# Financial Statements

# Lasell College

**June 30, 2012 and 2011**

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

# LASELL COLLEGE

## *Financial Statements*

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***Financial Statements:***

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*Independent Auditors' Report*

Board of Trustees
Lasell College

We have audited the accompanying statements of financial position of Lasell College (the "College") as of June 30, 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 U.S. generally accepted auditing standards. 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 Lasell College as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

October 4, 2012
Boston, Massachusetts

## LASELL COLLEGE

### *Statements of Financial Position*

| | June 30, 2012 | June 30, 2011 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 6,982,453 | $ 4,848,931 |
| Cash limited as to use | 2,476,969 | 53,676 |
| Accounts receivable, net | 274,149 | 466,536 |
| Contributions receivable, net | 2,345,490 | 2,687,780 |
| Student loans receivable, net | 380,138 | 372,653 |
| Funds held by trustees under bond agreements | 4,751,693 | 12,883,622 |
| Bond issuance costs, net | 983,208 | 1,020,395 |
| Other assets | 358,424 | 633,785 |
| Beneficial interest in trusts | 2,321,870 | 2,461,533 |
| Investments | 27,279,549 | 27,110,186 |
| Real estate held for investment | 1,598,733 | 1,598,733 |
| Property and equipment, net | 70,702,757 | 63,460,353 |
| **Total assets** | **$ 120,455,433** | **$ 117,598,183** |
| **Liabilities and net assets** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | $ 6,375,376 | $ 4,032,410 |
| Deferred revenue | 3,481,613 | 2,238,356 |
| Deferred land lease revenue - affiliate | 1,477,305 | 1,475,636 |
| Refundable advances - Perkins loan program | 334,551 | 329,248 |
| Annuity obligations | 1,235,823 | 1,395,502 |
| Bonds payable, net | 53,971,155 | 54,268,244 |
| Fair value of interest rate swaps | 7,689,818 | 3,860,586 |
| Other liabilities | 71,500 | 76,000 |
| **Total liabilities** | **74,637,141** | **67,675,982** |
| Net assets: | | |
| Unrestricted | 33,473,398 | 37,208,622 |
| Temporarily restricted | 4,667,140 | 5,264,620 |
| Permanently restricted | 7,677,754 | 7,448,959 |
| **Total net assets** | **45,818,292** | **49,922,201** |
| **Total liabilities and net assets** | **$ 120,455,433** | **$ 117,598,183** |

## LASELL COLLEGE

### *Statement of Activities*

***Year Ended June 30, 2012***
***(With Comparative Totals for 2011)***

| | 2012 | | | | 2011 |
|---|---|---|---|---|---|
| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* | *Total* |
| **Revenues, gains and other support:** | | | | | |
| Tuition and fees | $ 43,210,668 | $ - | $ - | $ 43,210,668 | $ 41,682,167 |
| Room and board | 14,346,880 | - | - | 14,346,880 | 14,387,218 |
| Less: financial aid | (18,926,026) | - | - | (18,926,026) | (18,405,251) |
| Net tuition, fees and room and board | 38,631,522 | - | - | 38,631,522 | 37,664,134 |
| Auxiliary enterprises | 1,943,898 | - | - | 1,943,898 | 1,745,116 |
| Contracts with affiliate | 1,747,228 | - | - | 1,747,228 | 1,773,577 |
| Investment income appropriated | 874,402 | - | - | 874,402 | 985,229 |
| Federal and state grants | 538,794 | - | - | 538,794 | 502,164 |
| Private gifts and grants | 787,933 | - | - | 787,933 | 800,935 |
| Other revenue | 523,024 | - | - | 523,024 | 506,021 |
| Net assets released from restrictions | 159,619 | (159,619) | - | - | - |
| **Total revenues, gains and other support** | **45,206,420** | **(159,619)** | **-** | **45,046,801** | **43,977,176** |
| **Expenses:** | | | | | |
| Program services: | | | | | |
| Instruction | 11,075,613 | - | - | 11,075,613 | 11,014,989 |
| Academic support | 2,611,213 | - | - | 2,611,213 | 2,140,850 |
| Research | 83,508 | - | - | 83,508 | 63,400 |
| Student services | 9,263,070 | - | - | 9,263,070 | 7,600,362 |
| Government sponsored financial aid | 382,402 | - | - | 382,402 | 382,473 |
| Room and board | 11,648,894 | - | - | 11,648,894 | 10,706,071 |
| Auxiliary enterprises | 1,512,584 | - | - | 1,512,584 | 1,442,065 |
| Contracts with affiliate | 1,044,773 | - | - | 1,044,773 | 1,115,710 |
| Public service | 256,287 | - | - | 256,287 | 234,702 |
| **Total program services** | **37,878,344** | **-** | **-** | **37,878,344** | **34,700,622** |
| Management and general | 5,147,060 | - | - | 5,147,060 | 5,386,156 |
| Fundraising | 1,502,084 | - | - | 1,502,084 | 1,474,165 |
| **Total expenses** | **44,527,488** | **-** | **-** | **44,527,488** | **41,560,943** |
| **Change in net assets from operations** | **678,932** | **(159,619)** | **-** | **519,313** | **2,416,233** |
| **Non-operating activities:** | | | | | |
| Investment income (loss), net of total return appropriated | (657,795) | (16,060) | 2,756 | (671,099) | 2,874,928 |
| Land lease income from affiliate | 205,840 | - | - | 205,840 | 205,840 |
| Private gifts and grants | 274,590 | 263,462 | 269,554 | 807,606 | 1,920,502 |
| Change in fair value of interest rate swaps | (3,829,232) | - | - | (3,829,232) | 1,236,965 |
| Loss on disposal of property and equipment | (818,921) | - | - | (818,921) | - |
| Other non-operating activities, net | (133,722) | (140,179) | (43,515) | (317,416) | 64,884 |
| Net assets released from restrictions | 545,084 | (545,084) | - | - | - |
| **Total non-operating activities** | **(4,414,156)** | **(437,861)** | **228,795** | **(4,623,222)** | **6,303,119** |
| **Change in net assets** | **(3,735,224)** | **(597,480)** | **228,795** | **(4,103,909)** | **8,719,352** |
| Net assets, beginning of year | 37,208,622 | 5,264,620 | 7,448,959 | 49,922,201 | 41,202,849 |
| **Net assets, end of year** | **$ 33,473,398** | **$ 4,667,140** | **$ 7,677,754** | **$ 45,818,292** | **$ 49,922,201** |

