SAINT MICHAEL'S COLLEGE

Consolidated Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

SAINT MICHAEL'S COLLEGE

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KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report

The President and Board of Trustees
Saint Michael's College:

We have audited the accompanying consolidated statements of financial position of Saint Michael's College and subsidiaries (the College) as of June 30, 2012 and 2011, and the related consolidated statements of unrestricted activities, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Saint Michael's College and subsidiaries as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 16, 2012

SAINT MICHAEL'S COLLEGE

Consolidated Statements of Financial Position

June 30, 2012 and 2011

(In thousands)

Assets		2012	2011
Cash and cash equivalents	$	9,760	9,010
Accounts and other receivables, net (note 3)		1,285	1,218
Contributions receivable, net (note 4)		1,738	1,740
Other assets (note 10)		2,830	3,023
Deposits with bond trustees		28,694	4,879
Long-term investments (note 5)		72,320	73,218
Loans to students		5,324	5,453
Land, buildings, and equipment, net of accumulated depreciation (notes 9, 10, and 11)		72,675	72,444
Total assets	$	194,626	170,985
Liabilities and Net Assets			
Accounts payable and accrued expenses (notes 12 and 14)	$	11,021	8,722
Deferred income		1,975	1,842
Capital lease obligations (note 11)		901	1,503
Amounts held on behalf of others		2,144	2,416
Bonds payable (note 10)		51,159	28,245
Refundable advances – U.S. government grants		4,209	4,112
Total liabilities		71,409	46,840
Net assets (note 7):			
Unrestricted		79,273	81,174
Temporarily restricted		14,500	14,902
Permanently restricted		29,444	28,069
Total net assets		123,217	124,145
Total liabilities and net assets	$	194,626	170,985

See accompanying notes to consolidated financial statements.

SAINT MICHAEL'S COLLEGE

Consolidated Statements of Unrestricted Activities

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Operating:			
Revenues:			
Tuition and fees	$	76,471	72,440
Residence and dining		16,602	15,251
Financial aid		(29,013)	(25,349)
Net student charges		64,060	62,342
Contributions		2,036	1,916
Federal and state grant revenues		2,204	1,990
Investment income used in operations (notes 5 and 6)		2,546	2,475
Other operating income		1,800	1,065
Other auxiliary enterprises		5,096	5,171
Total revenues		77,742	74,959
Net assets released from restrictions (note 8)		441	470
Total operating revenues and net assets released from restrictions		78,183	75,429
Expenses (note 13):			
Instruction		23,571	24,065
Academic support		6,777	6,471
Research		979	599
Student services		10,680	9,747
Institutional support		12,052	11,392
Public service		1,874	1,768
Auxiliary enterprises		20,013	19,169
Total expenses		75,946	73,211
Increase in unrestricted net assets from operations		2,237	2,218
Nonoperating:			
Reinvested investment income and unrestricted (losses) gains (notes 5 and 6)		(2,576)	5,825
Other nonoperating expense		(137)	(39)
Loss from refinancing of debt		(1,331)	—
Clarification of donor intent		(120)	—
Net assets released from restrictions (note 8)		26	15
(Decrease) increase in unrestricted net assets	$	(1,901)	8,019

See accompanying notes to consolidated financial statements.

SAINT MICHAEL'S COLLEGE

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
(Decrease) increase in unrestricted net assets (from previous statement)	$	(1,901)	8,019
Changes in temporarily restricted net assets:			
Contributions		1,809	609
Reinvested investment income and (losses) gains (note 5)		(1,680)	4,403
Change in value of split-interest agreement		(6)	(2)
Net assets released from restrictions (note 8)		(467)	(485)
Change in value of pledges expected to be received		(58)	(27)
(Decrease) increase in temporarily restricted net assets		(402)	4,498
Changes in permanently restricted net assets:			
Contributions		1,260	929
Clarification of donor intent		120	—
Change in value of pledges expected to be received		(5)	25
Increase in permanently restricted net assets		1,375	954
(Decrease) increase in net assets		(928)	13,471
Net assets at beginning of year		124,145	110,674
Net assets at end of year	$	123,217	124,145

See accompanying notes to consolidated financial statements.

