COLLEGE OF THE HOLY CROSS

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

COLLEGE OF THE HOLY CROSS

Financial Statements

June 30, 2014 and 2013

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
College of the Holy Cross:

We have audited the accompanying financial statements of the College of the Holy Cross, which comprise the balance sheets as of June 30, 2014 and 2013, 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 the College of the Holy Cross as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

September 25, 2014

COLLEGE OF THE HOLY CROSS

Balance Sheets

June 30, 2014 and 2013

(In thousands)

Assets		**2014**	**2013**
Cash and cash equivalents	$	37,898	36,899
Short-term investments		6,813	7,481
Contributions receivable, net		31,194	12,350
Accounts and loans receivable		7,784	7,722
Long-term investments		733,636	641,609
Land, buildings and equipment, net		206,165	205,828
Other assets		4,566	6,210
Total assets	$	1,028,056	918,099
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	22,767	21,919
Deferred revenue and student deposits		4,594	4,657
U.S. Government refundable advances		4,975	5,025
Split-interest obligations		3,698	3,435
Accrued pension liability		3,078	—
Interest rate swap		8,306	8,356
Long-term debt		144,979	151,059
Total liabilities		192,397	194,451
Net assets:			
Unrestricted		400,755	366,081
Temporarily restricted		257,450	192,524
Permanently restricted		177,454	165,043
Total net assets		835,659	723,648
Total liabilities and net assets	$	1,028,056	918,099

See accompanying notes to financial statements.

COLLEGE OF THE HOLY CROSS

Statement of Activities

Year ended June 30, 2014

(In thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:					
Tuition and fees	$	127,918	—	—	127,918
Auxiliary enterprises – residence and dining fees		30,022	—	—	30,022
Less scholarship aid to students		(46,035)	—	—	(46,035)
Net student fees		111,905	—	—	111,905
Contributions – annual fund		7,728	—	—	7,728
Other auxiliary enterprises		11,149	—	—	11,149
Other revenues		3,459	—	—	3,459
Operating revenues before nonoperating net assets used in operations		134,241	—	—	134,241
Nonoperating net assets used in operations:					
Long-term investment income used in operations		24,000	—	—	24,000
Restricted and designated net assets used in operations		5,444	—	—	5,444
Total operating revenues		163,685	—	—	163,685
Operating expenses:					
Instruction		59,798	—	—	59,798
Academic support		12,317	—	—	12,317
Student services		26,746	—	—	26,746
Institutional support		24,880	—	—	24,880
Auxiliary enterprises		33,467	—	—	33,467
Total operating expenses		157,208	—	—	157,208
Increase in net assets from operations		6,477	—	—	6,477
Nonoperating:					
Contributions		633	32,683	12,309	45,625
Net return on long-term investments		47,286	49,396	73	96,755
Net gain on interest rate swap		50	—	—	50
Nonoperating net assets used in operations		(29,444)	—	—	(29,444)
Net assets released from restrictions		16,772	(16,772)	—	—
Pension related changes, other than net periodic benefit cost		(7,406)	—	—	(7,406)
Other changes, net		306	(381)	29	(46)
Increase in net assets from nonoperating activities		28,197	64,926	12,411	105,534
Increase in net assets		34,674	64,926	12,411	112,011
Net assets, beginning of year		366,081	192,524	165,043	723,648
Net assets, end of year	$	400,755	257,450	177,454	835,659

See accompanying notes to financial statements.

COLLEGE OF THE HOLY CROSS

Statement of Activities

Year ended June 30, 2013

(In thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:					
Tuition and fees	$	126,605	—	—	126,605
Auxiliary enterprises – residence and dining fees		28,887	—	—	28,887
Less scholarship aid to students		(45,669)	—	—	(45,669)
Net student fees		109,823	—	—	109,823
Contributions – annual fund		7,645	—	—	7,645
Other auxiliary enterprises		11,153	—	—	11,153
Other revenues		3,720	—	—	3,720
Operating revenues before nonoperating net assets used in operations		132,341	—	—	132,341
Nonoperating net assets used in operations:					
Long-term investment income used in operations		22,455	—	—	22,455
Restricted and designated net assets used in operations		5,926	—	—	5,926
Total operating revenues		160,722	—	—	160,722
Operating expenses:					
Instruction		59,755	—	—	59,755
Academic support		12,270	—	—	12,270
Student services		26,264	—	—	26,264
Institutional support		24,154	—	—	24,154
Auxiliary enterprises		33,098	—	—	33,098
Total operating expenses		155,541	—	—	155,541
Increase in net assets from operations		5,181	—	—	5,181
Nonoperating:					
Contributions		1,883	9,245	6,107	17,235
Net return on long-term investments		27,487	27,106	32	54,625
Net gain on interest rate swap		3,937	—	—	3,937
Nonoperating net assets used in operations		(28,381)	—	—	(28,381)
Net assets released from restrictions		16,254	(16,254)	—	—
Pension related changes, other than net periodic benefit cost		13,766	—	—	13,766
Other changes, net		662	45	741	1,448
Increase in net assets from nonoperating activities		35,608	20,142	6,880	62,630
Increase in net assets		40,789	20,142	6,880	67,811
Net assets, beginning of year		325,292	172,382	158,163	655,837
Net assets, end of year	$	366,081	192,524	165,043	723,648

See accompanying notes to financial statements.

