

Financial Statements
Saint Joseph's College
June 30, 2013 and 2012



Mayer Hoffman McCann P.C.
Tofias New England Division
An Independent CPA Firm

SAINT JOSEPH'S COLLEGE

Financial Statements

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Independent Auditors' Report

Board of Trustees
Saint Joseph's College
Standish, Maine

We have audited the accompanying financial statements of Saint Joseph's College (the "College"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 Saint Joseph's College as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffmann McCann P.C.

October 24, 2013
Boston, Massachusetts

SAINT JOSEPH'S COLLEGE

Statements of Financial Position

	<i>June 30,</i>	
	<i>2013</i>	<i>2012</i>
Assets		
Cash and cash equivalents	\$ 2,061,864	\$ 2,448,965
Accounts receivable from students, less allowances for doubtful accounts of \$550,000 and \$450,000, respectively	1,218,705	1,156,683
Loans receivable from students, less allowances for doubtful accounts of \$61,585 and \$69,450, respectively	2,009,952	2,085,275
Investments	17,119,620	14,819,726
Deposits with bond trustee	838,604	1,335,163
Land, buildings and equipment, net of accumulated depreciation and amortization	37,986,826	38,345,126
Other assets	<u>2,048,349</u>	<u>2,056,232</u>
Total assets	\$ <u>63,283,920</u>	\$ <u>62,247,170</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,806,915	\$ 3,355,641
Student deposits and deferred revenue	2,934,462	2,783,004
Other liabilities	601,798	630,786
Bonds payable	21,068,379	22,072,004
Advances from federal government for student loans	<u>1,253,661</u>	<u>1,243,233</u>
Total liabilities	<u>28,665,215</u>	<u>30,084,668</u>
Net assets:		
Unrestricted:		
Designated by the Board for quasi-endowment	9,102,766	7,915,719
Designated by the Board for college loan fund	611,175	577,643
Undesignated	<u>16,969,546</u>	<u>16,737,164</u>
Total unrestricted net assets	26,683,487	25,230,526
Temporarily restricted	3,829,667	3,035,530
Permanently restricted	<u>4,105,551</u>	<u>3,896,446</u>
Total net assets	<u>34,618,705</u>	<u>32,162,502</u>
Total liabilities and net assets	\$ <u>63,283,920</u>	\$ <u>62,247,170</u>

See accompanying notes to financial statements.

SAINT JOSEPH'S COLLEGE

Statement of Activities

Year Ended June 30, 2013
(with comparative totals for 2012)

	2013			Total	2012
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
Operating revenues:					
Tuition and fees, less financial aid of \$11,762,826 and \$11,772,102, respectively	\$ 15,400,330	\$ -	\$ -	\$ 15,400,330	\$ 16,397,757
On-line education program tuition and fees	10,844,488	-	-	10,844,488	9,104,900
Residence and dining	7,722,129	-	-	7,722,129	7,791,452
Contributions and grants	177,082	563,427	-	740,509	550,680
Investment return used in operations	41,031	169,688	-	210,719	204,036
Auxiliary enterprises	627,804	-	-	627,804	654,171
Other sources	610,606	321,817	-	932,423	678,307
Net assets released from restrictions	952,878	(952,878)	-	-	-
Total operating revenues	36,376,348	102,054	-	36,478,402	35,381,303
Operating expenses:					
Instructional	8,531,376	-	-	8,531,376	8,164,518
On-line education program	8,374,262	-	-	8,374,262	6,925,107
Academic support	1,821,295	-	-	1,821,295	1,794,106
Student services	7,710,107	-	-	7,710,107	7,478,880
Institutional support and other expenses	7,257,292	-	-	7,257,292	7,733,903
Auxiliary services	2,496,096	-	-	2,496,096	2,333,163
Total operating expenses	36,190,428	-	-	36,190,428	34,429,677
Change in net assets from operating activities	185,920	102,054	-	287,974	951,626
Nonoperating activities:					
Long-term investment return (net of amounts used in operations)	1,115,347	736,797	-	1,852,144	(26,829)
Contributions	94,000	12,980	209,105	316,085	262,300
Net assets released from restrictions for equipment	57,694	(57,694)	-	-	-
Change in net assets from nonoperating activities	1,267,041	692,083	209,105	2,168,229	235,471
Change in net assets	1,452,961	794,137	209,105	2,456,203	1,187,097
Net assets, beginning of year	25,230,526	3,035,530	3,896,446	32,162,502	30,975,405
Net assets, end of year	\$ 26,683,487	\$ 3,829,667	\$ 4,105,551	\$ 34,618,705	\$ 32,162,502

