**UNION COLLEGE**

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

**UNION COLLEGE**

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**KPMG LLP**
515 Broadway
Albany, NY 12207-2974

## Independent Auditors' Report

The Board of Trustees
Union College:

We have audited the accompanying statements of financial position of Union College (College) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Union College as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 11, 2011

**UNION COLLEGE**

Statements of Financial Position

June 30, 2011 and 2010

| Assets | | 2011 | 2010 |
|---|---|---|---|
| Cash and cash equivalents | $ | 21,908,028 | 19,006,589 |
| Accrued investment income | | 91,993 | 126,193 |
| Inventories | | 977,598 | 1,028,097 |
| Prepaid expenses and deferred charges | | 1,520,947 | 588,467 |
| Pledges receivable, net | | 12,942,321 | 12,303,132 |
| Notes and accounts receivable, net | | 9,741,365 | 11,645,276 |
| Deposits with bond trustees | | 2,849,399 | 3,205,797 |
| Investments | | 340,224,086 | 300,535,888 |
| Due from broker | | 240,628 | 9,000,000 |
| Irrevocable trusts | | 6,659,154 | 6,107,229 |
| Land, buildings, and equipment, net | | 143,817,491 | 136,579,847 |
| Other assets | | 1,938,881 | 2,004,412 |
| Total assets | $ | 542,911,891 | 502,130,927 |
| **Liabilities and Net Assets** | | | |
| Accounts payable and accrued expenses | $ | 10,153,554 | 10,986,658 |
| Construction costs payable | | 828,172 | 1,382,603 |
| Student and other deposits | | 565,205 | 627,805 |
| Deferred income | | 730,947 | 910,152 |
| Long-term debt | | 69,602,828 | 65,643,704 |
| Pooled life income and charitable gift annuities payable | | 5,354,118 | 5,747,774 |
| Asset retirement obligations | | 1,664,150 | 1,729,500 |
| Federal student loan funds | | 2,511,822 | 2,547,396 |
| Accrued postretirement benefits | | 9,603,601 | 10,595,486 |
| Total liabilities | | 101,014,397 | 100,171,078 |
| Net assets: | | | |
| Unrestricted | | 186,680,900 | 248,710,433 |
| Temporarily restricted | | 115,499,462 | 16,942,585 |
| Permanently restricted | | 139,717,132 | 136,306,831 |
| Total net assets | | 441,897,494 | 401,959,849 |
| Total liabilities and net assets | $ | 542,911,891 | 502,130,927 |

See accompanying notes to financial statements.

**UNION COLLEGE**

Statement of Activities

Year ended June 30, 2011
(with summarized information for the year ended June 30, 2010)

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total | 2010 Total |
| Operating and other net assets: | | | | | |
| Revenue and reclassifications: | | | | | |
| Tuition and fees | $ 89,700,239 | — | — | 89,700,239 | 85,217,375 |
| Room and board | 19,276,886 | — | — | 19,276,886 | 18,470,192 |
| Less student aid | (36,571,063) | — | — | (36,571,063) | (33,019,953) |
| Net tuition, fees, room, and board | 72,406,062 | — | — | 72,406,062 | 70,667,614 |
| Investment return: | | | | | |
| Investment income | 2,461,391 | — | — | 2,461,391 | 2,997,748 |
| Endowment gains used to meet spending policy | 17,242,370 | — | — | 17,242,370 | 17,995,240 |
| Government grants | 3,229,417 | 93,443 | — | 3,322,860 | 2,705,441 |
| Private gifts and grants | 6,078,476 | 4,303,475 | — | 10,381,951 | 10,423,266 |
| Intercollegiate athletics and other sources | 4,111,941 | — | — | 4,111,941 | 4,163,064 |
| Auxiliary enterprises | 5,057,162 | — | — | 5,057,162 | 5,035,095 |
| Net assets released from restrictions | 1,995,674 | (1,995,674) | — | — | — |
| Total revenue and reclassifications | 112,582,493 | 2,401,244 | — | 114,983,737 | 113,987,468 |
| Expenses: | | | | | |
| Instructional and departmental research | 39,982,204 | — | — | 39,982,204 | 38,660,630 |
| Sponsored research programs | 1,035,027 | — | — | 1,035,027 | 1,633,199 |
| Academic support | 9,680,285 | — | — | 9,680,285 | 9,526,309 |
| Student services | 7,811,547 | — | — | 7,811,547 | 7,623,412 |
| Institutional support | 19,834,724 | — | — | 19,834,724 | 19,893,901 |
| Intercollegiate athletics | 9,023,035 | — | — | 9,023,035 | 9,053,138 |
| Auxiliaries operations | 21,950,436 | — | — | 21,950,436 | 21,413,971 |
| Other | 1,107,667 | — | — | 1,107,667 | 444,198 |
| Total expenses | 110,424,925 | — | — | 110,424,925 | 108,248,758 |
| Increase in operating and other net assets | 2,157,568 | 2,401,244 | — | 4,558,812 | 5,738,710 |
| Endowment and other net assets: | | | | | |
| Investment return | 22,572,127 | 25,848,508 | — | 48,420,635 | 31,269,756 |
| Endowment gains used to meet spending policy | (17,242,370) | — | — | (17,242,370) | (17,995,240) |
| Private gifts and grants | 217,151 | 60,530 | 3,410,301 | 3,687,982 | 2,918,974 |
| Other | 512,586 | — | — | 512,586 | (1,578,637) |
| Net assets released from restrictions | 60,813 | (60,813) | — | — | — |
| Increase in endowment and other net assets | 6,120,307 | 25,848,225 | 3,410,301 | 35,378,833 | 14,614,853 |
| Change in net assets before net asset reclassification of endowment funds for adoption of ASC 958-205 | 8,277,875 | 28,249,469 | 3,410,301 | 39,937,645 | 20,353,563 |
| Net assets reclassification of endowment funds for adoption of ASC 958-205 | (70,307,408) | 70,307,408 | — | — | — |
| Increase (decrease) in net assets | (62,029,533) | 98,556,877 | 3,410,301 | 39,937,645 | 20,353,563 |
| Net assets at beginning of year | 248,710,433 | 16,942,585 | 136,306,831 | 401,959,849 | 381,606,286 |
| Net assets at end of year | $ 186,680,900 | 115,499,462 | 139,717,132 | 441,897,494 | 401,959,849 |

See accompanying notes to financial statements.