*See accompanying notes to financial statements.*

# LASELL COLLEGE

## *Statement of Activities*

***Year Ended June 30, 2011***

| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
|---|---|---|---|---|
| **Revenues, gains and other support:** | | | | |
| Tuition and fees | $ 41,682,167 | $ - | $ - | $ 41,682,167 |
| Room and board | 14,387,218 | - | - | 14,387,218 |
| Less: financial aid | (18,405,251) | - | - | (18,405,251) |
| Net tuition, fees and room and board | 37,664,134 | - | - | 37,664,134 |
| Auxiliary enterprises | 1,745,116 | - | - | 1,745,116 |
| Contracts with affiliate | 1,773,577 | - | - | 1,773,577 |
| Investment income appropriated | 985,229 | - | - | 985,229 |
| Federal and state grants | 502,164 | - | - | 502,164 |
| Private gifts and grants | 800,935 | - | - | 800,935 |
| Other revenue | 506,021 | - | - | 506,021 |
| Net assets released from restrictions | 164,644 | (164,644) | - | - |
| **Total revenues, gains and other support** | **44,141,820** | **(164,644)** | **-** | **43,977,176** |
| **Expenses:** | | | | |
| Program services: | | | | |
| Instruction | 11,014,989 | - | - | 11,014,989 |
| Academic support | 2,140,850 | - | - | 2,140,850 |
| Research | 63,400 | - | - | 63,400 |
| Student services | 7,600,362 | - | - | 7,600,362 |
| Government sponsored financial aid | 382,473 | - | - | 382,473 |
| Room and board | 10,706,071 | - | - | 10,706,071 |
| Auxiliary enterprises | 1,442,065 | - | - | 1,442,065 |
| Contracts with affiliate | 1,115,710 | - | - | 1,115,710 |
| Public service | 234,702 | - | - | 234,702 |
| **Total program services** | **34,700,622** | **-** | **-** | **34,700,622** |
| Management and general | 5,386,156 | - | - | 5,386,156 |
| Fundraising | 1,474,165 | - | - | 1,474,165 |
| **Total expenses** | **41,560,943** | **-** | **-** | **41,560,943** |
| **Change in net assets from operations** | **2,580,877** | **(164,644)** | **-** | **2,416,233** |
| **Non-operating activities:** | | | | |
| Investment income (loss), net of total return appropriated | 2,460,040 | 391,513 | 23,375 | 2,874,928 |
| Land lease income from affiliate | 205,840 | - | - | 205,840 |
| Private gifts and grants | 534,164 | 1,311,203 | 75,135 | 1,920,502 |
| Change in fair value of interest rate swaps | 1,236,965 | - | - | 1,236,965 |
| Other non-operating activities, net | (327,856) | 330,095 | 62,645 | 64,884 |
| Net assets released from restrictions | 521,249 | (521,249) | - | - |
| **Total non-operating activities** | **4,630,402** | **1,511,562** | **161,155** | **6,303,119** |
| **Change in net assets** | **7,211,279** | **1,346,918** | **161,155** | **8,719,352** |
| Net assets, beginning of year | 29,997,343 | 3,917,702 | 7,287,804 | 41,202,849 |
| **Net assets, end of year** | **$ 37,208,622** | **$ 5,264,620** | **$ 7,448,959** | **$ 49,922,201** |

*See accompanying notes to financial statements.*

# LASELL COLLEGE

## *Statements of Cash Flows*

| | *Years Ended June 30,* *2012* | *2011* |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ (4,103,909) | $ 8,719,352 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,693,664 | 3,360,487 |
| Provision for bad debts | 6,803 | 63,242 |
| Net realized and unrealized (gain) loss on investments | 345,496 | (3,314,538) |
| Loss on disposal of property and equipment | 818,921 | - |
| Loss on write-off of bond issuance costs | - | 207,620 |
| Contributions restricted for long-term investment and plant | (300,148) | (260,265) |
| Investment income restricted for long-term investment | (2,756) | (23,375) |
| Gifts in kind | (71,700) | (89,159) |
| Change in fair value of interest rate swaps | 3,829,232 | (1,236,965) |
| Changes in operating assets and liabilities: | | |
| Cash limited to use | (2,423,293) | 605,309 |
| Accounts receivable | 185,584 | (339,862) |
| Contributions receivable | 342,290 | (542,810) |
| Beneficial interest in trusts | 139,663 | (556,302) |
| Other assets | 275,361 | (67,334) |
| Accounts payable and accrued expenses | 1,039,687 | 135,111 |
| Deferred revenue | 1,243,257 | 12,865 |
| Deferred affiliate land lease revenue | 1,669 | 1,669 |
| Other liabilities | (4,500) | - |
| **Net cash provided by operating activities** | **5,015,321** | **6,675,045** |
| **Cash flows from investing activities:** | | |
| Proceeds from sales of investments | 5,163,288 | 52,038,680 |
| Purchases of investments | (5,606,447) | (52,505,349) |
| Purchases of real estate investments | - | (678,033) |
| Change in annuity obligations | (159,679) | (12,471) |
| Purchase of property and equipment | (10,376,275) | (8,822,446) |
| Student loans granted | (38,400) | (22,200) |
| Student loans collected | 30,915 | 31,344 |
| Change in funds held by trustees under bond agreements | 8,131,929 | (11,703,892) |
| **Net cash used in investing activities** | **(2,854,669)** | **(21,674,367)** |
| **Cash flows from financing activities:** | | |
| Contributions restricted for long-term investment and plant | 300,149 | 260,265 |
| Investment income restricted for long-term investment | 2,756 | 23,375 |
| Increase in federal loan program advances | 5,303 | 7,201 |
| Proceeds from the issuance of bonds | - | 24,589,452 |
| Bond issuance costs paid | (338) | (383,415) |
| Payments on bonds | (335,000) | (9,500,000) |
| Payments on bank debt | - | (2,805,687) |
| Payments on capital lease obligations | - | (7,152) |
| **Net cash provided by (used in) financing activities** | **(27,130)** | **12,184,039** |
| **Net increase (decrease) in cash and cash equivalents** | **2,133,522** | **(2,815,283)** |
| Cash and cash equivalents, beginning of year | 4,848,931 | 7,664,214 |
| **Cash and cash equivalents, end of year** | **$ 6,982,453** | **$ 4,848,931** |

**Supplemental Disclosures of Cash Flow Information**

| | | |
|---|---|---|
| Cash payment for interest (including bond funded amounts of $807,400 and $192,520 for 2012 and 2011, respectively) | $ 2,348,866 | $ 2,423,638 |
| Accounts payable for property and equipment | $ 2,560,169 | $ 1,256,890 |

*See accompanying notes to financial statements.*

# LASELL COLLEGE

## *Notes to Financial Statements*

### *Note 1 - Organization and Summary of Significant Accounting Policies*

#### *Organization*

Lasell College (the "College"), founded in 1851, is an independent, coeducational liberal arts college located in Newton, Massachusetts. The student population is drawn predominantly from the Northeast region of the United States. The College is accredited by the New England Association of Schools and Colleges and participates in student financial assistance programs sponsored by the United States Department of Education and the Commonwealth of Massachusetts. These programs facilitate the payment of tuition and other expenses for students.

Lasell, Inc., a not-for-profit organization, is the sole member of the College. Lasell, Inc. is also the sole member of Lasell Village, Inc. (the "Village"), which is an affiliate of the College. The Village is a Massachusetts charitable corporation formed in 1990 to establish and operate an educational continuing care retirement community (the "Facility") in Newton, Massachusetts.

#### *Financial Statement Presentation*

The financial statements of the College have been prepared on the accrual basis of accounting.

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

> *Unrestricted* - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.
>
> *Temporarily restricted* - Net assets subject to donor-imposed stipulations that may or will be met either by the passage of time and/or actions of the College.
>
> *Permanently restricted* - Net assets subject to donor-imposed stipulations that require funds to be permanently held. Generally, the donors of these assets permit the use of all or part of the income earned on these assets. Such net assets primarily include the College's permanent endowment funds.

The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

#### *Cash and Cash Equivalents*

Cash and cash equivalents include all highly liquid instruments purchased with an initial maturity of three months or less, excluding balances whose use is restricted or included in the investment accounts. Cash equivalents held by investment managers are considered part of investments given the expectation of near term reinvestment. The College maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The College monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

### *Note 1 - Organization and Summary of Significant Accounting Policies (Continued)*

#### *Cash Limited as to Use*

Cash limited as to use includes amounts deposited in debt service funds, primarily for scheduled debt service due July 1. Cash limited as to use also includes cash restricted for construction expenses and student loan funds.

#### *Accounts Receivable*

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. Interest is not charged on receivables.

#### *Financing Receivables*

Student loans receivable are funds loaned to students by the College under the Federal Perkins Loan Program ("Perkins").

Perkins funds may be re-loaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are generally refundable to the Federal government. Loans receivable are carried at their net realizable value. Interest and late fees are recorded when received. Loans receivable are considered in default if any portion of the balance due is outstanding for more than 240 days. Loans that are in default and meet certain requirements may be assigned to the Department of Education, which reduces the Perkins Loans refundable advances.

