

SKIDMORE COLLEGE

AUDITED FINANCIAL STATEMENTS

Years ended May 31, 2012 and 2011

SKIDMORE COLLEGE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Skidmore College

We have audited the accompanying statements of financial position of Skidmore College (the "College") as of May 31, 2012 and 2011, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Skidmore College as of May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

UHY LLP

Albany, New York
August 17, 2012

SKIDMORE COLLEGE
STATEMENTS OF FINANCIAL POSITION
May 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 25,738,403	\$ 31,620,153
Accounts receivable, net	4,792,174	3,868,992
Inventories	823,292	730,259
Prepaid expenses	2,057,821	945,909
Contributions receivable, net	16,739,188	20,518,844
Student loans receivable, net	2,287,624	2,553,435
Investments	336,195,006	355,552,412
Investments under split interest agreements	6,921,470	6,898,694
Deposits with bond trustees	18,301,120	29,579,648
Debt issuance costs, net	2,059,838	2,091,515
Pension assets, net	77,962	89,344
Land, buildings and equipment, net	<u>196,000,753</u>	<u>170,929,893</u>
Total assets	<u><u>\$ 611,994,651</u></u>	<u><u>\$ 625,379,098</u></u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 16,418,759	\$ 15,448,834
Student tuition deposits and deferred revenues	9,050,469	9,259,245
Liabilities to beneficiaries under split interest agreements	2,371,605	2,272,007
Accrued postretirement benefits	70,171,080	56,923,896
Refundable government loan funds	1,913,808	1,899,710
Asset retirement obligation	1,170,622	1,695,645
Long-term debt	<u>77,960,813</u>	<u>81,494,043</u>
Total liabilities	<u>179,057,156</u>	<u>168,993,380</u>
NET ASSETS		
Unrestricted		
Board designated for endowment	119,223,812	129,643,310
Undesignated	115,529,653	114,829,134
Temporarily restricted	87,055,710	105,800,987
Permanently restricted	<u>111,128,320</u>	<u>106,112,287</u>
Total net assets	<u>432,937,495</u>	<u>456,385,718</u>
Total liabilities and net assets	<u><u>\$ 611,994,651</u></u>	<u><u>\$ 625,379,098</u></u>

See notes to financial statements.

SKIDMORE COLLEGE
STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:				
Tuition and fees	\$ 115,593,569	\$ -	\$ -	\$ 115,593,569
Less: institutional aid	(34,196,955)	-	-	(34,196,955)
Net tuition and fees	81,396,614	-	-	81,396,614
Sales and services of auxiliary enterprises	29,445,804	-	-	29,445,804
Private gifts and grants	4,161,176	1,582,286	-	5,743,462
Government grants and appropriations	201,410	2,490,009	-	2,691,419
Dividends and interest	645,673	1,325,287	-	1,970,960
Realized gains used to support operations	6,386,909	7,129,733	-	13,516,642
Interest on student loans	45,795	-	-	45,795
Other	1,754,821	599,218	-	2,354,039
Total operating revenue	124,038,202	13,126,533	-	137,164,735
Net assets released from restrictions	25,234,930	(25,234,930)	-	-
Total operating revenue and net assets released from restrictions	149,273,132	(12,108,397)	-	137,164,735
Operating expenses:				
Instruction	49,515,790	-	-	49,515,790
Research	2,280,582	-	-	2,280,582
Academic support	16,709,569	-	-	16,709,569
Student services	15,546,711	-	-	15,546,711
Institutional support	25,909,544	-	-	25,909,544
Auxiliary enterprises	25,379,150	-	-	25,379,150
	135,341,346	-	-	135,341,346
Non-operating:				
Dividends and interest	7,551	140,762	-	148,313
Net realized and unrealized losses	(13,390,272)	(12,594,417)	-	(25,984,689)
Change in value of split interest agreements	-	(457,807)	(2,057)	(459,864)
Capital gifts	525,343	7,760,572	3,532,100	11,818,015
Net loss on disposal of fixed assets	(942,204)	-	-	(942,204)
Other net loss	(25,633)	-	-	(25,633)
Changes in net assets from non-operating activities	(13,825,215)	(5,150,890)	3,530,043	(15,446,062)
Increase (decrease) in net assets before pension and postretirement benefit related changes other than net periodic benefit cost	106,571	(17,259,287)	3,530,043	(13,622,673)
Pension and postretirement benefit related changes other than net periodic benefit cost	(9,825,550)	-	-	(9,825,550)
Net assets reclassification	-	(1,485,990)	1,485,990	-
(Decrease) increase in net assets	(9,718,979)	(18,745,277)	5,016,033	(23,448,223)
Net assets at beginning of year	244,472,444	105,800,987	106,112,287	456,385,718
Net assets at end of year	\$ 234,753,465	\$ 87,055,710	\$ 111,128,320	\$ 432,937,495

See notes to financial statements.

SKIDMORE COLLEGE
STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:				
Tuition and fees	\$ 114,743,457	\$ -	\$ -	\$ 114,743,457
Less: institutional aid	(33,644,447)	-	-	(33,644,447)
Net tuition and fees	81,099,010	-	-	81,099,010
Sales and services of auxiliary enterprises	28,642,999	-	-	28,642,999
Private gifts and grants	3,736,582	1,381,769	-	5,118,351
Government grants and appropriations	236,127	2,913,847	-	3,149,974
Dividends and interest	683,160	2,212,596	-	2,895,756
Realized gains used to support operations	5,676,184	6,302,862	-	11,979,046
Interest on student loans	112,765	-	-	112,765
Other	1,534,104	622,979	-	2,157,083
Total operating revenue	121,720,931	13,434,053	-	135,154,984
Net assets released from restrictions	31,359,449	(31,359,449)	-	-
Total operating revenue and net assets released from restrictions	153,080,380	(17,925,396)	-	135,154,984
Operating expenses:				
Instruction	49,316,612	-	-	49,316,612
Research	1,989,381	-	-	1,989,381
Academic support	16,133,724	-	-	16,133,724
Student services	14,954,354	-	-	14,954,354
Institutional support	24,418,118	-	-	24,418,118
Auxiliary enterprises	24,146,506	-	-	24,146,506
Total operating expenses	130,958,695	-	-	130,958,695
Non-operating:				
Dividends and interest	17,747	239,817	-	257,564
Net realized and unrealized gains	12,849,881	9,727,911	-	22,577,792
Change in value of split interest agreements	-	1,101,933	228,362	1,330,295
Capital gifts	1,344,920	5,645,741	3,087,639	10,078,300
Net loss on disposal of fixed assets	(380,350)	-	-	(380,350)
Other net loss	(429,635)	-	-	(429,635)
Changes in net assets from non-operating activities	13,402,563	16,715,402	3,316,001	33,433,966
Increase (decrease) in net assets before pension and postretirement benefit related changes other than net periodic benefit cost	35,524,248	(1,209,994)	3,316,001	37,630,255
Pension and postretirement benefit related changes other than net periodic benefit cost	(4,420,230)	-	-	(4,420,230)
Net assets reclassification (Note 7)	(69,604,408)	69,604,408	-	-
(Decrease) increase in net assets	(38,500,390)	68,394,414	3,316,001	33,210,025
Net assets at beginning of year	282,972,834	37,406,573	102,796,286	423,175,693
Net assets at end of year	\$ 244,472,444	\$ 105,800,987	\$ 106,112,287	\$ 456,385,718

See notes to financial statements.

