



ST. JOSEPH COLLEGE

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

The Board of Trustees
St. Joseph College:

We have audited the accompanying statements of financial position of St. Joseph College (the College) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

KPMG LLP

October 17, 2011

ST. JOSEPH COLLEGE
Statements of Financial Position
June 30, 2011 and 2010
(Dollars in thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 173	77
Accounts and loans receivable, net (note 3)	1,341	1,863
Pledges receivable, net (note 4)	1,696	1,162
Other assets	773	938
Investments (note 5)	20,337	14,335
Restricted investments (notes 5 and 8)	1,261	1,167
Deposits with bond trustee (note 5)	467	469
Investment in plant, net (notes 7, 8, and 9)	33,464	33,854
Total assets	\$ 59,512	53,865
Liabilities		
Short-term line of credit (note 8)	\$ 2,637	2,990
Accounts payable and accrued expenses	7,440	7,042
Deposits and deferred revenue	1,999	1,990
Capital lease obligation (notes 7 and 9)	160	140
Bonds payable (note 8)	14,125	14,590
Government grants refundable	350	350
Total liabilities	26,711	27,102
Net Assets		
Unrestricted	15,302	14,216
Temporarily restricted (note 12)	5,846	3,714
Permanently restricted (note 12)	11,653	8,833
Total net assets	32,801	26,763
Commitments and contingencies (notes 10 and 14)		
Total liabilities and net assets	\$ 59,512	53,865

See accompanying notes to financial statements.

ST. JOSEPH COLLEGE

Statement of Activities

Year ended June 30, 2011

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating activities:				
Revenues:				
Tuition and fees, net (note 2)	\$ 23,954	—	—	23,954
Grant and contract income	4,211	—	—	4,211
Contributions	1,068	2,064	2,820	5,952
Endowment spending used in operations (note 5)	161	511	—	672
Residence and dining	4,614	—	—	4,614
Other auxiliary services	354	—	—	354
Sales and services of education departments	9,704	—	—	9,704
Other revenues	115	—	—	115
Net assets released from restrictions (note 13)	1,793	(1,793)	—	—
Total revenues from operations	<u>45,974</u>	<u>782</u>	<u>2,820</u>	<u>49,576</u>
Expenses:				
Instructional	16,810	—	—	16,810
Public service	7,679	—	—	7,679
Academic support	4,587	—	—	4,587
Student services	4,093	—	—	4,093
Auxiliary services	5,693	—	—	5,693
Institutional support and other expenses	6,948	—	—	6,948
Total expenses	<u>45,810</u>	<u>—</u>	<u>—</u>	<u>45,810</u>
Increase in net assets from operating activities	164	782	2,820	3,766
Nonoperating activities:				
Net return on long-term investments, net of amounts used in operations (note 5)	926	1,350	—	2,276
Loss on fair value of interest rate swap	(4)	—	—	(4)
Change in net assets	1,086	2,132	2,820	6,038
Net assets, beginning of year	<u>14,216</u>	<u>3,714</u>	<u>8,833</u>	<u>26,763</u>
Net assets, end of year	<u>\$ 15,302</u>	<u>5,846</u>	<u>11,653</u>	<u>32,801</u>

See accompanying notes to financial statements.