For all loans, management estimates the allowance for credit losses based on historical losses, current economic conditions and the credit quality of the loans.

#### *Contributions Receivable, Gifts and Grants Revenue*

Unconditional promises to give are reported at fair value on the date the promise is verifiably committed. Fair value of the initial recordings is determined in accordance with the fair value policies outlined below. The initially recorded fair value is considered a Level 2 fair value approach. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using a risk adjusted interest rate applicable to the years in which the promises are expected to be received. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Conditional promises to give are not included as support until the conditions are substantially met. An allowance for uncollectible contributions receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution and nature of fund raising activity.

***Note 1 - Organization and Summary of Significant Accounting Policies (Continued)***

***Contributions Receivable, Gifts and Grants Revenue (Continued)***

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Gifts of equipment or other assets are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Fair value of donated equipment or other assets is effectively recorded using a Level 3 market approach. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

***Bond Issuance Costs***

Bond issuances costs relate to costs incurred in connection with the issuance of bonds payable and are amortized over the period the related bonds are outstanding. During the year ended June 30, 2011, the College wrote off approximately $169,000 in debt issuance costs related to the refinancing of debt as described in Note 11.

***Beneficial Interests in Trusts***

The College is a 100% income beneficiary of an irrevocable perpetual trust controlled by a third-party trustee and is the remainderman in two other irrevocable trusts controlled by third-party trustees. The College also has recorded beneficial interest in trusts related to gift annuities for which the College is a beneficiary but is not the trustee of the assets.

The initially recorded fair value of the beneficial interests in trusts are determined based on the underlying nature of the investments held which have generally represented Level 3 measurements, while the initial measurements of any related life expectancies are Level 2 measurements.

***Charitable Gift Annuities / Annuity Obligations***

Assets received under gift annuity agreements where the College is the trustee are invested with the other investments of the College. In connection with these annuity gifts, the College records a liability equal to the present value of future cash flows expected to be paid to the beneficiaries based on the actuarial expected lives and records the estimated net residual amount as a contribution at the date of the gift. If third parties control the assets associated with the gift annuity, only the present value of the College's anticipated residual interest in the fair value of these assets is recorded as beneficial interest in trusts.

The initially recorded fair value of the charitable gift annuities are determined based on the underlying nature of the investments received which have generally represented Level 3 measurements while the initial measurement of the related obligations are a Level 2 measure.

***Note 1 - Organization and Summary of Significant Accounting Policies (Continued)***

***Charitable Gift Annuities / Annuity Obligations (Continued)***

Assets of charitable gift annuities are recorded at fair value, net of the present value of the liability for income payable to the donor or the donor's designee, and in the appropriate net asset category based on donor stipulation. Related contributions are recognized as contribution revenue equal to the present value of future benefits less the liability for income payable to the donor or the donor's designee.

During the term of these agreements, changes in the value of split-interest agreements are recognized in the Statements of Activities based on accretion of the discounted amount of the contribution, the expected future benefits to be received by the College, changes in the fair value of underlying investments and the expected future payment to other beneficiaries, based on changes in life expectancy and other actuarial assumptions. Discount rates ranging from 2.6% and 9.8% were used in these calculations. The discount rates were equivalent to the IRS discount rate at the time the College entered into the arrangement.

The change in the value of the gift annuity agreements is included in other non-operating activities in the Statements of Activities and was ($162,091) and ($104,297) at June 30, 2012 and 2011, respectively.

***Investments***

Investments are stated at fair value. Fair value is determined as per the fair value policies described later in this section. Accordingly, changes in fair values are reflected in the Statements of Activities as gains or losses on investments included in investment results.

Interest, dividends and net gains or losses on investments are reported: (1) 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; (2) 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 (3) as increases or decreases in unrestricted net assets in all other cases.

Distributions from the investment portfolio are approved by the Board of Trustees using a total return method and consist of unrestricted and temporarily restricted interest, dividends and realized and unrealized gains. The Board of Trustees has established a spending rate based upon the rolling three-year average fair value of the investments (4.0% for the years ended June 30, 2012 and 2011). The College 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.

Investments include certain artwork which was gifted to the College by the artist and for which the College is holding in anticipation of an increase in its fair value. Investments also include a life insurance policy which was gifted to the College and which is valued at the cash value of the policy.

***Real Estate Held for Investment***

Real estate held for investment consists of four residential properties adjacent to the campus which are being held for investment purposes. Fair value of real estate held for investment is effectively recorded using a Level 2 market approach.

### *Note 1 - Organization and Summary of Significant Accounting Policies (Continued)*

#### *Property and Equipment*

Property and equipment is stated at cost. Property and equipment is depreciated using straight-line methods over the lesser of the estimated useful lives of related assets, and in the case of assets under capital leases, their respective lease terms. Projects that are comprised of multiple phases are placed into service at the substantial completion of each phase.

| ***Category*** | ***Life*** |
|---|---|
| Buildings | 20-40 years |
| Building improvements | 10 years |
| Land improvements | 10 years |
| Furniture, fixtures and equipment | 3-7 years |
| Motor vehicles | 5 years |

In the normal course of its operations, the College incurs legal obligations to perform certain retirement activity with regard to the ultimate disposition of some of its tangible long-lived assets due to the nature of material used in their construction or operation. The timing of the performance of these retirement activities is within the control of the College and, due to the long useful lives of these assets, will be performed at some future date. The estimated liability for these activities is included in other liabilities on the Statements of Financial Position. It amounted to $71,500 and $76,000 at June 30, 2012 and 2011, respectively. Interest related to the construction of capital assets is capitalized as a component of the cost of developing capital assets.

#### *Deferred Revenue*

Deferred revenue represents tuition and student deposits paid in advance, which are recognized as income when the related educational services are provided. In addition, deferred revenue also includes an upfront payment from a vendor that will be recognized as revenue over the life of the service contract with this vendor.

#### *Deferred Land Lease Revenue - Affiliate*

Deferred rental income represents payments in excess of revenue recognized in connection with the College's land lease to its affiliate. Rental income is recognized on a straight-line basis over the lease term.

#### *Fair Value of Interest Rate Swap*

The fair value of interest rate swap is recorded at each period-end as either an asset or a liability, based on the estimated value of the contract at year-end. Fair value is determined as per the fair value policies as described later in this section. The change in the fair value of the contract is measured at each period-end and recorded as a non-operating activity within the Statements of Activities.

### *Note 1 - Organization and Summary of Significant Accounting Policies (Continued)*

#### *Tuition, Fees, Room and Board*

Tuition, fees, room, board and auxiliary enterprise fees are recognized as revenues when earned.

#### *Auxiliary Enterprises*

Auxiliary enterprise revenue consists of the following for the years ended June 30:

| | *2012* | *2011* |
|---|---|---|
| Childcare programs | $ 1,430,967 | $ 1,321,488 |
| Third-party campus programs | 172,796 | 104,377 |
| Other auxiliary enterprises | 340,135 | 319,251 |
| | **$ 1,943,898** | **$ 1,745,116** |

#### *Functional Expense Allocation*

Certain common costs have been allocated to functions based on percentage of effort, usage, square footage and other criteria.

#### *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the future collections on student loans, contributions receivable and accounts receivable, estimated lives of buildings and equipment, fair value of investments, conditional asset retirement obligations, annuity obligations, valuation of interest rate swaps, and the functional allocation of overhead expenses.

