



HAMILTON COLLEGE

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

HAMILTON COLLEGE

Financial Statements

June 30, 2013 and 2012

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Trustees
Hamilton College:

We have audited the accompanying financial statements of Hamilton College, which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Hamilton College as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 8, 2013

HAMILTON COLLEGE
Statements of Financial Position
June 30, 2013 and 2012
(Dollars in thousands)

Assets	2013	2012
Cash and cash equivalents	\$ 18,818	21,168
Short-term investments	19,721	19,995
Student and other accounts receivable, net	2,180	1,144
Loans to students, net	2,610	2,751
Contributions receivable, net	16,885	23,794
Beneficial interest trusts	7,137	6,792
Deposits with trustees of debt obligations	2,119	1,275
Collateral received for securities lending	4,476	4,497
Medium-term investments	99,414	—
Investments	773,828	693,919
Other assets	7,285	5,514
Property, plant and equipment, net	241,600	230,332
Total assets	\$ <u>1,196,073</u>	<u>1,011,181</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 8,828	6,857
Deposits and advances	3,857	4,343
Liability under securities lending transactions	4,476	4,497
Annuity and life income obligations	19,671	19,198
Accumulated postretirement benefit obligation	3,418	4,100
Other long-term obligations	4,763	4,667
Long-term debt	231,594	134,471
Total liabilities	<u>276,607</u>	<u>178,133</u>
Net assets:		
Unrestricted	210,520	180,349
Temporarily restricted	482,457	434,102
Permanently restricted	226,489	218,597
Total net assets	<u>919,466</u>	<u>833,048</u>
Total liabilities and net assets	\$ <u>1,196,073</u>	<u>1,011,181</u>

See accompanying notes to financial statements.

HAMILTON COLLEGE
Statement of Activities
Year ended June 30, 2013
(with summarized information for the year ended June 30, 2012)
(Dollars in thousands)

	2013			2012
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	\$ 86,388	—	—	86,388
Scholarship aid	(29,939)	—	—	(29,939)
Net tuition and fees	56,449	—	—	56,449
Auxiliary enterprises	21,790	—	—	21,790
Investment return designated for operations	4,120	26,029	—	30,149
Private gifts and grants	5,960	2,253	—	8,213
Government grants and contracts	363	1,597	—	1,960
Other income	741	322	—	1,063
Net assets released from restrictions	27,507	(27,507)	—	—
Total operating revenues	116,930	2,694	—	119,624
Operating expenses:				
Instruction	53,710	—	—	53,710
Research	1,357	—	—	1,357
Academic support	16,355	—	—	16,355
Student services	14,472	—	—	14,472
Institutional support	16,416	—	—	16,416
Auxiliary enterprises	19,279	—	—	19,279
Total operating expenses	121,589	—	—	121,589
Increase (decrease) in net assets from operations	(4,659)	2,694	—	(1,965)
Nonoperating activities:				
Private gifts	3,667	4,288	2,948	10,903
Investment return, net of amounts designated for operations	10,539	62,363	6,235	79,137
Change in annuity and life income obligations	—	(717)	(2,183)	(2,900)
Net assets released from restriction and changed restrictions	19,418	(20,273)	855	—
Other	1,206	—	37	1,243
(Decrease) increase in net assets from nonoperating activities	34,830	45,661	7,892	88,383
(Decrease) increase in net assets	30,171	48,355	7,892	86,418
Net assets, beginning of year	180,349	434,102	218,597	833,048
Net assets, end of year	\$ 210,520	482,457	226,489	919,466

See accompanying notes to financial statements.

HAMILTON COLLEGE

Statement of Activities

Year ended June 30, 2012

(Dollars in thousands)

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

See accompanying notes to financial statements.