SKIDMORE COLLEGE
STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (23,448,223)	\$ 33,210,025
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	12,034,043	12,103,733
Amortization of debt issuance costs	92,437	494,810
Decrease in pledge discount	(459,277)	(1,244,074)
Loss on disposal of fixed assets	942,204	380,350
Decrease in allowance for uncollectable receivables	(383,697)	(1,346,509)
Net realized and unrealized losses (gains) on investments	12,468,047	(34,556,838)
Capital gifts	(11,818,015)	(10,078,300)
Gifts in kind	(3,049,938)	(1,345,774)
Pension and postretirement benefit related changes other than net periodic benefit cost	9,825,550	4,420,230
Changes in operating assets and liabilities:		
Accounts receivable	(938,611)	(601,334)
Inventories	(93,033)	(56,789)
Prepaid expenses	(1,111,912)	61,745
Pension assets, net	11,382	(22,257)
Accounts payable and accrued expenses	969,925	(1,736,073)
Liabilities to beneficiaries under split interest agreements	99,598	(90,140)
Student tuition deposits and deferred income	(208,776)	176,253
Accrued postretirement benefits	3,421,634	3,870,577
Asset retirement obligation	(525,023)	(335,023)
Net cash (used in) provided by operating activities	<u>(2,171,685)</u>	<u>3,304,612</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	78,918,823	116,528,295
Purchases of investments	(72,052,240)	(127,731,320)
Student loan principal collected	566,456	640,999
Student loans originated	(283,262)	(282,327)
Proceeds from disposal of fixed assets	-	32,867
Purchases of land, buildings and equipment	(34,997,169)	(16,146,073)
Net cash used in investing activities	<u>(27,847,392)</u>	<u>(26,957,559)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital gifts	11,818,015	10,078,300
Change in contributions receivable	4,620,676	13,255,898
Payments on long-term debt	(3,533,230)	(12,447,132)
Proceeds from bond issuance	-	32,425,000
Net change in deposits with bond trustees	11,278,528	(21,113,219)
Debt issuance costs	(60,760)	(719,587)
Net change in refundable government loan funds	14,098	25,715
Net cash provided by financing activities	<u>24,137,327</u>	<u>21,504,975</u>
Net decrease in cash and cash equivalents	(5,881,750)	(2,147,972)
Cash and cash equivalents at beginning of year	<u>31,620,153</u>	<u>33,768,125</u>
Cash and cash equivalents at end of year	<u>\$ 25,738,403</u>	<u>\$ 31,620,153</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ 4,264,576</u>	<u>\$ 3,205,763</u>

See notes to financial statements.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 1 — ORGANIZATION AND NATURE OF ACTIVITIES

Skidmore College (the "College") was founded in 1903 and is a predominantly residential, independent, nonsectarian, four-year coeducational liberal arts college. The College operates on a 1,000 acre campus located in Saratoga Springs, New York. The College serves approximately 2,400 undergraduate students.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting.

Basis of Presentation

The College's net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College are classified as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations, but may be internally designated by the College.

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be satisfied either by actions of the College and/or the passage of time.

Permanently restricted – Net assets subject to donor-imposed stipulations, requiring the principal to be invested in perpetuity. Generally, donors of these assets permit the College to use the income earned on related investments for general or specific purposes.

Income Taxes

The College is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes pursuant to Section 501(a) of the Code. However, income from certain activities not directly related to the tax exempt status of the College is subject to taxation as unrelated business income.

The primary income tax position taken by the College for any years open under the various statutes of limitations is that the College continues to be exempt from income taxes except for unrelated business income. The College believes that there are no uncertain tax positions that are material to the financial statements.

None of the College's returns are currently under examination by the Internal Revenue Service ("IRS") or state authorities. However, the College's federal Exempt Organization Business Income Tax Returns (Form 990T) for fiscal years 2009 and later are subject to examination by the IRS, generally for three years after they were filed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted 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.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The College considers all highly liquid investments with maturities of three months or less, when purchased, to be cash and cash equivalents. This does not include cash and cash equivalents included in investment pools, which are included in investments in the accompanying statements of financial position. The College has cash and cash equivalents in money market mutual funds and other short term accounts with several financial institutions that are not federally insured. The uninsured balance totaled approximately \$23,859,000 at May 31, 2012. Based on management's review of the strength of the financial institutions, management believes the risk of loss on these funds is not material.

Investments and Investment Valuation

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Realized and unrealized gains and losses include gains and losses from purchases and sales of investments as well as changes in value of assets held during the year and are recognized in the accompanying statements of activities. Gains or losses on investments are recognized as an increase or decrease in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in investments in the near term would materially affect the amounts reported in these financial statements.

Annuities and Deferred Giving Arrangements

The College's deferred giving arrangements consist primarily of gift annuities, pooled life income funds and charitable remainder trusts. For irrevocable deferred gifts where the assets are held by the College, contribution revenues are recognized at the date the deferred gift is established along with a corresponding liability for the present value of the estimated future payments to be made to the donors and/or beneficiaries. For irrevocable deferred gifts where the assets are not held by the College, contribution revenue and a related receivable are recorded at the date the College becomes aware of the deferred gift, based on the estimated fair value.

Contributions Receivable

Contributions receivable consist of unconditional promises to give and charitable remainder trusts. Unconditional promises to give are reported at fair value at the date of the pledge and subsequently measured at the present value of future cash flows. Charitable remainder trusts are measured at fair value. Such gifts are recorded as restricted revenue if the gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, i.e. when a stipulated time restriction ends or the purpose of the restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. Gifts received without donor restrictions are recorded as unrestricted revenue.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Student Loans Receivable

Student loans receivable are reported net of an allowance for doubtful accounts. A reasonable estimate of the market value of student loans receivable under government loan programs cannot be made because the notes are not saleable and can only be assigned to the U.S. Government or its designees.

Financial Instruments

The carrying amount of cash and cash equivalents, contributions receivable, deposits held by bond trustees, and accounts payable and accrued expenses approximate fair value.

Inventories

Inventories are stated at the lower of cost or market, based upon the first-in, first-out ("FIFO") method. Inventories consist principally of items held for sale in the College bookstore and the Tang Museum Shop.