SAINT JOSEPH'S COLLEGE

Statement of Activities

Year Ended June 30, 2012

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating revenues:				
Tuition and fees, less financial aid of \$11,772,102	\$ 16,397,757	\$ -	\$ -	\$ 16,397,757
On-line education program tuition and fees	9,104,900	-	-	9,104,900
Residence and dining	7,791,452	-	-	7,791,452
Contributions and grants	223,001	327,679	-	550,680
Investment return used in operations	50,636	153,400	-	204,036
Auxiliary enterprises	654,171	-	-	654,171
Other sources	376,963	301,344	-	678,307
Net assets released from restrictions	901,938	(901,938)	-	-
Total operating revenues	35,500,818	(119,515)	-	35,381,303
Operating expenses:				
Instructional	8,164,518	-	-	8,164,518
On-line education program	6,925,107	-	-	6,925,107
Academic support	1,794,106	-	-	1,794,106
Student services	7,478,880	-	-	7,478,880
Institutional support and other expenses	7,733,903	-	-	7,733,903
Auxiliary services	2,333,163	-	-	2,333,163
Total operating expenses	34,429,677	-	-	34,429,677
Change in net assets from operating activities	1,071,141	(119,515)	-	951,626
Nonoperating activities:				
Long-term investment return (net of amounts used in operations)	127,368	(154,197)	-	(26,829)
Contributions	50,119	63,099	149,082	262,300
Net assets released from restrictions for equipment	58,071	(58,071)	-	-
Change in net assets from nonoperating activities	235,558	(149,169)	149,082	235,471
Change in net assets	1,306,699	(268,684)	149,082	1,187,097
Net assets, beginning of year	23,923,827	3,304,214	3,747,364	30,975,405
Net assets, end of year	\$ 25,230,526	\$ 3,035,530	\$ 3,896,446	\$ 32,162,502

SAINT JOSEPH'S COLLEGE

Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	<i>2013</i>	<i>2012</i>
Cash flows from operating activities:		
Change in net assets	\$ 2,456,203	\$ 1,187,097
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,855,103	1,859,809
Accretion of bond premiums	(17,514)	(31,975)
Changes in bond premiums as a result of refinancing	(161,111)	413,127
Allowance for doubtful accounts	92,135	(196,074)
Realized and unrealized losses (gains) on investments	(1,645,503)	193,089
Changes in assets and liabilities:		
Accounts receivable from students	(162,022)	(44,300)
Other assets	7,883	(685,413)
Accounts payable and accrued expenses	(548,726)	374,922
Student deposits and deferred revenue	151,458	423,578
Other liabilities	(28,988)	113,972
Advances from federal government for student loans	10,428	-
Contributions restricted for permanent endowments	(209,105)	(149,082)
Total adjustments	<u>(655,962)</u>	<u>2,271,653</u>
Net cash provided by operating activities	<u>1,800,241</u>	<u>3,458,750</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(1,496,803)	(1,909,296)
Proceeds from sales of investments	6,448,303	3,963,924
Purchases of investments	(7,102,694)	(5,330,207)
Collections on loans receivable from students	355,114	297,475
Loans advanced to students	(271,926)	(259,750)
Net cash used in investing activities	<u>(2,068,006)</u>	<u>(3,237,854)</u>
Cash flows from financing activities:		
Payments on debt	(825,000)	(800,000)
(Increase) decrease in deposits with bond trustee	496,559	(20,894)
Proceeds from contributions restricted for permanent endowments	209,105	149,082
Net cash used in financing activities	<u>(119,336)</u>	<u>(671,812)</u>
Change in cash and cash equivalents	(387,101)	(450,916)
Cash and cash equivalents, beginning of year	<u>2,448,965</u>	<u>2,899,881</u>
Cash and cash equivalents, end of year	<u>\$ 2,061,864</u>	<u>\$ 2,448,965</u>
Cash paid during the year for:		
Interest	\$ 1,252,448	\$ 1,037,476