ST. JOSEPH COLLEGE

Statement of Activities

Year ended June 30, 2010

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating activities:				
Revenues:				
Tuition and fees, net (note 2)	\$ 19,721	—	—	19,721
Grant and contract income	3,603	—	—	3,603
Contributions	1,351	467	82	1,900
Endowment spending used in operations (note 5)	295	345	—	640
Residence and dining	4,057	—	—	4,057
Other auxiliary services	312	—	—	312
Sales and services of education departments	9,234	—	—	9,234
Other revenues	80	—	—	80
Net assets released from restrictions (note 13)	1,209	(1,209)	—	—
Total revenues from operations	<u>39,862</u>	<u>(397)</u>	<u>82</u>	<u>39,547</u>
Expenses:				
Instructional	13,187	—	—	13,187
Public service	7,395	—	—	7,395
Academic support	4,336	—	—	4,336
Student services	3,927	—	—	3,927
Auxiliary services	5,263	—	—	5,263
Institutional support and other expenses	6,626	—	—	6,626
Total expenses	<u>40,734</u>	<u>—</u>	<u>—</u>	<u>40,734</u>
(Decrease) increase in net assets from operating activities	(872)	(397)	82	(1,187)
Nonoperating activities:				
Net return on long-term investments, net of amounts used in operations (note 5)	503	560	—	1,063
Loss on fair value of interest rate swap	(616)	—	—	(616)
Change in net assets	(985)	163	82	(740)
Net assets, beginning of year	<u>15,201</u>	<u>3,551</u>	<u>8,751</u>	<u>27,503</u>
Net assets, end of year	<u>\$ 14,216</u>	<u>3,714</u>	<u>8,833</u>	<u>26,763</u>

See accompanying notes to financial statements.

ST. JOSEPH COLLEGE

Statements of Cash Flows

Year ended June 30, 2011 and 2010

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,038	(740)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,529	2,399
Change in value of interest rate swap agreement	4	616
Net unrealized and realized gains on investments	(2,615)	(1,364)
Contributions restricted for long-term investment	(2,772)	(82)
Change in accounts and loans receivable	522	(123)
Change in pledges receivable	(534)	231
Change in other assets	139	(190)
Change in accounts payable and accrued expenses	516	(228)
Change in deposits and deferred revenue	9	(42)
Net cash provided by operating activities	<u>3,836</u>	<u>477</u>
Cash flows from investing activities:		
Purchases of plant and equipment	(2,087)	(1,353)
Proceeds from maturities and sale of investments	6,074	26,644
Purchases of investments	(9,555)	(25,011)
Net cash (used in) provided by investing activities	<u>(5,568)</u>	<u>280</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	2,772	82
Principal payments on bonds, notes, and loans payable	(465)	(410)
Short-term line of credit, net	(353)	(326)
Payments on capital lease obligations	(128)	(161)
Change in deposit with bond trustee	2	(54)
Net cash provided by (used in) financing activities	<u>1,828</u>	<u>(869)</u>
Net increase (decrease) in cash and cash equivalents	96	(112)
Cash and cash equivalents at beginning of year	<u>77</u>	<u>189</u>
Cash and cash equivalents at end of year	\$ <u><u>173</u></u>	\$ <u><u>77</u></u>
Supplemental data:		
Cash paid during the year for interest	\$ 579	531
Fixed assets acquired through capital lease	148	122

See accompanying notes to financial statements.

ST. JOSEPH COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(1) Organization

St. Joseph College (the College) is a private, tax-exempt, nonprofit educational institution. The College was founded in 1932 and is located on 84 acres in West Hartford, Connecticut.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by the College are described below to enhance the usefulness of the financial statements to the reader.

(a) Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting in accordance with United States 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. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use, for general or specific purposes, all or part of the income and capital gains, if any, on related investments.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met by actions of the College and/or the passage of time.

Unrestricted net assets – Net assets not subject to donor-imposed restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, if any, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-restricted purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Gifts of long-lived assets are considered unrestricted support.

The College's measure of operations presented in the statement of activities includes income from tuition and fees, grants and contracts, contributions for operating programs, endowment spending used in operations, and other revenues. Operating expenses are reported on the statement of activities by functional categories, after allocating costs for operation and maintenance of plant, interest on indebtedness, and depreciation expense.

Nonoperating activity includes interest rate swap gains/losses and investment returns and other activities related to endowment utilized for long-term purposes.

ST. JOSEPH COLLEGE
Notes to Financial Statements
June 30, 2011 and 2010
(Dollars in thousands)

(b) *Liquidity Information*

In order to provide information about liquidity, assets have been sequenced in the statement of financial position according to their nearness to conversion to cash, and liabilities have been sequenced according to the nearness of their maturity and resulting use of cash.