#### *Operations*

The Statements of Activities report the changes in unrestricted, temporarily restricted and permanently restricted assets from operating and non-operating activities. Unrestricted operating revenues consist of those items attributable to the College's primary mission of providing education. Investment income included in operations reflects the amount computed using the spending policy for the period as approved by the Board of Trustees, as well as investment income earned on operating cash and cash equivalents. All other investment income or losses are reported as non-operating revenue. Operating revenue also includes contributions received related to annual fund support and support of College operations while all other contributions are classified as non-operating. The College also considers gains and losses on interest rate swap contracts as non-operating.

### *Note 1 - Organization and Summary of Significant Accounting Policies (Continued)*

#### *Fair Value Measurements*

The College reports certain assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measures include the College's investment accounts, interest rate swaps and deposits with trustees. Nonrecurring measures include pledges and asset retirement obligations. These 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. In addition, the College reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. 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 or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

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 2 also includes investments reported at net asset value per share with lock up periods of 90 days or less.
>
> 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. Level 3 also includes investments reported at net asset value per share with lock up periods in excess of 90 days.

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.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. 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 changes 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 9 - Fair Values of Financial Instruments.

***Note 1 - Organization and Summary of Significant Accounting Policies (Continued)***

***Reclassifications***

Certain reclassifications have been made to the 2011 financial statements to conform to presentations used in 2012.

***Tax Status***

The College has obtained a determination letter dated November 30, 1970, from the Internal Revenue Service stating that it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying 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 as its only significant tax position; however, the College has determined that such tax position does not result in an uncertainty requiring recognition. The College is not currently under examination by any taxing jurisdiction. The College’s Federal and state income tax returns are generally open for examination for three years following the date filed.

***Subsequent Events***

The College has evaluated subsequent events through October 4, 2012, the date that the financial statements were issued.

***Note 2 - Cash Limited as to Use***

Cash limited as to use consisted of the following for the year ended June 30:

| | *2012* | *2011* |
|---|---|---|
| Debt service funds | $ 1,149,350 | $ 23,269 |
| Cash restricted for construction expenses | 1,300,000 | - |
| Student loan funds | 27,619 | 30,407 |
| **Cash limited as to use** | **$ 2,476,969** | **$ 53,676** |

The balance of debt service funds at June 30, 2012 represents scheduled debt service due on July 1, 2012, while the balance at June 30, 2011 represents an amount remaining after the payoff of the 2001 Series bonds, which was refunded to the College in July 2011.

***Note 3 - Accounts Receivable***

Accounts receivable and the allowance for doubtful accounts consist of the following at June 30:

| ***2012*** | ***Balance*** | ***Allowance*** | ***Net*** |
|---|---|---|---|
| Student accounts | $ 232,793 | $ (87,513) | $ 145,280 |
| Other | 136,312 | (7,443) | 128,869 |
| | **$ 369,105** | **$ (94,956)** | **$ 274,149** |

| ***2011*** | ***Balance*** | ***Allowance*** | ***Net*** |
|---|---|---|---|
| Student accounts | $ 300,758 | $ (107,763) | $ 192,995 |
| Student financial aid | 166,475 | - | 166,475 |
| Other | 107,066 | - | 107,066 |
| | **$ 574,299** | **$ (107,763)** | **$ 466,536** |

### *Note 4 - Contributions Receivable*

Contributions receivable consist of unconditional promises to give as of June 30 as follows:

| | | *2012* | | *2011* |
|---|---|---|---|---|
| Amounts due: | | | | |
| In one year or less | $ | 1,001,777 | $ | 833,425 |
| From one to five years | | 631,458 | | 1,145,693 |
| Five years or more | | 1,000,000 | | 1,000,000 |
| | | 2,633,235 | | 2,979,118 |
| Less: unamortized discount (discount rates ranging from .68% to 2.58%) | | (192,931) | | (222,418) |
| Less: allowance for doubtful accounts | | (94,814) | | (68,920) |
| **Contributions receivable, net** | **$** | **2,345,490** | **$** | **2,687,780** |

Included in contributions receivable at June 30, 2012 and 2011 are pledges from two donors which represent approximately 89% and 92% of the net contributions receivable balance, respectively.

### *Note 5 - Financing Receivables*

Financing loan receivables consist of the following at June 30:

| | | *30-60 Days Past Due* | | *60-90 Days Past Due* | | *Greater than 90 Days Past Due* | | *Total Past Due* | | *Current* | | *Total Financing Receivable* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **June 30, 2012** | | | | | | | | | | | | |
| Perkins loans | $ | 8,363 | $ | 30,572 | $ | 121,243 | $ | 160,178 | $ | 255,901 | $ | 416,079 |
| Credit reserve | | - | | - | | (35,941) | | (35,941) | | - | | (35,941) |
| **Total** | **$** | **8,363** | **$** | **30,572** | **$** | **85,302** | **$** | **124,237** | **$** | **255,901** | **$** | **380,138** |
| **June 30, 2011** | | | | | | | | | | | | |
| Perkins loans | $ | 11,804 | $ | 6,027 | $ | 138,098 | $ | 155,929 | $ | 252,665 | $ | 408,594 |
| Credit reserve | | - | | - | | (35,941) | | (35,941) | | - | | (35,941) |
| **Total** | **$** | **11,804** | **$** | **6,027** | **$** | **102,157** | **$** | **119,988** | **$** | **252,665** | **$** | **372,653** |

***Note 5 - Financing Receivables (Continued)***

Allowances for credit losses are as follows:

| | | *Perkins Loans* |
|---|---|---|
| **June 30, 2012** | | |
| Beginning balance | $ | 35,941 |
| Charge-off's | | - |
| Recoveries | | - |
| Provision | | - |
| **Ending balance** | **$** | **35,941** |
| **June 30, 2011** | | |
| Beginning balance | $ | 35,941 |
| Charge-off's | | - |
| Recoveries | | - |
| Provision | | - |
| **Ending balance** | **$** | **35,941** |

The allowance for the Perkins loans was evaluated for impairment.

***Note 6 - Funds Held by Bond Trustees under Bond Agreements***

In accordance with the bond agreements (see Note 11), the College maintains funds on deposit with the bond trustees for debt service reserves and cost reimbursement of bond financed projects. The funds held by the trustees are primarily invested in U.S. government obligation money market funds. The funds are carried at fair value based on quoted market prices and amounted to the following at June 30:

| | | *2012* | | *2011* |
|---|---|---|---|---|
| Debt service reserve funds | $ | 1,959,213 | $ | 1,959,213 |
| Project funds | | 2,792,480 | | 10,924,409 |
| **Funds held by trustees** | **$** | **4,751,693** | **$** | **12,883,622** |

***Note 7 - Beneficial Interests in Trusts***

Beneficial interests in trusts consisted of the following for the year ended June 30:

| | | ***2012*** | | ***2011*** |
|---|---|---|---|---|
| Irrevocable perpetual trust | $ | 536,828 | $ | 580,846 |
| Remainder interest in irrevocable trusts | | 1,157,046 | | 1,209,947 |
| Remainder interest in irrevocable gift annuity trusts | | 627,996 | | 670,740 |
| **Beneficial interests in trusts** | **$** | **2,321,870** | **$** | **2,461,533** |

The change in the value of the irrevocable trusts is included in non-operating activities in the Statements of Activities and was ($139,663) and $403,741 at June 30, 2012 and 2011, respectively.