Land, Buildings and Equipment, net

Land, buildings and equipment are carried at cost, if purchased, or at fair market value at the date of receipt, if acquired by contribution, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 45 years. Art collections are stated at cost, if purchased, or fair market value at the date of receipt, if acquired by contribution; however these items are not depreciated. All gifts of land, buildings and equipment are recorded as unrestricted non-operating resources, unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as restricted non-operating resources. Absent donor restrictions on how long those long-lived assets must be maintained, the expiration of donor restrictions are reported as being released from restriction when the donated or acquired long-lived assets are placed in service.

Conditional Asset Retirement Obligations

The College recognizes a liability when a legal obligation exists to perform an asset retirement in which the timing or method of settlement is conditional on a future event that may or may not be under the control of the College. Asset retirement obligation ("ARO") is recognized at its net present value with a corresponding increase in the carrying amount of the long-lived asset to which the ARO relates. The liability is accreted through periodic charges to accretion expense through the expected dates of the asset retirement. The capitalized asset cost is depreciated over the useful life of the related long lived asset.

Accrued Pension and Postretirement Benefits

The College accounts for pension and other postretirement benefits in accordance with the guidance issued by the FASB. The guidance requires the recognition of defined benefit and defined benefit postretirement plans' funded status as either an asset or liability on the Statements of Financial Position.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Issuance Costs

Debt issuance costs consist of legal, underwriting, and other fees for services rendered in connection with the issuance of long-term debt. Debt issuance costs are amortized using the effective interest rate method over the life of the related debt. During the fiscal year ended May 31, 2011, the College capitalized approximately \$720,000 in debt issuance costs related to the issuance of Series 2011A Insured Revenue Bonds. The amortization expense approximated \$92,000 and \$495,000 for the years ended May 31, 2012 and 2011, respectively.

Deposits With Bond Trustees

All borrowing arrangements between the College and the Dormitory Authority of the State of New York require the establishment of various reserve funds (debt service and building and equipment reserves). Balances in these reserves, which are comprised primarily of U.S. government agency and treasury notes, are reflected in deposits with bond trustees in the accompanying statements of financial position.

Capital Gift Revenue

Capital gift revenue (non-operating) includes endowed gifts, gifts of equipment or other property, life income funds and/or other gifts that are designated by the College's Board of Trustees for non-operating purposes.

Program Expenses

Total program expenses for the years ended May 31, 2012 and 2011 were approximately \$109,432,000 and \$106,541,000, respectively. Program expenses include instruction, research, academic support, student services and auxiliary enterprises.

Subsequent Events

The College has evaluated subsequent events through August 17, 2012, the date financial statements were available to be issued.

Reclassification

Certain reclassifications have been made to the financial statements for 2011 to conform to the presentation for 2012.

NOTE 3 — ACCOUNTS RECEIVABLE AND STUDENT LOANS RECEIVABLE, NET

Accounts receivable are recognized net of an allowance for uncollectible accounts of approximately \$55,000 and \$39,000 as of May 31, 2012 and 2011, respectively.

Student loans receivable, and related allowance for doubtful accounts, were as follows:

	2012			2011		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Student Loans:						
Government revolving	\$ 2,472,007	\$ 396,989	\$ 2,075,018	\$ 2,543,950	\$ 382,643	\$ 2,161,307
Institutional	383,599	170,993	212,606	594,849	202,721	392,128
Total	<u>\$ 2,855,606</u>	<u>\$ 567,982</u>	<u>\$ 2,287,624</u>	<u>\$ 3,138,799</u>	<u>\$ 585,364</u>	<u>\$ 2,553,435</u>

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 3 — ACCOUNTS RECEIVABLE AND STUDENT LOANS RECEIVABLE, NET (Continued)

Student loans receivable are comprised primarily of Federally sponsored student loans with U.S. government mandated interest rates and repayment terms and College sponsored loans that were funded through the issuance of tax-exempt bonds. Governmental revolving loans are funded principally with federal advances to the College under the Perkins Loan Program. As of May 31, 2012 and 2011, these advances under the Perkins Loan Program were approximately \$1,914,000 and \$1,890,000, respectively, and are classified as liabilities in the statements of financial position. Interest earned on the revolving loan programs is reinvested to support additional loans. The repayment and interest rate terms of the institutional loans vary.

The College has an employee loan program where employees can receive zero interest loans for the purchase of certain computer and computer related equipment subject to various limitations. As of May 31, 2012 and 2011, the outstanding employee computer loans were approximately \$70,000 and \$32,000, respectively, and are included in accounts receivable, net in the statements of financial position.

The College assesses the adequacy of the allowance for doubtful accounts by evaluating the loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral, and where applicable, the existence of any guarantees or indemnifications. In addition to these factors, the College reviews the aging of the loans receivable and the default rate in comparison to prior years. The allowance is adjusted based on these reviews. The College considers the allowance at May 31, 2012 and 2011 to be reasonable and adequate to absorb potential credit losses inherent in the loan portfolio.

NOTE 4 — CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable consists of pledges and contributions, which are presented net of a present value discount and net of an allowance for uncollectible contributions.

Contributions receivable as of May 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Gross amounts expected to be received within:		
Less than one year	\$ 189,377	\$ 193,965
One to five years	6,979,821	10,934,168
More than five years	<u>4,470,742</u>	<u>5,002,900</u>
	11,639,940	16,131,033
Less: discount to present value (1.07% to 5.80%)	<u>(987,390)</u>	<u>(1,446,667)</u>
	10,652,550	14,684,366
Less: allowance for doubtful accounts	<u>(989,395)</u>	<u>(1,371,138)</u>
Contributions Receivable - Pledges	9,663,155	13,313,228
Contributions Receivable - Charitable Remainder Trusts	<u>7,076,033</u>	<u>7,205,616</u>
Total Contributions Receivable, net	<u><u>\$ 16,739,188</u></u>	<u><u>\$ 20,518,844</u></u>

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 4 — CONTRIBUTIONS RECEIVABLE, NET (Continued)

As of May 31, 2012 and 2011, the College had also received notification of bequest intentions totaling approximately \$28,109,000 and \$24,874,000, respectively. These bequests, if received, would be used for general operations, program activities and new facilities. These amounts are not included in contributions receivable due to the conditional nature of the gifts.

The College supports institutional development through the activities of the offices of annual fund, foundations and corporate relations, planned giving, campaign, parent relations, and major gifts. The expenses incurred for these activities were approximately \$4,022,000 and \$3,637,000 for the years ended May 31, 2012 and 2011, respectively. The College also incurs additional institutional development costs through activities such as alumni relations, college events, communications, and various other administrative costs. The direct expenses for these activities were approximately \$3,305,000 and \$3,053,000 for the years ended May 31, 2012 and 2011, respectively. These expenses are reflected in institutional support in the accompanying statements of activities.