COLLEGE OF THE HOLY CROSS

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	112,011	67,811
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation and accretion		12,976	12,949
Net realized and unrealized gains on investments		(94,403)	(50,930)
Contributions for long-term investment and facilities		(36,777)	(7,456)
Net gain on interest rate swap		(50)	(3,937)
Pension related changes, other than net periodic benefit cost		7,406	(13,766)
Increase in operating assets, net		(4,463)	(515)
Decrease (increase) in operating liabilities, net		744	(839)
Net cash (used in) provided by operating activities		(2,556)	3,317
Cash flows from investing activities:			
Net loans advanced to students and others		(104)	(216)
Purchase of land, buildings, and equipment		(13,703)	(10,037)
Proceeds from sale of short-term investments		668	—
Purchase of short-term investments		—	(1,034)
Proceeds from sale of long-term investments		137,482	227,015
Purchase of long-term investments		(135,106)	(219,662)
Net cash used in investing activities		(10,763)	(3,934)
Cash flows from financing activities:			
Payments on long-term debt		(5,690)	(5,465)
Decrease in U.S. Government refundable advances		(50)	(33)
Proceeds from contributions for long-term investment		8,583	7,197
Proceeds from grants and contributions for facilities		11,475	1,700
Net cash provided by financing activities		14,318	3,399
Net increase in cash and cash equivalents		999	2,782
Cash and cash equivalents, beginning of year		36,899	34,117
Cash and cash equivalents, end of year	$	37,898	36,899
Supplemental data:			
Interest paid	$	6,768	6,918

See accompanying notes to financial statements.

(1) Background

College of the Holy Cross (the College or Holy Cross) is a not-for-profit educational institution committed to the principle of educating men and women for others. As a Jesuit college, Holy Cross takes its place in a 450-year tradition of Catholic education that has distinguished itself for intellectual rigor, high academic standards, and religious and moral sensitivity. Top-ranked nationally, Holy Cross is a coeducational liberal arts college with a community of approximately 2,900 students, situated on a 174-acre campus. Holy Cross was founded in 1843 by the second bishop of Boston, Benedict Joseph Fenwick, S. J., making it the oldest Catholic college in New England.

(2) Summary of Significant Accounting Policies

(a) Basis of Statement Presentation

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

(b) Classification of Net Assets

Unrestricted net assets – Net assets not subject to donor-imposed stipulations and available for the general operations of the College. Such net assets may be designated by the Board of Trustees for specific purposes, including to function as endowment funds.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations as to the timing of their availability or use for a particular purpose. Investment returns on donor-restricted endowment funds are classified as changes in temporarily restricted net assets and are generally available for appropriation to support operational needs subject to the College's endowment spending policy and any restrictions on use imposed by donors.

Permanently restricted net assets **–** Net assets subject to donor-imposed stipulations requiring they be maintained in perpetuity by the College. The College classifies the following portions of donor-restricted endowment funds as permanently restricted net assets: (a) the original value of assets contributed to permanent endowment funds, (b) subsequent contributions to such funds valued at the date of contribution, and (c) reinvested earnings on permanent endowment when specified by the donor.

(c) Statements of Activities

The statements of activities report the change in net assets from operating and nonoperating activities. Operating revenues consist of those items attributable to the College's undergraduate education program, grants for research conducted by the academic departments, auxiliary enterprise activities and contributions to the annual fund. Nonoperating net assets used in operations includes endowment income appropriated by the College to support operating activities and nonoperating contributions expended in support of operations or made available for operations by virtue of the expiration of a time restriction.

Nonoperating activities includes investment return on short and long-term investments, contributions received other than for the annual fund, grant income to fund capital acquisitions, any gains or losses on debt-related derivative instruments, pension adjustments other than net periodic benefit cost and miscellaneous items not related to the College’s academic or research activities. To the extent nonoperating contributions, investment income and gains are used for operations, they are reclassified as “nonoperating net assets used in operations” on the statements of activities.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions as follows:

- Student fees are recorded at established rates, net of financial aid and scholarships provided directly to students.