***Note 8 - Investment Return***

Investment return consisted of the following for the year ended June 30:

| | | ***2012*** | | ***2011*** |
|---|---|---|---|---|
| Interest and dividends | $ | 656,439 | $ | 608,735 |
| Less: investment fees | | (107,640) | | (63,116) |
| Interest and dividends, net of investment fees | | 548,799 | | 545,619 |
| Net unrealized and realized gains (losses) | | (345,496) | | 3,314,538 |
| **Total investment return** | **$** | **203,303** | **$** | **3,860,157** |

Reconciliation of investment return as presented in the Statements of Activities for the year ended June 30 is as follows:

| | | ***2012*** | | ***2011*** |
|---|---|---|---|---|
| Operating - investment income appropriated | $ | 874,402 | $ | 985,229 |
| Non-operating - investment income (loss), net of total return appropriated | | (671,099) | | 2,874,928 |
| **Total investment return** | **$** | **203,303** | **$** | **3,860,157** |

### *Note 9 - Fair Values of Financial Instruments*

The College follows the Fair Value Measurement standards for its financial instruments. These standards require enhanced disclosures about instruments that are measured and reported at fair value and establish a hierarchical disclosure framework which prioritizes and ranks the level of market price used in measuring investments at fair value. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. 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.

The valuation of the College's instruments using the fair value hierarchy consisted of the following at June 30, 2012:

| | ***Total*** | ***Level 1*** | ***Level 2*** | ***Level 3*** |
|---|---|---|---|---|
| Assets: | | | | |
| Beneficial interest in trusts | $ 2,321,870 | $ - | - | $ 2,321,870 |
| Investments: | | | | |
| Cash equivalents | 12,745 | 12,745 | - | - |
| Mutual funds - equity: | | | | |
| Large cap | 7,007,083 | 7,007,083 | - | - |
| Small cap | 1,984,984 | 1,984,984 | - | - |
| International | 4,564,923 | 4,564,923 | - | - |
| Other | 180,118 | 180,118 | - | - |
| Mutual funds - fixed income: | | | | |
| Multiple strategies | 9,412,029 | 9,412,029 | - | - |
| Other | 130,893 | 130,893 | - | - |
| Mutual funds - equity/fixed income | 1,414,114 | 1,414,114 | - | - |
| Alternative investments: | | | | |
| Offshore opportunity fund | 989,657 | - | 989,657 | - |
| Special situations fund | 1,469,657 | - | - | 1,469,657 |
| Insurance contracts | 41,646 | - | 41,646 | - |
| Artwork | 71,700 | - | - | 71,700 |
| Total investments | 27,279,549 | 24,706,889 | 1,031,303 | 1,541,357 |
| Other assets: | | | | |
| Funds held by trustees under bond agreements | 4,751,693 | 4,751,693 | - | - |
| Total assets | $ 34,353,112 | $ 29,458,582 | $ 1,031,303 | $ 3,863,227 |
| Liabilities: | | | | |
| Fair value of interest rate swaps | $ 7,689,818 | $ - | $ 7,689,818 | $ - |

### *Note 9 - Fair Values of Financial Instruments (Continued)*

The College invests in certain entities that calculate net asset value per share in accordance with accounting guidance relative to investment companies, and these investments are reported at fair value based on the net asset value per share as reported by the investee. These investments are measured at fair value using Level 2 or Level 3 inputs. Investments are categorized as Level 2 instruments when the College has the ability to redeem its investment in the entity at net asset value per share at year-end or within 90 days of year-end. Investments are categorized as Level 3 instruments when the College cannot redeem its investment within 90 days of year-end. A summary of the significant categories of such investments and their attributes at June 30, 2012 is listed above.

The valuation of the College's instruments using the fair value hierarchy consisted of the following at June 30, 2011:

| | *Total* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|---|
| Assets: | | | | |
| Beneficial interest in trusts | $ 2,461,533 | $ - | $ - | $ 2,461,533 |
| Investments: | | | | |
| Mutual funds - equity: | | | | |
| Large cap | 7,111,434 | 7,111,434 | - | - |
| Small cap | 1,941,001 | 1,941,001 | - | - |
| International | 4,577,165 | 4,577,165 | - | - |
| Other | 230,120 | 230,120 | - | - |
| Mutual funds - fixed income: | | | | |
| Multiple strategies | 9,207,555 | 9,207,555 | - | - |
| Other | 156,126 | 156,126 | - | - |
| Mutual funds - equity/fixed income | 1,312,265 | 1,312,265 | - | - |
| Alternative investments: | | | | |
| Offshore opportunity fund | 1,005,947 | - | - | 1,005,947 |
| Special situations fund | 1,528,008 | - | - | 1,528,008 |
| Insurance contracts | 40,565 | - | 40,565 | - |
| Total investments | 27,110,186 | 24,535,666 | 40,565 | 2,533,955 |
| Other assets: | | | | |
| Funds held by trustees under bond agreements | 12,883,622 | 12,883,622 | - | - |
| Total assets | $ 42,455,341 | $ 37,419,288 | $ 40,565 | $ 4,995,488 |
| Liabilities: | | | | |
| Fair value of interest rate swaps | $ 3,860,586 | $ - | $ 3,860,586 | $ - |

***Note 9 - Fair Values of Financial Instruments (Continued)***

The changes in instruments measured at fair value for which the College has used Level 3 inputs to determine fair value are as follows:

| | *Beneficial Interests in Trusts* | *Offshore Opportunity Fund* | *Special Situations Fund* | *Total* |
|---|---|---|---|---|
| Balance as of July 1, 2010 | $ 1,905,231 | $ - | $ - | $ 1,905,231 |
| Purchases | - | 971,842 | 1,500,000 | 2,471,842 |
| Unrealized gains | - | 34,105 | 28,008 | 62,113 |
| Gift | 152,561 | - | - | 152,561 |
| Change in value of beneficial interests | 403,741 | - | - | 403,741 |
| Balance as of June 30, 2011 | 2,461,533 | 1,005,947 | 1,528,008 | 4,995,488 |
| Purchases | - | - | - | - |
| Unrealized losses | - | (16,290) | (58,351) | (74,641) |
| Transfer out of Level 3 | - | (989,657) | - | (989,657) |
| Change in value of beneficial interests | (139,663) | - | - | (139,663) |
| **Balance as of June 30, 2012** | **$ 2,321,870** | **$ -** | **$ 1,469,657** | **$ 3,791,527** |

During 2012, a fund with a fair value of $989,657 at June 30, 2012 was transferred from Level 3 to Level 2 due to the expiration of an initial lock up.

There were no transfers of financial instruments between levels during 2011.

***Note 9 - Fair Values of Financial Instruments (Continued)***

A summary of the significant categories of investments (Levels 2 & 3) utilizing the net asset value practical expedient and their attributes for June 30, 2012 are as follows:

| | ***Fair Value*** | ***Unfunded Commitments*** | ***Redemption Frequency (if Currently Eligible)*** | ***Redemption Notice Period*** |
|---|---|---|---|---|
| Offshore opportunity fund | $ 989,657 | $ - | Quarterly | 65 days |
| Special situations fund | 1,469,657 | - | Semi-annual two-year lock up | 60 days |
| | **$ 2,459,314** | **$ -** | | |

**Offshore Opportunity Fund –** seeks to achieve an attractive risk-adjusted return with moderate volatility and moderate directional market exposure over a full market cycle. The Fund is a hedge fund of funds that offers institutional investors the potential to improve portfolio efficiency by investing in a diversified group of hedge funds. An initial one-year lock up on this fund expired during 2012.

**Special Situations Fund –** seeks to achieve high returns balanced against an appropriate level of volatility and directional market exposure over a full market cycle. The Fund invests primarily in underlying funds, consistently primarily of hedge funds, while also investing in private equity funds.