See accompanying notes to financial statements.

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

The Trustees of St. Joseph's College d/b/a Saint Joseph's College (the "College") is a private, Catholic college founded in 1912 by the Sisters of Mercy. The Conference for Mercy Higher Education is the College's sole corporate member. The College is an accredited institution, is incorporated under the laws of the State of Maine and is empowered to grant co-educational collegiate honors and degrees at the undergraduate and graduate levels of study. Tuition and fees from campus and on-line education programs, and residence and dining fees, provide the primary sources of revenue for the College. Students are drawn primarily from New England for campus based programs while on-line programs are more geographically diverse across the United States. A major portion of the College's revenue is funded from various student financial aid programs sponsored by the United States Department of Education.

A summary of the significant accounting policies consistently applied in the financial statements is as follows:

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting.

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of externally-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the investment returns for general or specific purposes.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the College and/or the passage of time. Temporarily restricted net assets also include accumulated unspent gains on permanently restricted net assets that are subject to appropriation under the College's spending policies as approved by the trustees. Temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions in the period in which the donor-imposed condition is met or the stipulated time restrictions have passed.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for the specific purpose by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions, in which case revenues are reported in temporarily or permanently restricted, depending on the nature of the restriction. Contributions, including unconditional promises to give, are initially recognized as revenues at fair value. Fair value of unconditional promises to give is determined at the original date of recordation as described in these notes using Level 2 fair value methods. Contributions and earnings subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value using Level 3 fair value methods.

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Contributions of cash and other assets to be used to acquire land, buildings and equipment are accounted for as temporarily restricted until such resources are used for the related purpose. Promises to give that are scheduled to be received after the statement of financial position date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are shown as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. 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. An allowance for uncollectible contributions is estimated based upon management's judgment and analysis of the creditworthiness of the donors, past collections experience and other relevant factors.

Operations

The statement of activities reports the change in net assets from operating and nonoperating activities. Operations include substantially all items of income and expense including investment income used for operations under the Board of Trustee's spending policy. Investment income in excess of the amount used for operations is considered nonoperating. Nonoperating also includes gifts to the endowment, gifts restricted for capital expenditures, and net assets released from restrictions for equipment purchase.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in banks and short-term highly liquid investments, with maturities at purchase of less than three months. It also includes accounts that are specifically utilized and limited as to use for student financial aid. Cash and cash equivalents included in investments is considered part of investments given the expectation of near term reinvestment. Cash in banks may at times exceed federally insured limits. The College monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Accounts Receivable from Students

Student accounts receivable are reported at the amount management expects to collect on balances outstanding at year end. Management estimates the allowance for doubtful accounts based on history of collections and knowledge acquired about specific items. Adjustments to the allowance are charged to bad debt expense. Uncollectible accounts are written off against the reserve when deemed uncollectible; recoveries are recorded when received. An account is considered uncollectible when all efforts to collect the account have been exhausted.

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Loans Receivable from Students

Loans receivable are funds loaned to students by the College under various Federal loan programs. These funds are made available from the U.S. Department of Education along with institutional matching funds which allow for eligible students to have access to resources in payment of various education costs.

Loan funds may be reloaned by the College after collection, but in the event that the College no longer participates in the program, advances are generally refundable to the Federal government. Loans receivable are carried at their net realizable value. Interest income is recorded as earned. Loans receivable are considered past due if any portion of the balance due is outstanding for more than 240 days. Interest and late fees on past due accounts are recorded when received. Loans that are in default and meet certain requirements are assigned to the Department of Education, which reduces the advances from Federal government for student loans.

