, or 20.5 percent. Hampshire's bond rating was reconfirmed as "BBB" with a "stable" outlook by Standard and Poor. Tuition, room, and board, net of financial aid, increased by $4.0 million, or 9.1 percent, as the College maintained its commitment to provide broad access to a Hampshire education with nearly $27.5 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 full time equivalency (FTE) enrollment increased from 1,384 to 1,396, while the number of full-time faculty increased with the filling of five faculty lines, thus reducing the visiting faculty by two and adjunct faculty by eight. As a result, the number of students per faculty member improved from 11.3 to 10.6, its lowest level in at least eight years.

STATEMENT OF FINANCIAL POSITION

A very good year for the College's endowment, along with strong gift and grant revenues resulted in the College's strong financial position. Net assets increased from $58.4 million to $70.4 million, and investments increased from $35.1 million to $42.1 million.

Cash increased over the period by $2.3 million due to strong operational profits and higher deposits of gift revenue. Contributions receivable increase $2.5 million in fiscal 2014 due to robust gift pledges especially for the R.W. Kern Center. Property, plant and equipment increased by $1.2 million. This increase in capitalized assets is net of $2.3 million of depreciation; thus, the College's capitalized construction activity of the year was $3.5 million. The $0.5 million increase in total liabilities was due to an accounts payable timing difference in check issuance between 2013 and 2014 of $1.3 million that was partially offset by a reduction in long-term debt of $0.7 million as principal on existing debt continued to be paid down.

STATEMENT OF ACTIVITIES

Operating Activities

Total operating revenues and other support increased from $52.8 million to $60.2 million from 2013 to 2014, primarily due to a

$4.0 million increase net tuition and fees and a $3.3 million increase in gift and grant revenue. The increase in tuition and fees was due to higher rates of tuition and fees as well as increased enrollment.

Tuition, room, board and fees increased by 3.5 percent. Enrollment increased from 1,384 FTE to 1,396. Concurrently, financial aid decreased by $0.4 million, or 1.3 percent. The overall discount rates applied to tuition, room, board and fees were 36.6 percent compared with 39.0 percent in 2013. The average net price of a Hampshire education per student FTE increased from $31,567 to $34,151.

Total expenses increased by $3.2 million, or 5.9 percent. Instructional and related activities increased by $0.4 million, or 2.0 percent as 4 full-time faculty positions that were vacant in 2013 were filled in 2014. Student services expenses increased by $0.2 million, or 2.8 percent caused by additional programming and one additional filled position in 2014. Administrative expenses increased by $1.6 million, or 14.0 percent. This increase was due to higher consulting fees ($0.3 million), the filling of four administrative positions ($0.3 million), additional lease costs ($0.2 million), and recruiting costs ($0.1 million). Auxiliary costs increased by $0.8 million, or 13.7 percent caused again by higher food costs. This increase was due to a new food service provider with emphasis on locally grown produce and healthy choices.

Non-Operating Activities

Non-operating activities resulted in revenue for 2014 of $7.9 million compare to $3.3 million in 2013, resulting in $4.7 million higher revenues. The main difference in this area was an increase in long term investment returns of $3.6 million, or 84.2 percent higher than the previous year. Fiscal year 2013 had a bond defeasement resulting in a loss of $1.5 million. Contributions for long term investments totaled $1.7 million for the year, a decline of $0.2 million, or 9.4 percent from 2013. 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.

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 $31.6 million gained 15.3 percent in 2014 in comparison with the key performance index of Consumer Price Index + 4.5 percent, or 6.7 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, to support the operating budget draw. The Board of Trustees, upon the advice of its Investment Committee, determines the annual draw, currently 4.5 percent. During 2014 Hampshire's managed funds of $31.6 million have exceeded its high watermark value of $30.4 million on June 30, 2007 by $1.2 million, or 3.9 percent. With the addition of the College's non-marketable investments, private equity of $8.6 million and real assets totaling $0.3 million, the endowment totaled $40.5 million.