Management has assessed that fair value approximates carrying value for cash and cash equivalents, cash limited as to use, accounts receivable, contributions receivable, student loans receivable, accounts payable and accrued expenses given the short-term nature of these instruments. The fair value of bonds payable is noted in the table below.

| | ***2012*** | | ***2011*** | |
|---|---|---|---|---|
| | ***Carrying Value*** | ***Fair Value*** | ***Carrying Value*** | ***Fair Value*** |
| Bonds payable | $ 53,971,155 | $ 56,191,889 | $ 54,268,244 | $ 54,117,009 |

***Note 10 - Property and Equipment***

Property and equipment consist of the following at June 30:

| | 2012 | 2011 |
|---|---|---|
| Operating: | | |
| Land and improvements | $ 4,820,232 | $ 4,884,320 |
| Buildings and improvements | 78,071,834 | 72,704,714 |
| Furniture, fixtures and equipment | 8,248,709 | 7,809,613 |
| Motor vehicles | 546,339 | 486,694 |
| Construction in progress | 12,657,187 | 9,274,085 |
| Total operating properties | 104,344,301 | 95,159,426 |
| Rental: | | |
| Land and improvements | 13,641 | 13,641 |
| Building and improvements | 24,793 | 24,793 |
| Total rental properties | 38,434 | 38,434 |
| | 104,382,735 | 95,197,860 |
| Less: accumulated depreciation and amortization | (33,679,978) | (31,737,507) |
| **Property and equipment, net** | **$ 70,702,757** | **$ 63,460,353** |

Rental income was $23,900 and $19,015 in 2012 and 2011, respectively, and related to various short-term leases (typically one year). This rental income is included in other auxiliary enterprises revenue.

Interest related to the construction of capital assets is capitalized as a component of the cost of acquiring capital assets. Interest capitalized amounted to $31,873 and $92,338 for the years ended June 30, 2012 and 2011, respectively.

### *Note 11 - Bonds Payable*

Bonds payable consist of the following at June 30:

| | | *2012* | | *2011* |
|---|---|---|---|---|
| Term and serial bonds, Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Lasell College Series 2011. The serial bonds are due in varying installments plus interest at fixed rates ranging from 2% to 3.5% with final maturity in 2016. The term bonds are due in varying installments plus interest at fixed rates ranging from 5% to 6% with final maturity in 2041. These bonds were issued to refinance previously issued debt and to finance the construction of a residence hall. | $ | 25,265,000 | $ | 25,265,000 |
| Term bonds, Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Lasell College Issue, Series 2008. Interest is payable on a monthly basis with interest accruing at the prevailing market rate at approximately 4.73% at June 30, 2012. | | 11,325,000 | | 11,540,000 |
| Term bonds, Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Lasell College Issue, Series 2006. Interest is payable on a monthly basis with interest accruing at the prevailing market rate at approximately 5.05% at June 30, 2012. | | 18,015,000 | | 18,135,000 |
| | | 54,605,000 | | 54,940,000 |
| Less: unamortized discount | | (633,845) | | (671,756) |
| **Bonds payable, net** | **$** | **53,971,155** | **$** | **54,268,244** |

***Note 11 - Bonds Payable (Continued)***

In May 2011, the College issued a bond with the par value of $25,265,000 backed by the College's credit rating of BBB issued from Standard & Poor's. The proceeds of the bond were used to refund previously issued debt and to finance the construction of a residence hall on campus. In an unrelated transaction, the College terminated the swap associated with the refunded debt.

On September 1, 2009, the College entered into a direct purchase agreement with RBS Citizens, N.A., in which $30,000,000 was acquired by the bank as qualified tax-exempt debt. The interest rate on these bonds is fixed via the use of swaps, with rates from 4.965% and 5.275%. The debt is up for renewal with RBS Citizens, N.A. in 2022. The College is in compliance with all bond covenants as of June 30, 2012.

Sinking fund requirements and aggregate principal repayments on the bonds for the next five years and thereafter are as follows:

| ***Year Ending June 30,*** | | |
|---|---|---|
| 2013 | $ | 960,000 |
| 2014 | | 1,125,000 |
| 2015 | | 1,160,000 |
| 2016 | | 1,195,000 |
| 2017 | | 1,260,000 |
| Thereafter | | 48,905,000 |
| | **$** | **54,605,000** |

Interest expense on the bonds was $2,856,306 and $2,285,316 for the years ended June 30, 2012 and 2011, respectively.

***Note 12 - Derivative Instruments***

The College uses interest rate swaps to manage interest rate risk exposure. The College's interest rate swaps effectively mitigate exposure to interest rate risk, primarily through converting portions of floating rate debt under the bond agreement to a fixed rate basis. These agreements involve the receipt or payment of floating rate amounts in exchange for fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amounts. The College does not enter into derivative instruments for trading or speculative purposes.

Each of the College's interest rate swaps have been recorded as liabilities in the Statements of Financial Position at fair value. Changes in fair value are recorded as gains or losses on swap contracts in the period incurred.

***Note 12 - Derivative Instruments (Continued)***

As a result of the use of derivative instruments, the College is exposed to risk that the counterparties will fail to meet their contractual obligation. To mitigate the counterparty risk, the College only enters into contracts with selected major financial institutions based upon their credit ratings and other factors, and continually assesses the creditworthiness of counterparties. At June 30, 2012 and 2011, all of the counterparties to the College's interest rate swaps had investment grade ratings. To date, all counterparties have performed in accordance with their contractual obligation. The current year swaps contain no credit risk-related contingent features in the College's interest rate swaps nor do the swaps contain provisions under which the College has, or would be required, to post collateral.

The College had the following swaps outstanding at June 30, 2012 and 2011:

***2012***

| *Notional Amount* | *Termination Date* | *Interest Rate Received* | *Interest Rate Paid* | *Fair Value* |
|---|---|---|---|---|
| $ 11,361,405 | 7/01/2038 | 68% of one month LIBOR | 3.435% | $ 2,665,622 |
| 11,790,000 | 7/01/2036 | 67% of one month LIBOR | 3.750% | 3,641,463 |
| 6,225,000 | 7/01/2031 | 67% of one month LIBOR | 3.800% | 1,382,733 |
| **$ 29,376,405** | | | | **$ 7,689,818** |

***2011***

| *Notional Amount* | *Termination Date* | *Interest Rate Received* | *Interest Rate Paid* | *Fair Value* |
|---|---|---|---|---|
| $ 11,561,712 | 7/01/2038 | 68% of one month LIBOR | 3.435% | $ 1,238,723 |
| 11,865,000 | 7/01/2036 | 67% of one month LIBOR | 3.750% | 1,791,412 |
| * | 7/01/2031 | 67% of one month LIBOR | 3.800% | 829,833 |
| 6,270,000 | 7/01/2011 | 68% of one month LIBOR | 3.680% | 618 |
| **$ 29,696,712** | | | | **$ 3,860,586** |

* This interest rate swap was not effective until July 1, 2011 and therefore had no notional amount at June 30, 2011.

***Note 13 - Net Assets and Endowment Matters***

The College's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by 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.

***Unrestricted Net Assets***

Unrestricted net assets are comprised of the following at June 30:

| | 2012 | 2011 |
|---|---|---|
| Property and equipment | $ 13,792,565 | $ 18,531,580 |
| Board-designated: | | |
| Functioning as endowment | 16,984,868 | 17,217,086 |
| Unrealized/realized cumulative net losses on permanently restricted investments | (489,115) | (462,989) |
| Operating | 3,185,080 | 1,922,945 |
| | **$ 33,473,398** | **$ 37,208,622** |

**Property and equipment -** The value of buildings and equipment, net of depreciation, used in the College's operations. This amount is offset by outstanding liabilities related to the assets, such as bond debt.

**Board-designated -** Funds set aside by the Board of Trustees for strategic purposes and to provide investment income to support operations. These amounts may only be used with the approval of the Board of Trustees.

**Unrealized/realized cumulative net losses on permanently restricted investments -** Under Massachusetts state law, these amounts represent deficiencies where the fair value of assets associated with individual donor-restricted endowment funds has fallen below the level that the donor requires the College to retain as a fund of perpetual duration in permanently restricted endowment net assets.