SAINT MICHAEL'S COLLEGE

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(928)	13,471
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		7,117	6,903
Amortization for bond refunding		544	—
Change in value of pledges expected to be received		63	1
Loss (gain) on disposal of property and equipment		121	(4)
Noncash contributions		(72)	(236)
Realized gain on sale of investments		(7)	(1,758)
Change in unrealized depreciation (appreciation) on investments		2,185	(10,248)
Contributions restricted for long-term investment		(2,358)	(915)
Change in contributions receivable		(61)	(140)
Change in accounts and notes receivable		(67)	29
Change in other assets		270	135
Change in other liabilities		(788)	(245)
Change in deferred income		133	(271)
Change in amounts held on behalf of others		(272)	353
Change in refundable advance – U.S. government grants		97	83
Change in accounts payable and accrued expenses		1,249	(906)
Net cash provided by operating activities		7,226	6,252
Cash flows from investing activities:			
Purchase of buildings and equipment		(5,639)	(4,183)
Proceeds from sale of equipment		50	34
Purchase of investments		(10,607)	(14,740)
Proceeds from sale and maturities of investments		9,421	14,295
Disbursements of loans to students, net of repayments		129	12
Change in deposits with bond trustees		(23,815)	(50)
Net cash used in investing activities		(30,461)	(4,632)
Cash flows from financing activities:			
Contributions restricted for long-term investment		2,358	915
Proceeds from bond issuance		50,990	—
Refunding of long-term debt		(25,655)	—
Payments on capital leases		(602)	(585)
Payments of long-term debt		(2,470)	(2,115)
Payments for costs associated with bond issuance		(614)	—
Payments of annuity obligations		(22)	(22)
Net cash provided by (used in) financing activities		23,985	(1,807)
Net increase (decrease) in cash and cash equivalents		750	(187)
Cash and cash equivalents at beginning of year		9,010	9,197
Cash and cash equivalents at end of year	$	9,760	9,010
Supplemental data:			
Cash paid for interest	$	1,416	1,531
Capital lease additions		—	685
Amounts accrued for the purchase of plant and equipment		1,605	392

See accompanying notes to consolidated financial statements.

(1) Description of the College

Saint Michael's College (the College), founded in 1904 by the Society of Saint Edmund and conducted under its auspices, is an independent nonprofit educational institution chartered by the State of Vermont. The College is a Catholic institution of higher education in the liberal arts tradition. The mission of the College is to contribute through higher education to the development of human culture and enhancement of the human person in the light of Catholic faith.

The College serves approximately 2,000 traditional undergraduate students in a residential setting in 33 academic programs. In addition, the College offers graduate degree programs for approximately 450 adult students; and provides intensive English training, master's degree programs in teaching English as a second language, and a wide array of special language training programs.

The accompanying financial statements also include the accounts of Saint Michael's College Fire and Rescue, Inc. and Saint Michael's College Merrill Cemetery Association, Inc., both wholly owned subsidiaries of the College. All significant intercompany transactions and balances have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

(a) Basis of Statement Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

The College's net assets and activities that increase or decrease net assets are classified as follows:

Permanently Restricted Net Assets contain donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the College and primarily consist of the historic dollar value of contributions to establish or add to donor-restricted endowment funds.

Temporarily Restricted Net Assets contain donor-imposed stipulations as to timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. The unspent accumulated earnings on donor-restricted endowment funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the College.

Unrestricted Net Assets contain no donor-imposed restrictions and are available for the general operations of the College. Such net assets may be designated by the College for specific purposes, including functioning as endowment funds.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their uses are restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, when the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as reclassifications among the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Promises to give that are scheduled to be received after the balance sheet date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

The College reports contributions of land, buildings, or equipment as unrestricted nonoperating support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as unrestricted nonoperating support provided the long-lived assets are placed in service in the same reporting period; otherwise, the contributions are reported as temporarily restricted support until the assets are acquired and placed in service.

