HAMILTON COLLEGE

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

HAMILTON COLLEGE

Financial Statements

June 30, 2012 and 2011

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

Board of Trustees
Hamilton College:

We have audited the accompanying statements of financial position of Hamilton College (College) as of June 30, 2012 and 2011, 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 Hamilton College as of June 30, 2012 and 2011, 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

October 24, 2012

HAMILTON COLLEGE

Statements of Financial Position

June 30, 2012 and 2011

(Dollars in thousands)

Assets		**2012**	**2011**
Cash and cash equivalents	$	21,168	35,482
Short-term investments		19,995	10,354
Student and other accounts receivable, net		1,144	2,375
Loans to students, net		2,751	3,092
Contributions receivable, net		23,794	41,057
Beneficial interest trusts		6,792	7,048
Deposits with trustees of debt obligations		1,275	1,199
Collateral received for securities lending		4,497	7,181
Investments		693,919	721,287
Other assets		5,514	4,965
Property, plant and equipment, net		230,332	223,234
Total assets	$	1,011,181	1,057,274
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	6,857	5,017
Deposits and advances		4,343	5,876
Long-term debt		134,471	137,446
Liability under securities lending transactions		4,497	7,181
Annuity and life income obligations		19,198	20,218
Funds held in trust for others		1,525	1,657
Asset retirement obligation		1,599	1,541
Accumulated postretirement benefit obligation		4,100	4,928
Refundable government student loan funds		1,543	1,545
Total liabilities		178,133	185,409
Net assets:			
Unrestricted		180,349	184,024
Temporarily restricted		434,102	478,600
Permanently restricted		218,597	209,241
Total net assets		833,048	871,865
Total liabilities and net assets	$	1,011,181	1,057,274

See accompanying notes to financial statements.

HAMILTON COLLEGE

Statement of Activities

Year ended June 30, 2012
(with summarized information for the year ended June 30, 2011)

(Dollars in thousands)

	2012				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2011 Total
Operating revenues:					
Tuition and fees	$ 82,166	—	—	82,166	79,473
Scholarship aid	(26,756)	—	—	(26,756)	(26,033)
Net tuition and fees	55,410	—	—	55,410	53,440
Auxiliary enterprises	20,579	—	—	20,579	19,736
Investment return designated for operations	3,978	24,717	—	28,695	27,276
Private gifts and grants	5,795	3,266	—	9,061	9,283
Government grants and contracts	377	1,816	—	2,193	2,104
Other income	774	126	—	900	902
Net assets released from restrictions	26,494	(26,494)	—	—	—
Total operating revenues	113,407	3,431	—	116,838	112,741
Operating expenses:					
Instruction	51,505	—	—	51,505	49,825
Research	1,464	—	—	1,464	1,432
Academic support	14,559	—	—	14,559	14,191
Student services	13,322	—	—	13,322	12,772
Institutional support	16,994	—	—	16,994	15,928
Auxiliary enterprises	18,661	—	—	18,661	18,634
Total operating expenses	116,505	—	—	116,505	112,782
Increase (decrease) in net assets from operations	(3,098)	3,431	—	333	(41)
Nonoperating activities:					
Private gifts	4,976	—	7,931	12,907	45,430
Investment return, net of amounts designated for operations	(6,438)	(46,663)	1,283	(51,818)	101,258
Change in annuity and life income obligations	—	(461)	(921)	(1,382)	(1,969)
Net assets released from restriction and changed restrictions	(336)	(692)	1,028	—	—
Other	1,221	(113)	35	1,143	(1,780)
(Decrease) increase in net assets from nonoperating activities	(577)	(47,929)	9,356	(39,150)	142,939
(Decrease) increase in net assets	(3,675)	(44,498)	9,356	(38,817)	142,898
Net assets, beginning of year	184,024	478,600	209,241	871,865	728,967
Net assets, end of year	$ 180,349	434,102	218,597	833,048	871,865

See accompanying notes to financial statements.

HAMILTON COLLEGE

Statement of Activities

Year ended June 30, 2011

(Dollars in thousands)