**UNION COLLEGE**

Statement of Activities

Year ended June 30, 2010

| | 2010 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Operating and other net assets: | | | | |
| Revenue and reclassifications: | | | | |
| Tuition and fees | $ 85,217,375 | — | — | 85,217,375 |
| Room and board | 18,470,192 | — | — | 18,470,192 |
| Less student aid | (33,019,953) | — | — | (33,019,953) |
| Net tuition, fees, room, and board | 70,667,614 | — | — | 70,667,614 |
| Investment return: | | | | |
| Investment income | 2,997,748 | — | — | 2,997,748 |
| Endowment gains used to meet spending policy | 17,995,240 | — | — | 17,995,240 |
| Government grants | 2,705,441 | — | — | 2,705,441 |
| Private gifts and grants | 5,009,105 | 5,414,161 | — | 10,423,266 |
| Intercollegiate athletics and other sources | 4,163,064 | — | — | 4,163,064 |
| Auxiliary enterprises | 5,035,095 | — | — | 5,035,095 |
| Net assets released from restrictions | 2,651,624 | (2,651,624) | — | — |
| Total revenue and reclassifications | 111,224,931 | 2,762,537 | — | 113,987,468 |
| Expenses: | | | | |
| Instructional and departmental research | 38,660,630 | — | — | 38,660,630 |
| Sponsored research programs | 1,633,199 | — | — | 1,633,199 |
| Academic support | 9,526,309 | — | — | 9,526,309 |
| Student services | 7,623,412 | — | — | 7,623,412 |
| Institutional support | 19,893,901 | — | — | 19,893,901 |
| Intercollegiate athletics | 9,053,138 | — | — | 9,053,138 |
| Auxiliaries operations | 21,413,971 | — | — | 21,413,971 |
| Other | 444,198 | — | — | 444,198 |
| Total expenses | 108,248,758 | — | — | 108,248,758 |
| Increase in operating and other net assets | 2,976,173 | 2,762,537 | — | 5,738,710 |
| Endowment and other net assets: | | | | |
| Investment return | 31,269,756 | — | — | 31,269,756 |
| Endowment gains used to meet spending policy | (17,995,240) | — | — | (17,995,240) |
| Private gifts and grants | 449,156 | 108,700 | 2,361,118 | 2,918,974 |
| Other | (1,578,637) | — | — | (1,578,637) |
| Net assets released from restrictions | 78,405 | (78,405) | — | — |
| Increase in endowment and other net assets | 12,223,440 | 30,295 | 2,361,118 | 14,614,853 |
| Increase in net assets | 15,199,613 | 2,792,832 | 2,361,118 | 20,353,563 |
| Net assets at beginning of year | 233,510,820 | 14,149,753 | 133,945,713 | 381,606,286 |
| Net assets at end of year | $ 248,710,433 | 16,942,585 | 136,306,831 | 401,959,849 |

See accompanying notes to financial statements.

**UNION COLLEGE**

Statements of Cash Flows

Years ended June 30, 2011 and 2010

| | | 2011 | 2010 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | 39,937,645 | 20,353,563 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | | |
| Depreciation | | 9,965,832 | 9,797,977 |
| Realized gains and change in unrealized appreciation from investments and deposits with bond trustees, net | | (48,420,635) | (31,269,756) |
| Gifts of securities | | 832 | 8,633 |
| Change in present value of pooled life income | | (209,945) | (218,456) |
| Contributions for endowment or long-lived assets | | (7,006,895) | (4,805,721) |
| Provision for allowance for doubtful notes and accounts receivable | | (50,102) | (34,247) |
| Loss on disposal of equipment | | 17,356 | 1,415 |
| Changes in assets and liabilities that provide (use) cash: | | | |
| Notes and accounts receivable | | 1,719,244 | (1,210,553) |
| Accrued investment income | | 34,200 | 226,069 |
| Inventories | | 50,499 | (90,124) |
| Prepaid expenses and deferred charges | | (932,480) | 198,642 |
| Pledges receivable | | (639,189) | (660,293) |
| Irrevocable trusts | | (551,925) | (460,881) |
| Other assets | | 65,531 | (48,077) |
| Accounts payable and accrued expenses | | (833,104) | 1,404,191 |
| Student and other deposits | | (62,600) | (20,421) |
| Deferred income | | (179,205) | (317,535) |
| Accrued postretirement benefits | | (991,885) | 724,156 |
| Net cash used in operating activities | | (8,086,826) | (6,421,418) |
| Cash flows from investing activities: | | | |
| Purchases of investments, net of due to broker | | (190,869,045) | (156,383,923) |
| Proceeds from the sales and maturities of investments, net of due from broker | | 208,356,766 | 180,901,439 |
| Change in deposits with bond trustees | | 359,654 | 869,860 |
| Purchases of land, buildings, and equipment, net of change in construction costs payable | | (17,840,613) | (18,068,758) |
| Student loans issued | | (663,928) | (420,090) |
| Proceeds from student loans collections | | 898,697 | 763,596 |
| Net cash provided by investing activities | | 241,531 | 7,662,124 |
| Cash flows from financing activities: | | | |
| Increase in federal student loan funds | | (35,574) | (58,773) |
| Payments of long-term debt | | (5,536,976) | (2,792,202) |
| Issuance of new debt | | 9,333,828 | 2,969,774 |
| Amortization of debt issuance costs and discount/premium of long-term debt, net | | 162,272 | 199,924 |
| Contributions for: | | | |
| Investment in endowment | | 4,111,551 | 3,667,817 |
| Investment in long-lived assets | | 2,808,885 | 1,097,354 |
| Investment in life income and charitable gift annuity agreements | | 86,459 | 40,550 |
| Change in charitable gift annuities payable | | (183,711) | (397,045) |
| Net cash provided by financing activities | | 10,746,734 | 4,727,399 |
| Net increase in cash and cash equivalents | | 2,901,439 | 5,968,105 |
| Cash and cash equivalents, beginning of year | | 19,006,589 | 13,038,484 |
| Cash and cash equivalents, end of year | $ | 21,908,028 | 19,006,589 |
| Supplemental data: | | | |
| Interest paid | $ | 2,821,135 | 2,810,577 |

See accompanying notes to financial statements.

## (1) Summary of Significant Accounting Policies

### *(a) Organization*

Union College (the College) was founded in 1795 and is a coeducational, independent, liberal arts, and engineering college located in Schenectady, New York.

### *(b) Basis of Presentation*

The financial statements of the College have been prepared on the accrual basis of accounting. Permanently restricted net assets are those that are 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 investment return on these assets, generally to support program activities such as financial aid and instruction. Such assets primarily include the College's permanent endowment funds. Temporarily restricted net assets carry specific, donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. Temporarily restricted net assets are generally available for program purposes such as financial aid, specified operating activities, facilities, and equipment. Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of trustees or may otherwise be limited by contractual agreements with outside parties.

Unconditional contributions are recognized as contributions receivable at their estimated net present value when pledged. Contributions and investment return with donor-imposed restrictions are reported as permanently or temporarily restricted revenues and net assets. Temporarily restricted net assets are reclassified to unrestricted net assets when the College satisfies the donor-imposed restriction. Temporarily restricted contributions and investment return received and expended for the restricted purpose in the same fiscal year are recorded in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets.

Endowment net assets include permanently restricted net assets and certain unrestricted and temporarily restricted net assets. Endowment net asset activities include realized and unrealized gains on investments not used to support current operations, investment return in excess or deficit of the College's spending policy for the year, and additions to or changes in the value of split-interest arrangements and life income and endowment gifts.