(b) Operations

The consolidated statement of unrestricted activities reports the change in unrestricted net assets from operating and nonoperating activities. Operating revenues consist of those items attributable to the College's instructional programs, research conducted by the academic departments, residential services, and other auxiliary enterprises. Investment income and gains on the College's unrestricted investments over the amount appropriated under the College spending plan, as discussed in note 7, are reported as nonoperating revenue. Net assets released from restriction related to capital asset purchase or construction is reported as nonoperating revenues.

Expenses associated with the operation and maintenance of College plant assets, including interest and depreciation expense, are allocated on the basis of building space utilized by the functional areas.

(c) Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, the College considers investments with maturities at date of purchase of three months or less to be cash equivalents. Included in cash and cash equivalents are money market funds of $1.4 million as of June 30, 2012 and 2011, respectively, which are considered to be Level 1 investments per the fair value hierarchy.

(d) Fair Value Measurements

Fair value is the price that the College would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 820, *Fair*

(Continued)

Value Measures and Disclosures, established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets and liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – unobservable inputs are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the College utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The estimated fair values of the College's financial instruments as of June 30, 2012 and 2011 have been determined by using, where practicable, appropriate valuation methodologies.

The College's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third party, the College estimated that the aggregate fair value of its fixed rate debt as of June 30, 2012 and 2011 was $51 million and $29.1 million, respectively.

(e) Long-Term Investments

Investments are reported at fair value. If an investment is held directly by the College and an active market and quoted prices exist, the College reports the fair value of such investment as the market price of an identical security. The value of shares in mutual funds is based on share values reported by the funds as of the last business day of the fiscal year. The College also holds shares or units in alternative investment funds involving hedge, private equity, subordinated debt, and real estate strategies. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and these holdings are priced accordingly. In addition, such funds 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 considering 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.

A portion of the College's investments use net asset value (NAV) or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of the investment. These investments are redeemable at NAV under the original terms of the subscription agreements and operation 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 interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the College's interest in the funds. Although such investments may be sold in a secondary market transaction, 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 a fund in the secondary market, the sale could occur at an amount different than the reported value, and the differences could be material.

(f) Land, Buildings, and Equipment

Constructed and purchased property and equipment are carried at cost. Library books are expensed during the period the expenditures are incurred. Land, buildings, or equipment donated to the College are generally recorded in the accounts at appraised value at the date of the gift. Long-lived fixed assets, with the exception of land and artwork, are depreciated using the straight-line method over their estimated useful lives. Plant and equipment under capital leases are stated at the present value of the minimum lease payments and are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset.

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 obligations, any difference between the cost to settle the asset retirement obligation and the liability recorded will be recognized as a gain or loss in the consolidated statement of unrestricted activities.

(g) Bond Issue Costs

Bond issue costs are included in other assets and have been deferred. Bond issue costs are amortized using the effective interest method over the life of the associated bond issue.

(h) Student Deposits

Student deposits, along with advance payments for tuition, room, and board related to the next semester, have been deferred as amounts held on behalf of others and will be reported as unrestricted revenue as the programs occur.

(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 income taxes pursuant to Section 501(a) of the Code. The College believes it has taken no significant uncertain tax positions.

(j) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) Contributed Services

Contributed services are recorded at fair value, and the amount recorded represents the value of volunteer ambulance staff time donated by members of Saint Michael's College Fire and Rescue, Inc. Contributed services of $420 thousand are included in contribution revenue and salaries of the College in 2012 and 2011.

(l) Functional Expenses

The College's primary program services are instruction and public service. Expenses reported as academic support, student services, institutional support, and auxiliaries are incurred in support of these primary program services.

The College classifies fund-raising expenses as institutional support. The amount included in operating expenses was $1.5 million in both 2012 and 2011.

(m) Reclassification of Prior Year Financial Information

Certain amounts in 2011 net asset comparative data have been reclassified to reflect the correct classification.

(3) Allowances for Uncollectible Accounts

Accounts receivable are net of an allowance for uncollectible accounts of $1.1 million and $937 thousand, at June 30, 2012 and 2011, respectively. Bad debt expense charged to operations was $137 thousand and $168 thousand in 2012 and 2011, respectively.