- Contributions, including unconditional promises to give reported as contributions receivable, are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions on the statement of activities. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

- Contributions of land, buildings, or equipment are reported as unrestricted nonoperating support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as increases in temporarily restricted net assets until the assets are acquired and placed into service.

- Auxiliary enterprises include a variety of services that enhance the quality of student life on campus. Revenues are displayed in two sections. Fees for housing and dining services are displayed along with tuition and fees net of scholarship aid to arrive at net student fee revenue. Other auxiliary service enterprise revenues, which include college retail operations, cash dining, catering, intercollegiate athletics and graphic arts, are displayed separately. Expenses associated with auxiliary enterprise activities are reported as a single total and include an allocated portion of the cost of operating and maintaining the College’s plant assets, interest and depreciation expense.

- Dividends, interest, and net gains on investments of endowments are reported as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund; as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the current use of the income or net gains; and as increases in unrestricted net assets in all other cases.

Expenses are reported as decreases in unrestricted net assets. Expenses associated with the operation and maintenance of the College's plant assets, including interest and depreciation expense, are allocated on the basis of square footage utilized by the functional categories. Expenses associated with fundraising activities of the College were $7,445 and $6,937 in 2014 and 2013, respectively, and are included in institutional support in the statements of activities.

(d) Cash Equivalents

For the purpose of the statements of cash flows, the College considers investments with maturities at date of purchase of three months or less to be cash equivalents, except that any such investments purchased by external investment managers are classified as long-term investments.

(e) Fair Value Measurements

Short-term and long-term investments and the interest rate swap are reported at their respective fair values. 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. The College uses a three-tiered hierarchy to categorize those assets and liabilities based on the valuation methodologies employed. In addition, classification of certain alternative investments within the fair value hierarchy is based on the College's ability to timely redeem its interest rather than the valuation inputs. The hierarchy is defined as follows:

Level 1 – Valuation based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 – Valuations based on inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, as well as those alternative investments that are redeemable on or near the measurement date; and

Level 3 – Valuations based on unobservable inputs are used in situations in which little or no market data is available, as well as those alternative investments that are not redeemable near the measurement date.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The College utilizes valuation techniques that maximizes the use of observable inputs and minimizes the use of unobservable inputs to the extent possible. Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an asset or liability or, in case of alternative investments, when the College's ability to timely redeem its interest changes. Transfers between fair value categories are recognized at the end of the reporting period.

(f) Accounts and Loans Receivable

Accounts and loans receivable include amounts primarily due from students and employees as well as reimbursements due from sponsors of externally funded research.

(g) Land, Buildings, and Equipment

Constructed and purchased property and equipment are carried at cost or at estimated fair value if acquired by gift, less accumulated depreciation. Expenditures for library books are charged to operations in the period acquired. Long-lived fixed assets, with the exception of land and artwork, are depreciated using the straight-line method over the assets' estimated useful lives.

(h) Other Assets

Other assets consist of prepaid expenses, inventories, and investments held in a nonqualified deferred compensation plan.

(i) Refundable Advances

The College holds certain amounts advanced by the U.S. Government under the Federal Perkins Loan Program (the Program). Such amounts may be re-loaned by the College after collection; however, in the event that the College no longer participates in the Program, the amounts are generally refunded to the U.S. Government.

(j) Split-Interest Obligations

The College's split-interest obligations consist principally of charitable gift annuities and irrevocable charitable remainder trusts for which the College serves as trustee. Contribution revenue is recognized at the date a gift annuity or trust is established after recording a liability at fair value of the estimated future payments to be made to the beneficiaries. Liabilities are adjusted during the terms of the agreements to reflect payments to beneficiaries, returns on trust assets, accretion of discounts and other considerations that affect the estimates of future payments.

(k) Use of Estimates

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

(l) Tax Status

The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from federal and state income taxes under Section 501(a) of the Code and applicable state laws. The College believes it has taken no significant uncertain tax positions.

(In thousands)

(3) Contributions Receivable

Contributions receivable consist of the following at June 30:

		2014	2013
Unconditional promises expected to be collected in:			
Less than one year	$	6,932	6,556
One to five years		25,347	6,189
Thereafter		1,000	1,000
Less allowances for uncollectible pledges and pledge discounts (0.11% - 2.17%)		(2,085)	(1,395)
	$	31,194	12,350

(4) Investments

Strategy

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 defined limits, exposure to global equity, fixed income, real estate, commodities, and private equity markets. Hedge funds invest in a broad range of investments that are less correlated with broad equities markets. This includes credit-oriented strategies, multi-strategy funds where the manager has a broad mandate to invest opportunistically, and event driven funds where managers seek opportunity in various forms of arbitrage strategies as well as in corporate activities such as mergers and acquisitions. Hedge funds may employ the use of leverage and derivatives to achieve their return. Private equity strategies include buyout and venture capital as well as distressed investments which includes entities involved in financial reorganizations or workout situations. The real asset classification includes investments in public and private real estate, energy, and commodities.