In 2012, the College reclassified \$1,485,990 of net contribution receivable from temporarily restricted to permanently restricted in accordance with donor intent.

NOTE 5 — INVESTMENTS

The fair value and cost of investments, by type, including investments under split interest agreements, as of May 31, 2012 and 2011 were as follows:

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Cash and Cash Equivalents				
Cash and Cash Equivalents	\$ 4,234,503	\$ 4,234,503	\$ 18,388,373	\$ 18,388,373
Equities				
Long Only Equities	53,924,193	44,446,294	49,847,489	38,529,190
Equity Long / Short Investment Funds	61,830,590	60,211,497	89,637,019	73,368,429
Equity Mutual Funds	2,218,201	2,046,017	2,476,543	2,194,420
Fixed Income				
Fixed Income Mutual Funds	63,013,514	61,090,667	57,499,929	55,591,680
Fixed Income Commingled Investment Funds	24,665,037	12,961,499	20,658,415	12,961,128
Absolute Return Funds				
Absolute Return Funds	86,862,487	75,535,728	86,566,519	68,601,688
Private Equity Funds				
Private Capital Funds	31,176,651	29,219,895	28,607,209	28,864,203
Private Real Estate Funds	15,066,300	14,176,177	8,644,610	8,569,003
Other				
Real Estate Trust	125,000	125,000	125,000	125,000
Total	\$ 343,116,476	\$ 304,047,277	\$ 362,451,106	\$ 307,193,114

Investment management and custodial fees are netted against investment income or reflected as a reduction in net asset value of the investment, and were approximately \$4,320,000 and \$6,192,000 for the years ended May 31, 2012 and 2011, respectively.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 5 — INVESTMENTS (Continued)

The fair value and cost of investments by traditional fund classification as of May 31, 2012 and 2011 were as follows:

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Pooled Investments				
Endowment and similar funds	\$ 308,298,171	\$ 270,187,841	\$ 331,405,338	\$ 275,861,764
Non-pooled Investments				
Current funds	25,201,407	25,323,534	15,155,385	15,156,435
Plant Funds	2,695,428	2,341,787	8,991,689	9,798,075
Life income funds	6,921,470	6,194,115	6,898,694	6,376,840
Total non-pooled	34,818,305	33,859,436	31,045,768	31,331,350
Total	<u>\$ 343,116,476</u>	<u>\$ 304,047,277</u>	<u>\$ 362,451,106</u>	<u>\$ 307,193,114</u>

Pooled endowment and similar funds are accounted for on a unit fair value basis. Funds are added to or withdrawn from the pool at the unit market value at the beginning of the month in which the transaction takes place. A summary of changes in the relationship between cost and market value of the pooled investments is as follows:

	2012			
	Pooled Investments			Fair Value Per Unit
	Fair Value	Cost	Net Gain	
End of year	\$ 308,298,171	\$ 270,187,841	\$ 38,110,330	\$ 8.13
Beginning of year	331,405,338	275,861,764	55,543,574	8.47
Net unrealized loss for year			(17,433,244)	
Net realized gain for year			4,209,878	
Net total loss for year			<u>\$ (13,223,366)</u>	<u>\$ (0.34)</u>

The average earnings per unit, exclusive of net unrealized and net realized gains and losses, amounted to \$0.04 for the year ended May 31, 2012.

	2011			
	Pooled Investments			Fair Value Per Unit
	Fair Value	Cost	Net Gain	
End of year	\$ 331,405,338	\$ 275,861,764	\$ 55,543,574	\$ 8.47
Beginning of year	299,927,292	248,757,335	51,169,957	7.61
Net unrealized gain for year			4,373,617	
Net realized gain for year			29,971,007	
Net total gain for year			<u>\$ 34,344,624</u>	<u>\$ 0.86</u>

The average earnings per unit, exclusive of net unrealized and net realized gains and losses, amounted to \$.39 for the year ended May 31, 2011.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 6 — FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the College has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Cash and Cash Equivalents: Valued at the closing price reported on the active market on which the individual securities are traded.

Long Only Equities: Common stocks are valued at the closing price reported on the active market on which the individual securities are traded. Investments focus on both U.S. and international markets, in various business sectors including commodities, credit markets, healthcare, telecommunications, energy, information technology, utilities, and others.

Equity Long / Short Investment Funds: Funds generally invest in long and short positions in corporate securities with a focus on both U.S. and international markets, in various business sectors including, commodities, credit markets, healthcare, telecommunications, energy, information technology, utilities, and others. Funds are valued at the net asset value (NAV) of shares held by the College at year end. Management has considered all other rights and obligations associated with these investments and concluded there would be no significant adjustment required to the net asset value.

Equity Mutual Funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Fixed Income Mutual Funds: Valued at the closing price reported on the active market on which the individual securities are traded.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 6 — FAIR VALUE MEASUREMENTS (Continued)

Fixed Income Commingled investment Funds: Funds generally invest in corporate and government debt securities and are typically held in limited partnerships. Funds are valued at the net asset value (NAV) of shares held by the College at year end. Management has considered all other rights and obligations associated with these investments and concluded there would be no significant adjustment required to the net asset value.

Absolute Return Funds: Funds that utilize strategies with the intent to generate long term appreciation with limited volatility and limited correlation to common bond and equity indices. Funds are valued at the net asset value (NAV) of shares held by the College at year end. Management has considered all other rights and obligations associated with these investments and concluded there would be no significant adjustment required to the net asset value.

Private Capital Funds: Funds that are not available for liquidation by the College and are dependent on the fund administration for decisions about sale and asset distribution. The strategy of the funds is to achieve long-term growth primarily through direct and equity investments in the energy industry and distressed securities. The College has limited ability to influence operations of these funds. The College receives audited financial statements, tax returns and other financial data, including descriptions of underlying investments. The College determines the fair value based on the qualitative and quantitative information received.

Private Real Estate Funds: Funds that are not available for liquidation by the College and are dependent on the fund administration for decisions about sale and asset distribution. The strategy of the funds is to achieve long-term growth primarily through direct and equity investments in the domestic real estate industry. The College has limited ability to influence operations of these funds. The College receives audited financial statements, tax returns and other financial data, including descriptions of underlying real estate investments. The College determines the fair value based on the qualitative and quantitative information received.

Real Estate Trust: Valued at estimated fair value which is based on the cost or the most recent appraised value of the property. The College determines the fair value based on qualitative and quantitative information received.