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(4) Contributions Receivable

Contributions receivable consist of the following at June 30, 2012 and 2011 (in thousands):

		2012	2011
Unconditional promises expected to be collected in:			
Less than one year	$	776	410
One year to five years		994	323
Less allowance for uncollectible contributions		(44)	(40)
Less discount to present value		(22)	(21)
		1,704	672
Contributions receivable under charitable gift trust agreements		30	1,698
Change in value of split-interest agreements		4	(630)
		34	1,068
Total	$	1,738	1,740

The College uses a discount rate ranging from 0.5% to 5.1% as established upon receipt of the contribution to determine the present value of contributions receivable. The discount rate used to calculate the College's present value of the charitable gift trust agreement is 4%.

(5) Long-Term Investments

The following tables summarize the College's investments by major category in the fair value hierarchy as of June 30, 2012 and 2011, as well as the related liquidity (in thousands):

		2012					
		Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Investments:							
Cash	$	1,737	—	—	1,737	Daily	1 – 3
Domestic equities		7,536	—	—	7,536	Daily	1 – 3
Domestic equities index fund		—	4,954	—	4,954	Daily	1 – 3
Global equities mutual funds		—	28,955	—	28,955	Daily/monthly	1 – 30
Domestic fixed income mutual fund		6,459	—	—	6,459	Daily	1 – 3
Hedge fund of funds		—	2,117	10,289	12,406	Quarterly/annual	65 – 95
Private equity		—	—	3,276	3,276	Subject to lock up	—
Direct hedge fund		—	—	4,496	4,496	2 year initial lockup, then quarterly	60
Subordinated debt		—	—	2,148	2,148	Subject to lock up	—
Real estate		—	—	353	353	Illiquid	—
Total	$	15,732	36,026	20,562	72,320		

	2011					
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Investments:						
Cash	$ 2,260	—	—	2,260	Daily	1 – 3
Domestic equities	7,677	—	—	7,677	Daily	1 – 3
Domestic equities index fund	—	4,707	—	4,707	Daily	1 – 3
Global equities mutual funds	—	30,526	—	30,526	Daily/monthly	1 – 30
Domestic fixed income mutual fund	6,109	—	—	6,109	Daily	1 – 3
Hedge fund of funds	—	2,395	10,147	12,542	Quarterly/annual	65 – 95
Private equity	—	—	3,134	3,134	Subject to lock up	—
Direct hedge fund	—	—	4,391	4,391	2-year initial lockup, then quarterly	60
Subordinated debt	—	—	1,589	1,589	Subject to lock up	—
Real estate	—	—	283	283	Illiquid	—
Total	$ 16,046	37,628	19,544	73,218		

The College owns interests in alternative investment funds rather than in the securities underlying each fund, and therefore it is generally required to consider such investments as Level 2 or Level 3, even though the underlying securities may not be difficult to value or may be readily marketable. Also, because NAV is used as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based on the College's ability to redeem its interest at or near the date of the consolidated statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

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

	Hedge fund of funds	Private equity	Direct hedge fund	Subordinated debt	Real estate	Total
Fair value at June 30, 2011	$ 10,147	3,134	4,391	1,589	283	19,544
Purchases	—	438	—	613	—	1,051
Distributions	—	(140)	—	(13)	—	(153)
Net realized and unrealized gains	142	(156)	105	(41)	70	120
Fair value at June 30, 2012	$ 10,289	3,276	4,496	2,148	353	20,562

		Hedge fund of funds	Private equity	Direct hedge fund	Subordinated debt	Real estate	Total
Fair value at July 1, 2010	$	6,792	2,596	4,109	403	295	14,195
Purchases		2,492	392	—	1,102	—	3,986
Distributions		—	(170)	—	—	—	(170)
Net realized and unrealized gains		863	316	282	84	(12)	1,533
Fair value at June 30, 2011	$	10,147	3,134	4,391	1,589	283	19,544

Long-term investment activities consist of the following for the year ended June 30, 2012 and 2011 (in thousands):