(c) *Contribution Revenue*

The College reports contributions (including unconditional promises to give) 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. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions expected to be received after one year are discounted at an appropriate discount rate. The discount rate represents the risk-free rate in existence at the date of the gift. An allowance for uncollectible contributions is estimated based upon such factors as prior collection history, type of contribution and nature of fundraising activity.

(d) *Cash Equivalents*

For the purpose of the statement of cash flows, the College considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents, except for cash held with investment managers for long-term investment.

(e) *Investments*

Investments are reported in the financial statements at fair value based on quoted market sources. Accordingly, the gains and losses that result from market fluctuations are recognized in the statement of activities in the period in which the fluctuations occur.

(f) *Student Tuition and Fees*

Student tuition and fees are recorded net of College funded student aid and externally funded student aid. Total College funded and externally funded student aid for the years ended June 30, 2011 and 2010 was \$12,384 and \$10,665, respectively.

(g) *Investment in Plant*

All plant assets are stated at cost except gifts in kind, which are recorded at their estimated fair value on the date of the gift. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Construction in progress is not depreciated until placed in service. When plant assets are retired or disposed of, the cost and related accumulated depreciation are removed and any resulting gain or loss is reflected in the statement of activities.

ST. JOSEPH COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the College capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

(h) Bond Issuance Costs

Bond issuance costs are amortized using the effective interest method over the life of the associated bond issue.

(i) Student Deposits

Student deposits along with advance payments for tuition, room, and board related to the next term have been deferred and will be reported as unrestricted revenue in the year in which the term is completed.

(j) Income Taxes

The College was granted an exempt status under the Internal Revenue Code (IRC) Section 501(a), as an organization described in Section 501(c)(3). Under IRC Section 501(a) the College is generally exempt from income taxes. The College believes it has taken no significant uncertain tax positions.

(k) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. These costs include direct and indirect costs that have been allocated, on a consistent basis, among the program and supporting services benefited.

(l) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles in the United States of America 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. The current economic environment increased the uncertainty of those estimates.

ST. JOSEPH COLLEGE
Notes to Financial Statements
June 30, 2011 and 2010
(Dollars in thousands)

(3) Accounts and Loans Receivable

Accounts and loans receivable consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Student accounts receivable	\$ 375	455
Perkins loans receivable	526	498
Gengras Center receivables	297	347
Grants and other receivables	230	654
Less allowance for doubtful accounts	(87)	(91)
Net accounts and loans receivable	<u>\$ 1,341</u>	<u>1,863</u>

(4) Pledges Receivable

Pledges receivable consist of the following unconditional promises to give as of June 30:

	<u>2011</u>	<u>2010</u>
Amounts due in:		
Less than one year	\$ 1,188	1,168
One to five years	941	10
Greater than five years	400	400
Gross pledges receivable	<u>2,529</u>	<u>1,578</u>
Less:		
Allowance for uncollectible pledges	(446)	(273)
Discount to present value	(387)	(143)
Net pledges receivable	<u>\$ 1,696</u>	<u>1,162</u>

Pledges recorded at June 30, 2011 and 2010 are discounted at rates ranging from 2.81% to 5.21%.

At June 30, 2011, the College had received conditional promises to give of \$585. These promises to give are not recognized as assets until such time as the conditions have been met.

Fundraising expenses for the years ended June 30, 2011 and 2010 totaling \$784 and \$745, respectively, have been classified as institutional support expenses in the statement of activities.

(5) Fair Value

The carrying values of the College's cash and cash equivalents, receivables, other assets, accounts payable and accrued liabilities, and deposits and deferred revenues approximated their fair values. An approximate estimate of the fair values of student loan receivables administered by the College under federal government loan programs is not practical because the receivables can only be assigned to the U.S. government or its designees.