### *(c) 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the fair value of certain nonmarketable investments, carrying amount of land, buildings, and equipment, valuation allowances for receivables and the accrual for postretirement benefits. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the



(Continued)

circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, unemployment trends, available student financial aid and increasing tuition rates have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

***(d) Cash and Cash Equivalents***

Cash and cash equivalents, representing operating funds, include investments with an original maturity of three months or less.

***(e) Inventories***

Inventories are stated at the lower of cost or market, based upon the first-in, first-out method.

***(f) Investments***

Investments are reported in the financial statements at fair value. Investment income includes interest and dividends, realized gains (losses), and the change in unrealized appreciation (depreciation). The average cost of investment securities sold is used to determine the basis for computing realized gains or losses, and the College accounts for investments on a trade-date basis. The due from/to broker represents net amounts receivable or payable on unsettled sales and purchases.

The fair value of fixed income and publicly traded equity securities is based upon quoted market prices obtained from active markets. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year. Limited partnership interests, private equity and venture capital, as well as other nonmarketable investments, including hedge funds, for which a readily determinable fair value does not exist, are carried at fair values provided by the investment managers. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and 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 and consider variables such as financial performance of investments, including comparison of comparable companies' earnings multiples, cash flows analysis, recent sales prices of investments, and other pertinent information and may reflect discounts for the illiquid nature of certain investments held. Because of the inherent uncertainty of valuation for these investments, the investment manager's estimate may differ from the values that would have been used had a ready market existed. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

The College utilized the net asset value (NAV) reported by each of the alternative investment funds, if available, as a practical expedient for determining the fair value of the investment. These investments are redeemable 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 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. Additionally, although certain 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 difference could be material.

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Major U.S. and foreign equity and fixed income indices have experienced volatility and, in some cases, significant declines. Management is monitoring investment market conditions and the impact such declines are having on the College's investment portfolio. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

***(g) Irrevocable Trusts***

Several donors have established irrevocable trusts whereby the College is a beneficiary, but not the trustee. The present value of the portion of the trusts estimated to be distributable to the College upon the termination of the trusts is recorded as an asset of the College.

***(h) Land, Buildings, and Equipment***

Land, buildings, and equipment are recorded at cost, including interest on funds borrowed to finance construction, at the date of acquisition or estimated fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 40 years.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

***(i) Deferred Income***

Deferred income consists primarily of student fees related to the summer session.

***(j) Federal Student Loan Funds***

This liability represents Perkins loan funds provided to students by the federal government through the College. The College is required to collect the loans on behalf of the federal government. The amount due from the students is reported in the College's financial statements as a component of notes receivable.


(Continued)

***(k) Pooled Life Income and Charitable Gift Annuities Payable***

The liability for the present value of the deferred gifts is based upon estimates of the life expectancy of donors and beneficiaries and discount rates. Circumstances affecting these estimates can change the estimate of the liability in future periods.

***(l) Derivative Instruments and Hedging Activities***

The College accounts for derivative investments in accordance with FASB Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*, which requires that all derivative instruments be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. The College currently has an interest rate swap that is being adjusted to fair value, based upon information provided by a financial institution, through net assets. Additionally, the College has hedged its natural gas and energy future purchases by locking into a specified price for specific quantities of energy, to be delivered through 2012.

***(m) Revenue Recognition***

Tuition and fees and certain auxiliary enterprise revenues are earned over the academic year as services are provided. Funds received in advance of services provided are included in student and other deposits.

***(n) Sponsored Research and Programs***

Sponsored activities include various research and instructional programs funded by external parties including the federal government, state governments, and private foundations.

***(o) Auxiliary Operations***

Auxiliary operations include dining services, residence halls, the College bookstore, ice hockey rink, and telecommunications office.

***(p) Functional Expenses***

Depreciation, operations and maintenance costs, interest expense, and employee benefits are allocated to the functional expense categories reported within the operating section of the statements of activities. Depreciation and operations and maintenance costs are allocated based upon the estimated use of facilities and equipment. Interest expense is allocated based on specific identification of the use of debt proceeds. Employee benefits are allocated in relation to salary expense.

***(q) Tax Status***

The College is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income tax on related income.

The College recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the



(Continued)

period in which the change in judgment occurs. The College believes it has taken no significant uncertain tax positions.

***(r) Commitments and Contingencies***

Liabilities for loss contingencies arising from claims, assessments, litigation, and other sources are recorded when it is possible that a liability has been incurred and the amount can be reasonably estimated. Legal costs associated with loss contingencies are expensed as incurred.

The College is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of any ultimate liability with respect to those actions will not materially affect the College's financial statements.

The College recognizes a liability for the fair value of conditional asset retirement obligations if their fair values can be reasonably estimated. This liability is initially recorded as an increase to the associated asset and depreciated over the remaining useful life of the asset. The College has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement costs are estimated using a per square foot estimate for each impacted location. As of June 30, 2011 and 2010, the College has recorded a liability of $1,664,150 and $1,729,500, respectively, representing the estimate of these conditional asset retirement obligations.

Other conditional asset retirement obligations exist that are not estimable until a triggering event occurs (e.g., building sold) due to the absence or range of potential settlement dates. Presently, the College does not have sufficient information to estimate the fair value of these obligations but does not believe these items are material to the College's financial statements.

***(s) Reclassifications***

Certain amounts in the 2010 financial statements have been reclassified to conform to 2011 presentation.

## (2) Notes and Accounts Receivable

The College extends credit, primarily to students, in the form of notes and accounts receivable for educational expenses. The students are primarily from the Northeastern United States. Notes receivable for student loans are expected to be collected within 15 years and interest rates average 8%.

Otherwise, notes receivable pertain to employee housing programs, which are expected to be collected within 30 years with interest rates averaging approximately 5.50%.

Notes receivable are recorded at their current unpaid principal balance and associated interest income is accrued based on the principal amount outstanding and applicable interest rates. An allowance for doubtful accounts is recorded, which represents the amount which, in the opinion of management of the College, is necessary to account for probable losses related to current notes receivable. This allowance is determined based upon numerous considerations, including economic conditions, the specific composition of the notes receivable balance, as well as trends of delinquencies and write-offs. On a periodic basis, these factors are considered and the allowance for doubtful accounts is adjusted accordingly with a corresponding adjustment to the provision for allowance for doubtful notes and accounts receivable.

Notes and accounts receivable consist of the following at June 30:

| | | 2011 | 2010 |
|---|---|---|---|
| Notes receivable | $ | 8,699,896 | 9,041,146 |
| Accounts receivable | | 3,779,603 | 5,392,366 |
| | | 12,479,499 | 14,433,512 |
| Less allowance for doubtful accounts | | 2,738,134 | 2,788,236 |
| | $ | 9,741,365 | 11,645,276 |

## (3) Pledges Receivable

Pledges receivable are expected to be collected as follows at June 30:

| | | 2011 | 2010 |
|---|---|---|---|
| In one year or less | $ | 6,004,137 | 5,165,409 |
| Between one year and five years | | 6,922,491 | 7,267,006 |
| Greater than five years | | 461,166 | 213,225 |
| | | 13,387,794 | 12,645,640 |
| Less: | | | |
| Present value discount (1.76% – 6.18%) | | 436,018 | 316,477 |
| Allowance for doubtful pledges | | 9,455 | 26,031 |
| | $ | 12,942,321 | 12,303,132 |

As of June 30, 2011 and 2010, the College has not received any conditional promises.

