



**ST. JOSEPH COLLEGE**

Financial Statements

June 30, 2009

(With Independent Auditors' Report Thereon)

# ST. JOSEPH COLLEGE

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**KPMG LLP**  
One Financial Plaza  
Hartford, CT 06103-4103

## **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, 2009 and 2008, 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, 2009 and 2008, 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 30, 2009

**ST. JOSEPH COLLEGE**

Statement of Financial Position

June 30, 2009

(with comparative information as of June 30, 2008 as restated)

(Dollars in thousands)

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 189	280
Accounts and loans receivable, net (note 3)	1,740	1,571
Pledges receivable, net (note 4)	1,393	1,394
Other assets	774	966
Investments (notes 5 and 6)	15,770	18,397
Deposits with bond trustee (notes 5 and 9)	415	3,180
Investment in plant, net (notes 8, 9, and 10)	34,642	31,334
Total assets	<u>\$ 54,923</u>	<u>57,122</u>
<b>Liabilities</b>		
Short-term line of credit (note 9)	\$ 3,316	910
Accounts payable and accrued expenses (notes 5, 8, and 9)	6,544	7,684
Deposits and deferred revenue	2,032	2,541
Capital lease obligation (note 10)	178	123
Bonds, notes, and loans payable (note 9)	15,000	15,000
Government grants refundable	350	350
Total liabilities	<u>27,420</u>	<u>26,608</u>
<b>Net Assets</b>		
Unrestricted	15,201	16,599
Temporarily restricted (note 13)	3,551	5,180
Permanently restricted (note 13)	8,751	8,735
Total net assets	<u>27,503</u>	<u>30,514</u>
Commitments and contingencies (notes 11 and 15)		
Total liabilities and net assets	<u>\$ 54,923</u>	<u>57,122</u>

See accompanying notes to financial statements.

**ST. JOSEPH COLLEGE**

Statement of Activities

Year ended June 30, 2009

(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)	\$ 20,155	—	—	20,155
Grant and contract income	3,358	—	—	3,358
Contributions	845	601	16	1,462
Endowment spending used in operations (note 6)	333	489	—	822
Residence and dining	3,951	—	—	3,951
Other auxiliary services	324	—	—	324
Sales and services of education departments	9,074	—	—	9,074
Other revenues	93	—	—	93
Net assets released from restrictions (note 14)	1,427	(1,427)	—	—
Total revenues from operating activities	<u>39,560</u>	<u>(337)</u>	<u>16</u>	<u>39,239</u>
Expenses:				
Instructional	11,921	—	—	11,921
Public service	6,879	—	—	6,879
Academic support	3,894	—	—	3,894
Student services	3,903	—	—	3,903
Auxiliary services	5,262	—	—	5,262
Institutional support and other expenses	6,971	—	—	6,971
Total expenses	<u>38,830</u>	<u>—</u>	<u>—</u>	<u>38,830</u>
Increase in net assets from operating activities	730	(337)	16	409
Nonoperating activities:				
Net return on long-term investments, net of amounts used in operations (note 6)	(1,485)	(1,292)	—	(2,777)
Loss on fair value of interest rate swap (note 9)	(534)	—	—	(534)
Other charges	(109)	—	—	(109)
Change in net assets	<u>(1,398)</u>	<u>(1,629)</u>	<u>16</u>	<u>(3,011)</u>
Net assets, beginning of year, restated	<u>16,599</u>	<u>5,180</u>	<u>8,735</u>	<u>30,514</u>
Net assets, end of year	<u>\$ 15,201</u>	<u>3,551</u>	<u>8,751</u>	<u>27,503</u>

See accompanying notes to financial statements.