HAMILTON COLLEGE
Statements of Cash Flows
Years ended June 30, 2013 and 2012
(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Net cash flows from operating activities:		
Change in net assets	\$ 86,418	(38,817)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions to endowment and facilities	(10,653)	(12,594)
Depreciation and amortization	14,600	14,046
Realized and unrealized losses (gains) on investments	(100,830)	31,127
Interest on capital appreciation bonds	1,775	1,771
Asset retirement obligation	20	58
Loss on disposal of plant and equipment	309	510
Changes in assets and liabilities that provide (use) cash:		
Student and other accounts receivable, net	(1,036)	1,231
Contributions receivable	6,909	17,263
Beneficial interest trusts	(345)	256
Other assets	(823)	(352)
Accounts payable and accrued liabilities	2,476	3,078
Deposits and advances	(486)	(1,533)
Accumulated postretirement benefit obligation	(682)	(828)
Annuity and life income obligations	3,569	2,211
Cash flows provided by operating activities	<u>1,221</u>	<u>17,427</u>
Net cash from investing activities:		
Purchase of property, plant and equipment, net of change in construction costs payable	(26,831)	(23,457)
Purchases of investments	(386,301)	(258,404)
Proceeds from sales and maturities of investments	307,961	254,645
Change in deposits held by trustees of debt obligations	(844)	(76)
Change in short-term investments, net	274	(9,641)
Student loans, net	141	341
Cash flows used in investing activities	<u>(105,600)</u>	<u>(36,592)</u>
Net cash from financing activities:		
Contributions to endowment and facilities	10,653	12,594
Proceeds from new debt	99,413	—
Payments on long-term debt	(4,687)	(4,378)
Financing costs on new debt	(175)	—
Payments to beneficiaries of split interest agreements	(3,249)	(3,231)
Other financing activities	74	(134)
Cash flows provided by financing activities	<u>102,029</u>	<u>4,851</u>
Net decrease in cash and cash equivalents	<u>(2,350)</u>	<u>(14,314)</u>
Cash and cash equivalents:		
Beginning of year	<u>21,168</u>	<u>35,482</u>
End of year	<u>\$ 18,818</u>	<u>21,168</u>
Supplemental disclosure of noncash investing and financing activities:		
Change in construction related payables	\$ 504	1,238
Supplemental disclosure:		
Cash paid for interest	\$ 4,098	4,195
Gifts in kind	920	1,062

See accompanying notes to financial statements.

HAMILTON COLLEGE
Notes to Financial Statements
June 30, 2013 and 2012
(Dollars in thousands)

(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.

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.

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Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

(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, 2013 and 2012, 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, 2013 and 2012, are \$17,415 and \$20,170, respectively, of cash equivalents primarily representing interest bearing money market and other short-term investment accounts.

(d) Short-Term and Medium-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. Short-term investments are Level 1 investments with the exception of \$7,137 and \$13,504 at June 30, 2013, and 2012, respectively.

Medium-term investments are also recorded at fair value (see note 2) and represent the proceeds received by the College in connection with the Hamilton College Taxable Bonds, Series 2013. The investments are intended to be used by the College to refund all or a portion of certain existing bonds as further discussed in note 6.

(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

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(Dollars in thousands)

investments held. The College reviews the net asset values provided by the investment managers 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.

(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 3.6%. 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.

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June 30, 2013 and 2012

(Dollars in thousands)

Student and other accounts receivable are net of an allowance of \$200 at June 30, 2013 and 2012. Loans to students are net of an allowance of \$440 at June 30, 2013 and 2012, 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.

(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 1.2% 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

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June 30, 2013 and 2012

(Dollars in thousands)

the donor stipulations. During 2013 and 2012, the College received annuity and life income gifts of \$756 and \$1,642, respectively.

(l) Beneficial Interest Trusts

The College is the beneficiary of certain perpetual trusts held and administered by others which are estimated at fair value of the College's share of the underlying assets. The present value of estimated future payments to beneficiaries is reported as a liability in the statement of financial position. Inputs used to estimate the fair value of the College's beneficial interest in perpetual trusts are considered unobservable and are categorized as Level 3.

(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, 2013 and 2012, the College has recorded a liability, included within other long-term obligations in the accompanying statements of financial position, of \$1,619 and \$1,599, 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

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Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

other accounts receivable, contributions receivable, deposits with trustees of debt obligations, and accounts payable and accrued expenses. The fair value of long-term debt is discussed in note 6 and has been determined using significant observable inputs that would be considered to be Level 2 in the fair value hierarchy.

(q) Reclassifications

Certain reclassifications have been made to 2012 information to conform with the 2013 presentation.