Management estimates the allowance for credit losses based on historical losses, current economic conditions and the credit quality of the loans. Advances from the Federal government to use for loan programs were \$1,253,661 and \$1,243,233 at June 30, 2013 and 2012, respectively.

Investments

Investments are carried at fair value. Fair value is determined as per fair value policies summarized later in this section. Investments are pooled with returns being allocated based on the source of the funds.

Interest, dividends and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanent endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift and/or relevant state law impose restrictions on the current use of the income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

Deposits with Bond Trustee

In accordance with the terms of the bonds payable agreements, funds are required to be set aside to pay for interest and current principal. Such amounts are held in escrow with a financial institution in a money market account and are carried at cost plus accrued interest which approximates fair value.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost except for donated assets which are recorded at fair value at the date of the gift. Fair value of donated assets are determined using a Level 3 market approach when applicable. Additions, renewals and betterments are capitalized, unless it is a relatively minor amount. Expenditures for repairs and maintenance are charged to expense as incurred.

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Land, Buildings and Equipment (Continued)

Buildings and equipment are depreciated using the straight-line method over their respective estimated useful lives.

Furniture and equipment	3-20 years
Improvements	10-20 years
Buildings	40-50 years

Student Deposits and Deferred Revenue

Student deposits and deferred revenue represent amounts billed or received in advance of providing services. Tuition, fees, and residence and dining fees are reported as revenue when earned. Tuition revenue is considered earned based on the portion of the program completed at year end.

Fair Value Measurements

The College reports certain assets and liabilities at fair value on a recurring and non-recurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measures include the College's investment accounts. Fair value standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the College to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique.

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

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Fair Value Measurement (Continued)

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risks. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the College's financial instruments, see Note 4 - Fair Value of Financial Instruments.

Income Taxes

The College is recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt for Federal and state income taxes on related income. Accordingly, no provision for income taxes is made in the financial statements.

Uncertain Tax Positions

The College accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The College has identified its tax status as a tax exempt entity and its determination of which activities are related and unrelated as its only significant tax positions; however, the College has determined that such tax positions do not result in an uncertainty requiring recognition. The College is not currently under examination by any taxing jurisdictions. The College's Federal and state tax returns are generally open for examination for three years following the date filed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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. Significant estimates include reserves for accounts receivable, loans receivable, useful lives of depreciable assets, fair value of investments, deferred revenue associated with online courses and allocation of operating costs to programs as it relates to presentation in the financial statements.

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing 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.

Expenses associated with the operation and maintenance of the College plant assets, including interest and depreciation expense, are allocated based on estimated usage or the proportional share of each functional expense category to total functional expense for all other functions.

The College includes fundraising expenses as part of institutional support and other expenses. The amounts included in expense were approximately \$610,000 and \$577,000 for the years ended June 30, 2013 and 2012, respectively.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

Subsequent Events

The College has evaluated the impact of subsequent events on the College through October 24, 2013, the date the financial statements were issued.

Note 2 - Loans Receivable from Students

Loans receivable from students consist of the following at June 30:

	<i>30-60 Days Past Due</i>	<i>60-90 Days Past Due</i>	<i>Greater than 90 Days Past Due</i>	<i>Total Past Due</i>	<i>Current</i>	<i>Total Financing Receivable</i>	<i>Recorded Investment > 90 Days and Accruing</i>
June 30, 2013							
Perkins Loans	\$ -	\$ 1,656	\$ 251,231	\$ 252,887	\$ 1,261,775	\$ 1,514,662	\$ 7,122
Nursing Loans	-	362	31,538	31,900	524,975	556,875	283
Credit Reserve	-	-	-	-	-	(61,585)	-
Student loans receivable, net	\$ -	\$ 2,018	\$ 282,769	\$ 284,787	\$ 1,786,750	\$ 2,009,952	\$ 7,405
June 30, 2012							
Perkins Loans	\$ -	\$ 1,141	\$ 202,614	\$ 203,755	\$ 1,391,808	\$ 1,595,563	\$ 2,952
Nursing Loans	-	154	16,962	17,116	542,046	559,162	492
Credit Reserve	-	-	-	-	-	(69,450)	-
Student loans receivable, net	\$ -	\$ 1,295	\$ 219,576	\$ 220,871	\$ 1,933,854	\$ 2,085,275	\$ 3,444