## (4) Investments and Fair Value

The fair value and cost of investments by type are as follows at June 30:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Fair value | Cost | Fair value | Cost |
| Cash and cash equivalents | $ 15,063,893 | 15,063,896 | 17,307,990 | 19,007,618 |
| Common stocks and mutual funds | 96,160,239 | 73,105,347 | 71,187,077 | 63,207,579 |
| Fixed income – bonds | 51,434,967 | 47,998,886 | 62,615,016 | 56,578,154 |
| International private equity | 1,913,208 | 541,484 | 1,572,264 | 752,908 |
| Venture capital | 3,800,764 | 2,207,929 | 2,507,045 | 2,497,874 |
| Private equity | 32,006,226 | 28,111,586 | 18,482,810 | 18,402,694 |
| Mortgages and other | 576,436 | 556,743 | 693,475 | 1,025,778 |
| Multi-Strategy | 493,126 | 214,572 | 736,209 | 530,480 |
| Hedged equity funds | 87,510,040 | 67,276,470 | 78,691,032 | 72,837,168 |
| Emerging markets funds | 21,850,952 | 23,976,661 | 16,598,841 | 21,790,325 |
| Distressed debt | 29,414,235 | 25,000,014 | 30,144,129 | 25,939,609 |
| | $ 340,224,086 | 284,053,588 | 300,535,888 | 282,570,187 |

The College utilizes an endowment spending policy, which emphasizes total return. Total return consists of current yield (primarily interest and dividends) as well as the realized and unrealized gains and losses of pooled investments. The College's board of trustees designates a portion of the College's total investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The pooled endowment total return for the years ended June 30, 2011 and 2010 was approximately 18% and 11%, respectively.

The following schedule summarizes the investment return and its classification in the statement of activities:

| | 2011 | 2010 |
|---|---|---|
| Interest income and dividends | $ 2,461,391 | 2,997,748 |
| Net realized and unrealized gains | 48,420,635 | 31,269,756 |
| Total return on investments | 50,882,026 | 34,267,504 |
| Investment return designated for current operations | 19,703,761 | 20,992,988 |
| Investment return net of amounts designated for current operations | $ 31,178,265 | 13,274,516 |

Investment management fees (including any incentive fees) were approximately $6,860,000 and $4,850,000 in 2011 and 2010, respectively. In 2011, fees paid of approximately $1,000,000 were netted against interest income and dividends. The remaining fees are netted against endowment returns.

***(a) Fair Value***

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the College has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. A majority of the investments classified as Level 2 and 3 have been valued using net asset value provided by the fund manager as the practical expedient and the determination of the level within the fair value hierarchy is based upon the ability to liquidate at or near the balance sheet date.

The College's investments as of June 30, 2011, are summarized in the following table by their fair value hierarchy classification:

| | Total | Level 1 | Level 2 | Level 3 | Redemption frequency | Days notice |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Cash and cash equivalents | $ 15,063,895 | 15,063,895 | — | — | Daily | 1 |
| Common stocks and mutual funds: | | | | | | |
| U.S. | 74,062,339 | 42,440,700 | 31,621,639 | — | Daily | 1 |
| International | 22,097,900 | — | 22,097,900 | — | Monthly | 15 |
| Fixed income – bonds | 51,434,967 | 51,434,967 | — | — | Daily | 1 |
| International private equity | 1,913,208 | — | — | 1,913,208 | Not applicable | |
| Venture capital | 3,800,764 | — | — | 3,800,764 | Not applicable | |
| Private equity | 32,006,226 | — | — | 32,006,226 | Not applicable | |
| Mortgages and other | 576,436 | 576,436 | — | — | Daily | 1 |
| Multi-strategy funds | 493,126 | — | — | 493,126 | Not applicable | |
| Hedged equity funds | 87,510,040 | — | 66,797,871 | 20,712,169 | Quarterly to Rolling 5 years | 45 - 90 |
| Emerging markets funds | 21,850,952 | — | 21,850,952 | — | Daily to Quarterly | 1 - 30 |
| Distressed debt | 29,414,233 | — | — | 29,414,233 | Quarterly to Annual | 60 - 90 |
| Total investments | 340,224,086 | 109,515,998 | 142,368,362 | 88,339,726 | | |
| Natural gas and electricity forward contracts | 32,723 | 32,723 | — | — | | |
| Deposits with bond trustees | 2,849,399 | 2,849,399 | — | — | | |
| Due from broker | 240,268 | 240,268 | — | — | | |
| Total assets | $ 343,346,476 | 112,638,388 | 142,368,362 | 88,339,726 | | |
| Liabilities: | | | | | | |
| Interest rate swap | $ 467,307 | 467,307 | — | — | | |
| | $ 467,307 | 467,307 | — | — | | |

The College's investments as of June 30, 2010, are summarized in the following table by their fair value hierarchy classification:

| | Total | Level 1 | Level 2 | Level 3 | Redemption frequency | Days notice |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Cash and cash equivalents | $ 17,307,990 | 17,307,990 | — | — | Daily | 1 |
| Common stocks and mutual funds: | | | | | | |
| U.S. | 56,379,307 | 44,088,058 | 12,291,249 | — | Daily | 1 |
| International | 14,807,770 | — | 14,807,770 | — | Monthly | 15 |
| Fixed income – bonds | 62,615,016 | 62,615,016 | — | — | Daily | 1 |
| High yield bank loans | — | — | — | — | Daily | 1 |
| International private equity | 1,572,264 | — | — | 1,572,264 | Not applicable | |
| Venture capital | 2,507,045 | — | — | 2,507,045 | Not applicable | |
| Private equity | 18,482,810 | — | — | 18,482,810 | Not applicable | |
| Mortgages and other | 693,475 | 693,475 | — | — | Daily | 1 |
| Multi-strategy funds | 736,209 | — | — | 736,209 | Not applicable | |
| Hedged equity funds | 78,691,032 | — | 56,334,659 | 22,356,373 | Quarterly to Rolling 5 years | 45 - 90 |
| Emerging markets funds | 16,598,841 | — | 16,598,841 | — | Daily to Quarterly | 1 - 30 |
| Distressed debt | 30,144,129 | — | — | 30,144,129 | Quarterly to Annual | 60 - 90 |
| Total investments | 300,535,888 | 124,704,539 | 100,032,519 | 75,798,830 | | |
| Deposits with bond trustees | 3,205,797 | 3,205,797 | — | — | | |
| Due from broker | 9,000,000 | 9,000,000 | — | — | | |
| Total assets | $ 312,741,685 | 136,910,336 | 100,032,519 | 75,798,830 | | |
| Liabilities: | | | | | | |
| Interest rate swap | $ 118,955 | 118,955 | — | — | | |
| Natural gas and electricity forward contracts | 305,111 | 305,111 | — | — | | |
| | $ 424,066 | 424,066 | — | — | | |