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating revenues:				
Tuition and fees	$ 79,473	—	—	79,473
Scholarship aid	(26,033)	—	—	(26,033)
Net tuition and fees	53,440	—	—	53,440
Auxiliary enterprises	19,736	—	—	19,736
Investment return designated for operations	3,911	23,365	—	27,276
Private gifts and grants	6,083	3,200	—	9,283
Government grants and contracts	392	1,712	—	2,104
Other income	788	114	—	902
Net assets released from restrictions	25,417	(25,417)	—	—
Total operating revenues	109,767	2,974	—	112,741
Operating expenses:				
Instruction	49,825	—	—	49,825
Research	1,432	—	—	1,432
Academic support	14,191	—	—	14,191
Student services	12,772	—	—	12,772
Institutional support	15,928	—	—	15,928
Auxiliary enterprises	18,634	—	—	18,634
Total operating expenses	112,782	—	—	112,782
Increase (decrease) in net assets from operations	(3,015)	2,974	—	(41)
Nonoperating activities:				
Private gifts	961	20,111	24,358	45,430
Investment return, net of amounts designated for operations	13,316	79,360	8,582	101,258
Change in annuity and life income obligations	—	(566)	(1,403)	(1,969)
Net assets released from restriction and changed restrictions	18,808	(18,625)	(183)	—
Other	(1,825)	2	43	(1,780)
Increase in net assets from nonoperating activities	31,260	80,282	31,397	142,939
Change in net assets before net asset reclassification of endowment funds for adoption of ASC 958-205	28,245	83,256	31,397	142,898
Net asset reclassification of endowment funds for adoption of ASC 958-205	(263,186)	263,186	—	—
Increase (decrease) in net assets	(234,941)	346,442	31,397	142,898
Net assets, beginning of year	418,965	132,158	177,844	728,967
Net assets, end of year	$ 184,024	478,600	209,241	871,865

See accompanying notes to financial statements.

HAMILTON COLLEGE

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Net cash flows from operating activities:			
Change in net assets	$	(38,817)	142,898
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Contributions to endowment and facilities		(12,594)	(45,880)
Depreciation and amortization		14,046	13,586
Realized and unrealized losses (gains) on investments		31,127	(122,702)
Interest on capital appreciation bonds		1,771	1,751
Asset retirement obligation		58	48
Loss on disposal of plant and equipment		510	324
Changes in assets and liabilities that provide (use) cash:			
Student and other accounts receivable, net		1,231	(1,403)
Contributions receivable		17,263	(23,261)
Beneficial interest trusts		256	(2,905)
Other assets		(352)	(242)
Accounts payable and accrued liabilities		3,078	792
Deposits and advances		(1,533)	(130)
Accumulated postretirement benefit obligation		(828)	369
Annuity and life income obligations		2,211	2,916
Cash flows provided by (used in) operating activities		17,427	(33,839)
Net cash from investing activities:			
Purchase of property, plant and equipment, net of change in construction costs payable		(23,457)	(14,118)
Purchases of investments		(258,404)	(306,080)
Proceeds from sales and maturities of investments		254,645	314,985
Change in deposits held by trustees of debt obligations		(76)	(923)
Change in short-term investments, net		(9,641)	(10,354)
Student loans, net		341	13
Cash flows used in investing activities		(36,592)	(16,477)
Net cash from financing activities:			
Contributions to endowment and facilities		12,594	45,880
Payments on long-term debt		(4,378)	(2,926)
Payments to beneficiaries of split interest agreements		(3,231)	(3,247)
Other financing activities		(134)	221
Cash flows provided by financing activities		4,851	39,928
Net decrease in cash and cash equivalents		(14,314)	(10,388)
Cash and cash equivalents:			
Beginning of year		35,482	45,870
End of year	$	21,168	35,482
Supplemental disclosure of noncash investing and financing activities:			
Change in construction related payables	$	1,238	213
Supplemental disclosure:			
Cash paid for interest	$	4,216	4,267
Gifts in kind		1,062	106

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of Hamilton College (the College), which is a coeducational, independent, liberal arts college located in Clinton, New York, are prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the College and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by the board of trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or the passage of time. Generally, such net assets are available for program purposes such as financial aid, specified operating activities, facilities and equipment.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors permit the College to use all or part of the income earned on these assets for general or specific purposes.

The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is the College’s policy to record temporarily restricted contributions received and expended in the same accounting period as unrestricted.

Nonoperating activities primarily include transactions of a capital nature, that is, contributions to be used for facilities and equipment or to be invested by the College to generate a return that will support operations.

(b) 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. Significant items subject to such estimates and assumptions include the valuation of certain investments, the carrying amount of property, plant and equipment, valuation allowances for receivables, and the accrual for postretirement benefits. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash equivalents representing operating funds that are short-term, highly liquid investments with an original maturity of three months or less are included in cash and cash equivalents unless they are part of short –term investments or long-term investments funds. Cash and cash equivalents are reported at cost which approximates fair value. At June 30, 2012 and 2011, the College has cash and cash equivalents in banks exceeding the FDIC limit. The College has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. The College places its cash and cash equivalents with high quality financial institutions. Included in cash and cash equivalents at June 30, 2012 and 2011, are $20,170 and $33,770, respectively, of cash equivalents primarily representing interest bearing money market and other short-term investment accounts.

(d) Short-Term Investments

Short-term investments are recorded at fair value. The College periodically invests excess operating cash generally in select fixed income securities on a short-term basis.

(e) Investments

Investments are recorded at fair value. Net appreciation or depreciation in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation or depreciation on those investments, is recognized in the statement of activities. Realized gains and losses on the sale of investments are generally determined on the specific identification method on the trade date.