		2012	2011
Investment return:			
Interest and dividends, net of investment fees of $396 thousand in 2012 and $345 thousand in 2011	$	476	691
Unrealized (losses) gains		(2,193)	10,254
Realized gains		7	1,758
Total return on investments		(1,710)	12,703
Amount appropriated for operations		(2,546)	(2,475)
Reinvested investment income	$	(4,256)	10,228
Reinvested investment income:			
Reinvested in unrestricted, designated groups	$	(2,576)	5,825
Reinvested in temporarily restricted group		(1,680)	4,403
Total reinvested investment income	$	(4,256)	10,228

Private equity investments are generally made through limited partnerships. Under the terms of these agreements, the College is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, and under such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The College cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year are uncertain. The College had outstanding commitments to private equity, real estate, and subordinated debt investments of $3.8 million as of June 30, 2012. These commitments are expected to be funded from existing investments included within the endowment. Generally, these commitments have 10-year terms, with the option to extend. As of June 30, 2012, the average remaining life of the investments is 4 years. The remaining outstanding commitments are summarized in the table below (in thousands):

Private equity	$	2,485
Private debt		1,383
	$	3,868

The investment fair values as of June 30, 2012 are summarized below by redemption or sale period (in thousands):

		Investment fair values
Investment redemption or sale period:		
Daily	$	32,576
Monthly		17,065
Quarterly		2,117
Annual		10,289
Lockup until liquidation		10,273
Total as of June 30, 2012	$	72,320

(Continued)

(6) Endowment

The College's endowment consists of approximately 200 individual funds established for a variety of purposes, including both donor-restricted endowment funds (true endowment) and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Relevant Law

Effective May 5, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by the State of Vermont. This replaces a previous law, UMIFA, the Uniform Management of Institutional Funds Act. Under UMIFA, spending below the historic dollar value of an endowment was not permitted; and the accounting definition of permanently restricted funds was the historic dollar value of a donor-restricted gift to endowment.

Under UPMIFA, the historic-dollar-value threshold is eliminated, and the governing board has discretion to determine appropriate expenditures of a donor-restricted endowment fund in accordance with a robust set of guidelines about what constitutes prudent spending. UPMIFA permits the College to appropriate for expenditure or accumulate so much of the endowment fund as the College determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Several criteria are to be used to guide the College in its yearly expenditure decisions: (1) duration and preservation of the fund; (2) the purposes of the College and the donor-restricted endowment fund; (3) general economic conditions; (4) effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the College; and (7) the investment policy of the College.

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the Board of Trustees is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the permanently restricted amount will remain intact. This perspective is aligned with the accounting standards definition that permanently restricted funds are those that must be held in perpetuity even though the historic dollar value may be expended on a temporary basis.

The College classifies as permanently restricted net assets (a) the original value of 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 as permanently restricted net assets is classified as temporarily restricted net assets, until appropriated for spending by the Board of Trustees.

Endowment net asset composition by type of fund consists of the following at June 30, 2012 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(61)	9,943	29,002	38,884
College-designated endowment funds		30,288	546	—	30,834
Total endowment net assets	$	30,227	10,489	29,002	69,718

Endowment net asset composition by type of fund consists of the following at June 30, 2011 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(119)	11,468	26,535	37,884
College-designated endowment funds		32,805	542	—	33,347
Total endowment net assets	$	32,686	12,010	26,535	71,231

(Continued)

Changes in endowment net assets for the year ended June 30, 2012 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2011	$	32,686	12,010	26,535	71,231
Total return, including realized and unrealized losses, net of fees		(1,151)	(513)	—	(1,664)
Endowment income appropriated		(1,416)	(1,130)	—	(2,546)
Contributions		—	—	2,347	2,347
Reclassification of donor intent		(242)	122	120	—
Transfers		350	—	—	350
Endowment net assets, June 30, 2012	$	30,227	10,489	29,002	69,718

Changes in endowment net assets for the year ended June 30, 2011 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2010	$	25,111	7,641	25,767	58,519
Total return, including realized and unrealized earnings, net of fees		7,118	5,551	—	12,669
Endowment income appropriated		(1,293)	(1,182)	—	(2,475)
Contributions		—	—	768	768
Transfers		1,750	—	—	1,750
Endowment net assets, June 30, 2011	$	32,686	12,010	26,535	71,231