**Operating -** Discretionary funds available for carrying on the operating activities of the College.

***Note 13 - Net Assets and Endowment Matters (Continued)***

***Temporarily Restricted Net Assets***

Temporarily restricted net assets are comprised of the following at June 30:

| | 2012 | 2011 |
|---|---|---|
| Unrealized and realized cumulative net gains on permanently restricted investments: | | |
| General support | $ 211,120 | $ 266,256 |
| Restricted | 35,403 | 73,268 |
| Purpose restricted | 245,888 | 243,457 |
| Time restricted: | | |
| Contributions receivable | 2,321,615 | 2,687,780 |
| Split-interest agreements | 68,072 | 113,172 |
| Beneficial interests held by others | 1,785,042 | 1,880,687 |
| | **$ 4,667,140** | **$ 5,264,620** |

**Unrealized/realized cumulative net gains on permanently restricted investments -** Under Massachusetts state law, these amounts represent inappropriate gains on permanently restricted endowment net assets.

**Purpose restricted -** Amounts received with donor restrictions which have not yet been expended for their designated purposes.

**Time restricted -** Amounts received with donor restrictions for various purposes which have not yet been expended for their designated purposes.

**Split-interest agreements -** Assets under split-interest agreements, with either an unrestricted or purpose restricted remainder interest, for which the use of the remainder interest is by nature time restricted.

**Beneficial interests held by others -** Assets held in trust where the College is the beneficiary of an unrestricted or purpose restricted remainder interest.

***Note 13 - Net Assets and Endowment Matters (Continued)***

***Permanently Restricted Net Assets***

Permanently restricted net assets are comprised of the following at June 30:

| | | *2012* | | *2011* |
|---|---|---|---|---|
| Endowment principal: | | | | |
| General support | $ | 3,997,972 | $ | 3,750,744 |
| Restricted | | 3,095,064 | | 3,092,346 |
| Contribution receivable | | 23,875 | | - |
| Split-interest agreements | | 15,015 | | 16,023 |
| Beneficial interest held in perpetuity by others | | 536,828 | | 580,846 |
| Loan funds | | 9,000 | | 9,000 |
| | **$** | **7,677,754** | **$** | **7,448,959** |

**Endowment principal** - Amounts restricted by donors against any expenditure of principal. Substantially all the income earned on principal may be used for general or donor-restricted purposes and is recorded in unrestricted net assets or temporarily restricted net assets, as appropriate.

**Split-interest agreements -** Assets under split-interest agreements for which the remainder interest is permanently restricted by the donor.

**Beneficial interest held by others** - Assets held in trust in perpetuity for which the College is the beneficiary of annual distributions of income.

Net assets released from restrictions consist of the following during the years ended June 30:

| | | *2012* | | *2011* |
|---|---|---|---|---|
| Operating: | | | | |
| Program services | $ | 109,576 | $ | 118,235 |
| Collection of unrestricted pledges receivable | | 50,043 | | 46,409 |
| Total operating | | 159,619 | | 164,644 |
| Non-operating: | | | | |
| Capital improvements | | 159,529 | | 323,980 |
| Collection of unrestricted pledges receivable | | 385,555 | | 197,269 |
| Total non-operating | | 545,084 | | 521,249 |
| **Total** | **$** | **704,703** | **$** | **685,893** |

***Note 13 - Net Assets and Endowment Matters (Continued)***

The following represents required disclosure relative to the composition and activities of endowment and funds functioning as endowment for the year ended June 30, 2012:

| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (489,115) | $ 246,523 | $ 7,668,754 | $ 7,426,162 |
| Board-designated endowment funds | 16,984,868 | 1,853,114 | - | 18,837,982 |
| **Total funds** | **$ 16,495,753** | **$ 2,099,637** | **$ 7,668,754** | **$ 26,264,144** |

| | *Unrestricted Net Assets* | *Temporarily Restricted Net Assets* | *Permanently Restricted Net Assets* | *Total* |
|---|---|---|---|---|
| Endowment assets and those functioning as endowment assets at beginning of year | $ 16,754,097 | $ 2,333,383 | $ 7,439,959 | $ 26,527,439 |
| Gifts and additions | 537,904 | - | 269,554 | 807,458 |
| Change in fair value of split-interest agreements | 89,564 | (42,528) | 50,164 | 97,200 |
| Change in fair value of beneficial interests in trusts | - | (95,645) | (44,018) | (139,663) |
| Endowment returns: | | | | |
| Interest and dividends, net of investment expenses | 397,075 | 128,884 | 322 | 526,281 |
| Net realized and unrealized gains (losses) | (309,533) | (38,397) | 2,434 | (345,496) |
| Total endowment returns | 87,542 | 90,487 | 2,756 | 180,785 |
| Expenditures: | | | | |
| Amounts appropriated for operations | (745,568) | (183,464) | - | (929,032) |
| Expenditures | (227,786) | (2,596) | (49,661) | (280,043) |
| Total expenditures | (973,354) | (186,060) | (49,661) | (1,209,075) |
| Change in endowment and cash limited as to use | (258,344) | (233,746) | 228,795 | (263,295) |
| **Endowment assets and those functioning as endowment assets at end of year** | **$ 16,495,753** | **$ 2,099,637** | **$ 7,668,754** | **$ 26,264,144** |

***Note 13 - Net Assets and Endowment Matters (Continued)***

The following represents required disclosure relative to the composition and activities of endowment and funds functioning as endowment for the year ended June 30, 2011:

| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (462,989) | $ 339,524 | $ 7,439,959 | $ 7,316,494 |
| Board-designated endowment funds | 17,217,086 | 1,993,859 | - | 19,210,945 |
| **Total funds** | **$ 16,754,097** | **$ 2,333,383** | **$ 7,439,959** | **$ 26,527,439** |

| | *Unrestricted Net Assets* | *Temporarily Restricted Net Assets* | *Permanently Restricted Net Assets* | *Total* |
|---|---|---|---|---|
| Endowment assets and those functioning as endowment assets at beginning of year | $ 13,752,245 | $ 1,557,115 | $ 7,278,804 | $ 22,588,164 |
| Gifts and additions | 559,800 | 152,561 | 75,135 | 787,496 |
| Change in fair value of split-interest agreements | 104,146 | 10,289 | 40,575 | 155,010 |
| Change in fair value of beneficial interests in trusts | - | 321,602 | 82,139 | 403,741 |
| Endowment returns: | | | | |
| Interest and dividends, net of investment expenses | 364,689 | 120,988 | 1,263 | 486,940 |
| Net realized and unrealized gains (losses) | 2,915,301 | 249,899 | 22,112 | 3,187,312 |
| Total endowment returns | 3,279,990 | 370,887 | 23,375 | 3,674,252 |
| Expenditures: | | | | |
| Amounts appropriated for operations | (724,691) | (76,475) | - | (801,166) |
| Expenditures | (217,393) | (2,596) | (60,069) | (280,058) |
| Total expenditures | (942,084) | (79,071) | (60,069) | (1,081,224) |
| Change in endowment and cash limited as to use | 3,001,852 | 776,268 | 161,155 | 3,939,275 |
| **Endowment assets and those functioning as endowment assets at end of year** | **$ 16,754,097** | **$ 2,333,383** | **$ 7,439,959** | **$ 26,527,439** |

***Note 13 - Net Assets and Endowment Matters (Continued)***

***Interpretation of Relevant Law and Spending Policy***

The Attorney General of Massachusetts has issued written guidance that all gains on permanently restricted endowment funds that have not been appropriated in accordance with the law should be classified as temporarily restricted net assets unless otherwise restricted by the donor.

State law allows the Board of Trustees to appropriate a percentage of net appreciation as is prudent considering the College's long- and short-term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends and general economic conditions. The College's endowment spending policy is computed based on the average market value for the previous three fiscal year ends. The percentage spent was 4.0 for the years ended June 30, 2012 and 2011.