The fair values of debt and equity securities with readily determinable fair values are generally based on 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, including private equity, real estate and energy, 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 that require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by investment 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. The College reviews the values provided by the investment managers used in assessing the College's fair value of alternative investments.

The College's interest in alternative investment funds are generally reported at the net asset value (NAV) reported by each of the investment managers as a practical expedient for determining the fair value of the investment. In cases where NAV is used as a practical expedient, these investments are redeemable either at NAV under the original terms of the subscription agreements and operations of the underlying funds, or at the discretion of the investment manager when the underlying investments are sold. 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 value 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 and activities.

(f) Gifts and Private Grants

The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or donor purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets released from restrictions in the same year the underlying gift is received, or endowment income is appropriated under the spending policy, are reported as operating revenues within the statement of activities.

(g) Receivables

The College extends credit, primarily to students, in the form of loans and accounts receivable for educational expenses. Loans to students are expected to be collected over an average of 10 years with interest rates averaging 3.4%. Loans to students are recorded at their current unpaid principal balance and associated interest income is accrued based on the principal amount outstanding and applicable interest rates.

Allowances for doubtful accounts are recorded and represent the amounts that, in the opinion of management of the College, are necessary to account for probable losses related to current receivables. Allowances are determined based upon numerous considerations, including economic conditions, the specific composition of the receivable balances, as well as trends of delinquencies and write-offs. On a periodic basis, these factors are considered and the allowances for doubtful accounts are adjusted accordingly with a corresponding adjustment to the provision for allowance for doubtful loans and accounts receivable.

Student and other accounts receivable are net of an allowance of $200 at June 30, 2012 and 2011. Loans to students are net of an allowance of $440 at June 30, 2012 and 2011, respectively.

(h) Deposits with Trustees of Debt Obligations

Deposits with trustees of debt obligations are recorded at fair value, and may be invested in cash, money market and short-term government securities according to the requirements established by the associated bond agreements. Such investments are categorized as Level 1 within the fair value hierarchy.

(i) Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including interest on funds borrowed to finance construction, at the date of acquisition or fair value at the date of donation.

Depreciation is recorded on a straight-line basis over the estimated useful lives under the following guidelines: artwork (50 years), buildings (40 years), land improvements, HVAC, roofing and electrical (15 years), landscaping, carpeting and sprinkler systems (10 years), office furniture (7 years) vehicles, computer hardware and related equipment (5 years), and computer software (3 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.

(j) Deferred Financing Costs

Deferred financing costs represent bond issuance costs that are amortized over the period to bond maturity. Deferred financing costs are included in the other assets line in the accompanying statements of financial position.

(k) Annuity and Life Income Gifts

The College accepts certain gifts on the condition that periodic annuity or life income distributions are made to designated beneficiaries. Assets associated with these gifts are recorded at their fair value. The College recognizes contribution revenue in an amount equal to the difference between the fair value of the contributed asset and the net present value of the payment obligations, and classifies contribution revenue as an increase in temporarily restricted or permanently restricted net assets, based on the donor stipulations. Liabilities associated with these gifts (the annuity or life income obligation) represent the present value of payments expected to be made to beneficiaries. Significant assumptions used to determine the annuity and life income obligations include the discount rates, which range from 1.6% to 11.0% determined in accordance with applicable regulations of the Internal Revenue Code, and mortality assumptions of the beneficiaries. Changes in annuity and life income obligations resulting from changes in actuarial assumptions and the accretion of the discount are recorded as increases or decreases in temporarily or permanently restricted net assets based on the donor stipulations. During 2012 and 2011, the College received annuity and life income gifts of $1,642 and $1,099, respectively.

(l) Beneficial Interest Trusts

The College is the beneficiary of certain perpetual trusts held and administered by others. The trusts are recorded at their respective fair market values.

(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 deposits and advances.

(n) Taxation

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

(o) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, and other sources are recorded when it is probable 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 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, 2012 and 2011, the College has recorded a liability of $1,599 and $1,541, respectively, representing the fair value of these conditional asset retirement obligations.

(p) Fair Value of Financial Instruments

The fair values of the College's financial instruments approximate the carrying amounts reported in the statement of financial position for cash and cash equivalents, short-term investments, student and other accounts receivable, contributions receivable, beneficial interest trusts, and accounts payable and accrued expenses. The fair value of long-term debt is discussed in note 6.

(2) Investments

The investment objective of the College is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to fund a portion of its spending and to increase investment value after inflation. The College's investment strategy incorporates a diversified asset allocation approach that maintains, within limits defined by the Investment Committee, exposure to domestic and international equity, fixed income, real estate, commodities, hedge funds, and private equity markets. The majority of the College's investments are managed in a pooled fund that consists primarily of endowment assets. Other investments are managed separately from the pool. These investments consist primarily of fixed-income securities, principally government securities and money market funds held for the College's working capital needs, and various bond and equity portfolios associated with split interest agreements.