U.S. Treasuries and U.S. Agency Funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Guaranteed Investment Contract: Guaranteed investment contracts are reported at fair value which approximates contract value. The contract value equals the accumulated cash contributions and interest credited to the College's contracts. These contracts are not available for sale or transfer on any securities exchange.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 6 — FAIR VALUE MEASUREMENTS (Continued)

The following presents the College's assets by fair value hierarchy and type at May 31, 2012:

<u>Investments</u>	Assets at Fair Value			Total
	Level 1	Level 2	Level 3	
Cash and Cash Equivalents				
Cash and Cash Equivalents	\$ 4,050,581	\$ -	\$ -	\$ 4,050,581
Equities				
Long Only Equities	39,497,881	4,634,648	9,791,664	53,924,193
Equity Long / Short Investment Funds	-	39,063,607	22,766,983	61,830,590
Fixed Income				
Fixed Income Mutual Funds	58,619,167	-	-	58,619,167
Fixed Income Commingled Investment Funds	89,986	-	24,575,051	24,665,037
Absolute Return Funds				
Absolute Return Fund	-	14,036,256	72,826,231	86,862,487
Private Equity Funds				
Private Capital Fund	-	-	31,176,651	31,176,651
Private Real Estate Fund	-	-	15,066,300	15,066,300
Total Investments	<u>\$ 102,257,615</u>	<u>\$ 57,734,511</u>	<u>\$ 176,202,880</u>	<u>\$ 336,195,006</u>
<u>Contributions Receivable - Charitable Remainder Trusts</u>				
	Level 1	Level 2	Level 3	Total
Charitable Remainder Trusts	\$ -	\$ -	\$ 7,076,033	\$ 7,076,033
Total Charitable Remainder Trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,076,033</u>	<u>\$ 7,076,033</u>
<u>Investments under Split Interest Agreements</u>				
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 183,922	\$ -	\$ -	\$ 183,922
Equities				
Equity Mutual Funds	2,218,201	-	-	2,218,201
Fixed Income				
Fixed Income Mutual Funds	4,394,347	-	-	4,394,347
Other				
Real Estate Trust	-	-	125,000	125,000
Total Investments under Split Interest Agreements	<u>\$ 6,796,470</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 6,921,470</u>
<u>Deposits with Bond Trustees</u>				
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 2,184,289	\$ -	\$ -	\$ 2,184,289
Fixed Income				
U.S. Treasuries	11,241,694	-	-	11,241,694
U.S. Agency Funds	3,098,945	-	-	3,098,945
Other				
Guaranteed Investment Contract	-	-	1,776,192	1,776,192
Total Deposits with Bond Trustees	<u>\$ 16,524,928</u>	<u>\$ -</u>	<u>\$ 1,776,192</u>	<u>\$ 18,301,120</u>
Total assets at fair value	<u>\$ 125,579,013</u>	<u>\$ 57,734,511</u>	<u>\$ 185,180,105</u>	<u>\$ 368,493,629</u>

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 6 — FAIR VALUE MEASUREMENTS (Continued)

The following presents the College's assets by fair value hierarchy and type at May 31, 2011:

<u>Investments</u>	Assets at Fair Value			Total
	Level 1	Level 2	Level 3	
Cash and Cash Equivalents				
Cash and Cash Equivalents	\$ 18,343,279	\$ -	\$ -	\$ 18,343,279
Equities				
Long Only Equities	40,472,278	-	9,375,211	49,847,489
Equity Long / Short Investment Funds	-	53,194,491	36,442,528	89,637,019
Fixed Income				
Fixed Income Mutual Funds	53,247,872	-	-	53,247,872
Fixed Income Commingled Investment Funds	89,615	-	20,568,800	20,658,415
Absolute Return Funds				
Absolute Return Fund	-	9,097,491	77,469,028	86,566,519
Private Equity Funds				
Private Capital Fund	-	-	28,607,209	28,607,209
Private Real Estate Fund	-	-	8,644,610	8,644,610
Total Investments	<u>\$ 112,153,044</u>	<u>\$ 62,291,982</u>	<u>\$ 181,107,386</u>	<u>\$ 355,552,412</u>
<u>Contributions Receivable - Charitable Remainder Trusts</u>				
	Level 1	Level 2	Level 3	Total
Charitable Remainder Trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,205,616</u>	<u>\$ 7,205,616</u>
Total Charitable Remainder Trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,205,616</u>	<u>\$ 7,205,616</u>
<u>Investments under Split Interest Agreements</u>				
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents				
Cash and Cash Equivalents	\$ 45,094	\$ -	\$ -	\$ 45,094
Equities				
Equity Mutual Funds	2,476,543	-	-	2,476,543
Fixed Income				
Fixed Income Mutual Funds	4,252,057	-	-	4,252,057
Other				
Real Estate Trust	-	-	125,000	125,000
Total Investments under Split Interest Agreements	<u>\$ 6,773,694</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 6,898,694</u>
<u>Deposits with Bond Trustees</u>				
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents				
Cash and Cash Equivalents	\$ 1,087,031	\$ -	\$ -	\$ 1,087,031
Fixed Income				
U.S. Treasuries	21,586,674	-	-	21,586,674
U.S. Agency Funds	5,129,751	-	-	5,129,751
Other				
Guaranteed Investment Contract	-	-	1,776,192	1,776,192
Total Deposits with Bond Trustees	<u>\$ 27,803,456</u>	<u>\$ -</u>	<u>\$ 1,776,192</u>	<u>\$ 29,579,648</u>
Total assets at fair value	<u>\$ 146,730,194</u>	<u>\$ 62,291,982</u>	<u>\$ 190,214,194</u>	<u>\$ 399,236,370</u>

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 6 — FAIR VALUE MEASUREMENTS (Continued)

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the College's level 3 assets for the year ended May 31, 2012:

Balance at June 1, 2011	\$ 190,214,194
Total gains or losses (realized and unrealized) included in non-operating gains	(3,082,109)
Purchases	23,564,761
Sales	(19,777,453)
Transfer to Level 2 (beginning of year)	(5,739,288)
Balance at May 31, 2012	<u>\$ 185,180,105</u>

The following table sets forth a summary of changes in the fair value of the College's level 3 assets for the year ended May 31, 2011:

Balance at June 1, 2010	\$ 169,290,207
Total gains or losses (realized and unrealized) included in non-operating gains	22,153,827
Purchases	43,206,919
Sales	(44,436,759)
Balance at May 31, 2011	<u>\$ 190,214,194</u>

Nature and Risk of Certain Investments

The nature and risk of certain investments by major category at May 31, 2012 are presented as follows:

	Fair Value	Unfunded Commitments	Redemption Provisions	Expected Liquidation Term
Fixed Income				
Fixed Income Commingled Investment Funds	\$ 24,665,037	\$ -	90 days notice with 33% maximum annually	Not applicable
Equities				
Equity Long / Short Investment Funds	61,830,590	-	varies from 100% monthly with 6 days notice to a 3 year holding period	Not applicable
Absolute Return Funds				
Absolute Return Funds	86,862,487	-	varies from 100% monthly with 30 days notice to a 1 year holding period	Not applicable
Private Equity Funds				
Private Capital Funds	31,176,651	7,891,000	no redemption permitted	1 to 8 years
Private Real Estate Funds	15,066,300	4,670,000	no redemption permitted	1 to 7 years
	<u>\$ 219,601,065</u>	<u>\$ 12,561,000</u>		

NOTE 7 — ENDOWMENT

FASB Accounting Standards Codification provides guidance regarding 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. The guidance requires certain disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 7 — ENDOWMENT (Continued)

On September 17, 2010, the State of New York adopted a version of the Uniform Prudent Management of Institutional Funds Act ("NYPMIFA"). The College has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor instructions to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of the 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by NYPMIFA.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or NYPMIFA requires the College to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature are reported in unrestricted net assets. Deficiencies would result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and continued appropriation as deemed prudent by the College. Approximately \$3,030,000 and \$952,800 were funded from Unrestricted Net Assets to Permanently Restricted Net Assets at May 31, 2012 and 2011, respectively.