**ST. JOSEPH COLLEGE**

Statement of Activities

Year ended June 30, 2008 (as restated)

(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)	\$ 17,588	—	—	17,588
Grant and contract income	3,504	—	—	3,504
Contributions	903	1,256	90	2,249
Endowment spending used in operations (note 6)	686	18	—	704
Residence and dining	3,278	—	—	3,278
Other auxiliary services	281	—	—	281
Sales and services of education departments	8,451	—	—	8,451
Other revenues	168	—	—	168
Net assets released from restrictions (note 14)	1,223	(1,223)	—	—
Total revenues from operating activities	<u>36,082</u>	<u>51</u>	<u>90</u>	<u>36,223</u>
Expenses:				
Instructional	11,229	—	—	11,229
Public service	6,247	—	—	6,247
Academic support	3,597	—	—	3,597
Student services	3,650	—	—	3,650
Auxiliary services	4,249	—	—	4,249
Institutional support and other expenses	6,302	—	—	6,302
Total expenses	<u>35,274</u>	<u>—</u>	<u>—</u>	<u>35,274</u>
Increase in net assets from operating activities	808	51	90	949
Nonoperating activities:				
Net return on long-term investments, net of amounts used in operations (note 6)	(2,214)	(215)	—	(2,429)
Debt extinguishment charges (note 9)	(739)	—	—	(739)
Change in net assets	<u>(2,145)</u>	<u>(164)</u>	<u>90</u>	<u>(2,219)</u>
Net assets, beginning of year, originally presented	20,747	3,341	8,645	32,733
Cumulative effect of change in accounting principle (note 2)	<u>(2,003)</u>	<u>2,003</u>	<u>—</u>	<u>—</u>
Net assets at beginning of year, restated	<u>18,744</u>	<u>5,344</u>	<u>8,645</u>	<u>32,733</u>
Net assets, end of year	\$ <u><u>16,599</u></u>	<u><u>5,180</u></u>	<u><u>8,735</u></u>	<u><u>30,514</u></u>

See accompanying notes to financial statements.

**ST. JOSEPH COLLEGE**

Statement of Cash Flows

Year ended June 30, 2009

(with comparative information for the year ended June 30, 2008)

(Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,011)	(2,219)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,128	1,815
Change in value of interest rate swap agreement	534	—
Loss on extinguishment of debt	—	739
Gifts of property and equipment	(51)	—
Net unrealized and realized losses on investments	2,633	2,362
Contributions restricted for long-term investment	(17)	(90)
Change in accounts and loans receivable	(169)	(90)
Change in pledges receivable	1	113
Change in other assets	166	(197)
Change in accounts payable and accrued expenses	(762)	1,248
Change in deposits and deferred revenue	(509)	66
Net cash provided by operating activities	<u>943</u>	<u>3,747</u>
Cash flows from investing activities:		
Purchases of plant and equipment	(6,120)	(6,623)
Proceeds from maturities and sale of investments	6,308	8,787
Purchases of investments	(6,314)	(9,201)
Net cash used in investing activities	<u>(6,126)</u>	<u>(7,037)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	17	90
Proceeds from issuance of bonds, notes, and loans payable	—	15,000
Short-term line of credit, net	2,406	910
Bond issuance costs	—	(516)
Principal payments on bonds, notes, and loans payable	—	(10,247)
Payments on capital lease obligations	(96)	(57)
Change in deposit with bond trustee	2,765	(1,755)
Net cash provided by financing activities	<u>5,092</u>	<u>3,425</u>
Net (decrease) increase in cash and cash equivalents	(91)	135
Cash and cash equivalents at beginning of year	<u>280</u>	<u>145</u>
Cash and cash equivalents at end of year	\$ <u><u>189</u></u>	<u><u>280</u></u>
Supplemental data:		
Cash paid during the year for interest	\$ 572	620
Fixed assets acquired through capital lease	150	122

See accompanying notes to financial statements.

## ST. JOSEPH COLLEGE

### Notes to Financial Statements

June 30, 2009

(\$ 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, 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, 2009

(\$ 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 commensurate with the risk involved. 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.

**(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, 2009 and 2008 was \$9,886 and \$8,881, 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, 2009

(\$ 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, in accordance with Statement of Financial Accounting Standards (SFAS) No. 143 and Interpretation No.(FIN) 47, 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 straight-line 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.

**(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, 2009

(\$ in Thousands)

**(m) *Recently Issued Accounting Standards***

Through September 30, 2007, the College's management and investment of donor-restricted endowment funds were subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending. Effective October 1, 2007, the State of Connecticut enacted UPMIFA, the provisions of which apply to funds existing on or established after that date.