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this nature reported in unrestricted net assets were $61 thousand and $119 thousand at June 30, 2012 and 2011, respectively. These deficiencies resulted from market losses on long-term investments. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level will be classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

The primary objective of the investments for endowment, quasi-endowment, and similar funds is to provide for preservation of capital adjusted for inflation with an emphasis on long-term growth of principal and with a risk profile that would be deemed to be prudent by institutional fiduciaries generally. Consistent with this objective, a reasonable return is expected. Since short-term market fluctuations may cause variations in investment performance, it is intended that the objectives will be achieved over a full market cycle.

(d) Strategies Employed for Achieving Objectives

The College targets a diversified asset allocation that places emphasis on investment in: global and U.S. equity (62%), global fixed income securities and cash (21%), diversifying strategies (10%), and real assets (7%). The portfolio is reviewed quarterly and rebalanced as needed.

(e) Endowment Spending Policy

The College has interpreted relevant state law as generally permitting the spending of gains on endowment funds. The College's endowment spending policy is up to 4.5% of the lowest of the following, but not less than $2.0 million:

1. the rolling average market value for the three-year period ended two years prior to the fiscal year in which the spending from the endowment occurs,

2. the market value as of June 30 of the fiscal year ending two years prior to the fiscal year in which the spending from the endowment occurs, or

3. the market value as of October 31 of the preceding fiscal year.

(7) Net Assets

The College's net assets as of June 30 are as follows (in thousands):

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Undesignated	$ 481	—	—	481
Designated for:				
Student loans	924	—	—	924
Student aid	—	1,976	20,778	22,754
Investment in plant	48,370	887	—	49,257
Long-term accumulated investment/endowment gains	28,998	9,943	—	38,941
Contributions receivable	—	1,618	120	1,738
Other purposes	500	75	4,991	5,566
Instruction	—	1	3,555	3,556
Total net assets	$ 79,273	14,500	29,444	123,217

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Undesignated	$ 6,086	—	—	6,086
Designated for:				
Student loans	923	—	—	923
Student aid	—	2,150	18,371	20,521
Investment in plant	42,696	521	—	43,217
Long-term accumulated investment/endowment gains	31,344	11,277	—	42,621
Contributions receivable	—	522	1,218	1,740
Other purposes	125	423	4,939	5,487
Instruction	—	9	3,541	3,550
Total net assets	$ 81,174	14,902	28,069	124,145

(Continued)

(8) Net Assets Released from Restrictions

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors are as follows at June 30, 2012 and 2011 (in thousands):

		2012	2011
Purpose restrictions:			
Student aid	$	263	288
Construction or purchase of buildings and equipment		26	15
Other		178	182
	$	467	485

The net assets released from restrictions are allocated between operating and nonoperating as follows (in thousands):

		2012	2011
Operating	$	441	470
Nonoperating		26	15
	$	467	485

(9) Land, Buildings, and Equipment

The following is a summary of the College's property and equipment as of June 30, 2012 and 2011 (in thousands):

	Estimated lives		2012	2011
Artwork	—	$	309	309
Land	—		2,335	2,335
Land improvements	25 – 33 years		4,128	4,047
Buildings and improvements	5 – 50 years		118,853	118,297
Equipment and furniture	3 – 10 years		36,731	34,551
Construction in progress	—		5,100	1,168
			167,456	160,707
Less accumulated depreciation			(94,781)	(88,263)
Net land, buildings, and equipment		$	72,675	72,444

Depreciation expense charged to operations was $7.1 million and $6.9 million in 2012 and 2011, respectively.