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 fixed income, equity and real asset holdings associated with split-interest agreements and short-term investments.

Reporting Basis

Investments are reported at estimated fair value. The values of publicly traded fixed income and equity securities are based upon quoted market prices at the close of business on the last day of the fiscal year. Investments in units of non-publicly traded pooled funds are valued at the unit value determined by the fund's administrator based on quoted market values of the underlying securities. Alternative investments which consist of hedge funds, private equities and real assets, are valued using current estimates of fair value based upon the net asset value (NAV) of the funds determined by the general partner or investment manager for the respective funds. These valuations consider variables such as financial performance of investments, including comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. NAV is used as a practical expedient to estimate the fair value of the College's interest in these funds, unless it is probable that all or a portion of the investment will be sold for an amount different than NAV. The College has assessed the NAV provided by the external managers and believes the amounts reported represent a reasonable estimate of fair value.

The investments classified as Level 2 and 3 have been valued using NAV as the practical expedient and consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, which may be readily marketable or not difficult to value. Because of the use of NAV as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the College's ability to redeem its interest in the fund at or near the date of the balance sheet. If the interest can be redeemed in the near term, the investment is classified as Level 2. Accordingly, the inputs used or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of each fund's underlying assets or liabilities. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material.

The College utilizes various investment strategies in its hedge funds and private equity investments. Hedge funds of $323,700 noted in the following table are comprised of the following strategies: 27% multi-strategy, 48% long/short, 18% portable alpha, 4% global macro and 3% commodities at June 30, 2014. Private equity strategies of $112,276 include 26% buyout, 16% diversified, 21% venture capital, 20% distressed and 17% energy at June 30, 2014.

Hedge funds of $251,658 noted in the following table are comprised of the following strategies: 23% multi strategy, 45% long/short, 22% portable alpha, 7% global macro and 3% commodities at June 30, 2013. Private equity strategies of $101,556 include 28% buyout, 18% diversified, 16% venture capital, 22% distressed and 16% energy at June 30, 2013.

(In thousands)

The following tables summarize the valuation of the College's cash and investments under the fair value hierarchy levels as of June 30:

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 37,898	—	—	37,898
Short-term investments	—	6,813	—	6,813
Long-term investments:				
Cash equivalents	6,627	—	—	6,627
Fixed income	—	24,011	—	24,011
Global equities	65,511	128,291	—	193,802
Hedge funds	—	121,992	201,708	323,700
Private equities	—	—	112,276	112,276
Real assets	11,439	18,054	35,258	64,751
Split-interest agreements	4,854	1,095	2,520	8,469
Total long-term investments	88,431	293,443	351,762	733,636
Total	$ 126,329	300,256	351,762	778,347

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 36,899	—	—	36,899
Short-term investments	—	7,481	—	7,481
Long-term investments:				
Cash equivalents	36,792	—	—	36,792
Fixed income	—	22,502	—	22,502
Global equities	61,639	95,958	—	157,597
Hedge funds	—	94,669	156,989	251,658
Private equities	—	—	101,556	101,556
Real assets	—	26,533	37,155	63,688
Split-interest agreements	4,064	1,158	2,594	7,816
Total long-term investments	102,495	240,820	298,294	641,609
Total	$ 139,394	248,301	298,294	685,989

(In thousands)

The following tables present additional information about investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30:

		2014				
		Hedge funds	**Private equity**	**Real assets**	**Fixed income and split-interest agreements**	**Total**
Fair value at June 30, 2013	$	156,989	101,556	37,155	2,594	298,294
Acquisitions		55,510	8,785	3,076	—	67,371
Dispositions		(18,990)	(17,365)	(11,718)	(96)	(48,169)
Investment income, net		40	3,286	673	22	4,021
Net realized and unrealized gains		19,556	16,014	6,072	—	41,642
Transfer to Level 2		(11,397)	—	—	—	(11,397)
Fair value at June 30, 2014	$	201,708	112,276	35,258	2,520	351,762

In 2014 the transfer from Level 3 to Level 2 is the result of a change in the redemption provision for a single investment.