(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 with exposure to domestic and international equity, fixed income, real estate, commodities, hedge funds, and private equity markets based on targets defined by the Investment Committee. 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, proceeds from the Series 2013 taxable bond issue, 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 are classified and disclosed in one of the following categories based on the lowest level input that is significant to the fair value measurement in its entirety:

- Level 1 inputs are quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.
- Level 2 inputs are observable prices that are based on inputs not quoted in active markets, but corroborated by market data. In addition, Level 2 includes investments reported using net asset value (NAV) as a practical expedient to estimate fair value that are redeemable in the near term.
- Level 3 inputs are unobservable inputs that are used when little or no market data is available. In addition, Level 3 includes investments reported at NAV that are not redeemable in the near term.

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, 2013 and June 30, 2012, the College had no specific plans or intentions to sell investments at amounts different than NAV.

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Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

The College's investments at June 30, 2013, which include endowment assets of \$710,428, planned gifts of \$63,400, and medium-term investments of \$99,414, are summarized in the following table by their fair value hierarchy classification:

	<u>June 30, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Redemption frequency</u>	<u>Days notice</u>
Investments:						
Cash and cash equivalents	\$ 32,978	32,978	—	—	Daily	Same day
Fixed income securities	42,943	42,943	—	—	Daily	Same day
Equity securities:						
U.S.	294,521	248,129	46,392	—	Daily – semi-annual	1-45
International	148,362	33,877	114,485	—	Daily – semi-annual	1-30
Hedge funds:						
Multistrategy (a)	5,093	—	—	5,093	Not applicable	
Other (c)	44,261	—	—	44,261	Not applicable	
Private equity (d):						
Buy-out	41,748	—	27	41,721	Not applicable	
Venture capital	42,654	—	159	42,495	Not applicable	
Real estate (e)	40,219	—	25	40,194	Not applicable	
Energy (f)	54,069	—	—	54,069	Not applicable	
Insurance (g)	25,674	—	—	25,674	Not applicable	
Other	1,306	—	1,306	—	Not applicable	
	<u>773,828</u>	<u>357,927</u>	<u>162,394</u>	<u>253,507</u>		
Medium-term investments:						
Cash and cash equivalents	68,414	68,414	—	—	Daily	Same day
Fixed income securities	31,000	1,000	30,000	—	Daily -quarterly	1-90
	<u>99,414</u>	<u>69,414</u>	<u>30,000</u>	<u>—</u>		
Total investments	\$ <u>873,242</u>	<u>427,341</u>	<u>192,394</u>	<u>253,507</u>		

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Notes to Financial Statements

June 30, 2013 and 2012

(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:

	<u>June 30, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Redemption frequency</u>	<u>Days notice</u>
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	—	2,707	5,594	Semi-annually - N/A	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	
Total investments	<u>\$ 693,919</u>	<u>282,775</u>	<u>164,378</u>	<u>246,766</u>		

- (a) This category includes a fund that invests in event-driven strategies (takeovers), merger arbitrage, private equity special situations, and long-short global equity. As of June 30, 2013, the remaining value is in side pocket investments. Redemptions are dependent upon the liquidation of the underlying funds.
- (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

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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 private equity and 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 distributions of shares in the underlying investments. It is estimated that the underlying assets of each fund will be liquidated or distributed over a 7-15 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 7-15 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. Included within this category are certain funds which utilize significant unobservable inputs in determining the estimated fair value. These funds total approximately \$34 million as of June 30, 2013 and utilize the market approach adjusted for a 20% discount based on an average of 3, 5, 7 and 10 years. 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 7-20 year period from the effective date of the fund.
- (g) This category includes investments in a program that enables investors to participate in a broadly diversified property catastrophe and aviation reinsurance portfolio. Under the program, investors purchase notes issued by a special purpose insurer. The proceeds from the note issuance are deposited in a trust account and invested. Proceeds from the note issuance, ceded premiums and investment earnings remaining in the trust after the end of the risk period are then returned to investors.

There were no transfers between Level 1 and Level 2 investments during the fiscal year ended June 30, 2013.