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 are measured and reported at fair value and are classified and disclosed in one of the following categories:

- Level 1 inputs are quoted prices (unadjusted) available in active markets for identical investments as of the reporting date.
- Level 2 inputs are observable inputs such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets. Level 2 assets include securities with quoted market prices that are traded less frequently than exchange-traded instruments.
- Level 3 inputs are derived from valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market, exchange, dealer, or broker-traded transactions. In addition, Level 3 valuations incorporate assumptions and projections that are not observable in the market, and significant professional judgment in determining the fair value assigned to such assets or liabilities.

With respect to investments reported at NAV as a practical expedient, classification in Level 2 or 3 is based on the College's ability to redeem its interest at or near the date of the statement of financial positions, and if the interest can be redeemed in the near term, the investment is classified in Level 2. As of June 30, 2012 and June 30, 2011, the College had no specific plans or intentions to sell investments at amounts different than NAV.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

(Dollars in thousands)

The College's investments at June 30, 2012, which include endowment assets of $635,235 and planned gifts of $58,684 are summarized in the following table by their fair value hierarchy classification:

	June 30, 2012	Level 1	Level 2	Level 3	Redemption frequency	Days notice
Investments:						
Cash and cash equivalents	$ 24,054	24,054	—	—	Daily	Same day
Fixed income securities	63,653	14,621	49,032	—	Daily	Same day
Equity securities:						
U.S.	225,519	214,691	10,828	—	Daily – monthly	1-30
International	112,363	29,409	82,954	—	Daily – monthly	1-30
Hedge funds:						
Multistrategy (a)	8,301	—	8,301	—	Semi-annually	65
Global (b)	17,330	—	17,330	—	Quarterly	30
Other (c)	55,413	—	—	55,413	Not applicable	
Private equity (d):						
Buy-out	51,040	—	18	51,022	Not applicable	
Venture capital	39,787	—	135	39,652	Not applicable	
Real estate (e)	35,805	—	—	35,805	Not applicable	
Energy (f)	59,280	—	—	59,280	Not applicable	
Other	1,374	—	1,374	—	Not applicable	
	693,919	282,775	169,972	241,172		
Short-term investments:						
Fixed income securities	19,995	6,491	13,504	—	Daily	Same day
Total investments	$ 713,914	289,266	183,476	241,172		

The College's investments at June 30, 2011, which include endowment assets of $657,529 and planned gifts of $63,758 are summarized in the following table by their fair value hierarchy classification:

	June 30, 2011	Level 1	Level 2	Level 3	Redemption frequency	Days notice
Investments:						
Cash and cash equivalents	$ 39,735	39,735	—	—	Daily	Same day
Fixed income securities	43,736	16,726	27,010	—	Daily	Same day
Equity securities:						
U.S.	241,076	230,158	10,918	—	Daily – monthly	1-30
International	75,563	13,061	62,502	—	Daily – monthly	1-30
Hedge funds:						
Multistrategy (a)	22,711	—	22,711	—	Semi-annually	65
Global (b)	44,464	—	44,464	—	Quarterly	30
Other (c)	62,163	—	—	62,163	Not applicable	
Private equity (d):						
Buy-out	52,596	—	18	52,578	Not applicable	
Venture capital	37,812	—	135	37,677	Not applicable	
Real estate (e)	33,523	—	—	33,523	Not applicable	
Energy (f)	66,511	—	—	66,511	Not applicable	
Other	1,397	—	1,397	—	Not applicable	
	721,287	299,680	169,155	252,452		
Short-term investments:						
Fixed income securities	10,354	2,915	7,439	—	Daily	Same day
Total investments	$ 731,641	302,595	176,594	252,452		

(a) This category includes a fund that invests in event-driven strategies (takeovers), merger arbitrage, private equity special situations, and long-short global equity. The lock-up provision for these investments is two years from the original date of investment. Then, with the exception of side pocket investments of $5.6 million, one-third of the capital is available for withdrawal on the 25th month and subsequent anniversaries thereafter.

(b) This category includes an investment in regional/international portfolios of assets whose primary objective is to achieve and maintain above average long-term real capital returns in relation to each class of shares through a policy of investing mainly in quoted securities and their derivative instruments while managing the overall foreign exchange exposure. Investments are subject to a three month withdrawal notice period and can be withdrawn for cash equal to a proportionate share of the portfolio's net asset value. A full redemption request for this investment was submitted in June 2012 and paid on July 12, 2012.