ST. JOSEPH COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

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 and real estate.

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

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the College has the ability to access at measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.

Level 3 inputs are unobservable inputs for the assets or liabilities. The College has no Level 3 investments.

Investments are reported at estimated fair value. If an investment is held directly by the College and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The College's investments classified as Level 2 have been valued using net asset value (NAV) as the practical expedient. 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 statement of financial position.

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

ST. JOSEPH COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

The College's assets and liabilities at June 30, 2011 that are reported at fair value are summarized in the following table by their fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>2011 Total</u>	<u>Redemption</u>	<u>Days notice</u>
Assets:					
Investments:					
Cash and cash equivalents	\$ 2,987	—	2,987	Daily	1
Equities – U.S.	3,662	2,880	6,542	Daily/Monthly	1– 30
Equities – Foreign	859	3,985	4,844	Daily/Monthly	1– 30
Fixed income	3,711	—	3,711	Daily	1
Hybrid funds	2,175	—	2,175	Daily	1
Real estate funds	78	—	78	Daily	3
	<u>13,472</u>	<u>6,865</u>	<u>20,337</u>		
Total investments					
Other assets:					
Funds held by Swap					
Counterparty	1,261	—	1,261	N/A	N/A
Funds held by bond trustee	467	—	467	N/A	N/A
	<u>1,728</u>	<u>—</u>	<u>1,728</u>		
	<u>15,200</u>	<u>6,865</u>	<u>22,065</u>		
Total assets					
Liabilities:					
Interest rate swap agreement	\$ —	(1,147)	(1,147)		
	<u>—</u>	<u>(1,147)</u>	<u>(1,147)</u>		
Total liabilities					

ST. JOSEPH COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

The College's assets and liabilities at June 30, 2010 that are reported at fair value are summarized in the following table by their fair value hierarchy (in thousands of dollars):

	<u>Level 1</u>	<u>Level 2</u>	<u>2010 Total</u>	<u>Redemption</u>	<u>Days notice</u>
Assets:					
Investments:					
Cash and cash equivalents	\$ 1,047	—	1,047	Daily	1
Equities – U.S.	1,329	4,474	5,803	Daily/Monthly	1– 30
Equities – Foreign	19	2,863	2,882	Daily/Monthly	1– 30
Fixed income	2,933	—	2,933	Daily	1
Hybrid funds	1,581	—	1,581	Daily	1
Real estate funds	68	—	68	Daily	3
Funds held in trust by others	—	21	21	Daily	1– 10
	<u>6,977</u>	<u>7,358</u>	<u>14,335</u>		
Other assets:					
Funds held by swap counterparty	1,167	—	1,167	N/A	N/A
Funds held by bond trustee	469	—	469	N/A	N/A
	<u>1,636</u>	<u>—</u>	<u>1,636</u>		
Total assets	\$ <u>8,613</u>	<u>7,358</u>	<u>15,971</u>		
Liabilities:					
Interest rate swap agreement	\$ —	(1,143)	(1,143)		
Total liabilities	\$ <u>—</u>	<u>(1,143)</u>	<u>(1,143)</u>		

The College's total return on its invested assets consists of the following components reported on the statement of activities:

	<u>2011</u>	<u>2010</u>
Investment income, net of investment expenses	\$ 333	339
Net realized gains on sale of securities	260	911
Net unrealized gains on securities	2,355	453
	\$ <u>2,948</u>	<u>1,703</u>

The College maintains a Pooled Income Fund which is administered by a trustee and managed under the terms of the St. Joseph College Pooled Income Fund Plan (the Plan). The life income gifts of donors are commingled within the fund and the donors receive a proportionate share of the fund's income on a quarterly basis. The irrevocable gifts are invested under the terms of the Plan and are invested in the Bank of America Charitable Equity Trust and Charitable Bond Trust. Upon the death of a donor, the value of the fund attributable to the donor's units are distributed to the College. Temporarily restricted private gift

ST. JOSEPH COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

income has been recorded at the fair value of the assets received discounted for a term equal to the life expectancy of the donor. The final distribution of \$21 was made from the fund during 2011.