Changes to reported investments measured at fair value using unobservable (Level 3) inputs as of June 30, 2011 and 2010 are as follows:

| | | International private equity | Venture capital | Private equity | Multi-Strategy | Hedged equity funds | Distressed debt | Total |
|---|---|---|---|---|---|---|---|---|
| Fair value, June 30, 2009 | $ | 1,398,473 | 2,030,438 | 13,265,029 | 3,783,330 | 19,861,282 | 18,333,312 | 58,671,864 |
| Net purchases, sales, settlements | | (61,488) | 239,422 | 3,960,290 | (4,288,803) | — | 7,703,539 | 7,552,960 |
| Realized and unrealized gains/losses | | 235,279 | 237,185 | 1,357,984 | 1,235,515 | 2,495,092 | 4,107,277 | 9,668,332 |
| Net interest dividends and fees | | — | — | (100,493) | 6,167 | — | — | (94,326) |
| Fair value, June 30, 2010 | | 1,572,264 | 2,507,045 | 18,482,810 | 736,209 | 22,356,374 | 30,144,128 | 75,798,830 |
| Net purchases, sales, settlements | | (211,424) | (290,945) | 9,815,499 | (290,898) | (5,000,000) | 7,860,403 | 11,882,635 |
| Realized and unrealized gains/losses | | 552,368 | 1,584,664 | 3,849,706 | 47,815 | 3,355,795 | (8,590,298) | 800,050 |
| Net interest dividends and fees | | — | — | (141,789) | — | — | — | (141,789) |
| Fair value, June 30, 2011 | $ | 1,913,208 | 3,800,764 | 32,006,226 | 493,126 | 20,712,169 | 29,414,233 | 88,339,726 |

### *(b) Liquidity*

The limitations and restrictions on the College's ability to redeem or sell these investments vary by investment and range from required notice periods (generally 30 to 180 days after initial lock up periods) for certain limited partnership and hedge funds, to specified terms at inception (generally 10 years) associated with private equity and venture capital interests. Based upon the terms and conditions in effect at June 30, 2011, the College's investment funds can be redeemed or sold as follows:

| | | |
|---|---|---|
| Investments redemption period: | | |
| Daily | $ | 126,263,688 |
| Monthly | | 22,591,026 |
| Quarterly | | 58,539,391 |
| Semi-annual | | 17,426,559 |
| Annual | | 22,554,071 |
| 3 yrs | | 30,449,051 |
| 5 yrs | | 15,642,481 |
| Lock up until liquidated | | 46,757,819 |
| Total | $ | 340,224,086 |

Investment funds that are in the lock up until liquidation category are primarily related to private equity and venture capital investments. The period of time until liquidation is not necessarily determinable by management, as liquidation terms are at the discretion of the applicable fund's investment manager subject to market conditions and the underlying complexities of the individual investments. These liquidity restrictions have been in effect since the initial purchase of the applicable funds, which date back as far as 2001.

Under the terms of certain limited partnership agreements, the College is obligated periodically to advance additional funding for certain funds that the College is invested in. At June 30, 2011, the

College had commitments of approximately $12 million for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The College maintains sufficient liquidity in its investment portfolio to cover such calls.

## (5) Endowment

The College's endowment and similar funds consist of gifts restricted by donors, unrestricted net assets designated by management and the Board of Trustees for long-term support of the College's activities, and the accumulated investment return on these gifts and designated assets. Accumulated investment return consists of total endowment net investment return that has not been appropriated by the Board of Trustees for expenditures to support the operating activities of the College. Generally, only a portion of accumulated net investment return is made available for spending each year in accordance with an endowment utilization policy approved by the Board of Trustees and in accordance with the State of New York law.

Certain donor restricted endowment funds allow for the expenditure of principal. College designated endowment funds are unrestricted net assets that may be re-designated for authorized expenditures. At June 30, 2011 and 2010, endowment and similar funds balances are approximately $327,800,000 and $297,100,000, respectively, which includes pooled endowment net assets of approximately $298,000,000 and $267,800,000, respectively.

In September 2010, New York State enacted New York Uniform Prudent Management of Institutional Funds Act (NYPMIFA). The College has interpreted NYPMIFA as allowing the College to spend or accumulate the amount of an endowment fund that the College determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. The College has not changed the way permanently restricted net assets are classified as a result of this interpretation and classifies as permanently restricted net assets (a) the original values of gifts donated to permanent endowments, (b) the original values of subsequent gifts to permanent endowments, and (c) accumulations to permanent endowments made in accordance with the directions of the applicable donors' gift instruments at the times the accumulations are added to the funds. ASC 958-205, *Not-for-Profit Entities*, requires the portion of a donor restricted endowment fund that is not classified in permanently restricted net assets to be classified as temporarily restricted net assets until those amounts are appropriated for spending by the College's Board of Trustees in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Investment Committee considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the College and the endowment fund
- General economic conditions
- The expected total return from income and the appreciation of investments
- Other resources of the College

- Where appropriate and where circumstances would otherwise warrant, alternatives to expenditure of and endowment fund, giving due consideration to the effect that such alternatives may have on the College
- The investment policies of the College

As a result of the adoption of ASC 958-205 the College has reclassified $70,307,408 from unrestricted net assets to temporarily restricted net assets.

The following is a summary of the changes in the endowment net assets for the year ended June 30, 2011:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Pooled endowment net assets, June 30, 2010 | $ 151,183,552 | 467,000 | 116,124,385 | 267,774,937 |
| Reclassification of endowment funds for adoption of ASC 958-205 | (70,307,408) | 70,307,408 | — | — |
| | 80,876,144 | 70,774,408 | 116,124,385 | 267,774,937 |
| Gifts and other additions: | | | | |
| Contributions (excluding pledges) | 217,151 | 402 | 3,848,542 | 4,066,095 |
| Investment income added to principal | 259,099 | — | — | 259,099 |
| Other transfers | 2,223,327 | — | 31,020 | 2,254,347 |
| Subtotal | 2,699,577 | 402 | 3,879,562 | 6,579,541 |
| Investment income: | | | | |
| Interest and dividends | 1,776,855 | — | — | 1,776,855 |
| Realized gain/(loss) on sale of securities | 2,782,187 | 6,175,286 | — | 8,957,473 |
| Change in unrealized appreciation | 19,066,080 | 16,349,159 | — | 35,415,239 |
| Subtotal | 23,625,122 | 22,524,445 | — | 46,149,567 |
| Income distributed for operating purposes: | | | | |
| Cash and accrued interest and dividends | 1,776,855 | — | — | 1,776,855 |
| Gains used to meet endowment spending | 17,242,370 | — | — | 17,242,370 |
| Other transfers | 3,508,334 | — | 18,430 | 3,526,764 |
| Subtotal | 22,527,559 | — | 18,430 | 22,545,989 |
| Pooled endowment net assets, June 30, 2011 | 84,673,284 | 93,299,255 | 119,985,517 | 297,958,056 |
| Other endowment and similar net assets, June 30, 2010 | 8,768,773 | 3,773,451 | 16,761,370 | 29,303,594 |
| Investment income | 213,432 | — | — | 213,432 |
| Realized gain (loss) on sale of securities | — | 521,746 | — | 521,746 |
| Change in unrealized appreciation | — | 2,802,317 | — | 2,802,317 |
| Contributions (excluding pledges) | — | 60,128 | 71,787 | 131,915 |
| Actuarial adjustments | 510,428 | — | — | 510,428 |
| Other changes | (3,075,738) | (60,813) | (548,635) | (3,685,186) |
| Other endowment and similar net assets June 30, 2011 | 6,416,895 | 7,096,829 | 16,284,522 | 29,798,246 |
| Total endowment and similar net assets, June 30, 2011 | $ 91,090,179 | 100,396,084 | 136,270,039 | 327,756,302 |