Effective July 1, 2008, the College adopted FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and requires disclosures about endowment funds. The adoption of FSP 117-1 required the College to retrospectively reclassify net assets related to accumulated investment earnings from unrestricted to temporarily restricted in the amount of \$2,003.

Effective July 1, 2008, the College adopted FASB Statement No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that the College would receive to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Effective June 30, 2009, the College adopted FASB Statement No. 165, *Subsequent Events* (Statement 165). Statement 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The College evaluated events subsequent to June 30, 2009 and through October 30, 2009. The adoption of Statement 165 had no impact on the College's financial statements.

**ST. JOSEPH COLLEGE**  
Notes to Financial Statements  
June 30, 2009  
(\$ in Thousands)

**(3) Accounts and Loans Receivable**

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

	<u>2009</u>	<u>2008</u>
Student accounts receivable	\$ 538	472
Perkins loans receivable	480	465
Gengras Center receivables	330	223
Grants and other receivables	456	461
Less allowance for doubtful accounts	(64)	(50)
Net accounts and loans receivable	<u>\$ 1,740</u>	<u>1,571</u>

**(4) Pledges Receivable**

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

	<u>2009</u>	<u>2008</u>
Amounts due in:		
Less than one year	\$ 899	911
One to five years	680	410
Greater than five years	500	500
Gross pledges receivable	<u>2,079</u>	<u>1,821</u>
Less:		
Allowance for uncollectible pledges	(430)	(155)
Discount to present value	(256)	(272)
Net pledges receivable	<u>\$ 1,393</u>	<u>1,394</u>

Pledges recorded at June 30, 2009 and 2008 are discounted at rates ranging from 0.56% to 5.13%.

At June 30, 2009, the College had received conditional promises to give of \$1,792. 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, 2009 and 2008 totaling \$782 and \$685, respectively, have been classified as institutional support expenses in the statement of activities.

**ST. JOSEPH COLLEGE**

Notes to Financial Statements

June 30, 2009

(\$ in Thousands)

**(5) Fair Value**

At June 30, 2009, 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.

Under Statement 157, which prioritizes the inputs to valuation techniques used to measure fair value, the three levels of the fair value hierarchy are as follows:

- 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 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.

The College's assets and liabilities at June 30, 2009 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>Level 3</u>	<u>2009 Total</u>	<u>2008 Total</u>
Assets:					
Investments:					
Cash and cash equivalents	\$ 1,045	—	—	1,045	667
Equities	8,414	—	93	8,507	10,992
Fixed income	1,537	4,185	131	5,853	6,482
Commodities funds	<u>365</u>	<u>—</u>	<u>—</u>	<u>365</u>	<u>256</u>
Total investments	11,361	4,185	224	15,770	18,397
Other assets:					
Funds held by bond trustee	<u>415</u>	<u>—</u>	<u>—</u>	<u>415</u>	<u>31,334</u>
Total assets	<u>\$ 11,776</u>	<u>4,185</u>	<u>224</u>	<u>16,185</u>	<u>49,731</u>
Liabilities:					
Interest rate swap agreements		\$ <u>(527)</u>		<u>(527)</u>	<u>—</u>
Total liabilities		\$ <u>(527)</u>		<u>(527)</u>	<u>—</u>

**ST. JOSEPH COLLEGE**

Notes to Financial Statements

June 30, 2009

(\$ in Thousands)

The following table presents the College's activity for the fiscal year ended June 30, 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in Statement 157:

	<b>Fixed income and equities</b>
Fair value at June 30, 2008	\$ 250
Dispositions	(5)
Investment return	7
Unrealized losses	(28)
Fair value at June 30, 2009	\$ <u>224</u>

**(6) Investments**

The fair value of investments at June 30 is summarized as follows:

	<b>2009</b>	<b>2008</b>
Cash and short-term investments	\$ 1,045	667
Common stocks	7,789	9,505
Bonds	5,722	6,330
Fixed income funds	131	152
Equity mutual funds	718	1,487
Commodities funds	365	256
Total investments	\$ <u>15,770</u>	<u>18,397</u>

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

	<b>2009</b>	<b>2008</b>
Investment income, net of investment expenses	\$ 678	637
Net realized (losses) gains on sale of securities	(2,252)	856
Net unrealized losses on securities	(381)	(3,218)
	\$ <u>(1,955)</u>	<u>(1,725)</u>

The College maintains a Pooled Income Fund that 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, 2009

(\$ 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.