		2013				
		Hedge funds	**Private equity**	**Real assets**	**Fixed income and split-interest agreements**	**Total**
Fair value at June 30, 2012	$	129,565	135,203	33,604	2,883	301,255
Acquisitions		31,867	10,123	4,990	—	46,980
Dispositions		(18,251)	(45,047)	(7,178)	(332)	(70,808)
Investment income, net		(21)	3,707	1,003	20	4,709
Net realized and unrealized gains (losses)		13,829	(2,430)	4,736	23	16,158
Fair value at June 30, 2013	$	156,989	101,556	37,155	2,594	298,294

Net return on long-term investments consists of the following for the years ended June 30:

		2014	**2013**
Interest, dividends and other income	$	6,145	7,549
Unrealized gains, net		68,795	38,420
Realized gains, net		25,608	12,510
Direct management fees and other		(3,793)	(3,854)
Net return on investments	$	96,755	54,625

(In thousands)

Commitments

Private equity and real asset investments are generally made through limited partnerships. Under the terms of these agreements, the College is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally between ten and fifteen years, and provide for annual one year extensions for the purpose of disposing portfolio positions and returning capital to the investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity and real asset investments is $66,154 as of June 30, 2014.

Liquidity

Hedge fund and certain global equity and fixed income investments are redeemable at NAV under the terms of the subscription and/or partnership agreements. Investments, including short-term investments, with daily liquidity generally do not require any notice prior to withdrawal. Investments with monthly, quarterly or annual redemption frequency typically require notice periods ranging from 30 to 180 days. The long-term investments' fair values are broken out below by their redemption frequency as of June 30, 2014.

	Daily	Monthly	Quarterly	Annual	Illiquid	Total
Cash equivalents	$ 6,627	—	—	—	—	6,627
Fixed income	—	24,011	—	—	—	24,011
Global equities	65,511	128,291	—	—	—	193,802
Hedge funds	—	—	121,992	54,845	146,863	323,700
Private equities	—	—	—	—	112,276	112,276
Real assets	29,493	—	—	—	35,258	64,751
Split-interest agreements	—	—	—	—	8,469	8,469
Total	$ 101,631	152,302	121,992	54,845	302,866	733,636

Investments with a redemption frequency of illiquid includes lock ups with definite expiration dates, restricted shares, side pockets, gates or funds in liquidation which have suspended normal liquidity terms as well as private equity and real assets funds where the College has no liquidity terms until the investments are sold by the fund manager. The College is in the process of liquidating $16,554 of investments at June 30, 2014 for which it has not received cash. Investments associated with split-interest agreements have been categorized as illiquid because they are not available to support operations. Investments totaling $74,659 are subject to redemption lock ups which will expire between September 2014 and April 2016.

(5) Endowment

The College's endowment consists of approximately 800 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment. Net assets associated with endowment funds, including funds designated by the

Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Relevant Law

The Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) permits the Board of Trustees to exercise its discretion in determining the appropriate level of expenditure from a donor-restricted endowment fund in accordance with a set of guidelines about what constitutes prudent spending. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. UPMIFA permits the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Seven criteria are to be used to guide the College in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the College and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the College; and, 7) the investment policy of the College.

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. The accounting standards define permanently restricted funds as those that must be held in perpetuity even though the historic-dollar-value may be appropriated on a temporary basis. In accordance with appropriate accounting standards, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets, until appropriated for spending by the Board of Trustees.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies generally are the result of unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the original contributed value are classified as an increase in unrestricted net assets. There were no deficiencies of this nature as of June 30, 2014 and 2013.

Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period as well as board-designated funds. The primary investment objective of the endowment fund is to maintain and grow the fund’s real value by generating average annual real returns that meet or exceed the spending rate, after inflation, management fees and administrative costs. Consistent with this goal, the Board of Trustees and the Investment Committee, a standing Committee of the Board of Trustees, intend that the endowment fund be managed with an intention to maximize total returns consistent with prudent levels of risk and to reduce portfolio risk through asset allocation and diversification.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Investment Committee (the Committee) is responsible for establishing an asset allocation policy. The asset allocation policy is designed to attempt to achieve diversity among capital markets and within capital markets, by investment discipline and management style. The Committee designs a policy portfolio in light of the endowment's needs for liquidity, preservation of purchasing power and risk tolerances. There is no limitation on the types of investments in which the endowment fund may be invested, and it is intended that the Board of Trustees and the Committee have the broadest flexibility as to the selection of investments for the endowment fund.

The College targets a diversified asset allocation that places emphasis on investments in global equities, fixed income, real assets, private equity and hedge fund strategies to achieve its long-term return objectives within prudent risk constraints. The Investment Committee reviews the policy portfolio asset allocation, exposures and risk profile on an ongoing basis.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The College's spending policy is 4.5% of the endowment's fair value applied to a three year moving average with a one year lag. The amount appropriated for operations is $24,000 and $22,455 for the years ended June 30, 2014 and 2013, respectively.