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted are $489,115 and $462,989 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that the College believes are temporary in nature. In the event that a donor-restricted endowment fund is in a deficiency, the spending rate for that fiscal year is taken only to the extent of current year net interest and dividend income for that fund.

***Return Objectives and Risk Parameters***

The College's investment portfolio is managed to provide for the long-term support of the College. Accordingly, these funds are managed with disciplined longer-term investment objectives and strategies designed to meet cash flow and spending requirements. Management of the assets is designed to attain the maximum total return consistent with acceptable and agreed upon levels of risk. The target for average annual real total return (net of investment management fees and inflation) should equal or exceed the College's spending rate plus core CPI over a rolling 5-year period, targeting an overall performance ranging between 8% - 13% over that period.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets an asset allocation strategy wherein assets are diversified among several asset classes. The pursuit of maximizing total return is tempered by the need to minimize the volatility of returns and preserve capital. As such, the College seeks broad diversification among assets having different characteristics with the intent to endure lower relative performance in strong markets in exchange for greater downside protection in weak markets.

***Note 14 - Employee Benefit Plans***

All full-time and part-time faculty and staff of the College working in excess of 1,000 hours per year are eligible after one year of service to participate in a defined contribution retirement plan administered by Teachers Insurance and Annuity Association and the College Retirement Equities Fund ("TIAA-CREF"). The College matches, on a 1 to 1 basis, employee contributions to a maximum of 7.5% of annual salary. Employees may also elect to participate in a supplemental tax-deferred annuity plan sponsored by TIAA-CREF. Contributions may not exceed amounts permitted by the Internal Revenue Code. Retirement plan expense was $813,213 and $762,151 for the years ended June 30, 2012 and 2011, respectively.

Employees may also participate in a flexible spending plan and make contributions for certain benefits such as healthcare and dependent care assistance programs on a pre-tax basis.

***Note 15 - Related-Party Transactions***

The College and Lasell Village (the "Village") have several contractual relationships as follows:

***Land Lease***

The Village leases the land on which its facility is located under a thirty-year lease agreement with the College that expires in December 2028. The remaining lease payments include annual payments of $207,509 through 2021. Future minimum lease payments to the College are as follows:

| ***Year Ending June 30,*** | |
|---|---|
| 2013 | $ 207,509 |
| 2014 | 207,509 |
| 2015 | 207,509 |
| 2016 | 207,509 |
| 2017 | 207,509 |
| Thereafter | 830,036 |
| | **$ 1,867,581** |

In addition, under the terms of the ground lease agreement, the Village is responsible for payment of additional ground rent to the College to include all taxes, assessments, betterments, excises, user fees and any other municipal government fees or charges that might be levied.

Land lease income is recorded on a straight-line basis over the lease term. Lease income recognized in the years ended June 30, 2012 and 2011 is $205,840. Deferred lease income has been recorded for the amount of lease income received in excess of the straight-line lease income, the cumulative amount of which was $1,477,000 and $1,476,000 at June 30, 2012 and 2011, respectively.

***Note 15 - Related-Party Transactions (Continued)***

***Other Village Agreements***

In June 2010, the College and the Village entered into a five-year Master Service Agreement (the "Agreement") which expires on June 30, 2015. The Agreement is comprised of five separate agreements which cover management, educational services, information technology services, maintenance and security. Under the management portion of the Agreement, the Village is required to make monthly payments to the College totaling 3.9% of the monthly operating revenues. At the end of the fiscal year, the College shall receive from the Village 10% of any surplus up to $200,000 and 5% of any operating surplus in excess of $200,000. The educational services portion of the agreement is calculated on a cost plus 20% basis, the information technology services agreement is calculated on a cost plus 15% basis, the maintenance agreement is calculated on a cost plus 10% basis and the security services agreement is calculated on a cost plus 15% basis.

A summary of payments from the Village to the College under the above agreements is as follows for the year ended June 30:

| | ***2012*** | ***2011*** |
|---|---|---|
| Land lease | $ 207,509 | $ 207,509 |
| Management fees | 504,828 | 523,392 |
| Executive fees | 218,283 | 207,229 |
| Educational services fees | 252,462 | 247,142 |
| Information technology services fees | 86,124 | 74,437 |
| Maintenance and security fees | 685,531 | 721,377 |
| **Total payments** | **$ 1,954,737** | **$ 1,981,086** |

The College recognized $1,747,228 and $1,773,577 in revenue related to the agreement with the Village for the years ended June 30, 2012 and 2011, respectively, which is included in the Statements of Activities. Additionally, the College recognized land lease income in the amount of $205,840 for each of the years ended June 30, 2012 and 2011 which is included in non-operating activities on the Statements of Activities. For the years ended June 30, 2012 and 2011, $33,769 and $98,737, respectively, were payable by the Village to the College. This receivable is included in Other Assets on the Statements of Financial Position.

***Other Agreements***

The College has a consulting contract with a firm owned by a Board Member and has incurred consulting expenses of $120,000 for both fiscal years 2012 and 2011. This contract has been renewed in fiscal year 2013 for the amount of $120,000.

### *Note 16 - Commitments and Contingencies*

The College committed to pay a fee to a third party equal to 10% of ground rental payments made by the Village to the College. In both the years ended June 30, 2012 and 2011, $20,751 was expensed for this purpose.

Future minimum payments under this fee arrangement are as follows:

| *Year Ending June 30,* | | |
|---|---|---|
| 2013 | $ | 20,751 |
| 2014 | | 20,751 |
| 2015 | | 20,751 |
| 2016 | | 20,751 |
| 2017 | | 20,751 |
| Thereafter | | 83,003 |
| | **$** | **186,758** |

The College has entered into various operating lease agreements. The leases generally require that the College pay for insurance, maintenance and certain other operating expenses. Lease expense related to these agreements was $114,637 and $97,510 in fiscal years 2012 and 2011, respectively. Future minimum lease payments are as follows:

| *Year Ending June 30,* | | |
|---|---|---|
| 2013 | $ | 88,525 |
| 2014 | | 63,060 |
| 2015 | | 43,124 |
| 2016 | | 10,044 |
| | **$** | **204,753** |

The College is periodically involved in claims, suits and other legal matters, all of which arise in the normal course of business. Management does not believe that the outcome of any currently pending matters, either individually or in the aggregate, will have a material impact on the College's financial position, changes in net assets and cash flows.

All funds expended by the College in connection with government grants are subject to review or audit by government agencies. 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.

***Note 16 - Commitments and Contingencies (Continued)***

The College participates in the Massachusetts College Savings Prepaid Tuition Program. This program allows participants to lock in tuition prices by limiting future increases to the changes in CPI plus 2%. This could result in discounts on tuition charged to students in the future.

The College has an employment agreement with its President and some members of its senior management team that stipulate a variety of business terms typical in the education sector.

In October of 1999, the Board of Trustees entered into an agreement with the then President which will allow the former president and/or his wife to reside at Lasell Village at their discretion upon attaining the age of 65. The College would be responsible for loaning the former President 90% of the entrance fee which would revert to the College upon the former President and his wife's departure or death.

On July 1, 2012, the College entered into an agreement with a company to operate the College's food services. The contract is for ten years and is up for renewal in 2022. The company operates all food services on campus, including the dining hall, providing the exclusive right to provide meals related to the meal plan, flex dollars, and the operation of all retail operations.

The College has entered into several contracts for the construction of a building and quadrangle and the renovation of the dining hall on its campus. The total remaining obligations for these contracts at June 30, 2012 was $3,940,853.

The Board of Trustees has approved an appropriation of $855,000 in endowment income to be spent in support of operations for the year ending June 30, 2013.

The City of Newton has requested a sewer easement through the land that the College leases to Lasell Village. Lasell Village and the City of Newton are discussing the request.