(c) This category includes an investment in a hedge fund of funds referred to as the Master Fund that originally sought to provide investors with a diversified multi-strategy investment portfolio. Effective January 1, 2010, the Master Fund was divided into a continuation fund and a liquidation fund, with the College electing the liquidation fund. Net proceeds are paid out as they are received from the investments in the underlying funds and will continue until liquidation is complete. The redemption period is dependent on the liquidation of the underlying funds. This category also includes investments in a specialized absolute return fund that seeks to achieve capital appreciation by investing in a portfolio of mortgage related securities. This investment is illiquid and not transferrable without the written consent of the general partner. The term of the investment will continue until the ninth anniversary of the initial closing date, but may be extended for up to three additional one-year periods by the general partner.

(d) This category includes investments in several buyout, venture capital, and distressed securities limited partnerships that in turn invest in companies within the technology, transportation, service, broadcast, manufacturing, retail, and health care sectors, as well as distressed debt, leveraged buyouts, and secondary venture capital market transactions. Investments cannot be redeemed upon request. Instead, distributions are received at the election of the general partner as the underlying investments are monetized, or as in-kind distribution of shares in the underlying investments. It is estimated that the underlying assets of each fund will be liquidated or distributed over a 7-10 year period from the effective date of the fund.

(e) This category includes several real estate limited partnerships that invest in both U.S. and international commercial real estate, including secondary market transactions in other real estate limited partnerships/funds. Investments cannot be redeemed upon request. Instead, distributions are received at the election of the general partner as the underlying investments are monetized. Based upon the terms of the funds, it is estimated that the underlying assets of each fund will be liquidated or distributed over a 7-10 year period from the effective date of the fund.

(f) This category includes limited partnerships that invest in oil and gas, direct and indirect investments in natural gas and oil royalty interests, and equity investments in energy and energy–related companies. Investments cannot be redeemed upon request. Instead, distributions of shares in the underlying assets are received at the election of the general partner as the underlying investments are monetized, or as in-kind distribution of shares in the underlying investments. Based upon the terms of the funds, it is estimated that the underlying assets of each fund will be liquidated or distributed over a 7-10 year period year period from the effective date of the fund.

(Dollars in thousands)

Changes to reported investments measured at fair value using unobservable (Level 3) inputs during the years ended June 30, 2012 and 2011 are as follows:

		Hedge funds	Private equity	Real estate	Energy	Total
Fair value, June 30, 2010	$	74,150	79,200	24,757	68,124	246,231
Net purchases, sales, settlements		(19,353)	(3,393)	4,753	(6,827)	(24,820)
Unrealized gains/losses		7,366	14,466	4,013	5,214	31,059
Transfers		—	(18)	—	—	(18)
Fair value, June 30, 2011		62,163	90,255	33,523	66,511	252,452
Net purchases, sales, settlements		(9,448)	(5,137)	(887)	(1,099)	(16,571)
Unrealized gains/losses		2,698	5,556	3,169	(6,132)	5,291
Transfers		—	—	—	—	—
Fair value, June 30, 2012	$	55,413	90,674	35,805	59,280	241,172

Liquidity

The limitations and restrictions on the College's ability to redeem or sell investments vary by investment and range from none for publicly traded securities, to required notice periods (generally 30 to 180 days after initial lock-up periods) for certain hedge funds, to dependency on the disposition of portfolio positions and return of capital by the investment manager for private equity, venture capital, commodity and real estate limited partnership interests. For the latter, this is generally within the specified terms at inception (typically 10 years). Based upon the terms and conditions in effect at June 30, 2012, expected liquidity for the College's investments can be classified as follows:

Investments redemption period:		
Daily	$	392,539
Monthly		53,045
Quarterly		17,330
Semi-annual		8,301
Lock-up until liquidated		242,699
Total	$	713,914

The "Lock-up until liquidation" category is related to private equity, real estate and energy limited partnership investments and two hedge funds, where the College has no liquidity until the investments are sold and the monies are distributed by the fund manager. The table below summarizes the value of these investments by their stated terms assuming the partnerships are not extended. One hedge fund, valued at

(Dollars in thousands)

$27,305, is in the process of being liquidated and is classified as “Thereafter” because there is no stated term.

		Amount
Fiscal year:		
2013	$	7,512
2014		29,699
2015		23,987
2016		30,899
2017		83,651
Thereafter		66,951
	$	242,699

Commitments

Private equity, energy and real estate investments are generally made through limited partnerships. Under the terms of these agreements, the College is obligated to remit additional funding periodically as capital calls are exercised by the manager. These partnerships have a limited existence, generally between ten and fifteen years inclusive of extension periods for the purpose of disposing portfolio positions and returning capital to the investors. At June 30, 2012 the College has the following outstanding commitments to these partnerships based on when the funds’ commitment periods end:

		Amount
Fiscal year:		
2013	$	20,330
2014		12,010
2015		—
2016		—
2017		8,290
2018		8,810
	$	49,440

Securities Lending

During 2008, the College decided to exit its securities lending program in a manner that will limit its exposure to any significant financial loss. Collateral required under the program is a minimum of 102% of the fair value of securities lent and is adjusted on a daily basis to reflect changes in the market value of the securities lent. The College receives lending fees and continues to earn interest and dividends from the securities on loan. The College’s collateral is generally invested in short-term, asset backed securities. In the case of a borrower’s failure to deliver securities for any reason within the time specified by the applicable securities loan agreement, the College has rights to this collateral under applicable law. The security lending agent indemnifies the College against losses arising from the failure of a borrower to return securities. As of June 30, 2012 and 2011, the College had loaned certain securities, which are included in the endowment investments, with a fair value of $4,389 and $7,006 to several financial institutions that have provided collateral of $4,497 and $7,181, respectively, for the loaned securities.