In establishing these policies, the College considers the expected return on its endowment and its programming needs. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power and to provide a predictable and stable source of revenue to the annual operating budget. Additional real growth will be provided through new gifts, any excess investment return or additions designated by the Board of Trustees.

(In thousands)

Changes in endowment net assets and net asset composition, not including pledges, consists of the following at June 30:

		2014			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, June 30, 2013	$	310,714	163,142	161,056	634,912
Investment return:					
Investment income, net		1,756	887	—	2,643
Net gains		45,271	48,387	20	93,678
Total investment return		47,027	49,274	20	96,321
Contributions		477	—	7,822	8,299
Transfer from operations		10,521	—	—	10,521
Appropriated for expenditure		(12,696)	(11,304)	—	(24,000)
Endowment net assets, June 30, 2014	$	356,043	201,112	168,898	726,053
Composition of endowment net assets:					
Donor-restricted endowment funds	$	—	201,112	168,898	370,010
Board-designated endowment funds		356,043	—	—	356,043
Total endowment net assets	$	356,043	201,112	168,898	726,053

		2013			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, June 30, 2012	$	289,124	146,636	154,009	589,769
Investment return:					
Investment income, net		1,861	2,186	—	4,047
Net gains		25,532	24,880	—	50,412
Total investment return		27,393	27,066	—	54,459
Contributions		2,105	5	6,767	8,877
Clarification of donor intent		—	(280)	280	—
Transfer from operations		4,262	—	—	4,262
Appropriated for expenditure		(12,170)	(10,285)	—	(22,455)
Endowment net assets, June 30, 2013	$	310,714	163,142	161,056	634,912
Composition of endowment net assets:					
Donor-restricted endowment funds	$	—	163,142	161,056	324,198
Board-designated endowment funds		310,714	—	—	310,714
Total endowment net assets	$	310,714	163,142	161,056	634,912

(In thousands)

(6) Land, Buildings, and Equipment

The following is a summary of the College's property and equipment as of June 30:

	Estimated lives	2014	2013
Land	—	$ 3,830	3,779
Land improvements	20 – 30	41,810	41,077
Buildings	5 – 55	316,158	306,054
Equipment and furniture	5 – 20	54,638	54,266
Construction in progress	—	8,163	6,823
Artwork	—	853	853
		425,452	412,852
Less accumulated depreciation		(219,287)	(207,024)
		$ 206,165	205,828

(7) Retirement Plans

The College's contributory retirement plan covers exempt employees. Participating employees contribute a minimum of 2% to a maximum of 5% of their base salary. The College makes a matching contribution equal to 10% of compensation up to the taxable wage base and 12% of compensation in excess of the taxable wage base. The College contributed $4,671 and $4,574, respectively, for the years ended June 30, 2014 and 2013, respectively.

The College's noncontributory defined benefit retirement plan covers nonexempt employees. The College recognizes the funded status, the difference between the fair value of the plan assets and the projected benefit obligation, as an asset or liability in its balance sheet and recognizes the change in that funded status in the year in which the change occurred through changes in nonoperating unrestricted net assets.

The benefit obligation is determined by using a cash flow matching methodology that determines a single rate based on discounted projected cash flows for the plan. Each year the projected cash flow is discounted at a spot rate that is appropriate for that maturity; the discount rate is the single equivalent rate that produces the same discounted present value.

(In thousands)

The following table sets forth the defined benefit pension plan's obligations, fair value of plan assets and funded status for the years ended June 30:

		2014	2013
Change in benefit obligation:			
Benefit obligation at beginning of year	$	47,495	54,612
Service cost		1,755	2,050
Interest cost		2,460	2,216
Benefits paid		(1,840)	(1,744)
Actuarial loss (gain)		11,902	(9,639)
Benefit obligation at end of year		61,772	47,495
Change in plan assets:			
Fair value of plan assets at beginning of year		50,772	44,404
Actual return on plan assets		7,592	5,942
Employer contribution		2,170	2,170
Benefits paid		(1,840)	(1,744)
Fair value of plan assets at end of year		58,694	50,772
Funded status - net (obligation) asset recognized in the balance sheets	$	(3,078)	3,277
Weighted average assumptions used to determine benefit obligations at June 30:			
Discount rate		4.44%	5.08%
Rate of compensation increase		3.50	3.50
Weighted average assumptions used to determine net periodic benefit cost for year ending June 30:			
Discount rate		5.08	4.09
Expected long-term rate of return on plan assets		7.00	7.00
Rate of compensation increase		3.50	4.00

The accumulated benefit obligation was $56,639 at June 30, 2014 and $44,027 at June 30, 2013. The benefits expected to be paid after June 30, 2014 are as follows; $2,213 in 2015, $2,367 in 2016, $2,477 in 2017, $2,603 in 2018, $2,725 in 2019 and aggregate benefits for years 2020 through 2024 are expected to be $16,214. The College plans to make a nonmandatory employer contribution of $2,170 for fiscal year 2015. The measurement date used to determine pension assets and benefit obligations was June 30, 2014.