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Changes to reported investments measured at fair value using unobservable (Level 3) inputs during the years ended June 30, 2013 and 2012 are as follows:

	<u>Hedge funds</u>	<u>Private equity</u>	<u>Real estate</u>	<u>Energy</u>	<u>Insurance</u>	<u>Total</u>
Fair value, June 30, 2011	\$ 68,421	90,255	33,523	66,511	—	258,710
Net purchases, sales, settlements	(10,112)	(5,137)	(887)	(1,099)	—	(17,235)
Unrealized gains/losses, net	2,698	5,556	3,169	(6,132)	—	5,291
Transfers	—	—	—	—	—	—
Fair value, June 30, 2012	61,007	90,674	35,805	59,280	—	246,766
Net purchases, sales, settlements	(18,153)	(17,219)	(1,381)	(6,976)	25,000	(18,729)
Unrealized gains/losses, net	6,500	10,797	5,795	1,765	674	25,531
Transfers	—	(36)	(25)	—	—	(61)
Fair value, June 30, 2013	<u>\$ 49,354</u>	<u>84,216</u>	<u>40,194</u>	<u>54,069</u>	<u>25,674</u>	<u>253,507</u>

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. Based upon the terms and conditions in effect at June 30, 2013, expected liquidity for the College's investments can be classified as follows:

Investments redemption period:	
Daily	\$ 418,646
Weekly	62,107
Monthly	108,557
Quarterly	15,000
Semi-annual	33,629
Lock-up until liquidated	255,024
Total	<u>\$ 892,963</u>

The "Lock-up until liquidation" category is related to private equity, real estate and energy limited partnership investments, insurance funds, and three 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. Two hedge funds, valued at \$28,167, are in the process of being liquidated and are classified as "Thereafter" because there is no stated term.

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	<u>Amount</u>
Fiscal year:	
2014	\$ 46,260
2015	29,917
2016	32,437
2017	71,955
2018	13,983
Thereafter	<u>60,472</u>
	<u>\$ 255,024</u>

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, 2013, the College has the following outstanding commitments to these partnerships based on when the funds' commitment periods end:

	<u>Amount</u>
Fiscal year:	
2014	\$ 24,210
2015	—
2016	—
2017	18,224
2018	<u>6,674</u>
	<u>\$ 49,108</u>

Securities Lending

The College has determined that it will 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, 2013 and 2012, the College had loaned certain securities, which are included in the endowment investments, with a fair value of \$4,370 and \$4,389 to several financial institutions that have provided collateral of \$4,476 and \$4,497, respectively, for the loaned securities.

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Investment Return

The following schedule summarizes total investment return and its classification in the statements of activities for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Endowment income	\$ 8,456	8,004
Net realized and unrealized (losses) gains	<u>100,830</u>	<u>(31,127)</u>
Total return on investments	109,286	(23,123)
Investment return designated for current operations (spending policy distributions)	<u>(30,149)</u>	<u>(28,695)</u>
Investment return net of amounts designated for current operations	<u>\$ 79,137</u>	<u>(51,818)</u>

Endowment income is presented net of investment management and custodial fees of \$3,948 and \$3,567 for the years ended June 30, 2013 and 2012, 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.

The College follows the New York Uniform Prudent Management of Institutional Funds Act (NYPMIFA) in the management of its endowment. 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

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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

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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, 2013 and 2012:

2013				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds designated or restricted for support of:				
Scholarship	\$ 40,734	173,763	108,497	322,994
Faculty	15,798	134,385	44,620	194,803
Library	6,086	17,138	3,163	26,387
Program	3,718	92,982	22,791	119,491
Plant	—	298	—	298
Board-designated for general purpose	46,455	—	—	46,455
	<u>\$ 112,791</u>	<u>418,566</u>	<u>179,071</u>	<u>710,428</u>
2012				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds designated or 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
	<u>\$ 98,387</u>	<u>363,454</u>	<u>173,394</u>	<u>635,235</u>

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The unrestricted amounts at June 30, 2013 and 2012 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.

	2013			2012		
	Unrestricted	Temporarily restricted	Permanently restricted	Unrestricted	Temporarily restricted	Permanently restricted
Endowment net assets, beginning of year	\$ 98,387	363,454	173,394	99,388	405,226	152,915
Investment return:						
Investment income	1,295	7,161	—	938	5,190	—
Net appreciation (depreciation)	13,364	79,519	1,155	(3,398)	(26,521)	2,474
Private gifts	2,721	302	3,502	3,807	—	16,878
Released from restriction and changed restrictions	1,144	(5,841)	1,020	1,630	4,276	1,127
Appropriation of endowment assets for spending	(4,120)	(26,029)	—	(3,978)	(24,717)	—
Endowment net assets, end of year	\$ 112,791	418,566	179,071	98,387	363,454	173,394

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 \$82 and \$1,086 as of June 30, 2013 and 2012, 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%.