The following is a summary of the changes in the endowment net assets for the year ended June 30, 2010:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Pooled endowment net assets, June 30, 2009 | $ 147,654,008 | 364,971 | 113,037,207 | 261,056,186 |
| Gifts and other additions: | | | | |
| Contributions (excluding pledges) | 449,156 | 102,029 | 2,995,038 | 3,546,223 |
| Investment income added to principal | 155,650 | — | — | 155,650 |
| Other transfers | 2,679,566 | — | 92,140 | 2,771,706 |
| Subtotal | 3,284,372 | 102,029 | 3,087,178 | 6,473,579 |
| Investment income: | | | | |
| Interest and dividends | 2,291,221 | — | — | 2,291,221 |
| Realized gain/(loss) on sale of securities | 8,207,564 | — | — | 8,207,564 |
| Change in unrealized appreciation | 20,486,632 | — | — | 20,486,632 |
| Subtotal | 30,985,417 | — | — | 30,985,417 |
| Income distributed for operating purposes: | | | | |
| Cash and accrued interest and dividends | 2,291,221 | — | — | 2,291,221 |
| Gains used to meet endowment spending | 17,995,267 | — | — | 17,995,267 |
| Other transfers | 10,453,757 | — | — | 10,453,757 |
| Subtotal | 30,740,245 | — | — | 30,740,245 |
| Pooled endowment net assets, June 30, 2010 | 151,183,552 | 467,000 | 116,124,385 | 267,774,937 |
| Other endowment and similar net assets, June 30, 2009 | 9,207,543 | 3,845,185 | 17,196,206 | 30,248,934 |
| Investment income | 262,730 | — | — | 262,730 |
| Realized gain (loss) on sale of securities | 99,296 | — | — | 99,296 |
| Change in unrealized appreciation | 1,047,239 | — | — | 1,047,239 |
| Contributions (excluding pledges) | — | 6,671 | 155,473 | 162,144 |
| Actuarial adjustments | 627,533 | — | — | 627,533 |
| Other changes | (2,475,568) | (78,405) | (590,309) | (3,144,282) |
| Other endowment and similar net assets June 30, 2010 | 8,768,773 | 3,773,451 | 16,761,370 | 29,303,594 |
| Total endowment and similar net assets, June 30, 2010 | $ 159,952,325 | 4,240,451 | 132,885,755 | 297,078,531 |



(Continued)

Endowment net assets are classified as follows at June 30:

| | | 2011 | 2010 |
|---|---|---|---|
| Unrestricted | $ | 91,090,179 | 159,952,325 |
| Temporarily restricted | | 100,396,084 | 4,240,451 |
| Permanently restricted | | 136,270,039 | 132,885,755 |
| | $ | 327,756,302 | 297,078,531 |

***(a) Spending Policy***

The College has a policy of appropriating for distribution to the budget each year a percentage of its pooled endowment fund based on the fund's three year average market value as of June 30, with a two-year lag. For the year ended June 30, 2011, the three fiscal years used in the calculation are the fiscal years ended June 30, 2007, 2008, and 2009. For the year ended June 30, 2010, the three fiscal years used in the calculation are the fiscal years ended June 30, 2006, 2007, and 2008.

The total pooled endowment spending was 5.56% and 5.54% for the fiscal years ended June 30, 2011 and 2010, respectively. This rate includes the base spending rate of 5.23% and 5.22% for the fiscal years ended June 30, 2011 and 2010, respectively, as well as additional spending that was undertaken to launch the College's Minerva Houses (the U2K initiative). The Board of Trustees approved in 2001 additional endowment spending to cover the debt service and other costs associated with the Minerva House System project, one of the College's most important academic initiatives.

As described in the College's Strategic Plan, the College plans to reduce total spending to 5.60%. The goal of reducing the spending rate has prompted measures including the dedication of a significant segment of the current capital campaign to endowment support, in order to provide income to support the College's operating budget and reinvestment of a significant portion of recent variances from budget into the endowment.

***(b) Return Objectives and Risk Parameters***

Investment objectives focus on generating a high return to cover the spending rate, inflation, and preserving the purchasing power of the endowment while minimizing investment risk in the portfolio. The College is committed to a long-term investment policy that is based on balancing principles of strong growth over time, diversity of the portfolio, liquidity for the annual draw, and benchmarking against market indices and appropriate peer schools. Growth in the endowment depends on contributions to the endowment from capital campaigns, the success of investment management, and the rate at which income is withdrawn from the endowment in support of the College's operating budget. The Investment Committee meets quarterly to discuss various issues such as investment performance, market outlook, and liquidity needs.

***(c) Funds with Deficiencies***

As of June 30, 2011, for certain endowment funds the current market value per share is less than the original market value per share at the time of gift. Where normal investment performance has driven

 (Continued)

the endowment fund below the historic dollar value, the account is commonly termed “underwater”. For underwater accounts, the spending amount from these accounts is limited to the current income (interest and dividends) only. There are no available gains from prior years’ investing against which to apply the total return spending formula. This limitation only pertains to permanently restricted true endowments, not quasi endowments.

For funds that are underwater, the gap between the current income and the spending formula is covered through appropriations from other quasi endowments/accumulated quasi realized gains or other unrestricted funds. At June 30, 2011, approximately 240 endowment accounts (approximately 22% of the total number of pooled endowment accounts), totaling approximately $36 million, were underwater with total market value less than book of approximately $3.7 million. A total of approximately $1.4 million was transferred from accumulated quasi endowment gains to cover the shortfall between current income and the total return spending formula at June 30, 2011.