(Dollars in thousands)

Investment Return

The following schedule summarizes total investment return and its classification in the statements of activities for the years ended June 30, 2012 and 2011:

		2012	2011
Endowment income	$	8,004	5,832
Net realized and unrealized (losses) gains		(31,127)	122,702
Total return on investments		(23,123)	128,534
Investment return designated for current operations (spending policy distributions)		(28,695)	(27,276)
Investment return net of amounts designated for current operations	$	(51,818)	101,258

Endowment income is presented net of investment management and custodial fees of $3,157 and $3,023 for the years ended June 30, 2012 and 2011, respectively.

(3) 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 and nonoperating 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 laws of the State of New York.

Certain donor restricted endowment funds allow for the expenditure of principal. College designated endowment funds are unrestricted net assets that may be redesignated for authorized expenditures.

In September 2010, New York State enacted the 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. Financial Accounting Standards Board Accounting Standards Codification (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 possible effect of inflation and deflation
- 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 an 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 in 2011, the College reclassified $263 million from unrestricted net assets to temporarily restricted net assets.

(Dollars in thousands)

The following is a summary of the College's endowment net asset composition by type of fund, as well as a summary of the components of the return of the endowment pool and changes in endowment net assets as of and for the years ended June 30, 2012 and 2011:

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment funds restricted for support of:				
Scholarship	$ 35,761	145,446	105,074	286,281
Faculty	12,723	115,905	43,037	171,665
Library	5,410	15,043	3,161	23,614
Program	2,995	80,463	22,122	105,580
Plant	—	6,597	—	6,597
Board-designated for general purpose	41,498	—	—	41,498
	$ 98,387	363,454	173,394	635,235

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment funds restricted for support of:				
Scholarship	$ 31,985	164,567	88,731	285,283
Faculty	13,773	128,947	41,694	184,414
Library	5,801	16,536	3,030	25,367
Program	3,098	88,294	19,460	110,852
Plant	—	6,882	—	6,882
Board-designated for general purpose	44,731	—	—	44,731
	$ 99,388	405,226	152,915	657,529

The unrestricted amounts at June 30, 2012 and 2011 represent Board-designated funds (quasi-endowment funds). Accumulated investment earnings on temporarily restricted and permanently restricted endowment funds are reflected as temporarily restricted net assets.

(Continued)

(Dollars in thousands)

		2012			2011		
		Unrestricted	Temporarily restricted	Permanently restricted	Unrestricted	Temporarily restricted	Permanently restricted
Endowment net assets, beginning of year	$	99,388	405,226	152,915	348,184	61,758	142,827
Investment return:							
Investment income		938	5,190	—	893	4,939	—
Net (depreciation) appreciation		(2,983)	(26,936)	2,474	16,599	93,861	1,128
Private gifts		3,807	—	16,878	624	1,621	8,708
Released from restriction and changed restrictions		1,630	4,276	1,127	450	2,961	252
Appropriation of endowment assets for spending		(4,393)	(24,302)	—	(4,176)	(23,100)	—
Endowment net assets before reclassification for adoption of ASC 958-205		98,387	363,454	173,394	362,574	142,040	152,915
Net asset reclassification for adoption of ASC 958-205		—	—	—	(263,186)	263,186	—
Endowment net assets, end of year	$	98,387	363,454	173,394	99,388	405,226	152,915

Funds with Deficiencies

From time to time, the fair values of assets associated with individual donor restricted endowment funds may fall below the level that the donor or applicable law requires to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets and were $1,086 and $171 as of June 30, 2012 and 2011, respectively. These deficits generally resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments. Endowment earnings shortfalls are covered by investments held in unrestricted net assets.

Spending Policy

The College uses a spending policy, known as the “mixed rule”. This policy uses 70% of the prior year’s spending adjusted for inflation, plus 5% of the average of the prior four quarters endowment value weighted at 30%. For the year ended June 30, 2011, the College suspended a portion of spending authorized by the formula and approved a 1.5% increase in spending over the prior year, to preserve funds needed in future years.