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.

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(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 1.2% to 5.8% at June 30, 2013 and 2012. Contributions estimated to be collected at June 30, 2013 and 2012 are as follows:

	2013	2012
Less than one year	\$ 4,780	7,778
One to five years	13,650	17,686
More than five years	291	1,022
	18,721	26,486
Less present value discount	(1,086)	(1,692)
Reserve for uncollectible receivables	(750)	(1,000)
	\$ 16,885	23,794

Conditional promises to give amounted to \$850 at June 30, 2013 and 2012, 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, 2013 and 2012:

	2013	2012
Land and improvements	\$ 21,588	20,612
Buildings	302,141	280,984
Furniture and equipment	62,380	60,213
	386,109	361,809
Less accumulated depreciation	(164,347)	(149,934)
	221,762	211,875
Projects in process	19,838	18,457
	\$ 241,600	230,332

Depreciation expense of \$14,750 and \$14,611 in 2013 and 2012, 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 \$35,700 of additional costs to complete the construction projects in process, which include the theater and studio arts building, and the conversion of the existing theater facility into a residence hall. These projects will be financed through a combination of donations and new borrowings of approximately \$23 million.

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(6) Long-Term Debt

Long-term debt consists of the following at June 30, 2013 and 2012:

	<u>Maturity date</u>	<u>Interest rate</u>	<u>Original issue</u>	<u>Outstanding at June 30, 2013</u>	<u>Outstanding at June 30, 2012</u>
Oneida County Industrial Development Agency Civic Facility (a):					
Revenue Bonds					
Series 2002 (b)	09/15/2032	5.2%	\$ 60,000	47,643	49,489
Revenue Bonds					
Series 2005	07/01/2015	3.0% – 4.0%	8,775	2,935	3,850
Revenue Bonds					
Series 2007A (c)	07/01/2037	3.8% – 4.65%	36,107	44,898	43,861
Revenue Bonds					
Series 2007B	07/01/2028	4.0% – 5.0%	23,170	22,850	23,170
Dormitory Authority of the State of New York Revenue Bonds, Series 2010 (d)	07/01/2021	3.0% – 5.0%	12,700	11,493	12,633
Banco Popular Espanol (e)	02/01/2022	Variable	1,833	1,388	1,468
Hamilton College Taxable Bonds Series 2013 (f)	07/01/2113	4.75%	103,000	100,387	—
				<u>\$ 231,594</u>	<u>134,471</u>

- (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, 2013 and 2012 was \$10,884 and \$9,110, 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, 2013.
- (f) The College issued \$103,000 of Hamilton College Taxable Bonds, Series 2013, in April 2013. The bonds were issued at a discount of \$2,627, at a fixed rate of 4.75%. The College intends to use the

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proceeds of the bonds to refund all or a portion of the Series 2007 and 2002 bonds on their respective first option call dates in 2017 and 2018. Until that time, the proceeds will be invested in a portfolio designed to meet the debt service of the underlying bonds.

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, 2013 and 2012 is approximately \$215,212 and \$143,687, respectively.

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

2014	\$	4,852
2015		4,972
2016		5,119
2017		5,211
2018		5,366

The amounts above do not consider the anticipated refunding of existing debt on their respective call dates.

Interest expense was \$6,687 and \$5,988, for the years ended June 30, 2013 and 2012, 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, 2013, no funds have been advanced.

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(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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 4,100	4,928
Service cost	201	162
Interest cost	146	156
Actuarial gain	(1,022)	(1,169)
Participant contributions	202	245
Amendments and special terminations	32	87
Benefits paid	<u>(241)</u>	<u>(309)</u>
Benefit obligation at end of year	<u>\$ 3,418</u>	<u>4,100</u>
	<u>2013</u>	<u>2012</u>
Change in plan assets:		
Fair value of assets, beginning of year	\$ —	—
Employer contribution	39	64
Participant contribution	202	245
Benefits paid	<u>(241)</u>	<u>(309)</u>
Fair value of assets, end of year	<u>\$ —</u>	<u>—</u>
Amount recognized in the statement of financial position:		
Funded status	\$ (3,418)	(4,100)

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Amounts recorded in unrestricted net assets as of June 30, 2013 and 2012, not yet amortized as components of net periodic benefit costs are as follows:

	<u>2013</u>	<u>2012</u>
Unamortized prior service costs	\$ 96	63
Unamortized actuarial loss	<u>(1,616)</u>	<u>(629)</u>
Amount recognized as a decrease in unrestricted net assets	<u>\$ (1,520)</u>	<u>(566)</u>

The amortization of the above items expected to be recognized in net periodic costs for the year ending June 30, 2014 is \$86.