## (6) Land, Buildings, and Equipment

The following is a summary of land, buildings, and equipment at June 30:

| | | 2011 | 2010 |
|---|---|---|---|
| Land | $ | 101 | 101 |
| Buildings | | 150,782,873 | 132,797,936 |
| Equipment | | 79,373,333 | 75,875,628 |
| Improvements | | 52,962,870 | 50,687,812 |
| Library contents | | 34,066,636 | 32,806,323 |
| Construction in progress | | 10,718,652 | 19,037,812 |
| | | 327,904,465 | 311,205,612 |
| Less accumulated depreciation | | (184,086,974) | (174,625,765) |
| | $ | 143,817,491 | 136,579,847 |

Capitalized interest was $103,853 and $0 during the years ended June 30, 2011 and 2010, respectively. Depreciation expense was $9,965,832 and $9,797,977 for the years ended June 30, 2011 and 2010, respectively. For the years ended June 30, 2011 and 2010, fixed assets (original cost) disposed were $587,329 and $421,237, respectively.

At June 30, 2011, the College has outstanding contracts totaling $2,868,828 for the purchase and renovation of certain properties. Completion of these projects will occur within the next two years.

## (7) Long-Term Debt

The following is a summary of long-term debt:

| | Maturity date | Interest rate | Outstanding at June 30 2011 | 2010 |
|---|---|---|---|---|
| NYS Dormitory Authority Bonds: | | | | |
| 1992 Issue – Family Loan | 2010 | — | $ — | 190,000 |
| 1995 Issue – Family Loan | 2014 | — | 1,379,454 | 1,990,939 |
| 1965 Dormitory Bonds: | | | | |
| Fox and Davidson | 2015 | 3.00% | 635,000 | 750,000 |
| Industrial Development Agency Bonds: | | | | |
| 2001 Issue – Industrial Development Agency | 2023 | 4.5 – 5.25% | 5,962,063 | 6,876,402 |
| 2003 Issue – Industrial Development Agency | 2034 | 3.75 – 5.00% | 15,913,987 | 15,892,204 |
| 2005 Issue – Industrial Development Agency | 2016 | 3.595% fixed portion and variable portion | 3,937,404 | 4,411,526 |
| 2006 Issue – Industrial Development Agency | 2032 | 4.00% – 5.00% | 32,522,245 | 32,562,858 |
| 2010 Bank of America Line of credit | 2011 | one-month LIBOR +0.75% | — | 2,969,775 |
| 2010 Issue – JP Morgan Chase Deferred Maintenance | 2040 | (30-day LIBOR +1.5%) x 67% | 6,009,707 | — |
| 2010 Issue – JP Morgan Chase Bridge Financing – Wold and Social Sciences | 2017 | 30-Day LIBOR+1.25% | 3,242,968 | — |
| Total debt | | | $ 69,602,828 | 65,643,704 |

Interest expense on the above long-term debt was $3,157,778 and $2,758,404 for 2011 and 2010, respectively.

The face value of the long-term debt was $70,101,574 and $63,034,792 at June 30, 2011 and 2010, respectively. The fair value of long term debt is based on rates currently available to the College for debt with similar terms and maturities. The estimated fair value of long term debt at June 30, 2011 and 2010 is approximately $69,000,000 and $57,800,000, respectively.

Proceeds of long-term debt have been used by the College to finance building and construction programs, as well as student loan programs. The Family Loan issues are collateralized by the repayment of student loans receivable. The College is required to maintain various reserve accounts in conjunction with the debt agreements that are reported as deposits with bond trustees in the statements of financial position. Certain debt is collateralized by municipal bond insurance.

The College has an interest rate swap related to the 2005 issue which requires the College to pay a fixed rate of interest (3.595%) and receive variable rates of interest based on fluctuations in the one-month LIBOR rate. The notional amount of this interest rate swap is $3,630,149 and decreases as the associated outstanding borrowings amount decreases. The swap agreement matures on July 1, 2015. The counterparty to the swap arrangement is a major financial institution with which the College also has other financial relationships. The College may be exposed to credit loss in the event of nonperformance by the counterparty. However, the College does not anticipate nonperformance by the counterparty.

In December 2010, the College borrowed $15,310,000 through the Schenectady County Capital Resource Corporation, utilizing a tax-exempt revenue bond. JPMorganChase acted as the purchaser of the bond. The debt will be used to finance $15 million of the College's $30 million Deferred Maintenance Program. The proceeds will be used for the renovation and rehabilitation of portions of existing buildings and other improvements located on the campus, as well as the acquisition and installation of certain machinery and equipment in order to upgrade existing educational facilities, and other directly or indirectly related activities for use by the College, as well as pay for costs of issuance. The final maturity on the bond will be December 1, 2040, subject to Optional Tender by JPMorganChase on December 1, 2017. The interest rate is variable at 67% multiplied by 1-month LIBOR + 100.5 basis points. As of June 30, 2011, the College had drawn down approximately $6,000,000 against this borrowing.

In connection with the $15.3 million tax-exempt financing, the College entered into a forward starting interest rate swap with JPMorganChase. The effective date on the swap is December 1, 2011. The notional amount is $15.3 million and the fixed rate is 2.358% to JPMorganChase. Union will receive the variable rate of 67% of 1-month LIBOR. The termination date is December 1, 2017.

In December 2010, the College also borrowed $7 million directly through JPMorganChase, utilizing a taxable revolving loan. This bridge financing will be used as a form of revolving credit to finance the costs of various capital projects and repaid through gifts received for the projects, including the construction of the Peter Irving Wold Center for Science & Engineering, as well as renovating the Social Sciences building, now named Lippman Hall, as well as pay for costs of issuance. The interest rate is variable at 1-month LIBOR plus 125 basis points. The final maturity of the loan is December 1, 2017. As of June 30, 2011, the College had drawn down approximately $3,200,000 against this borrowing.

Principal payments and amortization of long-term debt are as follows:

| | | |
|---|---|---|
| Year ending June 30: | | |
| 2012 | $ | 1,474,930 |
| 2013 | | 2,380,642 |
| 2014 | | 2,142,874 |
| 2015 | | 2,878,621 |
| 2016 | | 4,711,406 |
| Thereafter | | 56,014,355 |
| | $ | 69,602,828 |

***Line of Credit***

The College has an unsecured line of credit in the amount of $5,000,000 with Bank of America, which expires March 23, 2012. Each advance under the line of credit will carry one of two interest rates; a variable rate equal to the Bank of America prime rate or a fixed rate equal to the one-month LIBOR rate plus 0.75% (adjusted each month). As of June 30, 2011, the College had not borrowed against this line of credit.

## (8) Benefit Plans

### *(a) Retirement Plan*

The College has a defined contribution retirement plan under arrangements with Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) and Fidelity, which provide for purchases of annuities and investments for all of its faculty members and nonacademic employees.

The College's policy is to fund pension costs, which were $4,699,596 and $4,596,198 for the years ended June 30, 2011 and 2010, respectively.

### *(b) Postretirement Healthcare Plan*

The College has also elected to pay for a portion of healthcare benefits for retired employees based upon years of service at retirement date. The College recognizes the cost of healthcare benefits on an accrual basis over the working lifetime of employees.