Return Objectives and Risk Parameters

The overall financial objective for the endowment is to achieve a total return that preserves the real value of the principal of the endowment and to augment as much as possible, the real purchasing power of the endowment while exercising due care and fiduciary responsibility, and avoiding excessive risk. It is expected the endowment will need to earn a 6% real annualized return over the long term to meet this goal and provide adequate support for operations while protecting against inflation. The Investment Committee of the Board of Trustees has determined that a well diversified mix of assets offers the best opportunity to achieve this level of return with an appropriate level of risk. To that end, the securities of any one issuer, except for those of the U.S. government, shall not exceed 5% of the total market value of the endowment and no external investment manager shall manage more than 15% of the market value of the endowment.

(Dollars in thousands)

(4) Contributions Receivable

Contributions receivable are recorded at their estimated net present value assuming a discount rate in effect at the time the pledge was received, ranging from 1.6% to 5.8% at June 30, 2012 and 2011. Contributions estimated to be collected at June 30, 2012 and 2011 are as follows:

		2012	2011
Less than one year	$	7,778	13,991
One to five years		17,686	29,884
More than five years		1,022	883
		26,486	44,758
Less present value discount		(1,692)	(2,501)
Reserve for uncollectible receivables		(1,000)	(1,200)
	$	23,794	41,057

Conditional promises to give amounted to $850 at June 30, 2012 and 2011, and are not recognized as assets until the removal or lapse of the condition.

(5) Property, Plant, and Equipment

Property, plant, and equipment consists of the following at June 30, 2012 and 2011:

		2012	2011
Land and improvements	$	20,612	20,287
Buildings		280,984	276,363
Furniture and equipment		60,213	56,582
		361,809	353,232
Less accumulated depreciation		(149,934)	(135,750)
		211,875	217,482
Projects in process		18,457	5,752
	$	230,332	223,234

Depreciation expense of $14,611 and $13,789 in 2012 and 2011, respectively, has been allocated to the functional operating expense categories within the accompanying statements of activities based primarily on specific identification of buildings utilized within each function. The College has estimated it will incur

(Dollars in thousands)

$48,200 of additional costs to complete the construction projects in process, which will be financed with donations and new estimated borrowings of approximately $17 million.

(6) Long-Term Debt

Long-term debt consists of the following at June 30, 2012 and 2011:

	Maturity date	Interest rate	Original issue	Outstanding at June 30, 2012	Outstanding at June 30, 2011
Oneida County Industrial Development Agency Civic Facility (a):					
Revenue Bonds Series 2002 (b)	09/15/32	5.2%	$ 60,000	49,489	51,297
Revenue Bonds Series 2005	07/01/15	3.0% – 4.0%	8,775	3,850	4,735
Revenue Bonds Series 2007A (c)	07/01/37	3.8% – 4.65%	36,107	43,861	42,764
Revenue Bonds Series 2007B	07/01/21	4.0% – 5.0%	23,170	23,170	23,170
Dormitory Authority of the State of New York Revenue Bonds, Series 2010 (d)	07/01/21	3.0% – 5.0%	12,700	12,633	13,659
Banco Popular Espanol (e)	02/01/22	Variable	1,833	1,468	1,821
				$ 134,471	137,446

(a) Civic Facility Revenue Bonds are collateralized by the financed property and equipment.

(b) The College refinanced the Series 2002 bonds in September 2008. The bonds were issued at a premium of $3,172, at a fixed rate of 5.2%.

(c) The Series 2007A bonds are capital appreciation bonds issued at a discount of $58,268. Interest accretes to the full par value at maturity. Interest accreted at June 30, 2012 and 2011 was $9,110 and $7,338, respectively.

(d) Dormitory Authority Revenue Bonds are general obligations of the College and are supported by pledges of tuition or net revenues from operation of the financed properties. The Series 2010 bonds were issued at a premium of $1,285 and interest rates varying from 3 – 5%.

(e) The College maintains a Euro 1,900 note with Banco Popular Espanol. The note is collateralized by a standby letter of credit, which in turn is collateralized by a pledge of cash equivalents to the outstanding balance of the note. The balance of the note has been converted using the applicable exchange rate as of June 30, 2012.

(Dollars in thousands)

Based on rates currently available to the College for debt with similar terms and remaining maturities, the estimated fair value of long-term debt at June 30, 2012 and 2011 is approximately $143,687 and $144,811, respectively.

The scheduled principal payments for the next five years on long-term debt is reflected in the following table.

2013	$	4,732
2014		4,848
2015		4,968
2016		5,116
2017		5,207

Interest expense was $5,988 and $6,018, for the years ended June 30, 2012 and 2011, respectively.

Line of Credit

The College maintains a revolving, unsecured line of credit in the amount of $10,000, renewable annually, to support the College's working capital needs. Interest on the outstanding balance of advanced funds is equal to the current 30 day LIBOR plus 200 basis points, subject to a floor of 3%. There is no annual fee charged for the line of credit. As of June 30, 2012, no funds have been advanced.