The College's managed investments have beaten the CPI benchmark for the 1 year period (15.3 to 6.7 percent), 3 year period (8.0 to 6.4 percent), and 5 year period (10.9 to 6.6), while falling short for the 10 year period (5.4 to 6.9 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 (components have changed over time). The managed fund has fallen short of index for the 1 year period (15.3 to 15.9 percent), outperformed the index for the 3 year period (8.0 to 7.6 percent), tied the index for the 5 year period (10.9 percent), and underperformed to the index for the 10 year period (5.4 to 5.8 percent). Over the long term, the endowment performance has underperformed that of the policy index (0.9 to 1.0 percent) since inception of the index in 1997.

FACILITIES

Approximately $3.5 million was invested in capital projects in 2014 to address deferred maintenance and modernization objectives.

Planning continued for a new campus building to facilitate the admissions process, add critically needed modern instructional spaces, and accommodate a new campus bookstore.

Construction of the R. W. Kern Center began in fall 2014. The major road realignment associated with the Kern Center project and associated landscape improvements were completed this past summer. A section of roadway leading from the former four corners intersection up to and including the circle around the flagpole was removed. A new wildflower meadowland was planted over the old roadway surface and the main quadrangle at the center of campus was expanded to provide additional space for gathering and special events. A road was constructed behind the site of the Kern Center location, ending with a newly constructed transportation hub behind the Harold F. Johnson Library Center. The transportation hub includes the main bus stop, parking spaces for two Zipcar, and an electric car charging station. Shelters for the transportation hub will be erected this coming summer.

Completing the emergency preparedness work begun in 2012 after an unusually severe October, 2011 snowstorm required the temporary evacuation of students from campus. Two emergency standby generators have been installed and are operational. The generators will provide emergency power for all residence halls and the dining commons in the event of a long-term power outage.

Over 2,200 LED light fixtures were installed in student residences to reduce energy costs. The financing for this project was provided by the College's Sustainability Revolving Fund (SURF) and utility rebates.

Recent surveys of students who attend the College and those who have chosen to go elsewhere (the Admitted Students Questionnaire) reference the condition of Hampshire's facilities as one major concern about attending Hampshire. We have responded by addressing some of the neediest areas of campus, including lounges and bathrooms, entryways and lobbies, tired exterior facades, recurring mold and air quality problems, deteriorating pavement and walkways, and furniture in poor condition. This project has been funded with a special draw on the endowment ($1.4 million). The projects listed below were began in fiscal year 2014 and completed by the fall of 2014.

The exteriors of the Enfield House and Greenwich House residence complexes were painted in a variety of warm colors to create a neighborhood-like ambience and to provide each unit with its own visual identity. All student lounges (39) in the Dakin House and Merrill House residences were renovated. Improvements included new kitchen appliances, paint, carpet, chalkboard walls, cabinetry, lounge furniture, and large screen televisions. All student bedrooms (1,143) and common spaces (105) were painted, carpet was installed in many locations in student residences, and stoves and refrigerators were replaced where needed. In addition, eight classrooms and the East and West lecture halls of Franklin Patterson Hall were painted, carpeting was installed where needed, and new furniture was installed in several classrooms. Other capital projects involving small renovations, new equipment and furnishing replacements were completed throughout the campus.

It has been a privilege to work with our many dedicated faculty, staff, students, alumni, parents, and friends during this past year. Many thanks for your generous contributions of time, talent, and resources.