(Continued)

(10) Bonds Payable

Bonds payable consist of the following at June 30, 2012 and 2011 (in thousands):

	2012	2011
Dormitory bonds:		
Townhouse 200-300 mortgage notes:		
Payable to Berkadia Commercial Mortgage, LLC; 3% interest rate; principal and interest paid in level semiannual installments over 30 years ending in fiscal 2013; collateralized by dormitory structure	$ 169	334
1999 bonds:		
Payable to VEHBFA; consists of bonds issued aggregating $20.9 million with fixed interest rates ranging from 3.00% to 5.00%, maturing serially through 2015; and a $2.8 million 5.00% term bond due October 1, 2023; interest is payable semiannually; the face amount of the bonds is $0 and $9.5 million at June 30, 2012 and 2011, respectively. Unamortized original issue discount of $18 thousand has been netted against this liability at June 30, 2011	—	9,457
2001 bonds:		
Payable to VEHBFA; consists of bonds issued aggregating $4.7 million with fixed interest rates ranging from 2.75% to 4.60%, maturing serially through 2016; and a $4.1 million 5.00% term bond due October 1, 2023; interest is payable semiannually; the face amount of the bonds is $0 and $6.3 million at June 30, 2012 and 2011, respectively. Unamortized original issue discount of $46 thousand has been netted against this liability at June 30, 2011	—	6,214

		2012	2011
2003 bonds:			
Payable to VEHBFA; consists of bonds issued aggregating $10.4 million with fixed interest rates ranging from 2.00% to 5.00%, maturing serially through 2023; and $1.6 million, 5.125% and $3.0 million, 6.00% term bonds due October 1, 2028; interest is payable semiannually; the face amount of the bonds is $0 and $12.2 million at June 30, 2012 and 2011, respectively. Unamortized original issue premium of $15 thousand has been added to this liability at June 30, 2011	$	—	12,240
2012 bonds:			
Payable to VEHBFA; consists of bonds issued aggregating $31.7 million with fixed interest rates ranging from 2.00% to 5.00%, maturing serially through 2028; and $3.3 million, 4.05% and $11.6 million, 5.00% term bonds due October 1, 2032 and 2042 respectively; interest is payable semiannually; the face amount of the bonds is $46.6 million at June 30, 2012. Unamortized original issue premium of $4.4 million has been added to this liability at June 30, 2012		50,990	—
Total	$	51,159	28,245

All bonds are subject to trust indentures. The agreements contain various covenants that the College is in compliance with at June 30, 2012 and 2011.

On May 24, 2012, the College issued the 2012 Revenue Bonds in the amount of $46.6 million to mature through 2042. The College used the proceeds to refund existing debt of $19.1 million, the 1999, 2001, and 2003 revenue bonds, at lower rates and $27.5 million to construct a new student center and residence hall. The advance refunding resulted in a current year loss as shown on the consolidated statement of unrestricted activities. The loss results from the write-off of unamortized bond issuance costs and unamortized original issue discount and premium totaling $544 thousand and additional premiums paid to the bond trustee in the amount of $789 thousand for the advance refunding.

Annual principal payments due on bonds and mortgage notes payable, excluding the original issue premium are as follows (in thousands):

Year ending June 30:		
2013	$	489
2014		2,360
2015		2,430
2016		2,505
2017		2,595
Thereafter		36,385
	$	46,764

Bond issuance costs of $614 thousand and $944 thousand less accumulated amortization of $0 and $407 thousand are reported and are included in other assets at their net value of $614 thousand and $538 thousand at June 30, 2012 and 2011, respectively. Due to the bond refunding in 2012, issuance costs for the refunded bonds were amortized and written off. The 2012 Revenue Bond issue generated new issue costs, and the amortization on these costs will begin in fiscal year 2013.

Interest expense charged to operations was $1.3 million and $1.4 million in 2012 and 2011, respectively.

The College has a revocable unsecured line of credit in the amount of $3.0 million at June 30, 2012 and 2011, which is available for working capital needs. The current line of credit expires on January 15, 2014. There were no amounts outstanding as of June 30, 2012 and 2011.