(In thousands)

The following table sets forth the components of net periodic benefit cost and the nonoperating charge (credit) reported in the statements of activities for the years ended June 30:

		2014	2013
Components of net periodic benefit cost:			
Service cost – benefits earned	$	1,755	2,050
Interest cost on projected benefit obligation		2,460	2,216
Expected return on plan assets		(3,545)	(3,103)
Amortization of prior service cost		449	449
Recognized actuarial loss		—	839
Net periodic benefit cost		1,119	2,451
Changes recognized in nonoperating:			
Net loss (gain) arising during the year		7,855	(12,478)
Amortization of prior service cost		(449)	(449)
Recognized actuarial loss		—	(839)
Total recognized as nonoperating		7,406	(13,766)
Total recognized in the statements of activities	$	8,525	(11,315)

Amounts not yet reflected in net periodic benefit cost and included in the balance sheets are as follows:

		2014	2013
Accumulated net loss	$	(10,837)	(2,982)
Prior service costs		(501)	(950)
Accumulated other nonoperating loss		(11,338)	(3,932)
Accumulated contributions in excess of net periodic benefit cost		8,260	7,209
Net (obligation) asset recognized in the balance sheets	$	(3,078)	3,277

The estimated amounts that will be amortized from unrestricted net assets into net periodic benefit cost in 2015 are unrecognized prior service cost of $375 and an accumulated net loss of $347.

(In thousands)

The retirement plan's investment policy includes the following asset allocation guidelines:

Cash and fixed income	20 – 45%
Domestic equities	7.5 – 35%
International equities	5 – 25%
Hedge funds	5 – 20%
Real assets	5 – 15%
Multi-asset	5 – 20%

The investment strategy of the noncontributory retirement plan is to allocate assets among investment classes that will provide for stability and growth of plan assets in varying market environments. To that end, the plan has adopted policies that require each asset class to be diversified and that multiple managers with differing styles of management are employed. On a quarterly basis the plan reviews progress toward achieving its and individual managers' performance objectives. The fair value of the College's defined benefit pension plan assets by asset class are as follows at June 30:

	2014		
	Level 1	**Level 2**	**Total**
Cash and fixed income	$ 14,898	—	14,898
Domestic equities	13,400	—	13,400
International equities	—	12,575	12,575
Hedge funds	—	6,557	6,557
Real assets	—	5,755	5,755
Multi-asset	—	5,509	5,509
	$ 28,298	30,396	58,694

	2013		
	Level 1	**Level 2**	**Total**
Cash and fixed income	$ 14,006	—	14,006
Domestic equities	10,885	—	10,885
International equities	—	10,052	10,052
Hedge funds	—	5,840	5,840
Real assets	—	5,327	5,327
Multi-asset	—	4,662	4,662
	$ 24,891	25,881	50,772

The investments classified as Level 2 have daily, monthly or quarterly liquidity with one to thirty days notice requirements.

(In thousands)

(8) Long-Term Debt

Long-term debt consists of the following at June 30:

		2014	2013
Massachusetts Development Finance Agency Revenue Bonds:			
5.25%, 2002 Issue maturing in 2032	$	26,175	26,175
4% – 5%, 2007 Issue, Series B maturing serially through 2023		21,170	22,800
Floating Rate Revenue Bonds, 2008 Issue, Series A maturing serially through 2037		40,100	41,075
4% – 5%, 2008 Issue, Series B maturing serially through 2026		52,235	55,320
		139,680	145,370
Unamortized premium		5,299	5,689
	$	144,979	151,059

Maturities of bonds for the fiscal years after June 30, 2014 are as follows:

2015	$	6,620
2016		6,485
2017		6,230
2018		6,520
2019		6,835
Thereafter		106,990

Interest expense charged to operations was $6,562 and $6,844 in 2014 and 2013, respectively.

The Massachusetts Development Finance Agency Revenue Bonds are tax-exempt issues and are general obligations of the College. The floating or variable rate for the 2008 Series A Issue is determined on a daily basis by the Remarketing Agent for each rate period to be the lowest rate which in its judgment would permit the sale of the Series 2008A Bonds. In the event that the variable rate for the immediately preceding day was not determined by the Remarketing Agent, or in the event that the variable rate determined by the Remarketing Agent shall be held to be invalid or unenforceable by a court of law, then the interest rate for such day shall be equal the SIFMA Index made available for the week preceding the date of determination, or if such index is no longer available, or no such index was so made available for the week preceding the date of determination, 75% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal. The interest rate on the Series 2008A Bonds may be converted to a fixed rate at the election of the College and upon the satisfaction of certain requirements. The average interest rate was 0.05% and 0.13% in 2014 and 2013, respectively.