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 2 - Loans Receivable from Students (Continued)

Allowances for credit losses are as follows:

	<i>Perkins Loans</i>	<i>Nursing Loans</i>	<i>Total</i>
June 30, 2013			
Beginning balance	\$ 54,521	\$ 14,929	\$ 69,450
Charge-offs	-	-	-
Recoveries	-	-	-
Provision	(4,407)	(3,458)	(7,865)
	<u>50,114</u>	<u>11,471</u>	<u>61,585</u>
Ending balance	\$ <u>50,114</u>	\$ <u>11,471</u>	\$ <u>61,585</u>
June 30, 2012			
Beginning balance	\$ 52,409	\$ 13,115	\$ 65,524
Charge-offs	-	-	-
Recoveries	-	-	-
Provision	2,112	1,814	3,926
	<u>54,521</u>	<u>14,929</u>	<u>69,450</u>
Ending balance	\$ <u>54,521</u>	\$ <u>14,929</u>	\$ <u>69,450</u>

The allowances for the Perkins and Nursing loans were collectively evaluated for impairment.

Note 3 - Investments

Investment income consisted of the following for the years ended June 30:

	<i>2013</i>	<i>2012</i>
Interest and dividends	\$ 417,360	\$ 368,250
Realized gains	588,267	225,736
Unrealized gains (losses)	1,057,236	(416,779)
	<u>2,062,863</u>	<u>177,207</u>
Total investment income	2,062,863	177,207
Less investment return used in operations	210,719	204,036
	<u>1,852,144</u>	<u>(26,829)</u>
Long-term investment return net of amounts used in operations	\$ <u>1,852,144</u>	\$ <u>(26,829)</u>

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 3 - Investments (Continued)

Interest income includes interest earned on Perkins and Nursing funds and the College's operating account. Investment management fees were \$97,300 and \$81,600 for the years ended June 30, 2013 and 2012, respectively.

Note 4 - Fair Value of Financial Instruments

The following summarizes the College's investments as of June 30, 2013 and 2012 based on inputs used to value them:

	<i>2013</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Cash equivalents	\$ 2,039,635	\$ -	\$ -	\$ 2,039,635
United States government and other agency obligations	-	772,969	-	772,969
Equity securities:				
Common stock	10,431,873	-	-	10,431,873
Investment companies	-	353,501	-	353,501
Debt securities:				
Corporate bonds	-	2,004,306	-	2,004,306
Preferred stock	-	154,580	-	154,580
Municipal bonds	-	163,299	-	163,299
Fixed income bond funds	1,199,457	-	-	1,199,457
	\$ 13,670,965	\$ 3,448,655	\$ -	\$ 17,119,620

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 4 - Fair Value of Financial Instruments (Continued)

	<i>2012</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Cash equivalents	\$ 1,851,634	\$ -	\$ -	\$ 1,851,634
United States government and other agency obligations	-	828,386	-	828,386
Equity securities:				
Common stock	8,349,977	-	-	8,349,977
Investment companies	-	290,082	-	290,082
Debt securities:				
Corporate bonds	-	2,268,773	-	2,268,773
Municipal bonds	-	168,112	-	168,112
Fixed income bond funds	977,251	-	-	977,251
Other	85,511	-	-	85,511
	\$ 11,264,373	\$ 3,555,353	\$ -	\$ 14,819,726

Certain United States government and other agency obligations and debt securities are valued using proprietary valuation models incorporating live data from active market makers and inter-dealer brokers as reported on electronic communication networks. The valuation models incorporate benchmark yields, discounted cash flows, reported trades, broker/dealer quotes, bids, offers and other data. These valuations are considered Level 2.