Endowment Investment Policy

Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to preserve the purchasing power of the corpus and insulate program spending from fluctuations in capital markets while assuming a moderate level of investment risk.

Endowment Investment Return Spending Policy

The College has an endowment and similar funds "total return" investment spending policy, which is applied to substantially all of the College's endowment and similar funds investments. It is intended to preserve the purchasing power of the corpus and insulate program spending from fluctuations in capital markets. The amount of endowment and similar funds investment return (yield and appreciation) used annually to support operations is equivalent to 5% of the weighted average of these investments over the prior three years. Investment returns equal to the annual spending rate are reflected as operating support and investment returns in excess of the spending rate are reflected as non-operating support in the accompanying statements of activities. Spending in excess of investment return is reflected as a decrease in unrestricted net assets.

Endowment net asset composition by type of fund as of May 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 55,022,250	\$ 106,529,302	\$ 161,551,552
Board-designated funds	119,223,812	-	-	119,223,812
Total funds	<u>\$ 119,223,812</u>	<u>\$ 55,022,250</u>	<u>\$ 106,529,302</u>	<u>\$ 280,775,364</u>

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 7 — ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of May 31, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ -	\$ 69,604,408	\$ 102,115,391	\$ 171,719,799
Board-designated funds	129,643,310	-	-	129,643,310
Total funds	<u>\$ 129,643,310</u>	<u>\$ 69,604,408</u>	<u>\$ 102,115,391</u>	<u>\$ 301,363,109</u>

Changes in endowment net assets for the fiscal year ended May 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 129,643,310	\$ 69,604,408	\$ 102,115,391	\$ 301,363,109
Contributions	544,517	-	4,413,911	4,958,428
Investment income	1,313,763	-	-	1,313,763
Net depreciation	(5,760,547)	(6,268,984)	-	(12,029,531)
Amounts appropriated for expenditure	(6,517,231)	(8,313,174)	-	(14,830,405)
Endowment net assets, end of year	<u>\$ 119,223,812</u>	<u>\$ 55,022,250</u>	<u>\$ 106,529,302</u>	<u>\$ 280,775,364</u>

Changes in endowment net assets for the fiscal year ended May 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 175,598,738	\$ -	\$ 97,396,202	\$ 272,994,940
Contributions	4,475,055	-	4,719,189	9,194,244
Investment income	2,198,929	-	-	2,198,929
Net appreciation	31,152,971	-	-	31,152,971
Net assets reclassification for adoption of NYPMIFA	(69,604,408)	69,604,408	-	-
Amounts appropriated for expenditure	(14,177,975)	-	-	(14,177,975)
Endowment net assets, end of year	<u>\$ 129,643,310</u>	<u>\$ 69,604,408</u>	<u>\$ 102,115,391</u>	<u>\$ 301,363,109</u>

NOTE 8 — LAND, BUILDINGS AND EQUIPMENT, NET

Land, buildings and equipment, net as of May 31, 2012 and 2011, consisted of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,149,036	\$ 2,149,036
Buildings and building improvements	245,189,507	229,112,634
Equipment and furnishings	71,820,828	68,430,229
Library holdings and art collections	30,216,104	26,916,909
Construction in progress	22,303,090	9,082,219
	<u>371,678,565</u>	<u>335,691,027</u>
Less: accumulated depreciation	<u>(175,677,812)</u>	<u>(164,761,134)</u>
Land, buildings, and equipment, net	<u>\$ 196,000,753</u>	<u>\$ 170,929,893</u>

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 8 — LAND, BUILDINGS AND EQUIPMENT, NET (Continued)

Depreciation expense for the years ended May 31, 2012 and 2011 amounted to approximately \$12,034,000 and \$12,104,000, respectively.

The College capitalizes the interest cost related to outstanding debt for certain qualifying assets under construction. Capitalized interest costs for the years ended May 31, 2012 and 2011 approximated \$811,000 and \$262,000, respectively.

Construction in progress includes capital projects not yet completed at year end. The most significant component of construction in progress as of May 31, 2012 is the construction of new residential housing on campus, with expected completion in fiscal year 2014. The remaining commitment on this project approximated \$25,000,000 at May 31, 2012. The remaining projects, including renovation and infrastructure improvements across the campus, geothermal heating and cooling system to multiple academic buildings, and the renovation of the College Library are expected to be completed in fiscal year 2013.

Contingencies Related To Land, Buildings, and Equipment

Asset Retirement Obligation (ARO)

In the normal course of operation, the College performs maintenance and repairs on its facilities and is also involved in ongoing construction projects. As part of these activities, the College has identified areas containing materials that legally require removal (asset retirement obligation) at some point in the future. The primary material identified was asbestos that was used in the initial construction of many of the buildings at the College.

The following table details the activity in the College's asset retirement obligation for 2012 and 2011:

	<u>2012</u>	<u>2011</u>
ARO, beginning of year	\$ 1,695,645	\$ 2,030,668
Add: Current year accretion	11,246	101,533
Less: Settled Obligations	<u>(536,269)</u>	<u>(436,556)</u>
ARO, end of year	<u>\$ 1,170,622</u>	<u>\$ 1,695,645</u>

NOTE 9 — LONG-TERM DEBT

The College classifies its long-term debt into two categories, plant debt and student loan debt. Plant debt was issued to finance facilities additions/renovations and major equipment purchases, and will be repaid from the general operations of the College. Student loan debt was issued to fund the College's student loan program and will be repaid from principal and interest collected from the underlying loan portfolio.