(6) Endowment Funds

The College's endowment consists of approximately 150 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the College to function as endowments (quasi endowment).

The College manages its long term investments in accordance with the total return concept and the goal of maximizing long term return within acceptable levels of risk. The College's spending policy is designed to provide a stable level of financial support and to preserve the real value of its endowment. The College compares the performance of its investments against several benchmarks.

The College's annual spending distribution is determined by applying a spending formula outlined in the Endowment Spending Policy. The spending formula equals the lesser of 5% or the actual total return generated by the portfolio over the prior three years, net of inflation for the same period. The spending rate is then applied to the average of the quarterly portfolio market values for the previous three fiscal years to determine the total spending amount. The spending total is allocated to the individual funds on a unit basis. In fiscal years 2011 and 2010, the College's Endowment Spending Policy restricted the spending distribution to 0%, due to several years of poor market performance. However, in order to continue to provide scholarship assistance beneficial to students, the Board of Trustees voted to partially waive the spending restriction for fiscal year 2011 and 2010. The approved spending for fiscal years 2011 and 2010 was \$700 and \$640, respectively, which was approximately equivalent to a spending rate of 3.7% of the portfolio market value for both fiscal years.

The College's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment. 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 those amounts are appropriated for expenditure by the College in a manner consistent with the standard prudence prescribed by Uniform Prudent Management of Institutional Funds Act (UPMIFA). In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the College and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the College and (7) the investment policies of the College.

ST. JOSEPH COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

Endowment net assets consisted of the following at June 30, 2011 and June 30, 2010:

		2011			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$	(41)	3,553	11,601	15,113
Quasi (board designated)		6,293	—	—	6,293
Total	\$	<u>6,252</u>	<u>3,553</u>	<u>11,601</u>	<u>21,406</u>
		2010			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$	(307)	2,245	8,833	10,771
Quasi (board designated)		4,724	—	—	4,724
Total	\$	<u>4,417</u>	<u>2,245</u>	<u>8,833</u>	<u>15,495</u>

Changes in endowment net assets for the fiscal years ended June 30, 2011 and June 30, 2010 were as follows:

		2011			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets June 30, 2010	\$	4,417	2,245	8,833	15,495
Investment return		426	142	—	568
Unrealized gains		652	1,701	—	2,353
Transfers		909	—	—	909
Contributions		3	50	2,768	2,821
Distributions		(155)	(585)	—	(740)
Net assets June 30, 2011	\$	<u>6,252</u>	<u>3,553</u>	<u>11,601</u>	<u>21,406</u>
		2010			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets June 30, 2009	\$	4,978	1,774	8,751	15,503
Investment return		580	590	—	1,170
Unrealized gains		137	315	—	452
Contributions		—	—	82	82
Distributions		(1,278)	(434)	—	(1,712)
Net assets June 30, 2010	\$	<u>4,417</u>	<u>2,245</u>	<u>8,833</u>	<u>15,495</u>

ST. JOSEPH COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

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 and aggregated \$41 and \$307 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from 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 required level are classified as an increase in unrestricted net assets.

(7) Investment in Plant

Plant assets consist of the following at June 30:

	2011	2010	Estimated useful lives
Land	\$ 660	660	—
Land improvements	4,763	4,705	10 – 39 years
Leasehold improvements	2,088	1,603	10 – 30 years
Buildings and building improvements	42,538	42,428	10 – 45 years
Furniture and equipment	15,264	15,957	3 – 10 years
Construction in progress	404	502	—
	<u>65,717</u>	<u>65,855</u>	
Less accumulated depreciation	<u>(32,253)</u>	<u>(32,001)</u>	
	<u>\$ 33,464</u>	<u>33,854</u>	

Depreciation expense for the years ended June 30, 2011 and 2010 amounted to \$2,381 and \$2,263, respectively.