Respectfully submitted,

Sandra M. Chessey
Interim Vice President for Finance and Administration

Kenneth Rosenthal
Treasurer

Five Years in Review

FISCAL YEARS 2009 - 20010 TO 2013 - 2014

	2013-2014	2012-2013	2011-2012	2010-2011	2009-2010
Statement of Financial Position (000s)					
Assets	100,366	87,902	86,226	85,261	83,009
Liabilities	30,002	29,498	30,913	32,711	35,047
Net Assets	70,364	58,404	55,313	52,550	47,962
Investments at Market Value	42,105	35,148	31,216	34,618	29,713
Net Property, Plant, and Equipment	40,737	39,538	40,660	42,073	43,222
Long-Term Debt	22,697	23,404	24,321	25,010	25,673
Statement of Activities (000s)					
Operating Revenues	60,171	52,830	54,254	50,371	49,968
Operating Expenses	56,143	52,991	52,282	50,584	49,887
Change in Net Assets from Operating Activities	4,028	(161)	1,972	(213)	81
Change in Non Operating Activities	7,930	3,253	791	4,801	1,982
Total Change in Net Assets	11,958	3,092	2,763	4,588	2,063
Operating Budget (000s)					
Net Tuition and Fees	49,028	45,037	43,780	42,990	40,764
Other Revenue	7,717	7,464	6,991	8,011	7,521
Expenses	56,166	52,471	50,754	50,673	48,456
Operating Margin	579	30	17	328	(171)
Other (000s)					
Student FTE*	1,399.0	1,379.0	1,422.3	1,452.3	1,387.0
Faculty FTE**	134.7	123.7	118.7	115.0	114.0
Student:Faculty Ratio	11.3	12.3	12.0	12.6	12.2
Tuition, Room, Board, and Fees	57,130	55,200	53,080	51,279	49,545
Cost per Student Net of Aid	21,901	22,541	22,292	21,671	20,155
Discount Rate for All Students***	41.6%	43.8%	45.2%	45.0%	44.2%
Students Paying Full Price	13.1%	19.6%	20.5%	17.2%	14.0%
Students Receiving Aid	86.9%	80.4%	79.5%	82.8%	86.0%

** 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, 2014, 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 auditors consider 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated January 14, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statement from which it has been derived.

KPMG LLP

December 22, 2014

Statements of Financial Position

JUNE 30, 2014 AND 2013

ASSETS	2014	2013
Cash and cash equivalents	$ 6,276,818	3,994,033
Accounts and loans receivable, net (note 2)	516,004	616,833
Contributions receivable, net (note 3)	7,662,650	5,122,918
Prepaid expenses, inventories and other assets	419,011	456,437
Deposits with bond trustee (note 4)	350,001	559,169
Investments – at fair value (note 4)	42,105,202	35,148,479
Funds held in trust by others (notes 4 and 6)	2,299,095	2,466,328
Property, plant and equipment, net (note 7)	40,736,876	39,538,291
Total assets	$ 100,365,657	87,902,488

LIABILITIES AND NET ASSETS

Liabilities:	2014	2013
Accounts payable and accrued liabilities	$ 2,548,437	1,281,698
Deposits and deferred income	1,584,322	1,653,646
Conditional asset retirement obligation	3,172,669	3,158,081
Long term debt (note 8)	22,696,755	23,404,340
Total liabilities	30,002,183	29,497,765
Net Assets:		
Unrestricted	25,989,927	22,327,755
Temporarily restricted (note 9)	19,122,771	12,074,303
Permanently restricted (note 9)	25,250,776	24,002,665
Total net assets	70,363,474	58,404,723
Total liabilities and net assets	$ 100,365,657	87,902,488

See accompanying notes to financial statements.

Statement of Activities

FOR THE YEAR ENDED JUNE 30, 2014 (WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