Under certain unusual circumstances, investment funds may alter redemption provisions of their investment vehicles which could impact the ultimate liquidity of funds.

Management has assessed that fair value approximates carrying value for cash and cash equivalents, accounts receivable, deposits with trustee, accounts payable and student deposits given the short-term nature of these instruments. Management has no practical or cost effective way of determining fair value for loans receivable and advances from the Federal government along with some smaller financial instruments. Accordingly, estimates of fair value have not been derived for these items. The estimated fair value of bonds payable is noted in the table below.

	<i>2013</i>		<i>2012</i>	
	<i>Carrying Value</i>	<i>Fair Value</i>	<i>Carrying Value</i>	<i>Fair Value</i>
Bonds payable	\$ 21,068,379	\$ 20,623,731	\$ 22,072,004	\$ 22,776,274

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 5 - Land, Buildings and Equipment

Land, buildings and equipment consisted of the following at June 30:

	<i>2013</i>	<i>2012</i>
Land and land improvements	\$ 4,108,261	\$ 3,589,506
Buildings	47,899,421	47,380,801
Construction in progress	186,380	164,780
Furniture and equipment	8,419,123	7,990,889
Library	1,009,521	1,009,521
	<u>61,622,706</u>	<u>60,135,497</u>
Less accumulated depreciation and amortization	<u>23,635,880</u>	<u>21,790,371</u>
	<u><u>\$ 37,986,826</u></u>	<u><u>\$ 38,345,126</u></u>

Included in furniture and equipment is equipment held under capital leases with a net book value of approximately \$105,000 and \$25,000 at June 30, 2013 and 2012, respectively. The liability for the capital leases is included in other liabilities on the statement of financial position.

Note 6 - Other Assets

Other assets include contributions and private grants receivable, deposits, debt financing costs (net of accumulated amortization), assets of split-interest agreements and other items.

Note 7 - Bonds Payable and Lines of Credit

The College has entered into agreements to participate in several bond offerings of the Maine Health and Higher Educational Facilities Authority ("MHHEFA"). As security for the bonds, the College grants MHHEFA a security interest in all gross receipts of the College, a security interest in its equipment, and a mortgage lien on the facility. The bonds are due in varying amounts through 2033 and bear fixed rates of interest of between 2 and 5.25%.

On May 23, 2013, the College entered into an agreement to refinance Revenue Bond Series 2003A and 2003B to participate in the MHHEFA Revenue Bond Series 2013A.

The bonds described previously are subject to restrictive covenants that restrict the College's ability to incur additional debt and to purchase assets that increase annual operating expenses during future periods by more than 20% per year.

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 7 - Bonds Payable and Lines of Credit (Continued)

Bonds payable consist of the following at June 30:

	<i>2013</i>	<i>2012</i>
MHHEFA Revenue Bonds Series 2003A	\$ -	\$ 4,800,640
MHHEFA Revenue Bonds Series 2003B	-	4,351,550
MHHEFA Revenue Bonds Series 2007A	8,040,913	8,390,913
MHHEFA Revenue Bonds Series 2010B	3,957,750	4,147,750
MHHEFA Revenue Bonds Series 2013A	7,898,600	-
	19,897,263	21,690,853
Plus unamortized premium	1,171,116	381,151
Bonds payable, net	\$ 21,068,379	\$ 22,072,004

The amount of aggregate annual principal payments of the bonds payable for each of the five years succeeding June 30, 2013 are as follows:

2014	\$	555,000
2015		845,000
2016		910,000
2017		945,000
2018		980,000
Thereafter		15,662,263
		19,897,263
Plus unamortized premiums		1,171,116
Total		\$ 21,068,379

Interest expense and paid (including notes payable and other borrowings) were as follows for the years ended June 30:

	<i>2013</i>	<i>2012</i>
Amounts paid	\$ 1,252,448	\$ 1,037,476
Expense	1,026,626	1,033,889

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 7 - Bonds Payable and Lines of Credit (Continued)

The College also has a \$1,500,000 unsecured demand line of credit with a financial institution. The interest rate on any amounts borrowed under the line of credit is at the bank's prime rate plus 1.5% or the LIBOR rate plus 4% at the College's election. The College did not draw against the line of credit for the years ended June 30, 2013 and 2012. In addition, the College has provided credit cards to certain employees to facilitate payment of certain expenses. Such lines available under these cards were not considered significant.