#### (7) Endowment Funds

The College's endowment consists of approximately 140 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. The percentage approved for fiscal years 2009 and 2008 was 4.33% and 4.27%, respectively.

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 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
7. The investment policies of the College

**ST. JOSEPH COLLEGE**

Notes to Financial Statements

June 30, 2009

(\$ in Thousands)

Endowment funds consisted of the following at June 30, 2009 and 2008:

		<b>2009</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor restricted	\$	(536)	1,238	8,751	9,453
Quasi (Board designated)		6,050	—	—	6,050
Total	\$	<u>5,514</u>	<u>1,238</u>	<u>8,751</u>	<u>15,503</u>
		<b>2008</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor restricted	\$	—	3,149	8,735	11,884
Quasi (Board designated)		6,226	—	—	6,226
Total	\$	<u>6,226</u>	<u>3,149</u>	<u>8,735</u>	<u>18,110</u>

At June 30, 2009, the fair values of approximately 40 endowment accounts were less than their original fair value (underwater) by a total of approximately \$536.

Changes in endowment funds for the fiscal years ended June 30, 2009 and 2008 were as follows:

		<b>2009</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Balance, June 30, 2008	\$	6,226	3,149	8,735	18,110
Investment return		(589)	(1,090)	—	(1,679)
Unrealized losses		(133)	(246)	—	(379)
Contributions		—	—	16	16
Distributions		(290)	(575)	—	(865)
Transfers		300	—	—	300
Balance, June 30, 2009	\$	<u>5,514</u>	<u>1,238</u>	<u>8,751</u>	<u>15,503</u>

**ST. JOSEPH COLLEGE**

Notes to Financial Statements

June 30, 2009

(\$ in Thousands)

<b>2008</b>				
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Balance, June 30, 2007	\$ 10,280	1,267	8,645	20,192
Investment return	1,220	145	—	1,365
Unrealized losses	(2,876)	(341)	—	(3,217)
Contributions	—	222	90	312
Distributions	(495)	(147)	—	(642)
Transfers	(1,903)	2,003	—	100
Balance, June 30, 2008	\$ <u>6,226</u>	<u>3,149</u>	<u>8,735</u>	<u>18,110</u>

**(8) Investment in Plant**

Plant assets consist of the following at June 30:

	<b>2009</b>	<b>2008</b>	<b>Estimated useful lives</b>
Land	\$ 660	660	—
Land improvements	4,100	3,941	10 – 39 years
Leasehold improvements	1,603	1,603	10 – 30 years
Buildings and building improvements	42,317	34,034	10 – 45 years
Furniture and equipment	15,260	14,120	3 – 10 years
Construction in progress	440	4,721	—
	<u>64,380</u>	<u>59,079</u>	
Less accumulated depreciation	<u>(29,738)</u>	<u>(27,745)</u>	
	\$ <u>34,642</u>	<u>31,334</u>	

Depreciation expense for the years ended June 30, 2009 and 2008 amounted to \$1,993 and \$1,693, respectively.

As of June 30, 2009 and 2008, the College had assets under capital lease of \$488 and \$338, respectively, with related accumulated depreciation of \$263 and \$180, respectively. These assets are included in furniture and equipment above.

Under FIN 47, *Accounting for Conditional Asset Retirement Obligations*, 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, 2009 and 2008, the balance in the asset retirement obligation (included in accounts payable and accrued liabilities) was \$2,524 and \$2,418, respectively.