OPERATING ACTIVITIES	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2014	2013
Revenues and other additions					
Tuition, room, board and other fees	$ 75,207,522	—	—	75,207,522	71,581,900
Less student aid awarded	(27,533,244)	—	—	(27,533,244)	(27,893,166)
Net tuition and fees	47,674,278	—	—	47,674,278	43,688,734
Contributions, gifts, and grants	2,801,348	6,032,180	—	8,833,528	5,558,877
Other income	442,713	—	—	442,713	484,266
Investment income for operations (note 4)	623,569	941,957	—	1,565,526	1,521,647
Other auxiliary enterprises	1,655,141	—	—	1,655,141	1,576,425
Net assets released from restrictions for operating purposes	3,574,243	(3,574,243)	—	—	—
Total operating revenues and other support	56,771,292	3,399,894	—	60,171,186	52,829,949
Expenses					
Instruction and related activities	20,794,945	—	—	20,794,945	20,391,608
Research and sponsored programs	3,078,342	—	—	3,078,342	3,099,970
Student services	8,899,387	—	—	8,899,387	8,658,632
Administration and general	13,298,861	—	—	13,298,861	11,668,283
Academic support	3,365,958	—	—	3,365,958	3,277,226
Auxiliary enterprises	6,705,268	—	—	6,705,268	5,895,763
Total operating expenses	56,142,761	—	—	56,142,761	52,991,482
Change in net assets from operating activities	628,531	3,399,894	—	4,028,425	(161,533)
NONOPERATING ACTIVITIES					
Contributions for long-term investment	40,851	1,298,947	367,120	1,706,918	1,883,794
Net return on long-term investments (note 4)	3,883,172	3,839,582	58,436	7,781,190	4,224,613
Investment income for operations (note 4)	(574,467)	(825,533)	—	(1,400,000)	(1,405,953)
Other deductions and additions	327,085	(597,422)	112,555	(157,782)	31,948
Debt extinguishment	—	—	—	—	(1,481,180)
Other transfers	(643,000)	(67,000)	710,000	—	—
Change in net assets from nonoperating activities	3,033,641	3,648,574	1,248,111	7,930,326	3,253,222
Total change in net assets	3,662,172	7,048,468	1,248,111	11,958,751	3,091,689
Net assets, beginning of year	22,327,755	12,074,303	24,002,665	58,404,723	55,313,034
Net assets, end of year	$ 25,989,927	19,122,771	25,250,776	70,363,474	58,404,723

See accompanying notes to financial statements.

Statements of Cash Flow

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

		2014	2013
Cash flows from operating activities			
Change in net assets	$	11,958,751	3,091,689
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		2,259,996	2,499,727
Net realized and unrealized gains		(7,458,979)	(4,042,641)
Change in accounts and loans receivable		71,894	(123,958)
Change in funds held in trust by others		167,233	(100,304)
Change in contributions receivable		(2,539,732)	72,521
Change in prepaid expenses, inventories, and other assets		33,816	31,237
Change in accounts payable and accrued expenses		1,186,974	(854,835)
Change in deposits payable and deferred revenues		(69,324)	344,405
Change in conditional asset retirement obligation		14,588	20,335
Contributions for permanently restricted endowment		(367,121)	(1,193,560)
Contributions for long term investments		(850,414)	(1,131,395)
Net cash provided by (used in) operating activities		4,407,682	(1,386,779)
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,454,971)	(1,266,712)
Change in employee mortgages and notes receivable		28,935	167,336
Purchase of investments		(1,259,740)	(8,680,654)
Sales and maturities of investments		1,761,996	8,790,865
Change in actuarial liability for life income obligation		79,765	(8,635)
Net cash used in investing activities		(2,844,015)	(997,800)
Cash flows from financing activities			
Repayment of long term debt		(707,585)	(15,215,519)
Proceeds from long term debt		—	14,225,000
Change in deposits with bond trustee		209,168	1,223,529
Contributions for permanently restricted endowment		367,121	1,193,560
Contributions for long term investments		850,414	1,131,395
Net cash provided by financing activities		719,118	2,557,965
Net change in cash and cash equivalents		2,282,785	173,386
Cash and cash equivalents, beginning of year		3,994,033	3,820,647
Cash and cash equivalents, end of year	$	6,276,818	3,994,033
Supplemental disclosures			
Interest paid	$	482,415	736,215

See accompanying notes to financial statements.

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 1,390 and 1,379 during fiscal years 2014 and 2013, 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, 2013, 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.