In the event that the College receives notice of any optional tender on its variable rate bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the College will have a general obligation to purchase the bonds tendered. The College maintains a direct-pay letter of credit with a commercial bank to provide alternative liquidity to support the repurchase of tendered variable rate bonds in the event that the bonds are unable to be remarketed. Financing obtained through a letter of credit facility to fund the repurchase of the bonds would bear interest rates different from those associated with the original bond issues. The credit facility in effect at June 30, 2014 expires in December 2015.

The College has one interest rate swap agreement related to the Series 2008A Bonds with a current notional amount of $39,925 that reduces at approximately the same rate as the outstanding principal amount of the Series 2008A Bonds. The swap provides for the College to pay a fixed rate of 3.881% in exchange for the financial institution paying a variable rate equal to 68% of 1-month USD-LIBOR on the notional amount. Neither party has an obligation to post collateral with respect to the swap. However, in the event the College's credit ratings were downgraded below a specified level, the counterparty could elect to terminate the swap which could require a termination payment to the counterparty. The fair value of the liability associated with the swap was $8,306 and $8,356 as of June 30, 2014 and 2013, respectively. To the extent the College holds the swap through its expiration date, the swap's fair value will reach zero. Because the swap fair value is based predominantly on observable inputs that are corroborated by market data, it is categorized as Level 2 for purposes of valuation disclosure.

The College established an unsecured line of credit in the amount of $15,000 with a commercial bank primarily for working capital purposes. The line of credit expires in May 2015 and may be renewed. The line of credit was not utilized during the years ended June 30, 2014 or 2013 and has no outstanding balance as of June 30, 2014 or 2013.

The College determined that the estimated fair value of its total indebtedness was $138,562 and $145,283 as of June 30, 2014 and 2013, respectively. The fair value of long-term debt is based on significant observable inputs and is categorized as Level 2 for purposes of valuation disclosure. The College further determined that the differences between the carrying values and estimated fair values of its other financial assets and liabilities at June 30, 2014 and 2013 were not significant.

(In thousands)

(9) Restricted Net Assets

The College's donor-restricted net assets consist of the following at June 30:

		2014		2013	
		Temporarily restricted	**Permanently restricted**	**Temporarily restricted**	**Permanently restricted**
Scholarships	$	119,795	78,142	99,865	71,290
Instruction		65,944	67,556	59,691	66,196
Student services		7,776	7,366	5,937	7,436
Academic support		4,622	5,439	3,545	5,411
Other		33,664	10,395	12,220	10,723
Annuity agreements		1,353	1,667	1,328	1,594
Time restrictions-pledges		24,296	6,889	9,938	2,393
Total net assets	$	257,450	177,454	192,524	165,043

The temporarily restricted net assets at June 30, 2014 and 2013 include $201,112 and $163,142, respectively, of appreciation on donor-restricted endowment funds available to support College programs through the spending appropriation.

(10) Related-Parties

Members of the College's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the College. The College's conflict of interest policy requires, among other things, that no member of the Board of Trustees or its committees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. For members of the Board of Trustees and senior management, the College requires an annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the College. When such relationships exist, measures are taken to address the actual or perceived conflict to protect the best interests of the College and ensure compliance with relevant conflict of interest laws or policy.

The College has investments in funds where members of the Board of Trustees serve as a manager, director or partner. These investments include limited partnerships that provide investment management services for a portion of the College's hedge fund portfolio and several funds for cash and cash equivalents. These investments were made in compliance with the College's conflict of interest policy. As of June 30, 2014, the College held $77,587 in these funds, which are included in the College's long-term investment portfolio and its cash and cash equivalents. The College has no commitment to contribute or invest any additional funds to these investments. The College took measures to mitigate any actual or perceived conflict, including requiring that these transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and in the best interest of the College, and in accordance with applicable conflict of interest laws.

(In thousands)

(11) Natural Classification of Expenses

Operating expenses presented by natural classification are as follows for the fiscal years ended June 30:

		2014	2013
Salaries	$	69,965	68,137
Fringe benefits		25,262	26,407
Depreciation		13,366	13,340
Interest		6,562	6,844
Utilities		4,815	4,169
Other operating		37,238	36,644
	$	157,208	155,541

(12) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2014 and through September 25, 2014, the date on which the financial statements were issued.