A summary of the components of net periodic postretirement benefit cost for the years ended June 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Components of net periodic benefit cost:		
Service cost	\$ 201	162
Interest cost	146	156
Amortization of unrecognized actuarial loss	(35)	(62)
Amortization of unrecognized prior service cost	<u>(2)</u>	<u>(26)</u>
Net periodic postretirement benefit cost	<u>\$ 310</u>	<u>230</u>

Assumptions

A summary of the weighted average assumptions used to determine the benefit obligation at June 30, 2013 and 2012 is presented below:

	<u>2013</u>	<u>2012</u>
Discount rate	4.73%	3.88%
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, 2013 and 2012 is presented below:

	<u>2013</u>	<u>2012</u>
Discount rate	3.88%	5.50%

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A summary of the assumed healthcare cost trend rates at June 30, 2013 is presented below:

	Pre-65 Medical trend rates	Post-65 Medical trend rates	Prescription drugs trend rates
Healthcare cost trend rate for next year	7.50%	6.25%	8.00%
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	2022	2022	2022

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:

	2013		2012	
	One percentage point		One percentage point	
	Increase	Decrease	Increase	Decrease
Effect on total of service and interest cost components	\$ 110	(76)	94	(64)
Effect on postretirement benefit obligation	919	(655)	989	(683)

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

2014	\$ 148
2015	137
2016	143
2017	175
2018	183
2019 – 2023	1,026

(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, 2013 and 2012 amounted to \$4,357 and \$4,158, respectively.

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(8) Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Program and student support	\$ 434,101	379,521
Acquisition of buildings and equipment	21,696	23,626
Planned giving arrangements	15,633	13,738
Contributions receivable, net	11,027	17,217
	<u>\$ 482,457</u>	<u>434,102</u>

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

	<u>2013</u>	<u>2012</u>
Restricted for scholarship support	\$ 108,498	105,074
Restricted for faculty support	44,620	43,037
Restricted for library support	3,163	3,161
Restricted for program support	22,790	22,122
Planned giving arrangements	33,609	31,015
Other	13,809	14,188
	<u>\$ 226,489</u>	<u>218,597</u>

(9) Expenses

Included in institutional support are \$6,121 and \$6,383 of fundraising expenses for the years ended June 30, 2013 and 2012, respectively.

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Operating expenses for the years ended June 30, 2013 and 2012, were incurred as follows:

	2013	2012
Salaries and wages	\$ 50,140	48,445
Benefits	16,519	15,528
Total compensation	66,659	63,973
Services and contracting	5,506	5,356
Supplies and minor equipment	9,949	9,707
Auxiliaries, costs of sales	5,382	5,364
Utilities	3,438	3,573
Travel and entertainment	4,522	4,354
Insurance and taxes	1,493	1,366
Depreciation and amortization	14,599	14,046
Interest	6,687	5,988
Other	3,354	2,778
Total expenses	\$ 121,589	116,505

(10) Contingent Liabilities

The College has been named a defendant in a collective/class action, asserting that the College has violated certain provisions of the federal Fair Labor Standards Act and New York Labor Law. Although there can be no assurance as to the eventual outcome of this litigation, in the opinion of management, such litigation will not, individually or in the aggregate, have a material adverse effect on the College's financial position, statements of activities, or cash flows.

(11) Subsequent Events

On July 2, 2013, the College issued \$23,010,000 Oneida County Local Development Corporation Revenue Bonds, Series 2013. The proceeds of the bonds will primarily be used to partially finance certain projects on the College's campus, including the construction and equipping of a theater and studio arts building, and the conversion of an existing theater facility into a residence hall. The bonds are due in varying maturities through 2028, at interest rates ranging between 2 and 5%.

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2013 and through October 8, 2013, the date on which the financial statements were issued.