The College provides health insurance benefits for eligible employees upon retirement and applies the provisions of ASC 715, *Compensation – Retirement Benefits*, which requires an employer to recognize the overfunded or underfunded status of a defined benefit post retirement plan (the Plan) as an asset or liability and to recognize changes in that funded status in the year they occur. The College uses a June 30 measurement date for the Plan.

The Plan's funded status, amounts recognized, significant assumptions used, contributions made, and benefits paid included in the College's financial statements as of June 30, 2011 and 2010 are as follows:

| | | 2011 | 2010 |
|---|---|---|---|
| Change in benefit obligations: | | | |
| Benefit obligation at beginning of year | $ | 10,595,486 | 9,871,330 |
| Service cost | | 313,612 | 281,889 |
| Interest cost | | 454,302 | 530,284 |
| Plan amendments | | — | (269,969) |
| Actuarial (loss) gain | | (1,427,917) | 581,100 |
| Benefits paid | | (331,882) | (399,148) |
| Benefit obligation at end of year | $ | 9,603,601 | 10,595,486 |

| | | 2011 | 2010 |
|---|---|---|---|
| Accrued benefit cost: | | | |
| Funded status | $ | (9,603,601) | (10,595,486) |
| Weighted average assumptions as of June 30: | | | |
| Discount rate | | 5.21% | 5.09% |

For measurement purposes, a 8.7% annual rate of increase in the per capital cost of covered healthcare benefits was assumed for 2011. The rate was assumed to decrease to 8% in 2012, to 7.4% in 2013, and then decrease gradually from 6.8% to 4.7% for 2014 and thereafter.

| | | 2011 | 2010 |
|---|---|---|---|
| Components of net periodic benefit cost: | | | |
| Service cost | $ | 313,612 | 281,889 |
| Interest cost | | 454,302 | 530,284 |
| Amortization of loss | | 138,272 | 159,060 |
| Amortization of prior service cost | | (160,729) | (160,729) |
| Net periodic postretirement benefit cost | $ | 745,457 | 810,504 |



(Continued)

Amounts recorded in unrestricted net assets as of June 30, 2011 and 2010, not yet amortized as components of net periodic benefit costs are as follows:

| | | 2011 | 2010 |
|---|---|---|---|
| Unamortized prior service costs | $ | (1,027,874) | (1,188,603) |
| Unamortized actuarial loss | | 2,260,392 | 3,826,581 |
| Amount recognized as a reduction in unrestricted net assets | $ | 1,232,518 | 2,637,978 |

The amortization of the above items expected to be recognized in net periodic costs for the year ended June 30, 2012 is $(34,000).

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in the healthcare trend rates would have the following effect:

| | | 2011 | | 2010 | |
|---|---|---|---|---|---|
| | | One percentage point | | One percentage point | |
| | | Increase | Decrease | Increase | Decrease |
| Effect on total of service and interest cost components | $ | 38,897 | (34,099) | 43,902 | (38,640) |
| Effect on postretirement benefit obligation | | 419,695 | (369,079) | 513,006 | (452,846) |

The following benefit payments, which reflect expected future service and the impact of the Medicare Part D subsidy, as appropriate, are expected to be paid:

| | | Postretirement benefits |
|---|---|---|
| 2012 | $ | 408,543 |
| 2013 | | 459,457 |
| 2014 | | 514,104 |
| 2015 | | 555,213 |
| 2016 | | 604,033 |
| 2017 – 2021 | | 3,716,668 |

## (9) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

| | | 2011 | 2010 |
|---|---|---|---|
| Pledges for instruction, scholarship, facilities, and other departmental support | $ | 9,495,228 | 8,882,057 |
| Capital projects | | 2,746,238 | 2,820,077 |
| Pooled term endowments | | 93,299,255 | 467,000 |
| Life income and annuity agreements | | 2,751,968 | 2,793,109 |
| Funds in trust and other non-pooled endowments | | 4,344,861 | 980,342 |
| Annual restricted scholarships and other funds | | 2,861,912 | 1,000,000 |
| Total | $ | 115,499,462 | 16,942,585 |

Permanently restricted net assets consist of the following at June 30:

| | | 2011 | 2010 |
|---|---|---|---|
| Pledges to endowment for scholarship and other departmental support | $ | 3,447,093 | 3,421,075 |
| Pooled endowments | | 119,985,517 | 116,124,385 |
| Nonpooled endowments | | 6,960,646 | 6,970,137 |
| Life income and annuity agreements | | 1,170,711 | 1,401,948 |
| Funds in trust | | 8,153,165 | 8,389,286 |
| Total | $ | 139,717,132 | 136,306,831 |



(Continued)

## (10) Expenses prior to Allocation

The following table compares expenses, including student aid, for the years ended June 30, 2011 and 2010, prior to the allocation of operations and maintenance of plant, employee benefits, depreciation, and interest expense:

| | | 2011 | 2010 |
|---|---|---|---|
| Instructional and departmental research | $ | 25,334,137 | 24,961,715 |
| Sponsored research programs | | 1,035,027 | 1,633,199 |
| Academic support | | 6,409,985 | 6,294,694 |
| Student services | | 4,977,074 | 4,829,590 |
| Institutional support | | 13,666,041 | 13,605,136 |
| Intercollegiate athletics | | 4,642,523 | 4,495,131 |
| Student aid | | 36,422,548 | 32,809,978 |
| Auxiliaries operations | | 12,151,068 | 11,427,696 |
| Other | | 1,107,967 | 444,198 |
| Total expenses prior to allocation | | 105,746,370 | 100,501,337 |
| Operations and maintenance of plant | | 9,849,327 | 10,165,503 |
| Employee benefits | | 18,033,493 | 17,635,993 |
| Depreciation and change in asset retirement obligations | | 9,965,832 | 9,797,976 |
| Interest on long-term debt | | 3,157,778 | 2,758,402 |
| Amortization of issuance costs | | 243,188 | 409,500 |
| Total allocated expenses | | 41,249,618 | 40,767,374 |
| Total | $ | 146,995,988 | 141,268,711 |

Included in institutional support are $4,241,883 and $4,148,911 of fund-raising expenses for the years ended June 30, 2011 and 2010, respectively. Costs incurred include expenses related to solicitation activities to obtain gifts and bequests, as well as special cultivation events that may result in contributions that will be received in future periods.

## (11) Collections

The College's collections are made up of approximately 3,000 objects and their estimated fair value is approximately $14,500,000. The College's policy is not to capitalize its collections. The College's collections comprise paintings and portraits, furniture, works on paper, scientific instrumentation, and other objects.

The College's collections are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed periodically. All proceeds resulting from the deaccessioning of objects from the permanent collection are allocated for the benefit of the collections. During the years ended June 30, 2011 and 2010, no objects were deaccessioned.

## (12) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2011 and through November 11, 2011, the date on which the financial statements were available to be issued.