During 2011, the College entered into an agreement with The Dormitory Authority of the State of New York (the "Authority") whereby the Authority issued tax exempt bonds in the amount of \$32,425,000 (Series 2011A Revenue Bonds). The proceeds of the bonds were used to partially fund the construction of student housing on the College campus and to refund the outstanding Series 1998 Insured Revenue Bonds.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 9 — LONG-TERM DEBT (Continued)

Long-term debt of the College (including the current portion) as of May 31, 2012 and 2011, is summarized as follows:

	<u>2012</u>	<u>2011</u>
<u>Plant Debt</u>		
Saratoga County Industrial Development Agency Insured Revenue Bonds, Series '03A; 4.09%; due 2023	\$ 16,375,000	\$ 18,340,000
Dormitory Authority of the State of New York Insured Revenue Bonds, Series '04; 4.59%; due 2033	27,930,000	28,700,000
Dormitory Authority of the State of New York Revenue Bonds, Series '11; 5.25%; due 2041	<u>32,055,000</u>	<u>32,425,000</u>
Total plant debt	<u>76,360,000</u>	<u>79,465,000</u>
<u>Student Loan Debt</u>		
Dormitory Authority of the State of New York College & University Educational Loan Insured Revenue Bonds:		
Series '92; 6.39%; due 2013	65,062	99,843
Series '93; 5.05%; due 2014	291,303	367,037
Series '95; 5.75%; due 2017	<u>1,244,448</u>	<u>1,562,163</u>
Total student loan debt	<u>1,600,813</u>	<u>2,029,043</u>
Total long-term debt	<u><u>\$ 77,960,813</u></u>	<u><u>\$ 81,494,043</u></u>

Maturities noted are the final year of maturity for the issue. Interest rates noted are annualized based on a weighted average for the entire issue. All issues, except for Series 2011A Revenue Bonds, are collateralized by municipal bond insurance. All issues are collateralized by certain pledges of tuition and fees. As additional security for its plant-related debt, the College has granted mortgages on various campus properties.

A summary of long-term debt service payable for the next five years and thereafter is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,598,701	\$ 4,269,987	\$ 7,868,688
2014	2,650,073	4,240,683	6,890,756
2015	2,919,906	3,642,939	6,562,845
2016	2,999,132	3,516,639	6,515,771
2017	3,308,001	3,976,067	7,284,068
Thereafter	<u>62,485,000</u>	<u>32,295,243</u>	<u>94,780,243</u>
Total	<u><u>\$ 77,960,813</u></u>	<u><u>\$ 51,941,558</u></u>	<u><u>\$ 129,902,371</u></u>

The fair market value of the College's financial debt instruments based on current borrowing rates for loans with similar terms and average maturities was estimated to be approximately \$85,912,000 and \$87,516,000 as of May 31, 2012 and 2011, respectively.

Interest expense for the years ended May 31, 2012 and 2011 totaled approximately \$2,990,000 and \$2,929,000, respectively.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 10 — TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are subject to donor-imposed stipulations to support scholarships, program activities, and new construction. Such stipulations may be or will be satisfied by the actions of the College and/or the passage of time. Temporarily restricted net assets as of May 31, 2012 and 2011 were classified as follows:

	<u>2012</u>	<u>2011</u>
Student loans	\$ 48,604	\$ 48,604
Funds for academic programs and scholarships	3,229,337	3,088,499
Funds for capital improvements	11,986,986	11,825,773
Life income and annuity funds	10,199,158	10,488,700
Endowment	55,022,250	69,604,408
Pledges receivable	6,569,375	10,745,003
	<u><u>\$ 87,055,710</u></u>	<u><u>\$ 105,800,987</u></u>

Permanently restricted net assets are subject to donor-imposed stipulations that require the principal to be invested in perpetuity. Investment returns are expendable to support scholarships and program activities. Permanently restricted net assets as of May 31, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Endowment	\$ 106,529,302	\$ 102,115,391
Life income and annuity funds	1,505,238	1,428,671
Pledges receivable	3,093,780	2,568,225
	<u><u>\$ 111,128,320</u></u>	<u><u>\$ 106,112,287</u></u>

NOTE 11 — EMPLOYEE BENEFIT PLANS

Pension Plans

During 1990, the College determined that the early retirement option that had been offered to non-unionized employees and administered as a severance pay plan was deemed jurisdictional under Title 1 of ERISA as a defined benefit pension plan. Effective November 15, 1990, the College's Board of Trustees voted to freeze all benefits under the early retirement plan and close the plan to new employees. All non-unionized employees employed at the College on November 15, 1990 would be vested under the frozen plan after five years of service.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 11 — EMPLOYEE BENEFIT PLANS (Continued)

Pension Plans (Continued)

The following table sets forth the plan's funded status and amounts recognized in the College's statements of financial position as of May 31, 2012 and 2011:

	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,231,918	\$ 1,690,878
Interest cost	58,536	76,443
Benefits paid	(55,992)	(522,205)
Actuarial gain	(15,778)	(67,465)
Increase due to settlement	-	54,267
	<u>\$ 1,218,684</u>	<u>\$ 1,231,918</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 1,321,262	\$ 1,757,965
Actual return on plan assets	(18,624)	(14,498)
Employer contribution	50,000	100,000
Benefits paid	(55,992)	(522,205)
	<u>\$ 1,296,646</u>	<u>\$ 1,321,262</u>
Funded status at year end	<u>\$ 77,962</u>	<u>\$ 89,344</u>
Amounts recognized in unrestricted net assets:		
Unamortized net loss	<u>\$ 546,010</u>	<u>\$ 576,184</u>
Amounts recognized in the statement of financial position consist of:		
Pension assets	<u>\$ 77,962</u>	<u>\$ 89,344</u>
Unrestricted net assets	<u>\$ 546,010</u>	<u>\$ 576,184</u>
Components of net periodic pension cost:		
Interest cost on projected benefit obligation	\$ 58,536	\$ 76,443
Expected return on assets	(34,579)	(41,824)
Amortization of unrecognized net loss	67,599	112,175
Settlement loss	-	219,428
	<u>\$ 91,556</u>	<u>\$ 366,222</u>
Change in unamortized items:		
Actuarial loss (gain)	\$ 37,425	\$ (11,143)
Settlement loss	-	54,267
Amortization of:		
Actuarial loss	(67,599)	(112,175)
Settlement loss	-	(219,428)
Total changes in recognized unrestricted net assets	<u>\$ (30,174)</u>	<u>\$ (288,479)</u>
Total recognized in net periodic pension cost and unrestricted net assets	<u>\$ 61,382</u>	<u>\$ 77,743</u>
Expected effect in the unrestricted net assets next fiscal year:	<u>2013</u>	
Net loss	<u>\$ 89,652</u>	

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 11 — EMPLOYEE BENEFIT PLANS (Continued)

Pension Plans (Continued)

The College's funding policy is based upon and is in compliance with ERISA requirements. The College contributed \$50,000 and \$100,000 to the plan for the years ended May 31, 2012 and 2011, respectively. Assumed discount rates of 4.25% and 5.50% were used in accounting for the benefit obligation as of May 31, 2012 and 2011, respectively. Assumed discount rates of 5.50% and 5.75% were used in accounting for the net periodic pension cost as of May 31, 2012 and 2011, respectively. Expected long-term rates of return on assets of 2.0% and 3.0% were used in accounting for the plan as of May 31, 2012 and 2011, respectively.