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**(9) Bonds, Notes, and Loans Payable and Line of Credit**

**(a) Bonds, Notes, and Loans Payable**

The following is a summary of bonds, notes, and loans payable at June 30:

	<b>2009</b>	<b>2008</b>
Connecticut Health and Educational Facilities Authority (CHEFA):		
Series B bonds, face amount, \$15,000 issued in 2008, due 2038 with variable interest rate	15,000	15,000
	\$ 15,000	15,000

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.

In April, 2008, the College advance refunded the outstanding balance of the Series A bonds. The par amount of bonds refunded, which have been legally defeased, was \$9,265 and carried interest rates of 4.375% to 5.250%. An escrow fund has been established for the refunded bonds and will pay bondholders interest and final payments on their respective call dates. The refunding escrow was funded with a par amount of \$8,716 of the Series B bonds and other funds of the Institution. The refunding escrow deposit, net of the principal amount of the refunded bonds, and the write-off of unamortized expenses was recorded as debt extinguishment charges in the nonoperating section of the Statement of Activities for the year ended June 30, 2008.

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 will make payments to the swap provider based upon a fixed interest rate of 3.146%. Pursuant to the swap agreement, the swap provider will pay 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 changes in the unrealized loss on the swap for the year ended June 30, 2009 was \$534. The fair value of the swap at June 30, 2009 was \$527 and is recorded in accounts payable and accrued expenses on the Statement of Financial Position. Upon certification of the swap, 180 days after the financial statement date, the College will be required to post collateral. The amount of collateral will be determined by the fair value of the swap at the time of certification. The interest rate swap expires on July 1, 2018.

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(\$ in Thousands)

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, 2009.

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

Year ending June 30:		
2010	\$	410
2011		465
2012		460
2013		470
2014		490
Thereafter		12,705
Total	\$	<u>15,000</u>

**(b) Short-Term Line of Credit**

The College has a revolving line of credit with Sovereign Bank for \$3,500 until November 23, 2009. Borrowings under the line bear interest at Prime or LIBOR plus 3.25% (3.27% at June 30, 2009 and 5.00% at June 30, 2008). Outstanding borrowings against the line were \$3,316 and \$910 at June 30, 2009 and 2008, respectively.

**(10) 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, 2009, the College had committed \$190 under these obligations, of which \$12 represented interest.

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

Year ending June 30:		
2010	\$	115
2011		53
2012		22
Total minimum lease payments		<u>190</u>
Amount representing interest		<u>(12)</u>
Present value of net minimum lease payments	\$	<u>178</u>

**ST. JOSEPH COLLEGE**

Notes to Financial Statements

June 30, 2009

(\$ in Thousands)

**(11) Operating Leases**

The College leases various office equipment, vehicles, and other equipment under operating leases. Rent expense under operating leases was \$109 and \$123 in fiscal 2009 and 2008, respectively.

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

Year ending June 30:		
2010	\$	98
2011		64
2012		41
	\$	<u>203</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 after July 31, 2007. 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.

The State of Connecticut Department of Social Services has a 10-year lien on leasehold improvements made to the College's School for Young Children related to a \$650 grant awarded in the year ended June 30, 1999. The College has recorded the grant as deferred revenue and is recording the annual portion as revenue over the 10-year period. The 10-year period ended during fiscal year 2009 and thus all of the revenue has been recognized as of June 30, 2009.

**(12) 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, 2009 and 2008 was \$1,467 and \$1,448, respectively.

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**(13) Temporarily and Permanently Restricted Net Assets**

Restricted net assets as of June 30 consist of:

	<b>2009</b>	<b>2008</b>
Temporarily restricted net assets:		
Time restricted	\$ 1,393	1,396
Use restricted:		
Library and lectures	441	594
Scholarships	1,015	1,918
Capital	28	181
Other	674	1,091
Total	\$ 3,551	5,180
Permanently restricted net assets:		
Scholarships	\$ 5,740	5,728
General College support	3,011	3,007
Total	\$ 8,751	8,735

**(14) 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, 2009 and 2008, temporarily restricted net assets were released as follows:

	<b>2009</b>	<b>2008</b>
Expiration of time restrictions	\$ 288	67
Student aid, support, and services	713	203
Capital	426	953
Total	\$ 1,427	1,223

**(15) 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.