(11) Capital Leases

Capital leases for computers and equipment consist of the following at June 30, 2012 and 2011 (in thousands):

		2012	2011
Obligation payable for computer equipment, imputed interest of 6.75%, secured by equipment, monthly installments of $18 thousand through 2013	$	45	149
Obligation payable for computer equipment, imputed interest of 5.5%, secured by equipment, monthly installments of $38 thousand through 2014		452	793
Obligation payable for copier and printer equipment, imputed interest of 8.15%, secured by equipment, quarterly installments of $40 thousand through 2015		330	458
Obligation payable for print shop equipment, imputed interest of 7.84%, secured by equipment, quarterly installments of $9 thousand through 2015		74	103
Obligations under capital leases	$	901	1,503

Future minimum lease payments under these capital leases as of June 30, 2012 are as follows (in thousands):

Year ending June 30:		
2013	$	858
2014		425
2015		78
Total minimum lease payments		1,361
Less amounts representing estimated maintenance, supplies, and service costs		396
Net minimum lease payments		965
Less amounts representing interest		64
Total future minimum lease payments	$	901

(12) Retirement and Similar Plans

The College has a defined contribution retirement plan providing retirement benefits for eligible employees. Employees are generally eligible to participate in the plan after one year of continuous employment. College contributions to the plan are calculated as a percentage of the participant's annual base compensation, and additional voluntary contributions by participants are permitted. College contributions to the plan totaled $2.4 million and $1.8 million in 2012 and 2011, respectively.

The College adopted a voluntary retirement incentive program for faculty and staff, the effective date was March 1, 2010. To be eligible for the plan, employees must have been full-time and benefits-eligible, at least 62 years of age and have at least 20 years of consecutive service to the College as of September 1, 2010. The program benefits include a onetime lump-sum payment equal to two weeks of base pay up to a maximum of one year of base pay, continued participation in the College dental and health insurance plans to age 65 or a onetime lump-sum payment in lieu of participation. Faculty and staff were given retirement date options of June 30, 2010, December 31, 2010, June 30, 2011, or June 30, 2012. The amount recorded as an accrued liability was $253 thousand and $985 thousand at June 30, 2012 and 2011, respectively.

(13) Operating Expenses

The natural classification of operating expenses for the years ended June 30, 2012 and 2011 was as follows (in thousands):

	2012	2011
Salaries and benefits	$ 41,919	40,119
General supplies and expenses	11,562	11,242
Cost of items purchased for resale	5,584	5,259
Depreciation	7,135	6,916
Plant maintenance	5,234	5,022
Interest and debt fees	1,397	1,567
Travel and entertainment	2,352	2,358
Library acquisitions	763	728
Total operating expenses	$ 75,946	73,211

(14) Commitments and Contingencies

The College is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the College's financial statements.

The College provides health and dental insurance coverage to its eligible employees through self-funded plans administered by a regulated insurance carrier. The College carries stop loss insurance for any claim exceeding $125 thousand during the annual contract period, and for aggregate claims exceeding 125% of estimated claims for the year. There are no upper limits on these policies for the contract period ended December 31, 2012; a $1.0 million maximum applies to any claims related to the Medicare supplemental plans. The amount reserved for incurred but not reported health and dental claims was $510 thousand and $530 thousand at June 30, 2012 and 2011, respectively.

The College participates in the Independent 529 Plan (the Plan). The Plan permits families to purchase tuition certificates, which provide prepaid annual tuition benefits. One annual tuition benefit covers the cost of full-time student tuition and mandatory fees. The College is obligated to accept certificates purchased during the period the College is a participant in the Plan as payment of tuition and fees without regard to the standard tuition rate in effect at the time of the individual's enrollment at the College. The effect of this program cannot be determined as it is contingent on future tuition increases and the Plan participants who attend the College.

The College joined SAGE Scholars, Inc. (SAGE) which is a private college enrollment marketing tool. SAGE maintains a database of participating students whose families are actively saving and planning for higher education. Families earned tuition reward points based on their investments with SAGE's Financial Affiliates, which are redeemable at participating member institutions. The maximum discount that a participant is required to offer to SAGE scholars is one year's tuition applied evenly over four years. Tuition discounts offered under this program are included in the student's financial aid award, not an additional award. Similar to the 529 plan above, the effect of this program cannot be determined.

(15) Subsequent Events

The College considers events or transactions that occur after the balance sheet date, but before the consolidated financial statements were issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on October 16, 2012, and subsequent events have been evaluated through that date.