As of June 30, 2011 and 2010, the College had assets under capital lease of \$426 and \$395, respectively, with related accumulated depreciation of \$159 and \$153, respectively. These assets are included in furniture and equipment above.

Costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be accrued. The College has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement costs were estimated using a per square foot estimate. At June 30, 2011 and 2010, the balance in the asset retirement obligation (included in accounts payable and accrued expenses) was \$2,750 and \$2,635, respectively.

ST. JOSEPH COLLEGE
Notes to Financial Statements
June 30, 2011 and 2010
(Dollars in thousands)

(8) Bonds Payable and Line of Credit

(a) Bonds Payable

The following is a summary of bonds payable at June 30:

	2011	2010
Connecticut Health and Educational Facilities Authority (CHEFA):		
Series B bonds, face amount, \$15,000 issued in 2008, due 2038 with variable interest rate of 1.557% at June 30, 2011 and 3.585% at June 30, 2010	\$ 14,125	14,590
	\$ 14,125	14,590

In April 2008, the College issued CHEFA Series B bonds in the amount of \$15,000, a portion of which was used to construct new residence halls, with the remainder used to advance refund the Series A bonds. The bonds are secured by a pledge of gross receipts of the College, with the pledge being shared on a parity basis with the Credit Facility Provider. The scheduled payment of principal and interest when due is initially secured by an irrevocable direct-pay letter of credit issued by Sovereign Bank. The letter of credit expires on April 3, 2013.

On March 4, 2008, the College entered into an interest rate swap agreement with an effective date of March 27, 2008 relating to the aggregate principal of the Series B Bonds. The interest rate swap agreement was not entered into for trading or speculative purposes. Under the Swap Agreement, the College makes payments to the counterparty based upon a fixed interest rate of 3.146%. Pursuant to the swap agreement, the counterparty pays the College a variable rate based on the lesser of the weighted average of the weekly interest resets on the Series B Bonds and the SIFMA (formerly BMA) Municipal Swap Index. The fair value of the swap at June 30, 2011 and June 30, 2010 was \$1,147 and \$1,143, respectively. These amounts were recorded in accounts payable and accrued expenses in the statements of financial position. In compliance with the terms of the swap agreement, the College was required to post collateral equivalent to the fair market value of the swap. At June 30, 2011 the amount of collateral posted in support of the swap was \$1,261. The terms of the swap also require the College to maintain certain levels of unrestricted cash and investments. At June 30, 2010 the College did not meet the minimum unrestricted cash and investments balance and per the terms of the swap agreement gave the counterparty the right to call the swap. At June 30, 2011, the College met the minimum unrestricted cash and investment threshold; however, the counterparty maintains the right to terminate. The counterparty has not opted to terminate the swap agreement. The interest rate swap expires on July 1, 2018.

Under the bond agreement with CHEFA and a line of credit agreement with a bank, the College has agreed to certain financial covenants. The College has met its financial covenants as of June 30, 2011.

Bond cost amortization expenses charged to operations was \$26 in fiscal 2011 and 2010.

ST. JOSEPH COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

The following is a schedule of debt maturities payable over the next five years and thereafter by the College:

Year ending June 30:		
2012	\$	460
2013		470
2014		490
2015		505
2016		510
Thereafter		<u>11,690</u>
Total	\$	<u><u>14,125</u></u>

(b) Short-Term Line of Credit

The College has a revolving line of credit with Sovereign Bank for \$3,500 until January 31, 2012. Borrowings under the line bear interest at Prime or LIBOR plus 3.35% (3.75% at June 30, 2011 and 4.00% at June 30, 2010). Outstanding borrowings against the line were \$2,637 and \$2,990 at June 30, 2011 and 2010, respectively.