Note 8 - Other Liabilities

Included in other liabilities are notes payable in the amount of \$483,700 and \$584,213 at June 30, 2013 and 2012, respectively. The last principal payment on these notes is due in 2022.

Note 9 - Employee Benefit Plan

The College maintains a defined contribution plan under Section 403(b) of the Internal Revenue Code. The plan covers substantially all full-time employees with one year of service. The College contributes 5% of each eligible employee's base regular earnings to the plan on a current basis. The College's expense for the years ended June 30, 2013 and 2012 was approximately \$588,000 and \$556,000, respectively.

The College has a deferred compensation plan covering senior management personnel under Section 457(b) of the Internal Revenue Code. The plan document describes the terms of vesting and ultimate withdrawal of the assets. The contributions into this plan are not funded or matched by the College, but are elective deferrals by employees. Contributions into this plan are funded by the College per an employee agreement with the president of the College.

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 10 - Restricted Net Assets

Temporarily restricted net assets are available for the following at June 30:

	<i>2013</i>	<i>2012</i>
Contributions considered time, purpose and both time and purpose restricted	\$ 709,394	\$ 692,698
Accumulated unspent gains (mostly restricted to scholarships)	<u>3,120,273</u>	<u>2,342,832</u>
	<u>\$ 3,829,667</u>	<u>\$ 3,035,530</u>

Net assets were released from restrictions as follows for the year ending June 30:

	<i>2013</i>	<i>2012</i>
Operating:		
Scholarships and financial aid	\$ 302,588	\$ 290,463
Grants	278,493	208,760
Other	<u>371,797</u>	<u>402,715</u>
	952,878	901,938
Nonoperating:		
Equipment	<u>57,694</u>	<u>58,071</u>
	<u>\$ 1,010,572</u>	<u>\$ 960,009</u>

Permanently restricted net asset are as follows at June 30:

	<i>2013</i>	<i>2012</i>
Scholarships and financial aid	\$ 3,178,433	\$ 3,079,398
Chapel	239,218	229,218
Other campus activities	<u>687,900</u>	<u>587,830</u>
	<u>\$ 4,105,551</u>	<u>\$ 3,896,446</u>

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 11 - Net Assets and Endowment Matters

Endowment and funds functioning as endowments were as follows at June 30:

		<i>2013</i>			
		<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$	-	\$ 3,120,273	\$ 4,105,551	\$ 7,225,824
Board-designated endowment funds		9,102,766	-	-	9,102,766
Total funds	\$	9,102,766	3,120,273	4,105,551	16,328,590
		<i>2012</i>			
		<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$	-	\$ 2,342,832	\$ 3,896,446	\$ 6,239,278
Board-designated endowment funds		7,915,719	-	-	7,915,719
Total funds	\$	7,915,719	2,342,832	3,896,446	14,154,997

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 11 - Net Assets and Endowment Matters (Continued)

Changes in endowment net assets are as follows for the year ending June 30:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
beginning of year	\$ 7,915,719	\$ 2,342,832	\$ 3,896,446	\$ 14,154,997
Contributions	94,000	-	209,105	303,105
Investment income	531,594	433,000	-	964,594
Net appreciation	583,753	473,484	-	1,057,237
Amounts appropriated for expenditure	(22,300)	(129,043)	-	(151,343)
Endowment net assets, end of year	\$ 9,102,766	\$ 3,120,273	\$ 4,105,551	\$ 16,328,590
	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
beginning of year	\$ 6,739,532	\$ 2,488,015	\$ 3,747,364	\$ 12,974,911
Contributions	1,051,819	-	149,082	1,200,901
Investment income	281,239	262,110	-	543,349
Net appreciation	(153,871)	(262,908)	-	(416,779)
Amounts appropriated for expenditure	(3,000)	(144,385)	-	(147,385)
Endowment net assets, end of year	\$ 7,915,719	\$ 2,342,832	\$ 3,896,446	\$ 14,154,997