The private equity amount included in level three is for stock for a privately held company. Annually the private Company is valued by a third party and the valuation is provided to all shareholders. The College uses the valuation provided to determine the value of its investment as of June 30.

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:

	2014	2013
Student accounts	$ 351,233	357,188
Contracts and grants	—	36,818
Other	307,502	336,437
Student loans	47,015	52,254
	705,750	782,697
Less allowance for uncollectible accounts	(189,746)	(165,864)
	$ 516,004	616,833

(NOTE 3) CONTRIBUTIONS RECEIVABLE

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

	2014	2013
In one year or less	$ 3,528,865	3,013,717
Between one and five years	4,166,923	2,009,565
In more than five years	127,173	168,751
	7,822,961	5,192,033
Less unamortized discount and allowance for uncollectible accounts	(160,311)	(69,115)
	$ 7,662,650	5,122,918

Discount rates used to calculate the present value of pledges receivable ranged from 0.15% to 2.13%.

(NOTE 4)
FAIR VALUE AND INVESTMENTS

The College's investments and other assets at June 30, 2014 that are reported at fair value are summarized in the following table by their fair value hierarchy.

	LEVEL 1	LEVEL 2	LEVEL 3	2014 TOTAL	REDEMPTION	DAY'S NOTICE
Long term investments:						
Cash and cash equivalents	$ 873	—	—	873	Daily	1
U.S. equity:						
Large Cap	3,846,652	—	—	3,846,652	Daily	1
Small Cap	1,037,733	—	—	1,037,733	Daily	1
Exchange Traded Treasury Administered Fund	1,202,392	—	—	1,202,392	Daily	1
Non-U.S. equity funds	2,058,613	10,651,470	—	12,710,083	Daily/monthly	1 to 10
Fixed income	4,354,321	—	—	4,354,321	Daily	1
Hedge Funds	—	8,060,020	—	8,060,020	Quarterly	90/65
Real asset commingled funds	—	1,536,032	—	1,536,032	Daily	1
Private equity	—	—	8,574,228	8,574,228	Illiquid	N/A
Private partnerships	—	—	522,852	522,852	Illiquid	N/A
Funds held or administered by others [2]	—	—	260,016	260,016	N/A	N/A
Total investments	12,500,584	20,247,522	9,357,096	42,105,202		
Other assets:						
Funds held in trust by others	—	—	2,299,095	2,299,095	N/A	N/A
Funds held by bond trustee [1]	350,001	—	—	350,001	Daily	1
Total	$ 12,850,585	20,247,522	11,656,191	44,754,298		

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	2012 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		

[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, 2014 and 2013 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, 2013	$ 5,477,980	464,416	2,711,274	8,653,670
Acquisitions	—	23,035	3,943	26,978
Dispositions	—	—	(283,657)	(283,657)
Unrealized gains	3,096,248	35,401	127,551	3,259,200
Fair value June 30, 2014	$ 8,574,228	522,852	2,559,111	11,656,191
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

At June 30, 2014, 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, 2014, the average remaining life of the private equity partnerships is approximately 1 year.

The College's total investment return is summarized below:

	2014	2013
Dividends and interest	$ 631,358	422,004
Realized/unrealized gain on investments	7,458,979	4,042,641
Management fees and other costs	(143,621)	(124,338)
Total return on investments	7,946,716	4,340,307
Investment income used in operations	(1,565,526)	(1,521,647)
Nonoperating investment income	$ 6,381,190	2,818,660

(NOTE 5) ENDOWMENT FUNDS

The College's endowment consists of approximately 218 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 2014 and 2013, the percentage distributed was 4.5%.

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 $78,897 and $921,344 at June 30, 2014 and 2013, 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, 2014 and 2013.