(9) Capital Lease Obligations

The College has entered into various capital lease agreements to lease academic and administrative computing equipment, lighting upgrades and other equipment. At June 30, 2011, the College had committed \$167 under these obligations, of which \$7 represented interest.

Future minimum lease payments for these lease obligations are as follows:

2012	\$	104
2013		54
2014		<u>9</u>
Total minimum lease payments		167
Amount representing interest		<u>7</u>
Present value of net minimum lease payments	\$	<u><u>160</u></u>

(10) Operating Leases

The College leases various office equipment, vehicles and other equipment under operating leases. Rent expense under operating leases was \$97 and \$103 in fiscal 2011 and 2010, respectively.

ST. JOSEPH COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

The approximate future minimum rental commitments under operating lease agreements are as follows:

Year ending June 30:		
2012	\$	76
2013		31
2014		23
	\$	<u>130</u>

The College has an agreement with the Town of West Hartford to lease a building and certain town property for the operation of the School for Young Children. The lease expires on July 31, 2047 and may be terminated by the College at any time before the end of the lease. Rent is payable in amounts of one dollar per year. The lease is contingent upon the College continuing to operate a comprehensive integrated child development and family support services program within the facility.

(11) Pension Plan

The College maintains a defined contribution retirement program with the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA/CREF). The College generally contributes 11% of base salaries, as defined, for both nonexempt participating employees and for exempt participating employees, as defined. Eligible employees may contribute a percentage of their annual compensation, pretax, subject to various restrictions within the Internal Revenue Code. Pension expense for the years ended June 30, 2011 and 2010 was \$1,904 and \$1,603, respectively.

(12) Temporarily and Permanently Restricted Net Assets

Restricted net assets as of June 30 consist of:

	<u>2011</u>	<u>2010</u>
Temporarily restricted net assets:		
Time restricted	\$ 1,641	1,162
Use restricted:		
Library and lectures	768	557
Scholarships	2,225	1,164
Capital	117	19
Other	1,095	812
Total	<u>\$ 5,846</u>	<u>3,714</u>
Permanently restricted net assets:		
Scholarships	\$ 8,634	5,819
General College support	3,019	3,014
Total	<u>\$ 11,653</u>	<u>8,833</u>

ST. JOSEPH COLLEGE
Notes to Financial Statements
June 30, 2011 and 2010
(Dollars in thousands)

(13) Net Assets Released from Restrictions

Temporarily restricted assets were released from donor restriction by incurring expenses satisfying the restricted purpose specified by the donor. For the years ended June 30, 2011 and 2010, temporarily restricted net assets were released as follows:

	2011	2010
Expiration of time restrictions	\$ 1,211	588
Student aid, support and services	562	621
Capital	20	—
Total	\$ 1,793	1,209

(14) Commitments and Contingencies

The College participates in a number of federal programs that are subject to financial and compliance audits. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the College does not expect these amounts, if any, to be material to the financial statements.

In the ordinary course of business, the College is involved in various claims and litigation. Adequate provision has been made in the financial statements for these matters. The ultimate outcome is not expected to have a material effect on the College's financial position. Legal counsel currently expresses no opinion on the outcome of these matters.

(15) Subsequent Events

The College considers events or transactions that occur after the balance sheet date, but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on October 17, 2011 and subsequent events have been evaluated through that date.

As of October 17, 2011, the College had posted a total of \$1,718 in collateral against the market value of the interest rate swap. As discussed in footnote 8, the counterparty has a right to terminate the swap, but as of this date has not elected to do so.

As of October 17, 2011, the College had \$0 outstanding borrowings on the Sovereign Bank line of credit.

On August 26, 2011 the College closed on a \$5,000 tax exempt equipment lease with First Niagara Leasing, Inc. through the CHEFA Easyloan program. The lease will be secured by an interest in the equipment and furnishings purchased with the proceeds of the lease. The term of the lease is 7 years and carries a fixed interest rate of 2.81%. Payments of principal and interest will be due semiannually.