The temporarily restricted endowment net assets represent the investment income earned on the permanently restricted endowment funds that are available to be awarded as scholarships in future years.

Endowment

The College's endowment consists of approximately 60 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 11 - Net Assets and Endowment Matters (Continued)

Interpretation of Relevant Law and Spending Policy

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") requiring the preservation of the original value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original gift 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 in 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 of 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

Distributions from long-term investments are made using the total return method. Under the total return method, distributions consist of interest and dividends. The Board of Trustees had established a spending rate of four percent of a rolling three-year average fair value of the long-term investments. Investment income is appropriated up to this spending rate approved by the Board of Trustees. The College has adopted this spending policy in order to protect the inviolate nature of the original corpus of gifts as well as to preserve the purchasing power of these funds into the future.

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2013 or 2012.

Investment Return Objectives, Risk Parameters and Strategies

The College has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which included equity and debt securities that is intended to

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 11 - Net Assets and Endowment Matters (Continued)

Investment Return Objectives, Risk Parameters and Strategies (Continued)

result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of no greater than 4% of ordinary income, while growing the funds if possible. Therefore, the College expects its endowment assets, over time, to produce an average rate of return which exceeds the inflation rate plus the level of spending. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized), rather than current yield (interest and dividends). The College targets a diversified asset allocation that places an emphasis on equity investments to achieve its long-term return objectives within prudent risk parameters. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The spending policy calculates the amount of money annually distributed from the College's various endowed funds for scholarships. The current spending policy is to distribute ordinary income no greater than 4% of the average market value for the preceding three years. No draws were made on the portion of the endowment restricted to chapel oriented costs. If the income is not used in one year, it can be carried over and used in a subsequent year. For all other endowed funds, the College's policy is to spend the available funds on an as needed basis for the purpose they were intended. In establishing this policy, the College considered the long-term expected return of its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. Accordingly, over the long term, the College expects its current spending policy to allow its endowment assets to grow to exceed the inflation rate annually. This is consistent with the College's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Note 12 - Commitments and Contingencies

The College is self-insured for purposes of payment of unemployment costs. Management has not recorded any obligation at the end of the year for costs of such given its lack of claims.

The College, from time to time, is subject to legal proceedings and claims which arise in the normal course of its business. Management believes the outcome of any pending or known matters will not have a materially adverse effect on the College's financial position or results of operations.

All funds expended and awarded by the College in connection with government grant and loan programs are subject to review or audit by government agencies or their representatives. In the opinion of management, any liability resulting from a review or audit would not have a significant impact on the financial statements of the College.

The College had a contract with a food service provider. Under the terms of the agreement, the College paid an annual management fee. The management fee for the years ended June 30, 2013 and 2012 totaled \$88,712 and \$86,112, respectively. Under the terms of the agreement, the management fee is adjusted annually on July 1. The agreement expired in June 2013 and was not renewed.

SAINT JOSEPH'S COLLEGE

Notes to Financial Statements

Note 12 - Commitments and Contingencies (Continued)

The College entered into an agreement with a new president effective July 1, 2012 through June 30, 2015 which will automatically extend for one additional year (through June 30, 2016) upon mutual agreement and so forth for each year thereafter that stipulates a variety of business terms typical in the education sector.

The College entered into an agreement with a local utility company to purchase electricity at a fixed rate through December 1, 2014.

The College entered into a ten year lease agreement for laundry facilities to include the servicing of all equipment. The effective date of the agreement was July 12, 2013.