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
June 30, 2014:				
Donor restricted	$ (78,897)	3,832,911	21,565,573	25,319,587
Board designated (quasi)	12,247,462	—	—	12,247,462
Total	$ 12,168,565	3,832,911	21,565,573	37,567,049
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

Changes in endowment funds for the fiscal year ended June 30, 2014 were as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
June 30, 2013	$ 10,053,129	902,292	20,084,510	31,039,931
Other transfers	(710,000)	—	710,000	—
Investment return	3,308,424	3,754,819	—	7,063,243
Contributions	—	—	769,192	769,192
Appropriated to operations	(482,988)	(824,200)	1,871	(1,305,317)
June 30, 2014	$ 12,168,565	3,832,911	21,565,573	37,567,049

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

(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 2014 and 2013, respectively. Funds held in trust by others totaled $2,299,095 and $2,466,328 at June 30, 2014 and 2013, respectively.

(NOTE 7)
PROPERTY, PLANT AND EQUIPMENT

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

	USEFUL LIFE	2014	2013
Land	—	$ 3,877,606	3,877,606
Land improvements	30	4,159,216	4,049,981
Library collection	10	7,489,382	7,422,209
Vehicles	10	1,119,716	1,119,716
Equipment	3–5	20,930,633	19,981,927
Building and building improvements	10–50	67,689,174	67,007,753
		105,265,727	103,459,192
Accumulated depreciation		(66,309,949)	(64,053,563)
		38,955,778	39,405,629
Construction in progress		1,781,098	132,662
		$ 40,736,876	39,538,291

Depreciation expense was $2,256,386 and $2,388,161 at June 30, 2014 and 2013, 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, 2014	AMOUNT OUTSTANDING 2014	2013
HUD Project 136(D)	2019	3.00%	$ 295,000	350,000
HUD Project 154(D)	2014	3.00	—	65,443
Bank Debt Project 163(D)	2013	3.00	—	16,666
Bank Debt Project 180(D)	2014	3.00	—	115,540
Realty Trust Note	2022	6.01	668,335	718,468
Series 2012 Bond	2032	2.76	13,633,420	14,038,223
MDFA Commercial Paper	2031–2038	Variable, 0.31%	8,100,000	8,100,000
			$ 22,696,755	23,404,340

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
2015	$ 533,410
2016	553,049
2017	570,229
2018	587,034
2019	604,460
Thereafter	19,848,573
	$ 22,696,755

The estimated fair value of the College's long term debt approximates the amount outstanding of $22,696,755 at June 30, 2014. 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, 2014 were not material.

(NOTE 9)
NET ASSETS

The composition of the categories of net assets as of June 30, 2014 and 2013 consists of:

	2013	2012
Temporarily restricted net assets:		
Accumulated net gains on permanently endowed funds	$ 3,832,911	902,292
Amounts restricted by donors for programs	8,490,466	7,040,504
Contributions receivable for programs	6,799,394	4,131,507
	$ 19,122,771	12,074,303
Permanently restricted net assets:		
Morgan Venture Fund	$ 522,852	464,416
Contributions receivable for permanent endowment	863,256	987,411
Funds Held in Trust by Others	2,299,095	2,466,328
Permanent endowment and similar funds	21,565,573	20,084,510
	$ 25,250,776	24,002,665

(NOTE 10)
COMMITMENTS UNDER OPERATING LEASES

The College has entered into certain operating lease agreements. Lease expense in 2014 and 2013 amounted to $333,064 and $308,676, respectively. Payments under these agreements are as follows:

	AMOUNT
2015	$ 315,703
2016	315,703
2017	220,903
2018	184,380
	$ 1,036,689

(NOTE 11)
RETIREMENT PLAN

Contributions made by the College for the TIAA-CREF Retirement Plan were $2,161,606 and $2,099,530 during fiscal years 2014 and 2013, 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 December 22, 2014 the date on which the financial statements were issued. There were no subsequent events.

Trustees and Officers

AS OF JUNE 30, 2014

Officers of the Corporation

The Trustees of Hampshire College

Audit Committee

Officers of the College

Financial Officers