There is no expected contribution to the plan for the fiscal year ended May 31, 2012.

Estimated future benefit payments reflect expected future service for each fiscal year. Shown below are the expected payments for the next five years and the five years thereafter:

Estimated Future Benefit Payments

2013	\$ 381,636
2014	\$ 113,236
2015	\$ 157,662
2016	\$ 118,411
2017	\$ 99,218
Years 2018-2022	\$ 334,411

Postretirement Health Benefits

The College pays for a portion of medical benefits for retired non-unionized employees with a start date prior to September 4, 2008 based upon years of service at retirement date. The College accrues the expected cost of postretirement benefits over the service life of active employees.

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NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 11 — EMPLOYEE BENEFIT PLANS (Continued)

Postretirement Health Benefits (Continued)

The following tables set forth the status of the plan, which is unfunded, as of May 31, 2012 and 2011:

	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 56,923,896	\$ 48,633,089
Service cost	1,495,289	1,390,086
Interest cost	2,940,123	2,854,080
Plan participant's contribution	82,327	60,847
Actuarial loss	10,750,669	5,582,772
Benefits paid	<u>(2,021,224)</u>	<u>(1,596,978)</u>
Benefit obligation at end of year	<u><u>\$ 70,171,080</u></u>	<u><u>\$ 56,923,896</u></u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contribution	1,938,897	1,536,131
Plan participants' contributions	82,327	60,847
Benefits paid	<u>(2,021,224)</u>	<u>(1,596,978)</u>
Fair value of plan assets at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Funded status at year end	<u><u>\$ (70,171,080)</u></u>	<u><u>\$ (56,923,896)</u></u>
Amounts recognized in unrestricted net assets:		
Unamortized prior service (credit)	\$ (6,663,431)	\$ (7,730,430)
Unamortized net loss	<u>41,690,131</u>	<u>32,901,406</u>
	<u><u>\$ 35,026,700</u></u>	<u><u>\$ 25,170,976</u></u>
Amounts recognized in the statement of financial position consist of:		
Accrued postretirement benefits liability	<u>\$ (70,171,080)</u>	<u>\$ (56,923,896)</u>
Unrestricted net assets	<u><u>\$ 35,026,700</u></u>	<u><u>\$ 25,170,976</u></u>
Components of net periodic benefit cost:		
Service cost	\$ 1,495,289	\$ 1,390,086
Interest cost	2,940,123	2,854,080
Amortization of net loss	1,961,944	1,941,062
Amortization of unrecognized prior service credit	<u>(1,066,999)</u>	<u>(1,066,999)</u>
Net periodic postretirement benefit cost	<u><u>\$ 5,330,357</u></u>	<u><u>\$ 5,118,229</u></u>
Change in unamortized items:		
Actuarial loss	\$ 10,750,669	\$ 5,582,772
Amortization of:		
Prior service credit	1,066,999	1,066,999
Actuarial loss	<u>(1,961,944)</u>	<u>(1,941,062)</u>
Total changes in recognized unrestricted net assets	<u><u>\$ 9,855,724</u></u>	<u><u>\$ 4,708,709</u></u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u><u>\$ 15,186,081</u></u>	<u><u>\$ 9,826,938</u></u>
Expected effect in the unrestricted net assets next fiscal year:	2013	
Prior service (credit)	\$ (1,066,999)	
Net loss	\$ 2,830,959	

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NOTE 11 — EMPLOYEE BENEFIT PLANS (Continued)

Postretirement Health Benefits (Continued)

Actual net health care claims paid for retirees by the College for the years ended May 31, 2012 and 2011 totaled \$1,938,897 and \$1,536,131, respectively. The discount rates used in determining the accumulated postretirement benefit obligation were 4.25% and 5.50% as of May 31, 2012 and 2011, respectively. Assumed discount rates of 5.50% and 5.75% were used in accounting for the net periodic pension cost as of May 31, 2012 and 2011, respectively. The assumed trend rates for pre-65 medical, post-65 medical, and prescription drug costs is 9% for the next year, decreasing gradually in future years to 5% by fiscal 2020 and remaining at that level thereafter. Increasing the assumed health care cost trend rate by 1% in each year would increase the accumulated postretirement benefit obligation as of May 31, 2012 by \$13,123,352 and increase the aggregate of the service cost and interest cost by \$1,039,904. Decreasing the assumed health care cost trend rate by 1% in each year would decrease the accumulated postretirement benefit obligation as of May 31, 2012 by \$10,403,952 and decrease the aggregate of the service cost and interest cost by \$790,290.

Expected benefit payments reflect expected future service for each fiscal year. Shown below are the expected gross payments (including prescription drug benefits) for the next five years and the five years thereafter:

	Gross Payments
2013	\$ 2,214,520
2014	\$ 2,384,155
2015	\$ 2,517,353
2016	\$ 2,631,387
2017	\$ 2,759,984
Years 2018-2022	\$ 16,706,086

Defined Contribution Plan

The College has a 403(b) defined contribution plan, which covers substantially all non union employees of the College. The College contributes an amount equal to 10% of base annual salary / wages if an eligible employee is less than age 50, or 11% if age 50 or over, into the plan. In addition, the College contributes an amount equal to 1% of base annual salary / wages of an eligible employee with a start date on or after September 4, 2008 who is a fully benefits eligible employee, but who is not eligible for the College's postretirement healthcare plan. For the years ended May 31, 2012 and 2011, the College's contribution was approximately \$4,261,000 and \$4,150,000, respectively.

Other

The College contributes to pension funds administered by various unions with which the College has collective bargaining agreements. Total contributions by the College to these union funds for the years ended May 31, 2012 and 2011 were approximately \$732,000 and \$693,000, respectively.

SKIDMORE COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 12 — CREDIT AGREEMENTS

The College has two \$10,000,000 lines of credit for working capital purposes with commercial banks. The rate of interest on one line is equivalent to the London Interbank Offered Rate ("LIBOR") plus 250 basis points. The rate of interest on the second line is equivalent to the J.P. Morgan Chase Bank prime lending rate. Outstanding balances on the lines are secured by interests in various College assets. There were no borrowings outstanding under the lines of credit as of May 31, 2012 and 2011.

NOTE 13 — OTHER AGREEMENT

The College has an agreement for a loan program with a local bank where loans are given to area businesses that meet certain criteria. The bank administers and assumes all risks related to the program. The College has \$974,758 in accounts receivable and \$1,110,806 in investment related to the program at May 31, 2012.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

The College is subject to certain claims and legal proceedings arising in the ordinary course of business. In the opinion of management, the ultimate disposition with respect to these matters will not have a material adverse effect on the financial position of the College.