(7) Employee and Pension Benefits

(a) Postretirement Health Care Benefits

The College provides health insurance benefits for eligible employees upon retirement and recognizes 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, 2012 and 2011 are as follows:

		2012	2011
Change in benefit obligation:			
Benefit obligation at beginning of year	$	4,928	4,559
Service cost		162	212
Interest cost		156	240
Actuarial gain		(1,169)	(117)
Participant contributions		245	256
Amendments and special terminations		87	—
Benefits paid		(309)	(222)
Benefit obligation at end of year	$	4,100	4,928

(Dollars in thousands)

		2012	2011
Change in plan assets:			
Fair value of assets, beginning of year	$	—	—
Employer contribution		64	(34)
Participant contribution		245	256
Benefits paid		(309)	(222)
Fair value of assets, end of year	$	—	—
Amount recognized in the statement of financial position:			
Funded status	$	(4,100)	(4,928)

Amounts recorded in unrestricted net assets as of June 30, 2012 and 2011, not yet amortized as components of net periodic benefit costs are as follows:

		2012	2011
Unamortized prior service costs	$	63	50
Unamortized actuarial loss		(629)	(478)
Amount recognized as a decrease in unrestricted net assets	$	(566)	(428)

The amortization of the above items expected to be recognized in net periodic costs for the year ending June 30, 2013 is $21.

A summary of the components of net periodic postretirement benefit cost for the years ended June 30, 2012 and 2011, is as follows:

		2012	2011
Components of net periodic benefit cost:			
Service cost	$	162	212
Interest cost		156	240
Amortization of unrecognized actuarial loss		(62)	11
Amortization of unrecognized prior service cost		(26)	(35)
Net periodic postretirement benefit cost	$	230	428

(Continued)

(Dollars in thousands)

Assumptions

A summary of the weighted average assumptions used to determine the benefit obligation at June 30, 2012 and 2011 is presented below:

	2012	2011
Discount rate	3.88%	5.50%
Mortality	RP-2000	RP-2000

A summary of the weighted average assumptions used to determine the net periodic postretirement benefit cost for the years ended June 30, 2012 and 2011 is presented below:

	2012	2011
Discount rate	5.50%	5.35%

A summary of the assumed healthcare cost trend rates at June 30, 2012 is presented below:

	Pre-65 Medical trend rates	Post-65 Medical trend rates	Prescription drugs trend rates
Healthcare cost trend rate for next year	8.00%	6.50%	9.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2020	2020	2020

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. From a sensitivity perspective, a one percentage point change in the assumed health care cost trend rates would have the following effects:

	2012		2011	
	One percentage point		One percentage point	
	Increase	Decrease	Increase	Decrease
Effect on total of service and interest cost components	$ 94	(64)	82	(70)
Effect on postretirement benefit obligation	989	(683)	1,135	(830)

(Continued)

(Dollars in thousands)

The following benefit payments, which reflect expected future service for each fiscal year, are expected to be paid:

2013	$	134
2014		174
2015		168
2016		181
2017		220
2018 – 2021		1,396

(b) Pension Benefits

The College administers a defined contribution retirement plan for eligible employees. Teachers Insurance Annuity Association (TIAA), College Retirement Equities Fund (CREF) and Fidelity Investments Inc. are the recordkeepers and custodians of the plan. Total pension expense charged to operations relating to these plans for the years ended June 30, 2012 and 2011 amounted to $4,158 and $4,058, respectively.

(8) Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 are available for the following purposes:

		2012	2011
Program and student support	$	379,521	421,924
Acquisition of buildings and equipment		23,626	15,732
Planned giving arrangements		13,738	15,682
Contributions receivable, net		17,217	25,262
	$	434,102	478,600

Permanently restricted net assets consist entirely of endowment corpus with donor stipulations that they be invested in perpetuity for the following purposes:

		2012	2011
Restricted for scholarship support	$	105,074	88,731
Restricted for faculty support		43,037	41,694
Restricted for library support		3,161	3,030
Restricted for program support		22,122	19,460
Planned giving arrangements		31,015	33,249
Other		14,188	23,077
	$	218,597	209,241

(Dollars in thousands)

(9) Expenses

Included in institutional support are $6,383 and $6,257 of fundraising expenses for the years ended June 30, 2012 and 2011, respectively.

Operating expenses for the years ended June 30, 2012 and 2011, were incurred as follows:

		2012	2011
Salaries and wages	$	48,445	46,819
Benefits		15,528	15,100
Total compensation		63,973	61,919
Services and contracting		5,356	4,791
Supplies and minor equipment		9,707	9,201
Auxiliaries, costs of sales		5,364	5,191
Utilities		3,573	4,349
Travel and entertainment		4,354	4,068
Insurance and taxes		1,366	1,466
Depreciation and amortization		14,046	13,586
Interest		5,988	6,018
Other		2,778	2,193
Total expenses	$	116,505	112,782

(10) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2012 and through October 24, 2012, the date on which the financial statements were issued.